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### FEATURED Q&A

#### Is Venezuela Facing Another Electricity Crisis?

**Q** Last month, a fire damaged a power line in Venezuela and caused the country's worst blackout since 2009. Top government officials were adamant that Venezuela is now better equipped than in 2009-10 when electricity shortages crimped the economy during a severe drought. However, the recent outage came amid a series of power shortages since March that industry analysts and business owners claim are hampering production. Does the Venezuelan government have the situation under control or is the electricity crisis likely to repeat itself? What steps should be taken to fix the electricity grid? Will the country be able to hit its ambitious economic growth target if the power shortages continue?

**A** Gustavo Coronel, former member of the board of directors of PDVSA: "The origin of the electricity crisis in Venezuela dates back to the early 2000s, when investments in the sector ceased almost completely, in spite of the experts' warnings. The 2009 drought brought it into the open and about 20 percent of the demand went unsatisfied. In 2010, the government hit the panic button and tried to solve it by installing medium-sized diesel plants throughout the country, at a cost of some \$1.5 billion. Today only 25 percent of these plants remain in operation due to lack of maintenance, diesel or both. As expert Victor Poleo has claimed, this is an institu-

tional crisis, due to the ineptitude of Ali Rodríguez, the electricity czar, and Rafael Ramírez, the head of state-owned petroleum company PDVSA. They have turned the energy sector into an ideological market, inviting Cuban and Chinese advisors lacking modern technology. The Cubans, in particular, have been the brokers in the acquisition of the diesel turbines, a totally unnecessary and costly intermediation. Most of the money required for this emergency expenditure has been borrowed from the Inter-American Development

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#### Martelly Takes Power in Haiti, Vows to Rebuild Country

Michel Martelly, a former singer known as "Sweet Micky," was inaugurated Saturday as Haiti's president. He vowed to bring the earthquake-shattered country "out of its misery." See story on page 2.

*Photo: Le Nouvelliste.*

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## NEWS BRIEFS

**IMF Chief to Be Arraigned Today on Sex Assault Charges**

Dominique Strauss-Kahn, the head of the International Monetary Fund, is to be arraigned today in New York on charges of sexually assaulting a maid in a Manhattan hotel. Strauss-Kahn, a 62-year-old married father of four who has been seen as a leading candidate to challenge Nicolas Sarkozy next year for France's presidency, denies the charges. The IMF chief's troubles are mounting as French writer Tristane Banon, 31, has said she is considering filing a sexual assault complaint against Strauss-Kahn, whom she claims assaulted her in 2002.

**Petrobras First Quarter Profits Beat Estimates**

Brazil's state-run oil giant **Petrobras** reported higher than estimated first-quarter profits, with net income rising to 10.99 billion reais (\$6.72 billion) in the quarter as compared to 7.73 billion reais a year ago, the company said Friday, Bloomberg News reported. Oil and gas output rose by 3 percent and sales rose 9 percent. Petrobras also posted a financial gain of about 2.7 billion reais, which was aided by the real's appreciation and subsequent reduction in dollar-denominated debt.

**Chile's Banco Falabella Gets License to Operate in Colombia**

Chile's **Banco Falabella**, a unit of retailer SACI Falabella, received a license to operate banks in Colombia, Dow Jones reported Friday, citing a company statement. According to the bank, it will be the first Chilean banking institution in Colombia and it plans to open 33 branches in 10 cities. Banco Falabella also has operations in Peru, with more than 1 million clients and 45 branches.

**Political News****Martelly Inaugurated, Vows to Bring Haiti 'Out of its Misery'**

Michel Martelly, who gained fame as a popular singer nicknamed "Sweet Micky," took the oath of office Saturday as Haiti's president, vowing to bring change to the challenged Caribbean country. "Hand in hand, shoulder to shoulder, we're going to change Haiti," Martelly, 50, told the crowd at his inauguration ceremony, the Associated Press reported. "We want to re-establish order and discipline in the country." Martelly spoke on the lawn of the National Palace, which still lies in ruins after the country's devastating January

“Hand in hand, shoulder to shoulder, we're going to change Haiti.”

— Michel Martelly

2010 earthquake. He now leads a country that is still struggling to move past the earthquake, which killed more than 300,000 people, as well as a cholera epidemic that has killed more than 4,000. Martelly was inaugurated inside a building specially constructed for the occasion, but the power went out during the ceremony, forcing Martelly to take office in darkness. Martelly also said during his inaugural address that he would work to rebuild Port-au-Prince, revive economically depressed rural areas and improve security. Universal education will be free and mandatory, he said. "This is how Haiti is going to get out of its misery," said Martelly. "Haiti was asleep—now it's going to stand up." Martelly invited to the ceremony two polarizing former presidents who returned to the impoverished country this year, Jean Claude "Baby Doc" Duvalier and Jean-Bertrand Aristide. However, neither attended the inauguration. Martelly won two-thirds of the vote in a March 20 runoff election against for-

mer First Lady Mirlande Manigat. However, turnout was low and many Haitians have reservations about Martelly's ability to lead as he has never before held a political office. "It is total blindness," a businessman who requested anonymity told the *Los Angeles Times*. "We know him as a music star, we don't know him in terms of governance or taking charge."

**Assailants Kill at Least 27 in Northern Guatemala Massacre**

At least 27 people were killed early Sunday in a part of northern Guatemala that has been plagued by drug cartels, according to the National Civil Police, the Associated Press reported. The 25 men and two women were killed in the town of Caserio La Bomba in the Petén province near the Mexican border, said a police spokesman. The massacre was one of Guatemala's worst since its 36-year civil war ended in 1996. Police are investigating whether the killings were connected to the killing Saturday in Petén of Haroldo León, the brother of reputed drug cartel leader Juan José "Juancho" León. The reputed drug boss was killed in a 2008 attack believed to have been carried out by Mexico's Zetas drug cartel. The Zetas have increasingly taken control of the drug trade beyond Mexico, sometimes by eliminating competitors. Guatemalan authorities said they are searching for the perpetrators of Sunday's massacre. "This is a terrible event that we must clarify and investigate regardless of the consequences, whoever is the author of this massacre," said



Paz y Paz

File Photo:  
Guatemalan Gov't.

Guatemala's prosecutor general, Claudia Paz y Paz, the AP reported. Guatemala, a major transit point for drugs headed to the United States, has seen increasing amounts of violence. In February, the government lifted a two-month state of siege that had been declared in Alta Verapaz province in an effort to quell violence related to drug trafficking. The state

of siege resulted in the arrest of at least 20 suspected members of the Zetas. Meantime, authorities in Mexico said Saturday that they had found another 17 bodies in mass graves in the northern state of Durango, the AP reported. The discovery brings the number of bodies found in that state to 218, eclipsing the 183 bodies that authorities found in mass graves last month in Tamaulipas state. Some 35,000 people have been killed in drug-related violence in Mexico since President Felipe Calderón launched his offensive against the cartels in late 2006.

## Economic News

### Argentina Accuses Brazil of Applying Trade Barriers

Argentina on Friday accused Brazil of needlessly slowing down auto imports, deepening a trade dispute between the two countries, Reuters reported. Argentine Industry Minister Debora Giorgi sent a letter to her Brazilian counterpart, Fernando Pimentel, asking him to reconsider a decision to delay the granting of vehicle import licenses. The delay will slow trade and Giorgi urged Pimentel to resolve the matter "in the shortest time possible." The delay also affects imports from countries including

*A Brazilian official said the move is retaliation against Argentina for delaying imports from Brazil.*

the United States, Mexico, Japan and South Korea, but an unnamed Brazilian official told Reuters that it is largely intended as retaliation against Argentina for delaying imports of farm equipment and other goods from Brazil. "They've been using this same tactic against us for months," the Brazilian official told Reuters. "The intention is to get their attention ... so we can get trade back to normal."

### Featured Q&A

*Continued from page 1*

Bank and the Andean Development Corporation, adding to an already hefty national debt. There is little doubt that the crisis will continue to develop. There is no miracle solution other than a well-designed and well-executed investment plan, but there is no professional management that can make it happen."

**A** **José Manuel Aller, professor at Simón Bolívar University in Caracas:** "The national electricity system is not actually in better condition than in 2009-2010, we merely have more power in the hydro-electric system. But the unavailability of thermal units is alarming and the transmission capacity has not increased since the 1990s. System operation in unstable conditions, transmitting 1,070 MW over

“Excuses such as the growth in demand, fire or sabotage are intended to cover up a structural problem of major proportions.”

— José Manuel Aller

the limit of transitory stability from Guri to the center of the country, caused a blackout on March 7, losing 65 percent of its load. The generation deficiencies are evident when observing that, in 2009, we could handle 17,800 MW of peak demand with some difficulty but currently demand is less than 16,000 MW and we cannot handle it. Excuses such as the growth in demand, fire or sabotage are intended to cover up a structural problem of major proportions that is difficult to resolve in the medium term. At the present time, the government doesn't have control of the situation and, despite its intention to hide the reality, this has become visible to all citizens. Being forced to ration in order not to continue operating unstably will affect all of the sectors, especially industry and commerce. It is impossible that a coun-

try without a secure electric system, where more than 40 percent of energy is lost and electricity prices have been kept frozen for the past nine years, can have stable and sustainable growth. On the contrary, the possibility of an economic recession is very high."

**A** **Daniel Hellinger, professor of political science at Webster University in St. Louis:** "There is no simple solution, nor simple diagnosis behind the electricity shortages—a 20 percent fall in supply. The political cost to Chávez is heavier because the crisis repeats similar problems experienced less than a year ago. There are three underlying causes, none susceptible to a 'quick fix.' One problem, which the political opposition prefers to devalue, is the record low water levels at the Guri Dam, which supplies 70 percent of Venezuela's electricity—equivalent to the power generated by 300,000 barrels of oil per day. Not only vital to the domestic economy, the economic plan was to increase exports of power from Guri to Brazil. A combination of rising sedimentation, forest fires and record low rainfalls have afflicted Guri. A second cause, say its critics, is the Chávez administration's decision years before to cancel expansion of Guri and instead develop 42 new sources of renewable energy. Although welcomed by environmentalists and indigenous activists, the planned growth of power production from 24 gigawatts per year to 30 has not materialized, and Guri seems to have been ill-maintained in the meantime. The most daunting task is curbing Venezuelans' voracious appetite for electricity, the highest per capita in Latin America. Rationing seems unavoidable until the seasonal rains—increasingly unreliable—arrive in May. GDP may rise because of high oil prices, but additional earnings may have to go toward imports to compensate for production cuts at home. The opposition blames the government; the government blames the weather. They are both right."

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**Featured Q&A***Continued from page 3*

**A** **Boris Segura, economist at Nomura Securities International Inc.:** "The electricity blackouts last year were the direct result of a severe drought that affected the water level at the Guri dam, the main hydroelectric generation facility in the country. However, beyond the natural effects of weather, the situation that the electricity sector presents also reflects a lack of investment by the government since the early 2000s. Electricity rates have not been adjusted since 2002, which has led to underinvestment in the elec-

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“There is no doubt that there is an immediate need for investments in transmission and distribution to fix the electricity sector in Venezuela.”

— *Boris Segura*

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tricity sector's infrastructure. Given excessive rains last December, the Guri dam water level is adequate; thus, we should not expect another crisis a-la-2010. However, several turbines at Guri suffered damage due to lack of maintenance (excessive use) during the 2010 crisis and have been off-line this year. As a result of underinvestment in the sector, I anticipate potential weak links in the transmission and distribution segments. More recently, Venezuelan authorities have made major investments in thermal generation with financing from Fonden and PDVSA. There are reasonable doubts as to whether this investment strategy was well-planned and executed. However, there is no doubt that there is an immediate need for investments in transmission and distribution to fix the electricity sector in Venezuela. We expect the economy to grow by an inauspicious 1.5 percent this year. However, recent signals that authorities are to expand fiscal spending more forcefully and much earlier than expected pose an upside risk to our fore-

cast. As long as power shortages do not worsen relative to 2010, we expect contained fallout from them."

**A** **Gustavo Roosen, president of the board of Instituto de Estudios Superiores de Administración in Caracas:**

"Venezuela's energy crisis never ended. It was in remission and has returned more aggressively in 2011. Reality has caught up with government officials. Recent outages have doubled since March 2011, exposing that the country is worse off than in 2010. The reason: authorities' inability to make good on their ambitious plans of 15,500 new MW by 2015. Current backlog delays stand in excess of 7,000 MW and the deteriorating infrastructure of existing plans struggle to stay on line amid overdue maintenance, especially in the thermal fleet, where close to 6,000 MW out of 10,295 MW installed capacity is unavailable and where the hydro fleet has another 3,500 MW of unavailable generation. Venezuela has around 25,000 MW installed capacity with 14,600 MW of hydro capacity. The government claims that it has 18,000 MW available. Minister Alí Rodríguez's recent public recognition of management failures in the energy sector may be a first step in the direction of a profound change of management without which Venezuela, flooded with petrodollars, will continue in this agony. Demand, so far, has not exceeded 16,800 MW. So if the government claims 18,000 MW available, what is the problem? The problem is that, in fact, only 15,500 MW are available on average. The crisis continues to escalate and hit hard the quality of life and the productive apparatus of the nation. The challenge of how to bring about change is a very tall order for the silenced majority of a country where one must fight a formidable array of WMDs—weapons of mass deception—which are effective at making lemonade out of sour lemons.

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*The Advisor welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at [gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org) with comments.*

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