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FEATURED Q&A

How Will Bachelet's Return Affect Chile's Energy Sector?

Q Chilean president-elect Michelle Bachelet, who will assume the presidency in March, will face an energy sector that needs to add an estimated 8,000 megawatts of capacity by 2020, but in which new projects have been hampered by environmental and social opposition and confusing regulations. What are the most pressing energy issues that the Bachelet government must address? How are the country's energy policies and priorities likely to differ under Bachelet from her predecessor?

A Jeremy Martin, director of the energy program at the Institute of the Americas: "Energy figured prominently in Chile's election late last year. More specifically, security, efficiency and sustainability emerged as clear-cut issues facing the incoming government. Chile currently imports 97 percent of its fossil fuels and depends on hydropower for 42 percent of its electricity generation. Given her previous term, Ms. Bachelet arrives at La Moneda well-versed in the issues surrounding the country's energy woes. But with the country's economic growth in recent years, the need to address the problem has become more urgent. According to the Chilean Electric Power Association, power consumption will double by 2025. Demand from the mining sector is expected to grow 68 percent in that time. During the campaign, Ms. Bachelet indicated that within her first 100 days in office the energy ministry will be tasked with establishing an energy agenda and developing a national energy policy during the course of 2014. Campaign pronouncements point to an energy policy framework focused on energy efficiency, natural gas and nonconventional renewables, as well as improved interconnection efforts and regulatory management of Chile's power grids. Much as in Chile's neighbors in the Southern Cone, liquefied natural gas (LNG) is likely to be a cornerstone of the country's energy policy in the coming term. But most insightful to date is

Continued on page 3

Peña Nieto Announces $3.4 Bn in Investment for Michoacán

Mexican President Enrique Peña Nieto announced Tuesday that his government will spend $3.4 billion on social programs and infrastructure in Michoacán state, where vigilantes have been battling drug traffickers. See story on page 2.

Photo: Mexican Government.

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NEWS BRIEFS

Peña Nieto Pledges $3.4 Billion in Investment for Michoacán

Mexican President Enrique Peña Nieto on Tuesday pledged that his government will invest $3.4 billion in social programs and infrastructure in the western state of Michoacán, where vigilantes have been clashing in recent weeks with drug traffickers, the *Los Angeles Times* reported. Peña Nieto announced the program in the state capital, Morelia, and said the money would include scholarships for students, pensions for the elderly, credits for owners of small businesses, a new hospital and highways. The program is intended to "recover security, establish conditions of social order and spur economic development," said Peña Nieto.

Remittances to Mexico Decline 3.75 Percent in 2013

Remittances sent home by Mexican migrant workers fell by 3.75 percent in 2013 as compared to 2012, Mexico's central bank said Tuesday, according to the Associated Press. Remittances decreased to $21.6 billion in 2013 from $22.44 billion in 2012, which experts say was most likely due to a continuing weakness in industries in the United States in which migrants work.

S&P Lowers Puerto Rico's Bonds to Junk Status

Standard & Poor's on Tuesday lowered Puerto Rico's general-obligation bonds one step to speculative grade, from BBB- to BB+, with a negative outlook, saying further cuts could come in the future, Bloomberg News reported. The ratings agency said that the island's limited access to funds and high level of debt, approximately $70 billion, were behind the cut.

Economic News

Talks Break Down in Panama Canal Expansion Dispute

Talks between the consortium of companies contracted to expand the Panama Canal and the Panama Canal Authority have broken down amid the dispute over which side should pay for cost overruns, the consortium said today in a statement. The **Grupo Unidos por el Canal**, or GUPC, consortium, has said that an additional $1.6 billion is needed to complete the project. The two sides are wrangling over who should pay for the overruns, and the consortium in past weeks has threatened to halt work. "The GUPC investors are construction companies, not banks," said the consortium, which is led by Spain's **Sacyr**. "It is unjust and impossible for the [Panama Canal Authority] and Panama to expect that private companies will finance $1.6 billion in costs on a project that was to be fully funded by the [Panama Canal Authority]." The consortium, which blamed the canal authority for breaking off the negotiations, said the breakdown in talks could lead to delays in the expansion project and could put 10,000 jobs at risk. The consortium added that the breakdown could lead to "the failure of a strategic project for the economy of Panama and the world, leaving a permanent shadow over the Panama Canal expansion project in the books of history." The canal authority, or ACP for its initials in Spanish, released no immediate statement, but the canal's administrator, Jorge Quijano, previously said that "no matter what kind of pressure is exercised against the ACP, we maintain our demand that GUPC respect the contract that they agreed to and signed," BBC News reported. Panama's government has argued that the cost overruns are due to "normal" events that should be expected in such construction projects and that the consortium should pay for the overruns. Work on the expansion project started in 2009. The new, larger set of locks when completed would be able to accommodate ships carrying 12,000 containers. Currently, the canal can accommodate ships carrying as many as 5,000 containers. The overall cost of the project is estimated to be $5.2 billion and is currently scheduled for completion in June 2015, nine months behind schedule.

> *The consortium said the breakdown in talks could delay the expansion and put 10,000 jobs at risk.*

Political News

Santos Fires Army Intelligence Chief Over Alleged Spying

President Juan Manuel Santos has fired Colombia's army intelligence chief amid allegations of spying on government officials engaged in peace talks with the Revolutionary Armed Forces of Colombia, or FARC, rebels, BBC News reported Tuesday. Santos dismissed Gen. Mauricio Ricardo Zúñiga and also sacked a lower-level officer, Gen. Óscar Zuluaga, the director of the army's technical intelligence center. An elite military group had been established to intercept cell phone calls of the officials negotiating in Havana, *Semana* magazine had reported. The alleged spying is "totally unacceptable," said Santos. Defense Minister Juan Carlos Pinzón announced the officers' firing on Tuesday. "In any case, any behavior that affects people, even more if they are high-ranking government officials, cannot be tolerated," Pinzón told reporters. However, leftist lawmaker Iván Cepeda, who was also reportedly a target of the alleged spying, called for Pinzón's resignation. "Either the government was doing a kind of counter-intelligence of its own people or this was an operation by a dissident sector in the military acting against the peace process," Cepeda told the Associated Press.

Santos

File Photo: Colombian Government.

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Company News

Argentina Accuses Shell of Acting 'Against the Interests of the Country'

Argentina's government on Monday accused **Royal Dutch Shell** of conspiring against the South American nation's interests after the oil company increased fuel prices by 12 percent. "Shell's attitude and the one from its highest executive is conspiratorial and against the interests of the country," Cabinet Chief Jorge Capitanich told reporters Monday in Buenos Aires, according to Bloomberg News. "The only explanation for this behavior is greediness." He added, "It's a unilateral decision to do harm," according to Agence France-Presse. Shell, which accounts for 18 percent of the Argentine market, increased prices at its service stations by an average of 12 percent on Monday, its second price increase this year and the first following a 15 percent devaluation of the peso in late January. Overall, the peso has lost 19 percent of its value this year. The price of premium gasoline at Shell stations is now 11.87 pesos ($1.45) per liter as compared to the 9.99 pesos charged by state-oil company **YPF**, the nation's largest distributor. Shell said the decision to raise prices reflected the devaluation of the peso, which has made it more expensive for the company to import oil. Imports in the energy sector are denominated in dollars and so have been particularly hard-hit by the devaluation, with experts estimating that the devaluation will increase the price of energy imports by 45 percent compared the last year, according to *La Tercera*. "Our costs increased 23 percent and we only made a partial price increase of 12 percent. If we are conspiring with a 12 percent increase, I don't want to imagine a greater increase," the president of **Shell Argentina**, Juan José Aranguren, told a local radio station.

Capitanich

File Photo: Argentine Government.

Featured Q&A

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Ms. Bachelet's announcement of Máximo Pacheco Matte as her energy minister. Pacheco is a well-known businessman and former Codelco executive who left International Paper and returned to Chile last year to support the Bachelet campaign. Pachecho has already spoken publicly of his desire to reverse Chile's electric deficit and jumpstart investment in the sector. Interestingly, he did not shy away from the controversial HidroAysén project and indicated that while not wholly opposed to the project, he called it very complicated."

A René Muga, general manager of the Asociación Gremial de Generadoras de Chile: "Chile should begin construction of new electric generation base capacity that allows for a secure, competitive and sustainable supply. Urgent decisions must be made. Despite all of the efforts that can be made in energy efficiency, the country's growth increases electricity consumption at a rate similar to the growth of GDP. This requires adding new generating capacity every year which unfortunately is facing increasing difficulties in materializing. Nonconventional renewable energies are gaining ground in the country, but they do not guarantee the security of the supply or its competitiveness. A recent law set a goal of total contribution of these technologies (especially wind and solar) at 20 percent of total generation in 2025. What is worrying is that the other 80 percent, which for Chile is hydro or thermoelectricity (gas or coal), today cannot advance at the necessary speed. The next government must decide how to occupy the existing installed capacity in transmission and generation. The little that it has been possible to start constructing will not be ready at that time. The prices that regulated customers face will begin to suffer increases, something which had not happened until now. If the drought, which is in its fourth year, is prolonged, this too will affect generation costs. In the coming years, the government must also make decisions that determine the orientation that power development in the country will take in the long term, for which the leadership of the future authorities as well as their ability to make decisions is key. Issues such as land use, strengthening institutions and the processes of environmental assessment of projects, the compatibility of investments with the environment and community development, regulatory stability and legal certainty will be the keys to advance the electrical development that Chile needs."

> "The government must also make decisions that determine the orientation that power development in the country will take in the long term."
>
> *— René Muga*

A Leni Berliner, president and CEO of Energy Farms International in Washington: "There are an estimated 25,000 megawatts of proposed new generating capacity stuck in the environmental and social permitting process in Chile. While it is anticipated by knowledgeable observers that the new minister of energy will work to get these projects unstuck, moving a third of pending proposals in time to allow the 8,000 megawatts to be commissioned will be a big job. Permitting is the principal 'soft cost' of new energy projects everywhere. It is absurd that the Chilean government is unable to enforce its own rules on environmental and community protection. No doubt there are proposals to generate energy which are overlapping, or which if all were implemented would create technical problems, especially in

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Featured Q&A

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situations that will require modernization of the grid, or the establishment of distributed generation capacity. Thorough review has to be coordinated and efficient and should not be put off because of conflicting priorities or a lack of local input. One approach would be for President Bachelet to obtain authorization to contract sustainable development companies, which exist in Chile and elsewhere, to assist the review and permitting process. It costs less to do this than to remake government bureaucracy. She can get support for this from the Inter-American Development Bank. With all due respect regarding the question about energy policy, remember: policy is as administration does."

Amanda Maxwell, Latin America project director at the Natural Resources Defense Council: "When President-elect Bachelet takes office on March 11, she will be facing a much different energy sector than her predecessor did four years ago and indeed a very different sector than she herself faced eight years ago. There is a much stronger pressure on her to figure out a way to build new energy capacity in the short, medium and long terms to face Chile's growing energy needs, especially coming from the mining sector. With several of the previously expected large conventional projects—Castilla and HidroAysén, for example—now stopped or halted, and public opposition to new conventional projects growing, the solutions will have to come from elsewhere. Fortunately, renewables are experiencing incredible growth and public support right now. In addition, there's still so much to be done with energy efficiency. So I think we'll see that policy solutions are likely to come from these sectors over the next four years."

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

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The **Latin America Advisor** gets **answers** to the **questions** that informed executives are asking, every business day, so that you can rest easy.

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