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FEATURED Q&A

What Are the Costs and Benefits of Chile's Carbon Tax Plan?

Q Chilean President Michelle Bachelet last month presented a proposal to Congress that called for imposing the first tax on carbon emissions in South America, and the second in Latin America after a measure that took effect in January in Mexico. Chile's proposal, which the government says is aimed at encouraging a shift to cleaner technologies, calls for a tax of $5 per metric ton of carbon dioxide emitted by thermal power plants with a capacity of 50 thermal megawatts or greater. Are carbon taxes an effective way to induce the use of cleaner technologies and renewable energies? What are the possible costs and benefits of the proposed measure, and what effects would it have on power generation companies and on consumers?

A Andrew Vesey, chief operating officer and executive vice president of AES Corporation: "Taxes can form an economic instrument for environmental protection when applied to promote and encourage investments in cleaner production technology, aiming to reduce emissions. Chile already has an environmental regulation to promote local emissions abatement, which is one of the most rigorous in the world and imposes standards even more demanding than those of some OECD countries. Therefore, this new tax will not involve environmental improvement, since the power plants with more than 50 thermal megawatts (MWt) have already or are in the process of making significant investments to reduce their emissions. In addition, the carbon tax proposed will not cause a replacement effect from fossil sources to less intensive sources of CO2 emissions and will not have an impact on the reduction of these emissions since currently there are no technologies on an industrial scale for the abatement of CO2. Local climate policies that are isolated from global and incumbent mitigation agreements taken inside the framework of the

Continued on page 2

Region Could See Drop in Investment This Year: Bárcena

After receiving a record level of foreign investment in 2013, Latin America and the Caribbean could see a drop in investment this year, Alicia Bárcena, the head of the U.N. Economic Commission for Latin America and the Caribbean, said Thursday. See story on page 3.

File Photo: United Nations.

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NEWS BRIEFS

Biden Adds Colombia, Dominican Republic to Latin America Trip

U.S. Vice President Joe Biden will add stops in Colombia and the Dominican Republic to his previously announced trip to Latin America, the White House said Thursday. The Obama administration said earlier that Biden would visit Brazil the week of June 16 to meet with President Dilma Rousseff and attend the World Cup soccer match between the United States and Ghana. Biden will also travel to Colombia and the Dominican Republic to discuss bilateral and regional issues with the countries' presidents.

Brazil's Chief Justice to Retire

The chief justice of the Brazilian Supreme Court, Joaquim Barbosa, unexpectedly announced Thursday that he will step down from his position and take early retirement at the end of June for personal reasons, BBC News reported. Barbosa became the first black judge appointed to the Supreme Court in 2003 and became its president in 2012. During his tenure, he oversaw the mensalão trial, the largest corruption trial in the Brazil's history, in which more than 20 people, including high-level government politicians, were convicted.

Brazilian Antitrust Regulator Fines Six Cement Makers

Brazil's antitrust regulator, Cade, late Wednesday fined six cement makers who control three-quarters of the domestic market a total of 3.1 billion reais ($1.4 billion) for price fixing and ordered the companies to sell some assets, Reuters reported. Cade said that the companies colluded to set prices. The companies said separately that they will appeal the ruling.

Political News

Ecuadorean Court Sentences Mahaud in Absentia to 12 Years

An Ecuadorean court has sentenced former President Jamil Mahaud in absentia to a 12-year prison term for embezzlement, BBC News reported Thursday. The court's decision came two days after Interpol issued an arrest warrant for the former president, who denies any wrongdoing. Mahaud was forced into exile in the United States after a January 2000 coup. He was accused of forcing banks to close for several days and freezing Ecuadoreans' accounts in order to help bankers with whom he was associated. Those decisions, in March 1999, happened amid an economic crisis in the South American country. At the time, Ecuador was beset by high inflation, a devalued currency and low prices for oil, the country's main export. "The crime committed by the accused caused huge social turmoil," said Judge Ximena Vintimilla in the ruling, BBC News reported. "Its consequences are still being felt by Ecuadorean society to this day." After Interpol issued an arrest warrant for Mahaud, the former president released a statement blasting the government of President Rafael Correa and saying the case was politically motivated. "The whole world knows the current situation faced by Ecuador's legal system and its role in the persecution of journalists and critics of the government," said Mahaud. The government refuted the statement. "There's no political persecution here. What Ecuadorean justice seeks is the punishment of common criminal acts," Ecuadorean Interior Minister José Serrano said Tuesday.

Mahaud

File Photo: Indiana University.

Featured Q&A

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U.N. Framework Convention on Climate Change could have a negative impact on the countries' economies and practically no impact on the fight against climate change. In this case, the overall proposed tax on emissions will immediately increase the cost of energy for most large customers and gradually for the regulated customers, affecting the country's competitiveness. Last but not least, the proposed taxes would significantly increase the already growing uncertainty of investment in thermal generation in Chile. The electricity generation industry is very intensive in capital and requires stability in regulations that allow recovering investment in the long term at reasonable rates of return."

A Christina McCain, senior manager of the Latin American Climate Initiative at the Environmental Defense Fund: "It's inspiring that Latin American countries are stepping up to cut carbon emissions and are recognizing this opportunity to drive clean economic development and growth. Placing a price on pollution is an engine for innovation: it accelerates the transition to clean energy, better efficiency and the wise use of natural resources. The shift from the fossil-fuel dependent growth of the past can also address other pressing health, environmental and development priorities. Mexico and Chile's new carbon taxes on some energy sources are important steps in that direction. As policymakers in those countries know, however, taxing emitters for every ton of carbon pollution they release does not alone guarantee lower emissions. As these countries measure the effect of the tax, they may decide to link carbon pricing to emissions limits. Pairing a price on carbon with a mandatory cap on emissions guarantees greenhouse gas reductions. Emissions trading systems, for example, place a declining

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Economic News

Region Could See First Drop in Investment in Five Years: Bárcena

The amount of foreign direct investment in Latin America and the Caribbean could fall this year for the first time in five years, the executive secretary of the United Nations Economic Commission for Latin America and the Caribbean, or ECLAC, said Thursday, Dow Jones reported. Investment in the region, at best, could increase 1 percent, said Alicia Bárcena. However, she added there is a risk that it could decline as much as 9 percent as investors have been changing the sectors in which they put their money. "There is a new scenario. There are lower commodities prices, but at the same time projects are being announced in other sectors. In Chile, for example, there are interesting renewable energy projects," said Bárcena. Governments must do a better job of using foreign investment to help diversify their economies through the development of skilled labor and local supply chains, Bárcena said in a webcast. Foreign investment in the region reached a record last year, climbing 5 percent as compared to 2012 to nearly $185 billion, thanks largely to higher flows to Mexico.

Foreign investment grew to $185 billion last year, a record level.

Company News

Mexico Orders Arrest of Oceanografía CEO

Mexico's attorney general's office has ordered the arrest of Amado Yáñez, the chief executive officer of oil services provider **Oceanografía** in connection with fraudulent loans made to the company by **Banamex**, Reuters reported Thursday. Yáñez is under police guard at a hospital after undergoing emergency surgery on May 20, according to a statement from the attorney general's office. The statement did not specify the reason for Yáñez's surgery. The attorney general's office questioned the chief executive in March after Banamex's parent company, **Citigroup**, announced that it had discovered at least $400 million in fraudulent loans that had been made to Oceanografía, which has been a main service provider to Mexican state oil company Pemex. In all, Citigroup has discovered approximately $565 million in loans involving fraud at Banamex and in early May fired 11 employees after conducting an internal probe. Banamex is also facing a criminal investigation by U.S. authorities involving possible money-laundering law violations as well as investigations by authorities in the United States and Mexico over the fraudulent loans, a source told Reuters.

The Dialogue Continues

Which Issues Resonated With Colombian Voters on Sunday?

Q Challenger Óscar Iván Zuluaga won more votes than President Juan Manuel Santos in the first round of Colombia's presidential election on Sunday. But since neither won a majority, the two men will face each other in a June 15 runoff. How big a blow was coming in second to Santos' campaign? Which issues resonated most with voters on Sunday, and why has support for Santos slipped? What do the election results say about Colombians' perception of the peace talks with the FARC, and would a Zuluaga victory next month mean an end to the talks? Who will win on June 15?

A Fernando Cepeda Ulloa, professor of political science at Universidad de los Andes in Bogotá and a former Colombian interior minister: "President Santos is framing the campaign in terms of war or peace in relation to the peace talks with the FARC. The talks were not the central issue in the March 9 congressional elections nor in the first round of the presidential election on May 25, but Santos now wants them to be the main issue in the second round on June 15. The issue of peace has not been among the top concerns of Colombians in recent polls. They have been more concerned with issues such as unemployment, education, health care, security and housing. And I do not think that Zuluaga is prepared to make the peace talks the central issue as Santos wants. One of the reasons that the president lost to Zuluaga in the first round is because his campaign committed key mistakes. For example, for months, his campaign team has claimed that Santos would win the election in the first round because his opponents were minor figures who did not pose a challenge. The situation changed in the March 9 congressional election when former President Uribe's party won enough seats to put it in second place. After that moment, support for Zuluaga's candidacy climbed steadily while Santos' stagnated. Support for the other three candidates also climbed. All the endorsements ahead of the second round are not yet clear. Clara López, a leftist, decided not to endorse Santos, allowing her supporters to make their own decision. Enrique Peñalosa will probably not endorse anyone, also allowing his supporters to decide for themselves. Marta Lucía Ramírez, a conservative, is supporting Zuluaga. As far as the 60 percent of voters who abstained in the first round, unless something extraordinary happens, only about 5 to 7 percent of them will probably vote in the runoff. The campaign will be intense, fierce and uncertainty will remain until the last moment."

Editor's note: The above is a continuation of a Q&A published in the Tuesday's Advisor.

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Featured Q&A

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cap on total emissions, and allow emitters to buy and sell carbon allowances under that limit. This creates a powerful incentive to reduce emissions as cost-effectively as possible, while ensuring that the limit on emissions is maintained. Both Mexico and Chile have committed to voluntary emissions reduction targets, and both are putting in place key machinery for emissions trading and driving reductions in other sectors. If implemented vigorously, these policies will reduce global pollution and drive the economic and social benefits that come with it."

Miguel Schloss, president of Surinvest Ltd. in Santiago: "Chile, a pioneer in deregulation and privatization of the power sector, forcing generators to compete with each other, has been one of the most attractive countries in terms of providing transparent, predictable and rational means of delivering appropriate risk-adjusted returns. As a result, it has delivered reasonably priced energy, capital inflows into the sector and reasonably good energy efficiency, despite having to supply fully a third for its energy-intensive mining sector, the mainstay of the economy. The Chilean model, however, has shown vulnerability to growing strains in energy security and associated environmental implications. The unexpected cancellation of gas-export contracts from Argentina and the consequent growing importance of coal in the energy matrix have led to the relentless growth of emissions. While Chile's post-Kyoto status may well remain with no formal commitments regarding emission reductions, its recent entry into the OECD has led officials to position the country to face stronger emission standards. The proposed carbon tax is a way to start 'pricing' the environmental externalities, however imperfectly, to influence investment choices toward 'cleaner' technologies. Given the obvious struggles and high costs countries have faced worldwide, Chile may have to opt for a more comprehensive approach that could include options such as carbon capture and sequestration, development of carbon markets, risk sharing arrangements for new sources of energy like geothermal, and new incentives and regulations to encourage transportation and household energy efficiency."

Leni Berliner, CEO of Energy Farms International: "Carbon taxes are an efficient way of reducing carbon dioxide emissions in places where emissions trading markets have not developed due to liquidity problems. There will be a hue and cry from owners of big emitters, but any power company that still uses imported, carbon-intensive fuels, in a country with tremendous renewable fuel resources of its own, deserves a kick in the pants. If node prices react strongly to a short-term rise in marginal costs related to capital investment, consumers would be affected. Companies might ask that rate-payers help defray costs of fuel switching, but these costs should not be significant when widely shared over the correct time frame and when rate payers have easy access to energy efficiency technologies that will lower their usage. The proposed carbon tax should apply to all large emitters, not just large power companies. For example, municipalities could quickly see the light on shifting fuels used to power bus fleets. Mining companies could move more quickly to close their diesel power plants. With a tax, it will become popular to build renewable fuel-based micro- and pico-grids to heat, cool and power schools, hospitals and other buildings. It is likely that emissions taxes will create jobs in measurement and power systems maintenance. Any new 'carbon tax' should also be levied on significant emitters of methane, such as oil refineries and storage facilities and shale gas exploration companies. Bachelet should dedicate proceeds to the process of developing and permitting new energy infrastructure of any size."

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Erik Brand
Publisher
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Megan Cook
Reporter, Assistant Editor
mcook@thedialogue.org

Inter-American Dialogue

Michael Shifter, President
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Subscription Inquiries are welcomed at freetrial@thedialogue.org

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