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THEDIALOGUE

FEATURED Q&A

How Successful Is Chile at Attracting Energy Investment?

Approximately half of the energy Chile auctioned in August will come from existing infrastructure, and the rest will require some $3 billion in investment, said Energy Minister Máximo Pacheco. // File Photo: Chilean Government.

Q Chile announced the winners of its largest-ever energy auction in August, the results of which will dramatically drive down the price of electricity for the country in the next five years, government officials have said. The winning bids slashed electricity costs to $47.60 per megawatt hour, significantly lower than the original market expectations of around $80 per megawatt hour. Who were the biggest winners and losers in the auction? Has Chile been successful in attracting investment into its energy sector, and specifically in its renewable sector, as compared to other Latin American countries? How will the results of the auction change Chile's energy outlook in the mid-term?

A Kathleen C. Barclay, chair of the American Chamber of Commerce in Chile: "High energy prices have been one of Chile's greatest competitive challenges for many years. In the recent energy auction process, prices were reduced from a peak of approximately $136 per megawatt hour earlier in this decade to less than $50 per megawatt hour. According to government estimates, this result will imply a 20 percent regulated price reduction from 2021. This is the single-most significant event to enhance the country's energy competitiveness in the last 20 years. Moreover, the country's energy matrix will be diversified to incorporate significant amounts of wind, solar and LNG into the mix. This diversification is strategic as it reduces the country's traditional dependence on fossil fuel imports. It is important to note that the winning bids will represent more than $6 billion in new investments in the country's energy sector, which will have a positive impact on Chile's

Continued on page 3

TODAY'S NEWS

POLITICAL

Brazilians Punish Major Parties in Local Elections

In local elections Sunday, Brazilians punished the parties of President Michel Temer and ousted President Dilma Rousseff. Right-leaning candidates were ahead in several key races.

Page 2

BUSINESS

Judge Keeps Suspension of Barrick Argentina Mine in Place

The judge said Toronto-based Barrick had not made required changes following a spill.

Page 3

POLITICAL

Colombian Voters Reject Peace Deal With FARC Rebels

By a razor-thin margin, Colombian voters rejected the government's peace accord with the FARC rebels. The result was a blow for President Juan Manuel Santos, who vowed to continue working for peace and said a cease-fire would remain in effect.

Page 2

Santos // Photo: Colombian Government.

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POLITICAL NEWS

Colombian Voters Reject Peace Accord With FARC Rebels

In a shocking result, Colombian voters on Sunday narrowly rejected their government's peace accord with the Revolutionary Armed Forces of Colombia, or FARC, rebels, plunging the country into uncertainty following last week's celebratory signing of the deal and after nearly four years of peace talks in Havana.

> **"I will not give up, I will keep seeking peace until the last day of my term because that is the way to leave a better nation for our children."**
>
> **— Juan Manuel Santos**

In the plebiscite, 50.21 percent voted against acceptance of the peace accord, and 49.78 percent voted for it, Reuters reported. Voter turnout was just 37 percent, possibly due to torrential rain in some parts of the country. The result was a blow to President Juan Manuel Santos, who has made negotiating peace with the FARC the centerpiece of his presidency. "I am the first to recognize this result," Santos said in a televised address. "I will not give up, I will keep seeking peace until the last day of my term because that is the way to leave a better nation for our children." Santos said he would meet today with leaders of the campaign to reject the peace deal in order to discuss the way forward. Santos added that he would send his chief negotiator back to Havana, where the talks began in November 2012. Santos said the cease-fire that his government already negotiated with the FARC rebels would remain in place. The commander of the FARC, Rodrigo Londoño, also known as Timochenko, also vowed to continue working for peace. "The FARC reiterates its disposition to use only words as a weapon to build toward the future," he said, Reuters reported. "To the Colombian people who dream of peace, count on us, peace will triumph." Opponents of the peace accord have said it is too lenient toward the FARC as it spares rebels from jail sentences and allows them to form a political party. "I voted no. I don't want to teach my children that everything can be forgiven," Alejandro Jaramillo, a 35-year-old voter in Bogotá, told the wire service. The leader of the campaign against the accord, former President Álvaro Uribe, said the accord must be amended. "We all want peace, no one wants violence," said Uribe. "We insist on corrections so there is respect for the constitution... We want to contribute to a national accord and be heard." The accord would have given the FARC 10 unelected seats in Congress through 2026 and also would have allowed them to field candidates for the presidential and legislative elections in 2018. Rebels would have been required to give up drug trafficking and participate in reforms in rural parts of the country. However, the most controversial part of the accord would have allowed rebel leaders to be judged by special tribunals that could hand down alternative sentences, such as requirements to remove land mines, instead of prison terms.

Brazilians Punish Major Parties in Local Elections

In local elections Sunday, Brazilian voters punished major political parties that have been implicated in ongoing corruption scandals, dealing blows to both the Brazilian Democratic Movement Party (PMDB) of President Michel Temer and the Workers' Party (PT) of ousted President Dilma Rousseff, Reuters reported. Right-leaning candidates were ahead in key races. In the country's largest city, São Paulo, wealthy businessman João Doria of the centrist Brazilian Social Democrat Party's (PSDB) defeated the PT candidate to become mayor. In Rio de Janeiro, Temer's PMDB, lost control of the city as a conservative evangelical bishop,

NEWS BRIEFS

Hurricane Matthew Takes Aim at Haiti, Jamaica, Cuba

Hurricane Matthew is on track to hit Haiti, Jamaica and Cuba today, the Associated Press reported. The Category 4 storm has top sustained winds near 130 miles per hour, according to the U.S. National Hurricane Center in Miami. More than two feet of rain are expected as well. Jamaican Prime Minister Andrew Holness has called an emergency meeting of disaster officials to coordinate the government's response to the storm, the Jamaica Gleaner reported Sunday. More than 1,000 shelters have been equipped with beds, food and emergency supplies.

Volcano's Eruption Forces Residents From Homes in Western Mexico

New eruptions from the Colima volcano in western Mexico have forced the evacuation of hundreds of people from their homes, BBC News reported Saturday. More than 350 villagers living in La Yerbabuena and La Becerrera at the foot of the mountain were moved to safety. Authorities in neighboring Jalisco state also evacuated some residents.

Remitly Expanding in Central, South America

Mobile remittances firm Remitly announced Saturday it is expanding into seven countries located in Central and South America. The Seattle-based company, which last year entered the Mexican market, will now be serving Guatemala, Honduras, El Salvador and Nicaragua in Central America, along with Colombia, Ecuador and Peru in South America. Remitly also announced Saturday it has received $38 million in new equity and debt financing from IFC, a member of the World Bank Group, and Silicon Valley Bank.

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FEATURED Q&A / Continued from page 1

growth going forward. Chile is leading the non-conventional renewable energy development in the region, mainly due to its great resources and the market conditions that have been implemented. We at AmCham Chile have seen a high level of interest from important U.S. companies such as Solar Reserve, First Solar and Pattern Energy, which have recently worked with AmCham in Argentina, where there is significant interest in learning from Chile's successful efforts to diversify its energy matrix, to promote new investment and introduce added competition in this key sector of the economy. The structure of the process—including the different size of the blocks; a three-to-five year period for bringing new projects on stream; providing for some bids during the day, others at night, and others for peak times; as well as extension of the supply period to facilitate financing of new projects—was highly effective. The public policies underlying this auction process involved key design components to promote competitiveness and new investment in the system that should serve the country well in the medium term."

Carolina Herrera Jáuregui, Latin America advocate at the Natural Resources Defense Council: "The big winner in Chile's recent energy auction was clearly the non-conventional renewable energy (NCRE) sector, which secured 52 percent of the generation that was contracted. Mainstream Renewable Power, for example, won 30 percent of the power auctioned and will build seven wind projects totaling 986 MW. In contrast, conventional energy companies like Colbún and AES Gener, which formerly dominated the market, just could not compete against prices ranging from a record-breaking low of $29.10/MWh for a solar plant to $73/MWh for a wind plant. In the mid-term, the auction is expected to result in 20 percent lower electricity costs for regulated customers by the year 2021. Overall, Chile has been very successful in attracting investment for NCRE. Since 2012, Chile has seen more clean energy investment than any other country in South America, except Brazil. In 2015, $3.4 billion flowed to the country's clean energy sector. Wind power has done particularly well, with wind projects securing far more generation contracts through auctions in Chile than in any other Latin American country. In the last year, wind in Chile secured 5,256 GWh at auction compared to 2,302 GWh in Brazil (in second place). While utility-scale clean power projects are successfully attracting investment, smaller renewable energy projects—such as for self-supply—and energy efficiency still face hurdles when it comes to securing investment. To maintain its place as a clean energy winner going forward, Chile will need to take steps to facilitate investment in these promising sectors as well."

Kevin Levey, partner, and Loana Martín, associate at Squire Patton Boggs: "If the awarded electricity supply actually results in projects being built, Chile could be the biggest winner. Chile has had among the highest electricity costs in South America. The Chilean government estimates that these projects will help lower electricity costs for families and small businesses by 20 percent within five years. Mainstream Renewable Power and Endesa, a subsidiary of Enel, were awarded more than two-thirds of auctioned electricity supply while companies such as Engie Energia Chile (formerly E.CL), Colbún, AES Gener, Pacific Hydro, and Enap were not awarded any capacity. Colbún and AES Gener particularly suffered because they have large power-purchase agreements expiring within the next several years. This auction was the largest in Chile's history and still attracted a considerable amount of interest as demonstrated by the number of bidders and the average awarded price. One of the reasons for such heightened interest was the enactment of a new transmission law, which permits grid expansion

Continued on page 4

Senator Marcelo Crivella, faces a runoff on Oct. 30 against Marcelo Freixo of the leftist Socialism and Liberty Party (PSOL). In all, the PT lost

Doria // File Photo: Doria Campaign.

four of the five state capitals it had run. Even if the PT were able to win races where seven candidates must go into a second round, the party will suffer a drop of 59 percent in the number of elected mayoralties it holds nationally, Folha de S. Paulo reported today. Analysts have been anticipating Sunday's municipal election results for indications of how the main political parties might fare in the 2018 presidential race. Nearly 40 percent of voters either did not show up at the polls, despite voting being legally mandatory in Brazil, or refused to vote for any mayoral candidate.

BUSINESS NEWS

Judge Keeps Barrick Argentina Mine Closed

An Argentine judge ruled on Friday that Barrick Gold's Veladero mine must remain closed, saying repairs at the facility were not sufficient to reopen it following a spill last month of solution containing cyanide, state news agency Télam reported. Judge Pablo Oritja ruled after receiving a report from mining authorities that Barrick had not installed sensors and security cameras as mandated. A spokesman for San Juan province said the judge extended the suspension of operations at the mine until Barrick makes the required changes.

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FEATURED Q&A / Continued from page 3

for specific regions, improves connection among Chile's three grids, establishes an independent grid operator, guarantees open access to the grid, and makes transmission pricing more transparent. Other Latin American countries such as Mexico and Peru have also had recent success in attracting investment for their renewable energy sectors. Both countries recently held successful auctions that also awarded energy supply for historically low average prices. The success of Chile's latest auction will ultimately be defined by whether projects are completed to supply the awarded capacity. Many still doubt that these projects can be completed given Chile's aging transmission infrastructure, congestion and record-low pricing, which will make it difficult to secure financing."

Rodrigo Fernández Hirsch, consulting manager and co-owner at Energética: "The largest auction was recently awarded with an average price of $47.60/MWh, historically the lowest since the auction mechanism was implemented. What might be a normal price for many countries, for Chile is a superb price, considering the amount of energy (12,500 GWh/year) and the prices of the previous auctions—around $80 and $110/MWh in the last two. Chile awarded Endesa with the largest amount of energy (47 percent) with the company offering a bid in the $47.50 to $55.50/MWh range, and could be considered as the biggest winner of this auction. On the other hand, AES Gener and Colbún weren't awarded a single MWh, making them the main losers. Renewables were also at the center of attention, because all the energy that was not assigned to Endesa is based on wind and solar. Wind energy was the most highly awarded among pure renewable suppliers. Mainstream Renewable Power was the lead winner among renewable companies, achieving power-purchase agreements to build seven wind farms. With the last auction, prices will go down in the midterm, and Chile's generation matrix is becoming even greener, thus accomplishing the goals of all the recent changes in the Chilean energy market. However, it remains to be seen if all the projects associated with the PPAs are actually built. It also must be taken into account that the price for the final user won't drop immediately; the resulting PPAs start in 2021, and older PPAs with higher prices are still and will be in force. However, the resulting prices set a benchmark for non-regulated clients, which have to negotiate directly with the generator."

Sara Larraín, executive director at Programa Chile Sustetnable: "The recent reduction of market obstacles in energy regulations in Chile allowed the participation of 84 different companies in the latest electricity auction, offering 85,000 GWh of energy, seven times more than the demand through the auction. The biggest winners in the competition were the non-conventional renewable energies (NCRE), especially wind and solar, and the new NCRE investors who won 50 percent of the electricity auction, which will be available to the national energy system between 2021 and 2041, when consumers will benefit, with a 20 percent reduction in the cost of electricity. The success of the auction was the result of the implementation of two laws: one that established a target of 20 percent NCRE by 2025, and the recent reform of the auction system for regulated electricity consumers, which established small and medium blocks of energy, time-related blocks and more time to build power plants. In addition, specialists said the Chilean NCRE target for 2025 will be achieved by 2020. Finally, with this auction, Chile at last opened the door to new investors, market competition in the field of electricity, and clean and cheap energy."

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org.

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