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### FEATURED Q&A

#### Will Opposition to Mega Projects Worsen Chile's Energy Woes?

**Q** Chile's Supreme Court last month unanimously rejected the \$5 billion Castilla power project, ruling that the 2,100-megawatt plant could "harm the constitutional guarantee that one can live in an environment free of pollution." Meanwhile, industry leaders, particularly in the mining sector, have warned that the country's shaky electrical grid is hampering growth and investment. Does the rejection of the Castilla plant represent a major blow to Chile's energy future? How serious are the country's energy woes? Will solar, wind and other cleaner energy sources become more prevalent and help make up some of the shortfall or are they too economically infeasible on a larger scale?

**A** Craig Kelly, member of the Advisor board, former U.S. ambassador to Chile and vice president of The Cohen Group in Washington: "If there is any country that needs an 'all of the above' energy strategy, it is Chile. Endowed with few hydrocarbons, but facing rising energy needs driven by one of the region's most successful economies and a world-class but energy-thirsty mining sector, Chile has developed an energy strategy that calls for development of all practical sources. These include hydro (already a key part of Chile's electricity matrix), domestic and imported gas, increasing oil exploration in the southern region of Magallanes, geothermal, coal and increased non-hydro renewable energy.

Several of these projects—especially large hydro and coal—have drawn criticism on environmental grounds. But critics who fault the Chilean government's plan on environmental grounds underestimate what Chile is already doing in renewables (including a successful renewable energy conference in Santiago last week and a growing array of solar and wind projects that draw on domestic and foreign expertise) and overestimate the capacity of non-hydro renewables to address the shortfall in

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#### 'Fast and Furious' Report Faults Officials, But Exonerates Holder

A 471-page report released Wednesday by the U.S. Justice Department's inspector general faulted several officials, but essentially exonerated Attorney General Eric Holder in the "Fast and Furious" Mexico gun-walking scandal. See story on page 2.

*File Photo: U.S. Justice Department.*

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## NEWS BRIEFS

**Colombian Government Neutral on Venezuela Election: Santos**

Venezuelan presidential candidate Henrique Capriles Radonski met with Colombian President Juan Manuel Santos on Wednesday, Bloomberg News reported. In a statement Santos said his government was neutral in its neighbor's election, but nonetheless urged Venezuelans to "massively and peacefully" turn out for the Oct. 7 election. He also recognized President Hugo Chávez's support for the recently announced talks with the Revolutionary Armed Forces of Colombia, or FARC, rebels.

**Belize May Reach Agreement for Extension on Bond Payment**

Belize may be close to reaching an agreement for an extension and partial repayment of a \$23 million bond, after missing a deadline to pay in August, an unnamed source said, the Associated Press reported. The country had a one-month grace period, which ends this week, to make the payment or it would default. According to the source, a negotiating team has made progress on extending the grace period with a partial payment. The country currently owes \$544 million.

**Peru's Grupo ACP Eyes Microfinance Lending in Mexico**

Peru-based **Grupo ACP Inversiones y Desarrollo** plans to expand its microfinance lending operations in Mexico through its **Forjadores de Negocios** unit, Bloomberg News reported Wednesday. The unit currently lends to female entrepreneurs, but ACP plans to convert it into a bank and offer small-business loans to all Mexicans. ACP won regulatory approval for the change on Tuesday.

## Political News

**U.S. Report Faults ATF in Botched Mexico Weapons Operation**

A report released Wednesday by the inspector general of the U.S. Justice Department said management failures and poor strategy were to blame in the botched "Fast and Furious" operation, which had been intended to track the illegal flow of weapons into Mexico, Bloomberg News reported. In the operation, which occurred between 2006 and 2011, ATF agents were found to have allowed weapons purchased illegally in the United States to be taken into Mexico in an effort to track them to drug cartel leaders. Several weapons involved in the operation turned up at crime scenes on both sides of the border and at the scene of the killing of a U.S. Border Patrol agent. The 471-page report, which followed an 18-month investigation, led to the retirement of one official and the resignation of another. The inspector general recommended that 12 others face administrative or disciplinary action. Fast and Furious was beset by numerous problems in the Justice Department and its

Bureau of Alcohol, Tobacco, Firearms and Explosives, said the report. "Our review of Operation Fast and Furious and related matters revealed a series of misguided strategies, tactics, errors in judgment and management failures that permeated ATF Headquarters and the Phoenix Field Division, as well as the U.S. Attorney's

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*The report "revealed a series of misguided strategies, tactics, errors in judgment and management failures," said the inspector general.*

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office for the District of Arizona and at the headquarters of the Department of Justice," Inspector General Michael Horowitz said in a statement prepared for his scheduled testimony today before a U.S. House of Representatives committee. Congressional Republicans have blamed Attorney General Eric Holder for the botched operation, but the inspector general's report found that Holder wasn't aware of the operation's failures until leg-

**Featured Q&A**

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Chile's power needs. Even under the most optimistic scenarios, non-hydro renewables will make up no more than 20 percent of Chile's electricity matrix by 2030. It is a mistake to view Chile's energy dilemma as a choice between the social goals of environmental stewardship and the economic goal of growth. Continued poverty alleviation and increased social inclusion are also vital social goals, and they require economic growth—and increased energy. To address multiple, overlapping and at times conflicting priorities, a national debate involving all stakeholders is valuable in achieving consensus that addresses all priorities and eschews false dichotomies. Chile's strong democratic institutions and vibrant press are well-suited to this debate."

**A Miguel Schloss, president of Surinvest in Santiago:** "The Supreme Court's decision is symptomatic of prevailing weaknesses in the power sector, and a solution will need to address its underlying problems. Chile has tended to react with the necessary gradual reforms when it has been jolted by crises. In the 1980s, it set up a fairly resilient and competitive power generating system that served the country well. The price signals, however, provided incentives aimed at minimizing costs, with limited attention to: first, energy security, which thus resulted in investments concentrated on a single source (low-cost natural gas); and second, environmental implications. The cancellation of gas export contracts from

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islators began to probe it early last year. In a vote mainly along party lines, the House voted in June to cite Holder in contempt of Congress for refusing to hand over documents related to the operation.

## Company News

### GM Preparing Bid for Ally Financial's Auto-Lending Units

General Motors plans to bid this week for the Latin American and European auto-lending units of Ally Financial, Bloomberg News reported Wednesday. The U.S. automaker is not pursuing Ally's Mexican or Canadian units, the news service reported, citing three people familiar with the matter who were unnamed because the discussions are private. Last May, Ally put its foreign operations up for sale in order to raise cash to repay a U.S. government bailout. The Detroit-based lender has received nearly 30 notifications of interest in its non-U.S. units and has requested bids by Friday. GM Financial's acquisition of Ally's Latin American and European units would more than double its assets. GM Financial was created in 2010 when General Motors acquired AmeriCredit. The automaker had owned Ally's predecessor, GMAC, until 2006. GM Financial mainly focuses on North America, but in this year's first quarter, Ally financed approximately 30 percent of GM's non-U.S. customers, according to a note from New York-based UBS analyst Colin Langan. Ally Financial's Latin American and European units had assets totaling \$16.4 billion, the lender said May 15 in a presentation to investors. As of June 30, GM Financial had \$14.6 billion in assets.

### Petroecuador Lowers 2012 Output Target by 2 Percent

Ecuadorian state-run oil company Petroecuador has cut its production target for this year by 2 percent to 163,000 barrels per day, Dow Jones reported, citing the company's general manager. Petroecuador had to reduce the target because of delays in the arrival of rigs, Marco Calvopina told the news service in

## The Dialogue Continues

### How Well Is Mexico Protecting Human Rights?

**Q** A Mexican court declared on Aug. 22 that soldiers who are accused of committing crimes against civilians cannot be tried in a military court, a victory for advocates who say that human rights violations are increasing under the country's prolonged drug war. Does the ruling strike a better balance between human rights and the need for improved security? Have major reforms to Mexico's federal and local police forces that have been implemented in the Calderón administration achieved the expected results? Will Enrique Peña Nieto offer new solutions or strategies for combating violent criminal groups without violating citizen's rights? What kind of security reforms or tactics should the next government undertake?

**A** Ruben Olmos, partner at Global Policy Strategies in Washington: "The recent debate in Mexico's legislative and judicial branches about the so-called 'fuero militar,' or military privilege, is a great step toward recognizing that certain actions by the armed forces are questionable and require further scrutiny. Furthermore, the recent decision of Mexico's Supreme Court to limit the use of the fuero militar recognizes that every citizen is equal under the law and shows improvement in Mexico's democratic institutions. The Calderón administration's reforms have had a positive impact on the modernization of the country's security apparatus. For example, the number of Federal Police agents went from 6,000 in 2006 to about 36,000 in 2012. Other important reforms include the launching of 'Plataforma Mexico,' a

sophisticated intelligence sharing platform between security agencies across the country. However, there are many challenges ahead. While administration officials claim that Mexico is more secure, polls say that eight of every 10 citizens believe the security situation has deteriorated since the current administration launched its security strategy in late 2006. President-elect Enrique Peña Nieto has put the issue of reviewing the current security strategy and moving forward in implementing his own at the forefront of his transition team. The hiring of retired Colombian national police director Óscar Naranjo as an outside security consultant was well-received and is likely to bring many of the successful strategies seen in Colombia. Peña Nieto has said that he envisions the elimination of the municipal police, which is well-known for its corrupt practices, and replace it with effective state police units. In addition, he plans to look at the Spanish and French models and propose the creation of a national gendarmerie in charge of public safety, with police duties among the civilian population. All of the above will be accompanied by the creation of a national anticorruption commission which will prioritize strategies against money laundering and illegal arms smuggling. It is clear that this commission will also ensure the protection of human rights. These new strategies, together with the efforts already in place by the current administration are likely to have a positive impact in the current security environment."

*Editor's note: The above is a continuation of a Q&A published in the Sept. 6 issue of the Advisor.*

an interview. "The delay has its costs. Currently we have all the planned rigs, but we have lost time and we cannot meet the original production target, he said.

Ecuador is expected to produce approximately 510,000 barrels per day this year, with Petroecuador making up 33 percent of that total, said Calvopina.

**Featured Q&A***Continued from page 2*

Argentina in 2007, combined with a significant drop in hydro flows, made the underlying vulnerability of the system evident. The crisis brought about further liberalization in pricing, which facilitated investments that diversified energy sources. The recent ruling against the Castilla project may well be the harbinger for much needed strengthening of the environmental framework, either on the regulatory or the pricing side. Until this is done, we will continue seeing the pulling and pushing between environmentalists and energy producers, which reflect institutional inability to reconcile such conflicts in an effective way. In any event, the current system has put the country under stress, and no amount of alternative energy can replace 2,100 MW in an affordable and technically reliable manner. Reliance on renewables would be desirable, but for now they represent only some 2 percent of global supply and are comparatively costly. If renewables are going to be a significant part of the solution to energy needs in Chile and around the world, their costs must be brought down. Accordingly, policymakers must focus on affordability and enabling conditions for environmentally friendly energy development, which cannot be established without assessment of their implications. Future efforts will inevitably have to be directed toward: (i) improving the use of existing technologies; (ii) introducing market-based instruments that price externalities and can change environmental behavior; (iii) providing funding and support for 'public goods' including R&D for technological development; and (iv) designing policies that factor implementation and enforcement."

**A** **Rodrigo Fernández Hirsch, project manager at Energética:** "The Supreme Court unanimously rejected the project last month. It is a strong verdict that changes the country's perception of future coal projects and will probably change the future development of the Central Interconnected System (SIC). There are

still three coal fired plants with environmental approval that will likely be constructed; however the energy from these plants won't be enough to meet future demand. How Chile will meet energy demands is the question that haunts the electricity sector. Alternatives exist; however all of them imply higher energy prices than currently expected using coal. LNG looms as the most probable solution, but high gas prices necessarily will be translated to energy prices around \$130 per MWh for industrial consumers. Major mining projects are proposed, but they require competitive energy prices. Notwithstanding the supply situation and high prices, not everyone is upset. Non-conventional renewable energy (NCRE) developers see an opportunity for the sector. Wind and solar projects in Chile need energy prices around \$110-120 per MWh to be constructed and it could be easier to achieve them without new coal-fired plants. Almost all big consumers that are asking for supply offers are receiving spot market pass-through schemes. Particularly in the third region (Atacama), due to transmission constraints, spot market energy prices are expected to be high for at least eight more years. Coincidentally, it is the best location for solar power. In this scenario, solar power comes out as a good option for mining companies to put a cap on energy prices, at least to meet a part of their demand. The SIC will have to develop gas-fired combined-cycle units, making energy prices high. This situation is the perfect incentive for NCRE development because their prices are competitive and combined-cycle units are very flexible in their operation. This makes the operation of wind and solar power plants easier, so large scale NCRE plants (greater than 100MW) are more likely to be constructed."

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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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