

Posted on Mon, Jul. 12, 2004

## INTERNATIONAL

Chile struggles with energy dilemma

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Special to The Herald

SANTIAGO - Six years ago, the worst drought in five decades dried up reservoirs and left Chile, which depends on hydroelectric power for more than half its electricity, with power outages stretching three or more hours a day.

During those dry times there were worries that economic growth might grind to zero if the rain gods didn't bless the country.

Chile depends on Argentine natural gas to generate 40 percent of its electricity. So, when Argentina announced in March that it would cut back its natural gas exports to Chile by up to a quarter, many Chilenos feared the country was headed for another 1998-style energy rationing.

But this time around things are different -- even during the current southern hemisphere winter when energy use rises. Due to stricter regulations over the privatized energy sector, Chilean power providers are being forced to spend the money necessary to keep the heat on.

'There will be no interruption in service in Chile,' Chile Economy Minister Jorge Rodriguez Grossi told The Herald in a recent interview.

'We are angry that Argentina has not met its contractual obligations, that companies in Chile have to spend more on energy costs and that our air in Santiago will be dirtier due to the increased use of diesel. But Chile has enough money to meet its short-term energy needs,' said Rodriguez.

In northern Chile, to keep electricity at normal levels, power providers expect to shell out an extra \$26 million through the end of the year for imports of coal and diesel fuel that can be used at some power plants instead of natural gas. In the central region, they expect to spend an extra \$10 million.

Industry observers say that Chile's current diplomatic joust with Argentina over gas cuts is really all about cost. Diesel is four times more expensive than gas from Argentina, coal twice as much.

Still, while the country's short-term needs appear to be met, albeit with eventual higher energy prices passed on to consumers, Chile still faces some serious long-term energy questions.

## LONG-TERM PLANS

The country imports 95 percent of its oil -- mostly for transportation -- and all of its natural gas. Moreover, when winter rains and snow are scarce, the volatile hydroelectric power supply can fluctuate drastically from providing more than half of the national electric power grid to 12 percent or less.

Meantime, demand for electricity in Chile is growing by about 7 percent a year.

Cognizant of the problem, Chilean President Ricardo Lagos announced a \$500 million plan in May to build a Liquid Natural Gas plant and port to import gas beginning in 2008. The gas would come from as far away as Indonesia, which has offered to supply Chile.

But critics say the plan does nothing to offer relief for the next four years, and over the long haul, it may only extend problems.

'Chile needs to put its investment and political will behind a policy of self-sufficiency based on improving energy efficiency and utilizing available national resources like geothermal, wind and solar power,' said Pedro Serrano, president of the Santiago-based Terram Foundation, a policy think tank.

#### NEIGHBORLY AID

The country could also meet its natural gas needs much more cheaply by importing from the abundant reserves of nearby Bolivia, which has the second largest gas reserves in Latin America after Venezuela.

But a 125-year-old dispute between the countries over Bolivia's loss of sovereign Pacific coastline to Chile in the 1879 War of the Pacific has soured relations between the two nations, and they have not exchanged formal ambassadors since 1975.

One of the issues that contributed to a popular uprising in Bolivia last October was that most Bolivians can't accept that their gas would ever be sent to or through Chile without a favorable resolution to their maritime demands.

Hammering home that message, Bolivia agreed in April to export gas to Argentina to help bail the country out, but Bolivian President Carlos Mesa stipulated that 'not one molecule' of the Bolivian gas could be resold to Chile.

Argentine gas suppliers, meanwhile, say their hands are tied: the government has veto power over how much they can export. And they are reluctant to invest in much needed gas infrastructure improvements until the government relaxes its freeze on domestic energy prices. The Argentine government took that step to help soften the effects of the crippling peso devaluation that occurred in January 2002.

#### POOR DESIGN

Daniel Azpiazu, of the Argentine office of the Latin America Faculty for Social Sciences (FLACSO), said the roots of the Argentine energy crisis can be traced to poorly designed privatization policies.

After the country privatized its energy sector in 1993, Azpiazu said, gas producers pocketed average annual profits between 30 to 40 percent up until the 2001 economic collapse. But very little of that financial windfall was ever reinvested in developing new gas wells and improving domestic service.

Between 1998 and 2003, for example, gas production in Argentina grew by 36 percent but gas exports increased an astounding 12 times. The private gas operators built seven pipelines toward Chile, and one each to Brazil and Uruguay, but the internal gas distribution network received almost no attention.

'There were absolutely no regulations of the privatized energy companies,' said Azpiazu.

Chile has threatened that if its meetings with Argentina on the gas impasse prove fruitless, it may resort to filing an official complaint with the World Trade Organization over what it alleges is a violation of a 1995 Chile-Argentina gas accord.

Meanwhile, Chile has put its relations with Bolivia further in the deep freeze by abruptly canceling ongoing talks toward bilateral economic cooperation.

'This isn't the best moment for relations with our neighbors,' admits Sen. Hernan Larrain, the president of the Chilean Senate. ``Each conflict has its own explanation. We need to rebuild the trust that's been lost.''