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## Chile's Tiny Gas Industry a Big Problem for President Sebastián Piñera

By Benjamin Witte-Lebhar

Although it represents just a small slice of the country's overall energy pie, Chile's minor Patagonia-based natural-gas industry is causing major political problems for first-year President Sebastián Piñera, a billionaire capitalist who is finding out the hard way that dictating energy policy is anything but business as usual.

An anomaly in Chile's otherwise privatized energy sector, the state-owned Empresa Nacional del Petróleo (ENAP) extracts a modest amount of natural gas from oil fields it controls in Magallanes, an area of southern Patagonia also known as Region XIII. The homegrown industry is an exception in Chile, which satisfies the bulk of its fuel needs with foreign imports. In the country's more populous central regions, natural gas--used not only for heating and cooking but also for electricity production--comes from overseas in liquid form or through pipelines from Argentina, which has drastically reduced gas exports to Chile in recent years.

But while the small domestic-gas industry may be of little benefit to the bulk of Chile's 16 million residents, most of whom are crowded in the country's central regions, it has proven to be a real blessing for the estimated 160,000 southerners who call frigid Magallanes home.

For one-eighth the rate that those in the north pay, residents in Punta Arenas and elsewhere in Magallanes rely heavily on the locally extracted gas to cook, heat their homes, and even power cars and busses. The low-priced fuel is all the more appreciated given the isolated region's challenging climate (even during the short summer, temperatures rarely go above 15 degrees Celsius) and overall high cost of living.

Magallanes residents say the low gas prices are logical given that the fuel--because it is extracted and consumed locally--costs far less to produce and deliver than does gas imported from abroad. Liquefied natural gas (LNG), in contrast, is extracted in places like Malaysia or Siberia, compressed, shipped halfway across the world, processed again once it reaches port and only then delivered to consumers. No wonder people in central and northern Chile have higher gas bills.

ENAP has a different take on the matter, saying Magallanes consumers can thank generous government subsidies--not low production costs--for their cheap natural gas. On average, Magallanes families spend roughly US\$45 per month on gas. Were it to consume the same amount, a family in Santiago would have to pay close to US\$400.

Unfortunately, the state-run oil company now argues, those subsidies make less and less business sense, particularly because they scare off the would-be investors Chile needs to fund

further exploration and thus guarantee a future supply of the raw material. Many analysts say just such a scenario is to blame for the ongoing gas crisis in neighboring Argentina, where government price subsidies spurred consumption while discouraging investment. The result has been a supply shortage affecting not only Argentina but also Chile, which lost its primary gas provider.

### **Adding insult to injury**

With that logic in mind, ENAP announced in January that it would restructure its subsidy scheme by establishing a new consumption ceiling of 1,000 cubic meters per month (down from 25,000 cubic meters). The measure was supposed to encourage area families--who use on average between 800 and 1,000 cubic meters per month--not to waste the fuel. Under the plan, consumers are free to use more than 1,000 cubic meters of gas per month, but at a much higher cost.

The state entity also announced that starting Feb. 1 it would raise gas prices by nearly 17% for the region's monopoly gas distributor, Gasco Magallanes. Needless to say, Gasco--a private company that can thank the military government of former dictator Gen. Augusto Pinochet (1973-1990) for its lucrative distribution rights--planned to pass the extra cost along to consumers.

With locals beginning to grumble about the sudden changes, Piñera's then energy minister Ricardo Raineri came out in defense of ENAP, saying the measures were needed to make Chile's small natural-gas industry more "sustainable." Speaking to reporters Jan. 4, Raineri likened the subsidies to a party. "We can have a party today, but these kinds of parties end up costing a lot in the long run. We can't be irresponsible," he said.

The energy minister's comments were seen as adding insult to injury for many Magallanes residents, who view their lives in the frigid and pricey Patagonia region as anything but a party.

By mid-January, frustrations turned to action as thousands of residents in Punta Arenas and elsewhere in the region took to the streets to protest the price hikes. Led by the Asamblea Ciudadana de Magallanes (ACM), an umbrella of group of labor and civil-society organizations, locals launched a general strike Jan. 11, erected roadblocks, and occupied Punta Arenas' port, effectively laying siege to the regional capital. The uprising took a tragic turn the following day when a truck rammed into one of the roadblocks, killing two protestors and severely injuring a third.

Already a major national news story, the situation gained international attention when media outlets like the BBC and CNN began reporting that the roadblocks and general strike were stranding thousands of foreign tourists. Magallanes is home to Torres del Paine National Park, one of Chile's top tourist destinations.

### **Ulterior motives?**

Calling for calm, Piñera administration officials tried to downplay the proposed measures, saying that for most families the change would amount to only an additional US\$7 per month on their gas bills--a not unreasonable amount considering that energy prices have risen the world over.

"It's difficult for the people of Magallanes to easily understand this. It's natural that when the gas bill goes up, in this case 16%, people are resentful and don't understand why," said Mining

Minister Laurence Golborne. "But it's important that they understand that energy prices have risen everywhere. That's why there's a price hike for consumers."

The Magallanes protestors suspect global price hikes may not be the only thing motivating the proposed subsidy changes.

Local families and businesses consume roughly 40% of the gas ENAP produces. The other 60% is sold to Methanex, a Canadian-owned firm that uses the gas to produce methane, which it then sells for profit. The government argues that easing back on subsidies will help protect the country's dwindling gas reserves by giving residents an incentive not to waste the raw material. But critics say there may be another incentive at play here. The environment, after all, is not the only potential beneficiary of reduced local consumption. Less gas for residents could also mean more fuel--and thus greater profits--for Methanex.

The Magallanes protestors and their congressional backers are convinced Methanex has a far-greater role to play in the matter than either the company or the government will admit. They also suspect Methanex may actually be paying less than residents for ENAP gas. Determined to shed more light on the ENAP-Methanex relationship, Deputies Miodrag Marinovic and Alejandra Sepúlveda are promising to investigate the issue via the Contraloría General, Chile's national comptroller.

"The Contraloría needs to study these contracts, determine who signed them, how the decision was reached, who the responsible parties are in each case, and why there are secret clauses," said Sepúlveda. "We can't have a state company, which belongs to all Chileans, acting secretly. That's not right. And it raises the question, what's behind all this?"

### **A case-by-case approach**

As the unexpected citizen revolt stretched on, President Piñera began to backpedal. On Jan. 14, he sacked Raineri, his beleaguered energy minister, handing the job over to Golborne, who is now juggling two ministerial posts. Golborne, a popular figure because of his leading role in last October's high-profile mine rescue, was sworn in two days later and immediately dispatched to Punta Arenas.

Within 24 hours, the new energy minister brokered a deal--but only after ceding to nearly all of the ACM's demands. The government dropped the planned 16.8% price hike, settling instead on a 3% increase (to match inflation). Golborne also agreed to maintain full subsidies for 18,000 low-income families (roughly 40% of the population). In addition, the two sides agreed to spend the next eight months revisiting the issue and drafting gas-price guidelines to be approved by Congress before September.

This is not the first time Piñera, Chile's first conservative leader since Pinochet, has had to improvise on energy policy. The president faced another energy conundrum last August, when environmental authorities in the northern Coquimbo region gave the go-ahead for the Barrancones coal-burning electricity plant. The proposed generating facility had long been opposed by environmental and citizens groups. In that case, Piñera surprised many would-be critics by stepping in personally to block the project. Although it was no doubt disappointing for GDF Suez, the energy company behind Barrancones, the move proved popular among the general public.

The situation in Magallanes is different. Piñera did his best to paint the Jan. 18 agreement as a success. "This is a government that faces up to problems, that doesn't evade them, that's willing to negotiate and seek agreements," he said. Most observers, however, see his capitulation as a significant policy defeat, a case where Piñera tried--but failed--to cut back on one of the few remaining vestiges of Chile's once-much-larger welfare state.

With the Barrancones controversy, President Piñera's last-minute heroics were widely viewed as protecting the public interest. This time around the public interest prevailed despite Piñera. Yet for all their differences, the two incidents have one thing in common: they both illustrate that Piñera, who took office nearly a year ago, has yet to come up with anything resembling a coherent energy policy. Instead he has dealt with energy issues on a case-by-case basis, often sending investors and the general public mixed messages.

Chile's new energy minister acknowledged last week that coming up with an overall energy policy is now a "priority" for the Piñera administration. "During this year we will open a broad discussion, listening to everyone with an opinion," Golborne said during the Feb. 9 inauguration of a new GDF Suez wind park.

Working against the president and his new energy guru is time. Piñera has just three years left in his presidency and no guarantee that he will be succeeded by one of his political allies. The broad discussion Golborne promised can be expected to drag out at least a year, meaning Piñera's window of opportunity for putting his own stamp on Chile's energy situation is quickly closing.

Sources: The Guardian, 01/18/11; EFE, 01/18/11; BBC, 01/18/11; Reuters, 01/14/11, 01/18/11; AP, 01/17/11; Radio Universidad de Chile, 01/18/11; Diario Cámara de Diputados, 01/18/11, 01/24/11; Mercopress, 01/18/11; CNN, 01/17/11; Emol, 01/05/11; Radio Cooperativa, 01/11/11; El Ciudadano, 01/09/11; Radio Bio Bio, 01/05/11