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## Corruption Scandals Fade as Chile Prepares for Leadership Change

by Benjamin Witte-Lebhar

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As the sun sets on the presidency of Michelle Bachelet—Chile’s first female head of state and the first since democracy was restored, nearly three decades ago, to serve a second term—the country also appears to be turning the page on the confluence of corruption scandals that did so much in recent years to damage her approval numbers.

A case in point is the quickly evaporating case against Sociedad Química y Minera de Chile (SQM), a large and controversial chemicals and mining company that was privatized during Gen. Augusto Pinochet’s dictatorship (1973-1990) and acquired by the strongman’s then son-in-law, Julio Ponce.

The firm’s ties to the brutal military regime have long made it a lightning rod for criticism. But it was another set of circumstances that put SQM on the hot seat starting in 2015, when accusations began to surface linking it to illegal campaign financing, influence peddling, and tax fraud. Like the concurrent Caso Penta, involving the multi-billion-dollar holding company Grupo Penta, the allegations against SQM center in large part on the use of bogus invoices—sent by third parties for services never rendered—to channel illicit campaign donations to certain politicians ([NotiSur, Feb. 13, 2015](#)).

While the Caso Penta payments went primarily to members of the hard-right opposition party Unión Demócrata Independiente (Independent Democratic Union, UDI), the SQM scandal, in contrast, involved political figures across the spectrum, including some of President Bachelet’s close allies, and was far more damaging to the center-left leader—especially as it coincided with yet another corruption case, the so-called Caso Caval, in which the president’s son and daughter-in-law are implicated ([NotiSur, April 24, 2015](#)).

The cascading corruption scandals put the brakes on what had been a busy start for Bachelet in her second term, prompting her to make a major Cabinet overhaul and ease up on her ambitious reform agenda while she scrambled to develop a package of anti-corruption measures ([NotiSur, May 29, 2015](#)). “Some will want to resist [the changes] so that things stay the way they are,” she said in a special, nationally televised address on April 28, 2015. “But my principle is clear: Democracy and politics belong to everyone, and we cannot tolerate them being co-opted by the power of money.”

And yet, as recent developments suggest, the this-will-not-stand message Bachelet was so careful to articulate three years ago has since given way, observers argue, to a let-by-gones-be-by-gones attitude. Rather than follow through on their promise to clean house, in other words, the government and courts seem to be sweeping all of the alleged improprieties back under the carpet.

“It was pretty while it lasted,” journalist Daniel Matamala wrote in a January column for the non-profit, investigative journalism organization Centro de Investigación Periodística (CIPER). “For more than three years, there was hope that the corruption of the political and business elite would be investigated and punished. The cases took twists and turns, and some are still pending. But at this point the result is clear: The crooks won. They won in a blowout, a drubbing.”

## *Pre-trial settlements*

On Feb. 5—five weeks before Bachelet hands her presidential sash to billionaire businessman and former president Sebastián Piñera (2010-2014)—Chilean news outlets reported that one of the prosecutors handling the complicated SQM case, Pablo Gómez, wants to terminate proceedings against 58 people implicated in the affair. Among the names included in the prosecutor's list are Francisco Frei, brother of former president (and Bachelet ally) Eduardo Frei (1994-2000), and Pedro Yaconi, who married Frei's niece.

The move came just days after the court agreed to Gómez's request for a conditional suspension of criminal proceedings against SQM itself for its role in an alleged bribing scheme involving Pablo Longueira, a former UDI senator and Cabinet minister under Piñera. As part of the deal, the prosecution agreed not to initiate further criminal investigations into the matter. The company, in exchange, agreed to pay roughly US\$4.2 million, approximately a third of which will go to the state. The rest will go to foundations of SQM's choosing.

Gómez defended the deal as the best result he could have hoped for, given the circumstances. It was better to get something—namely a multi-million-dollar payout—than risk losing the case in trial and coming away empty handed, he reasoned. But others, including many legal professionals, say it let SQM and its former general manager, Patricio Contesse, off the hook.

Critics also called it a missed opportunity to establish a new legal standard in Chile, to let unscrupulous business and political actors know that accountability in such cases can mean jail time, that they can't just buy their way out of trouble. Instead, the decision sent the opposite message, they argue, especially as it coincided with a similar outcome in proceedings against a high-profile UDI senator, Iván Moreira, who was accused of using fake invoices to receive illegal campaign donations from Grupo Penta.

Like Contesse, Moreira avoided trial—and the possibility of jail time—after the prosecution offered last month to conditionally suspend the proceedings in exchange for money paid (approximately US \$58,000, payable in 12 quotas). Out of protest, a pair of prosecutors who'd been working on the Caso Penta for years—Carlos Gajardo and Pablo Norambuena—resigned.

Chile's attorney general, Jorge Abbot, defended the decision not to bring Moreira to trial, saying the prosecution made the "most adequate" choice available based on a "realistic" assessment of the situation—of its chances, in other words, of securing a guilty verdict. Others, however, were appalled, including a number of left-wing lawmakers who denounced the "impunity" afforded in such cases and applauded Gajardo and Norambuena for taking a stand.

"All of my support for Gajardo and Norambuena ... This isn't justice, it's impunity," Karol Cariola, a former student leader and now deputy with the Partido Comunista de Chile (Communist Party of Chile, PCCh), wrote in a Jan. 19 Twitter post. Housing-rights activist Doris González, also via Twitter, expressed a similar sentiment. "The resignations of prosecutors Gajardo and Norambuena give people even more reason to lack confidence in the institutions, which in Chile jail the poor while the rich are untouchable," she wrote.

## *Striking a deal*

Adding to the sense of outrage felt by critics like Cariola and González was the government's announcement, last month, that after a years-long business and environmental dispute with SQM, it

had reached a major concession deal with the company. The deal centers around SQM's use of the Salar de Atacama—Chile's largest salt flats—to extract and process lithium, a key and increasingly valuable material used, among other things, to make batteries for cell phones and electric vehicles.

Through an arbitration process that began in May 2014, the government's economic promotion agency, the Corporación de Fomento de la Producción (CORFO), accused SQM of underpaying royalties and violating environmental regulations in the Salar de Atacama, one of the world's largest lithium deposits. As recently as October of last year, news sources reported that the two sides were still very much at loggerheads. But on Jan. 17—smack dab in the middle of a visit to Chile by Pope Francis I—CORFO's executive vice president, Eduardo Bitran, announced an end to the impasse.

SQM agreed to improve its environmental practices and increase the royalties it pays the Chilean state, from 6.8%, according to the Australian investors site Resources Rising Stars, to between 7% and 40% depending on the commodity's selling price. The company also agreed to keep Julio Ponce and his family members out of its corporate governance board—a major sticking point for the government, as Bitran acknowledged in a subsequent interview with CNN Chile—and to supply Chile with below-market-cost lithium as a way to encourage value-added production. SQM, in exchange, will not only be allowed to continue using the Salar de Atacama, but also significantly increase its production quota through 2025.

Bitran later defended the deal as “the best in Chile's history” with regards to a private mining company. Many others, however, are scandalized by the development, which they see not only as a missed opportunity to exert state control over lithium, one of the country's most strategic resources, but also as a kind of “reward” for a company that is wholly undeserving, given its murky origins, patchy environmental record, and high-profile corruption scandals.

“We've said it many times: Chile has a historic opportunity to go from being an exporter of raw material to countries like China and Germany to being an industrial country that makes its own products like lithium batteries ... or even electric cars,” Sen. Alejandro Navarro of the far-left Movimiento Amplio Social (Broad Social Movement, MAS) said in response to the CORFO announcement. “Instead, we get this almost secret deal between SQM and CORFO, with backing from the government. It's a national embarrassment; a short-term decision when really we ought to be planning long-term, the way developed countries do.”

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