Electricity in Latin America, 2004

by

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1. Foreword

PSI has commissioned this paper in order to help unions develop coordinated strategies to protect their members' rights and interests. In the energy sector, there are many developments that unions must consider as they plan for the next few years.

The most important trend is the complex and deep problems with the privatisation and deregulation model imposed by the international financial institutions. This neo-liberal approach to the serious challenges of supplying safe and reliable energy to citizens, to industry and to agriculture has proven to be weaker even that the public service model that it sought to replace.

The report indicates that many of the multinational corporations that rushed in as agents of the IFIs have run away or are looking for the first opportunity to get out. This may mean that unions will have a difficult time negotiating long-term collective agreements with them, that no money will be available for salary increases, or that these MNCs will attempt to cut jobs in order to squeeze last-minute profits. However, it also means that the unions can put pressure on the companies by letting the communities and the politicians know of the corporate plans to leave.

We can conclude from this research that unions will find it easier to resist energy privatisation, at least for the short term. However, in the long term, it is safe to assume that the IFIs will return to their neo-liberal, market-based attacks on the public sector. Thus, unions must develop long term solutions to protect public services.

Possibly the best way to resist privatisation is to ensure that the public services are of a high quality, and that they meet the needs of the public. This can perhaps be achieved through a variety of tools: labour-management cooperation to reform and improve public services; workers and users taking a greater role in decision-making; governments investing in public infrastructure. Such an approach will require new strategies and new alliances. The unions are in a good position to lead, if they are willing to innovate and to take advantage of the particular conjuncture. PSI stands ready to assist in this process.

In Unity,

David Boys
PSI Utilities Officer

2. Introduction and summary

This paper aims to present the activities of the multinational companies in privatised electricity operations in Latin America, and to identify some of the key issues which affect the development of the sector. It accompanies the separate PSIRU overview of electricity privatisation and liberalisation globally.

The next section covers the multinationals, with brief information on their origins and their current policies towards Latin America where known. It also lists the multinationals which have formerly invested in Latin America but have now left.

The third section looks at key issues and trends, including the development of the policies of the governments of Argentina and Brazil; the scale of resistance to privatisation in Latin America , and the new statements of position from the IMF and the World Bank.

The evidence presented here has implications for trade union policies and strategies, both in relation to the multinational companies and in relation to national governments. Some key points are in the foreword from Public Services International (PSI).

3. MULTINATIONALS ACTIVE IN LATIN AMERICA

The data in this section is based on information maintained in the PSIRU database for PSI.

3.1. Endesa (Spain/Espana)

This is the largest Spanish electricity company, which has been active in Latin America from the early 1990s. Endesa has stated that it will stop expanding operations in **Latin America** as it tries to obtain returns on recent investments that have brought it control of 10% of the continent's **electricity** sector, CEO Rafael Miranda told reporters. The company is insisting on higher returns than it obtains in Europe, to justify the risks on Latin American investments and to recoup previous losses: "returns on investment will have to compensate for foreign currency volatility risk and capital costs **....** **t**he returns would have to cover the company's losses in the region from the 2001-2002 economic crisis that led to an **electricity** consumption trough".[1] Although Endesa plans to invest $2.9bn in Latin America over the next few years, this will be to maintain its existing assets rather than new investment. Endesa is actively seeking more local partners, so that investment will come from local sources rather than Spain[2].

Endesa's Chilean subsidiary, Enersis, had to carry out a major financial restructuring in 2002, arranging an extra $2.3 billion loans to avoid having to repay existing loans. Despite this, the credit rating of Enersis has been reduced to BBB-. [3] In Brazil however Endesa decided to reinvest in its distribution companies rather than agree to a refinancing arrangement with Brazilian bank BNDES (as was done by other companies, eg AES). In Argentina Endesa is centrally involved in negotiations with the government to try and retain its investments, reclaim the dollarisation agreement (see section 3.4 below on Argentina) and increase electricity prices to improve profits. The Argentinean president at one stage accused Endesa's subsidiary Edesur of deliberately creating a blackout to increase pressure for price rises.[4]

Group	Country	Company	Sector	%	Indirect %	IndirectVia
Endesa	Argentina	CBA	Electricity generation		11.9	Enersis
Endesa	Argentina	Costanera	Electricity generation		23.4	Enersis
Endesa	Argentina	Distrilec	Electricity		13.9	Enersis
Endesa	Argentina	Dock Sud	Electricity generation			
Endesa	Argentina	EASA	Energy			
Endesa	Argentina	Edenor	Electricity			EASA
Endesa	Argentina	Edesur	Electricity distribution		9.6	Enersis
Endesa	Argentina	El Chocon	Electricity generation			Enersis
Endesa	Argentina	Yacylec	Electricity transmission	22.2		
Endesa	Bolivia	Elfec	Energy		34.9	Enersis
Endesa	Brazil	Cachoeira Dourada	Electricity generation		60.6	Enersis
Endesa	Brazil	CERJ	Electricity distribution		25.5	Enersis
Endesa	Brazil	Cien	Electricity transmission			
Endesa	Brazil	COELCE	Electricity distribution	33.06		
Endesa	Brazil	Fortaleza	Electricity generation		60.6	Enersis
Endesa	Chile	Celta	Electricity generation			Enersis
Endesa	Chile	CHILECTRA	Electricity distribution		59.5	Enersis
Endesa	Chile	Endesa Chile	Electricity generation		36.4	Enersis
Endesa	Chile	Enersis	Electricity	60.62		
Endesa	Chile	Pangue	Electricity generation			Enersis
Endesa	Chile	Pehuenche	Electricity generation			Enersis
Endesa	Chile	San Isidro	Electricity generation		27.3	Enersis
Endesa	Chile	Taltal Power	Electricity generation		18.2	Enersis
Endesa	Colombia	Betania	Electricity generation			
Endesa	Colombia	CODENSA	Electricity distribution		12.6	Enersis
Endesa	Colombia	EMGESA	Electricity generation			Enersis
Endesa	DominicanRepublic	CEPM	Electricity	40		

Group	Country	Company	Sector	%	Indirect %	IndirectVia
Endesa	Peru	Edegel	Electricity generation		13.8	Enersis
Endesa	Peru	EDELNOR	Electricity distribution	18		
Endesa	Peru	EEP	Electricity generation	60		
Endesa	Peru	Etevensa	Electricity generation	60		
Endesa	Peru	Generandes Peru	Electricity generation		21.7	Enersis
Endesa	Peru	Piura	Electricity generation			

3.2. Iberdrola (Spain/Espana)

Iberdrola is a Spanish company with investments in Brazil, Bolivia, Guatemala and Mexico. Its main presence is in a group of distribution companies in the northeast of Brazil. It has recently invested in a 520MW gas-fired generator in the region, all of the output from which will be bought by Iberdrola's distribution companies.[5] The cost of this investment is all derived from the surplus of the Brazilian energy operations, not from capital from Spain. Two of Iberdrola's Brazilian distribution companies, Coelba and Cosern, have recently decided to issue bonds worth $143m and $40m respectively: again, this is local money borrowed by the local operators, who all (including the third one, Celpe[6]) have their own independent credit ratings, not funds from Iberdrola.[7] [8]

Along with Endesa, Iberdrola has attacked the Chilean government for excessive regulation of the industry.[9]

Group	Country	Company	Sector	%	Indirect %	IndirectVia
Iberdrola	Bolivia	Cade	Energy			
Iberdrola	Bolivia	Electropaz	Electricity distribution			
Iberdrola	Brazil	Celpe	Electricity distribution		31.0	Guaraniana
Iberdrola	Brazil	Coelba	Electricity distribution		22.4	Guaraniana
Iberdrola	Brazil	Cosern	Electricity distribution		9.5	Guaraniana
Iberdrola	Brazil	Guaraniana	Electricity	39		
Iberdrola	Brazil	Itapebi	Electricity	40.5		
Iberdrola	Guatemala	Eegsa	Electricity	49		
Iberdrola	Mexico	Altamira III/IV	Electricity generation			
Iberdrola	Mexico	Enertek	Electricity generation			
Iberdrola	Mexico	Femsa-Titan	Electricity generation			
Iberdrola	Mexico	Monterrey	Electricity generation			

3.3. Union Fenosa (Spain/Espana)

Union Fenosa is present in a number of countries, including a number of operations in central America: Guatemala, Mexico, Panama, Nicaragua, and is constructing a plant in Costa Rica. Union Fenosa's profits in Latin America increased in 2003, but the company strategy is to reduce its investments in the area if they cannot produce higher returns: "Fenosa said it was willing to sell assets in Latin America currently considered strategic if they did not generate sufficient profits".[10]

Its distribution operations in Dominican Republic were re-nationalised in 2003 (with compensation).[11] Union Fenosa itself is expected to be the subject of a takeover bid soon from a bigger European company.[12]

Group	Country	Company	Sector	%	Indirect %	IndirectVia
Union Fenosa	Colombia	Electricaribe	Electricity	69.3		
Union Fenosa	Colombia	Electrocosta	Electricity	70.4		
Union Fenosa	Colombia	EPSA	Electricity	64		
Union Fenosa	CostaRica	La Joya	Electricity generation	65		

Group	Country	Company	Sector	%	Indirect %	IndirectVia
Union Fenosa	Guatemala	Guatemala Distribuidores	Electricity distribution	80		
Union Fenosa	Mexico	Union Fenosa (Mexico)	Electricity generation	100		
Union Fenosa	Nicaragua	Disnorte	Electricity distribution	79.5		
Union Fenosa	Nicaragua	Dissur	Electricity distribution	79.5		
Union Fenosa	Panama	Chiriqui	Electricity distribution	51		
Union Fenosa	Panama	Metro-oeste	Electricity distribution	51		

3.4. EdP (Portugal)

EdP (Electricidade do Portugal) is the mainly state-owned electricity company of Portugal.. It is active internationally principally in areas of former Portuguese influence, most especially Brazil.

In Brazil it owns stakes in distribution and generation companies, notably Bandeirante (Sao Paulo), and a minority 15% stake in Cerj (Rio). It also owns a minority stake in a distributor in Guatemala.

Group	Country	Company	Sector	Percent	Indirect %	IndirectVia
EdP	Brazil	Aguas do Brasil	Water		10	Aguas de Portugal
EdP	Brazil	Bandeirante	Energy	96.5		
EdP	Brazil	CERJ	Electricity distribution	15		
EdP	Brazil	COELCE	Electricity distribution		4.48	CERJ
EdP	Brazil	EBAL	Water		10	Aguas de Portugal
EdP	Brazil	Enerpeixe	Electricity generation	59		
EdP	Brazil	Enersul	Electricity distribution		21.0	Iven
EdP	Brazil	Escelsa	Energy		38.2	Iven
EdP	Brazil	INVESTCO	Electricity generation	25		
EdP	Brazil	Iven	Finance	73.1		
EdP	Brazil	Prolagos	Water		9.35	Aguas de Portugal
EdP	Guatemala	Eegsa	Electricity distribution	17		

3.5. EdF (France)

EdF (Electricite de France) is the French electricity company, which is 100% state-owned. It is active internationally in all continents. In Latin America it has invested in operations in electricity generation and distribution in Argentina and Brazil, and also in generation in Mexico. Its total business in Latin America in 2003 was €1,763 million, about 4% of its total business. In 2003 operations in Mexico were profitable and profitability improved in its operations in Argentina and Brazil, but it lost nearly €1 billion with its Brazilian distributor Light. EDF's strategy is now to concentrate on Europe. [13]

In 2003 EDF brought arbitration cases to the World Bank's International Centre for Settlement of Investment Disputes (ICSID) against the Argentinean government against the ending of dollarisation. EDF has also approached banks to begin restructuring the financial liabilities of its subsidiaries.[14] It has demanded price rises for its distribution companies, but the Argentinean government has not conceded them[15], but has instead imposed fines because of blackouts that have occurred since 2001[16]. In July 2004 EDF announced it is selling its stake in one Argentinean distributor Edemsa (Mendoza province) to a local business group.[17]

Its distribution company in Buenos Aires, Edenor, is aiming to install pre-payment meters as a 'proactive strategy on unpaid bills'.[18]

Group	Country	Company	Sector	%	Indirect %	IndirectVia
EdF	Argentina	Distrocuyo	Energy	20		

Group	Country	Company	Sector	%	Indirect %	IndirectVia
EdF	Argentina	EASA	Energy	100		
EDF	Argentina	Edemsa	Energy	45		
EdF	Argentina	Edenor	Electricity	90		
EdF	Argentina	Inversora Diamante	Energy	55		
EdF	Argentina	Inversora Nihuiles	Energy	64.9		
EdF	Brazil	Light	Energy	95		
EDF	Brazil	Norte Fluminense	Electricity generation	90		
EDF	Mexico	Altamira	Electricity	51		
EDF	Mexico	Central Anahuac	Electricity generation	100		
EDF	Mexico	Central Lomas Del Real§µ	Electricity generation	100		
EDF	Mexico	Central Saltillo	Electricity generation	100		
EDF	Mexico	Controladora Del Golfo	Electricity generation	100		
EdF	Mexico	Tecate	Energy			
EDF	Mexico	Valle Hermosofid	Electricity generation	100		

3.6. Tractebel -Suez (France)

Tractebel is the energy division of Suez, and an active energy multinational company. It has major stakes in generating companies in Brazil, Chile, and Peru and Mexico (as well as some gas distribution companies in Mexico).
It has suspended investment in Brazil for the last two years and will not invest further until it is satisfied on government policies. [19] Tractebel complains that the current policies put Tractebel "in an unfair position by forcing it to compete with state-controlled generators" [20]

Group	Country	Company	Sector	Percent	Indirect %	Indirect Via
Tractebel	Argentina	Energy Consulting Services (ECS)	Energy	46.67		
Tractebel	Brazil	Cana Brava	Electricity			
Tractebel	Brazil	Gerasul	Electricity	68		
Tractebel	Brazil	Itasa	Energy		38	Tractebel Brasil
Tractebel	Brazil	Ocirala Participacoes	Energy		100	Tractebel Brasil
Tractebel	Brazil	Tractebel Brasil	Energy	100		
Tractebel	Brazil	Tractebel Energia	Energy	78.3		
Tractebel	Chile	Colbun	Electricity		37.5	Tractebel Andes
Tractebel	Chile	Electroandina	Electricity		33.3	Tractebel Andes
Tractebel	Chile	Inversora Electrica Andina	Electricity	62.5		
Tractebel	Mexico	Tractebel (Monterey)	Electricity generation	80		
Tractebel	Peru	Enersur	Electricity generation	78.95		
Tractebel	Peru	Yuncan	Electricity generation			Enersur

3.7. AES (USA)

AES is a global multinational electricity company. It is based in the USA, but has a relatively small proportion of its business there; it also operates in Europe, Asia and Africa. Half its total business is in Latin America, with investments in Argentina, Brazil, Chile, Colombia and Venezuela; and in Dominican republic, El Salvador, Honduras, Mexico, and Panama.

The AES board of directors includes former senior staff of the USA government and the World Bank. AES is the subject of investigations relating to its role in the California energy crisis of 2001, and of litigation over its exit from Orissa.[21]

AES has restructured globally in 2002 and 2003, including the sale of 14 subsidiaries (all in regions other than Latin America). It has abandoned major investments in the UK (Drax), India (Orissa) and Uganda (a major hydro project, where there were allegations of corruption[22]); it has sold controversial operations in Georgia[23] (where its finance director was murdered) [24] and Kazakhstan, and plans to do so in Ukraine[25].

In Latin America it has increased its stake in many companies, buying shares from other multinationals who are leaving: it was effectively forced to take over the shares in four companies abandoned by its partner PSEG[26]. It has systematically renegotiated the debts of all its subsidiaries in Brazil[27] - after defaulting on the loans due from its subsidiary Eletrobras - and in Chile[28]. In Dominican Republic, where it owns both generators and distributors, it has been involved in bitter disputes with the government: AES shut down its generators to force the government to make payments, and is now planning to sell the distributor. [29] In Venezuela, AES promised Union Fenosa the right to buy some assets in Colombia in return for its agreement not to enter a bidding war for the Venezuelan utility.[30] It has been accused by Enron of proposing collusion over the bidding for the shares of Eletropaulo in Brazil.[31]

In Argentina, AES notes that “In 2003, the political and social situation in Argentina showed signs of stabilization, the Argentine peso appreciated to the U.S. dollar, and the economy and electricity demand started to recover” and that renegotiation of utilities concessions remains open until the end of 2004.[32] AES does not appear to be taking arbitration cases, except in respect of some gas transmission business. In 2004 Buenos Aires province introduced a law obliging distributors, including AES-owned Eden and Edes, to provide a minimum of electricity to consumers[33].

Group	Country	Company	Sector	%	Indirect %	Indirect Via
AES	Argentina	AES (Argentina)	Energy			
AES	Argentina	AES (San Nicolás)	Electricity generation	88		
AES	Argentina	AES Parana	Electricity generation	100		
AES	Argentina	Central Dique	Electricity generation			
AES	Argentina	Edelap	Electricity distribution	90		
AES	Argentina	Eden	Electricity distribution	90		
AES	Argentina	Edes	Electricity distribution	90		
AES	Argentina	Gener-TermoAndes	Electricity generation	99		
AES	Argentina	Hidroelectrica Alicura	Electricity generation	100		
AES	Argentina	Quebrada de Ullum	Electricity generation	100		
AES	Argentina	Rio Juramento	Electricity generation	98		
AES	Argentina	San Juan (Argentina)	Electricity generation	98		
AES	Australia	Destec (Australia)	Electricity generation	20		
AES	Brazil	AES Sul	Electricity	98		
AES	Brazil	CEMIG	Electricity	21.6		
AES	Brazil	Eletronet	Telecomms	51		
AES	Brazil	Eletropaulo	Electricity distribution	68		
AES	Brazil	Tiete	Electricity generation	52		
AES	Brazil	Uruguaiana	Electricity generation	100		
AES	Chile	Gener	Electricity generation	99		
AES	Colombia	Colombia I	Electricity generation	69		
AES	Dominican Republic	AES Andres	Electricity generation	100		
AES	Dominican Republic	EDEES	Electricity distribution	50		
AES	Dominican Republic	Itabo	Electricity generation	25		

Group	Country	Company	Sector	%	Indirect %	Indirect Via
AES	Dominican Republic	Los Mina	Electricity generation	100		
AES	El Salvador	CAESS	Electricity distribution	75		
AES	El Salvador	CLESA	Electricity distribution	64		
AES	El Salvador	Deusem	Electricity distribution	74		
AES	El Salvador	EEO	Electricity distribution	89		
AES	Honduras	AES Honduras	Electricity generation			
AES	Mexico	Merida III	Electricity generation	55		
AES	Panama	AES Panama	Electricity generation	100		
AES	Panama	Chiriqui hydro	Electricity generation	49		
AES	Panama	EGE Bayano	Electricity generation		49	AES Panama
AES	Panama	EGE Chiriqui	Electricity generation		49	AES Panama
AES	PuertoRico	AES (Puerto Rico)	Electricity generation	100		
AES	Venezuela	EDC	Energy	86		

3.8. CMS Energy (USA)

CMS is a USA energy company with 6m customers in Michigan. It has expanded to operate internationally, on all continents. Its investments in Latin America have included electricity generating and distribution companies, in Argentina, Brazil, Chile and Venezuela.

In 2004 CMS announced a loss of $400m on its Argentinean operations.[34] It has taken court cases against the government of Argentina's devaluation of the Peso and ending of 'dollarise' contracts.[35] In October 2001, CMS Energy decided to discontinue the operations of its international energy distribution business (including CPEE, which it had bought in 1999), but in 2003, it reclassified as continuing operations SENECA, which is its energy distribution business in Venezuela, and CPEE, which is its energy distribution business in Brazil, due to its inability to sell these assets.[36] If these sales succeeded CMS' only presence in electricity in Latin America, outside Argentina, would be its investment in the Taltal generating plant in Chile, which is linked to the Gasatacama pipeline - CMS owns 50% of Gasatacama. CMS was investigated for accounting fraud following the Enron scandal. [37] In March 2004 CMS agreed to pay fines for fraudulent exaggeration of their sales by over $5 billion in energy trading. [38]

Group	Country	Company	Sector	%
CMS Energy	Argentina	Arroyito	Electricity generation	30
CMS Energy	Argentina	CT Mendoza	Electricity generation	90
CMS Energy	Argentina	EDEERSA	Electricity distribution	90
CMS Energy	Argentina	El Chocon	Electricity generation	17.2
CMS Energy	Argentina	Ensenada	Electricity generation	100
CMS Energy	Argentina	GasAtacama	Gas transmission	50
CMS Energy	Argentina	TGM	Gas transmission	20
CMS Energy	Argentina	TGN	Gas transmission	30
CMS Energy	Argentina	YPF-La Plata	Electricity generation	100
CMS Energy	Brazil	CPEE	Electricity distribution	82
CMS Energy	Chile	Taltal Power	Electricity generation	
CMS Energy	Jamaica	Jamaica Private Power	Electricity generation	43
CMS Energy	Venezuela	SENECA	Electricity distribution	49

3.9. El Paso (USA)

El Paso owns two generating companies in Brazil and has minority stakes in generating companies in Argentina, Mexico, and Peru. During 2003 El Paso abandoned its investments in, in the generating companies CAPSA and CAPEX in Argentina. The companies defaulted on their loans in 2002, El Paso recorded a loss of $342m. [39], and the World Bank's private sector investment division, the IFC, was forced to agree a debt restructuring, partly because the owners, including El Paso, were "in financial difficulties themselves"[40].

The company's share price fell 77% in 2002 after press reports highlighted the company's reliance on off-balance-sheet accounting, following the Enron scandal.[41] The company announced plans at the end of 2003 to reduce its debts, partly by selling unprofitable overseas ventures, but after it announced its plans Standard & Poor's lowered its corporate credit rating to 'junk' status of B, from B+, with a 'negative outlook'.[42] El Paso has also been exposed as having exaggerated the size of its oil and gas reserves, [43] and was prosecuted for its role in contributing to the California power crisis, and had to pay $1.7 billion in settlement of these claims. [44]

El Paso also has significant operations in gas transmission pipelines in Latin America, including Argentina, Bolivia, Brazil, Chile, Mexico and Venezuela. Its other business includes consultancy operations: in June 2002 it refused to accept a Dominican republic court ruling against its claim for compensation, and instead OPIC, a U.S. agency that finances exports, told the government of the Dominican Republic it would lose eligibility for agency funding unless it backed down.[45] El Paso has still not produced a report for its activities in 2003.

Group	Country	Company	Sector	%	Indirect %	Indirect Via
El Paso	Argentina	CBA	Electricity generation	7.8		
El Paso	Argentina	CBA	Electricity generation		6.12	Costanera
El Paso	Argentina	Costanera	Electricity generation	12		
El Paso	Brazil	Manaus Power	Electricity generation	100		
El Paso	Brazil	Rio Negro Power	Electricity generation	100		
El Paso	Mexico	Samalayuca Power	Electricity generation	40		
El Paso	Peru	Aguaytia	Electricity generation			
El Paso	Peru	Aguaytia Pipeline and Power	Energy	24.04		

3.10. PPL

PPL (Pennsylvania Power and Light) is a USA energy company based in Pennsylvania. It has electricity distribution operations in the UK, Bolivia, Chile and El Salvador (and a minority stake in a gas-linked electricity generating business in Peru). It abandoned its investment in Brazilian company Cemar.

In the USA PPL is still subject to legal claims alleging PPL's collusion in price-fixing in both California and Montana.

Group	Country	Company	Sector	%
PPL	Chile	Emel	Electricity distribution	95
PPL	ElSalvador	Delsur	Electricity distribution	80.5
PPL	Bolivia	Elfec	Electricity distribution	92
PPL	Peru	Aguaytia	Electricity generation	11.4

3.11. PSEG (USA)

PSEG is a USA-based multinational which expanded internationally in the 1990s, under the name of PSEG Global. It developed activities in a number of Latin American countries, often in partnership with AES. It also has subsidiaries in Europe (Poland), north Africa (Tunisia) and Asia (China, Hong Kong and India). The Polish government is currently trying to buy out PSEG Global's IPPs in that country because they are too expensive.

Up to 2002 PSEG's global investments were profitable but have since been affected by general resistance to privatisation and political, economic and social crises especially in Argentina, Brazil and Venezuela. PSEG Global is now reviewing all its international investments and is trying to sell many of its investments. In 2003 it simply abandoned its investments in Argentina, by giving its shares to its partner AES.

Its remaining activities are in electricity distribution companies in Brazil, Chile, and Peru; and a combined generation and distribution company in Venezuela. These are now profitable but PSEG Global but still fears that "adverse political and economic risks associated with this region could have a material adverse impact on its remaining investments in the region". [46]

Group	Country	Company	Sector	%	Indirect %	Indirect Via
PSEG	Brazil	RGE	Electricity distribution	30.25		
PSEG	Chile	Aguas Quinta	Water		13.5	Chilquinta Energia
PSEG	Chile	Chilquinta Energia	Electricity distribution	49.9		
PSEG	Chile	Energas	Gas distribution		45	Chilquinta Energia
PSEG	Chile	Frontel	Electricity	81.5	100	Saesa
PSEG	Chile	Saesa	Electricity	100		
PSEG	Peru	Luz del Sur	Electricity	38		
PSEG	Venezuela	Turboven	Electricity	50		

3.12. Alliant Energy (USA)

Alliant owns three utilities in the USA and international investments in China, New Zealand and Brazil, where it owns a significant stake in five distributors in the northeast region of Brazil, through a 40% stake in Companhia Forca e Luz Cataguazes-Leopoldina and Energisa S.A.

It also invests in the Renewable Energy and Energy Efficiency Fund for Emerging Markets (REEF), initiated by the International Finance Corporation (IFC), part of the World Bank.

Group	Country	Company	Sector	Percent	Indirect %	Indirect Via
Alliant Energy	Brazil	CELB	Electricity distribution		37.02792	CFLCL
Alliant Energy	Brazil	CFLCL	Electricity distribution	49.2		
Alliant Energy	Brazil	Energipe	Electricity distribution		42.5088	CFLCL
Alliant Energy	Brazil	SAELPA	Electricity distribution		36.408	CFLCL

3.12.1. Others: Camuzzi-Enel (Italy); Hydro-Québec (Canada)

Camuzzi, an Italian company now mainly owned by the Italian electricity company Enel, has investments in both gas distribution and electricity distribution in Argentina. (These are excluded from the takeover by Enel).

Hydro-Québec is a state-owned Canadian electricity company, active internationally. It owns and runs Transelec, the transmission company in Chile.

3.13. Financial investors

3.13.1. CDC (UK)

CDC Globeleq, is an investment company ultimately wholly owned by the UK government, and with its origins in the early 1950s, when the UK set up the Commonwealth Development Corporation to fund projects in British Commonwealth countries. It has expanded rapidly into energy in the last two years, mainly by buying assets being sold by USA companies exiting or selling selected operations.

Group	Country	Company	Sector	%	Indirect %	Indirect Via
CDC	Bolivia	Cobee	Electricity		98.9	CDC Globeleq
CDC	Chile	San Isidro	Electricity generation		17	CDC Globeleq
CDC	Dominican Republic	Empresa Generadora de Haina	Electricity		21	CDC Globeleq
CDC	Guatemala	Puerto Quetzal	Electricity generation		25	CDC Globeleq
CDC	Peru	Edegel	Electricity generation		16.47	CDC Globeleq
CDC	Peru	Generandes Peru	Electricity generation		25.9	CDC Globeleq
CDC	Peru	Southern Cone Power	Electricity		68	CDC Globeleq

3.14. Latin American energy companies

3.14.1. Petrobras (Brasil)

Petrobras Energía Participaciones is Petrobras' main international asset. It is an integrated energy company with operations in Argentina, Venezuela, Brazil, Peru, Bolivia and Ecuador. It is involved in oil exploration etc, and in electricity only in Argentina. It originated in a takeover in October 2002, when Petróleo Brasileiro (Petrobras) acquired a 58.62% interest in Perez Companc S.A., whose only asset was its 98.21% stake in Pecom Energía S.A..

3.14.2. Others

There are one or two cases of other Latin American electricity companies operating outside their own home country. The Chilean power company Enersis expanded into generation and distribution activities in a number of other countries during the 1990s. However, Endesa of Spain was always a minority shareholder, and in 1999 Endesa bought 60% of Enersis. It is therefore treated as a subsidiary of the Spanish multinational Endesa (see above), not as an independent Chilean energy company.

3.15. Exits

The companies which invested once but have now left include (from the USA): AEP/CSW; Enron (which still owns Brazilian distributor Elektro) ; Reliant; Entergy; Duke Power; First Energy/GPU; NRG/Xcel; Southern Company/Mirant – and from the UK United Utilities (which abandoned IEBA, its Argentine subsidiary, in September 2003 by allowing it to default on its debts [47] ; and National Grid (which sold its 42% stake in the transmission company of Argentina in March 2004) .

4. ISSUES

4.1. WITHDRAWALS BY MNCs

A wide range of MNCs have entered Latin America since 1990. Many have left altogether, and more are attempting to leave, and those that remain will not increase their investments in the near future. This is partly due to political opposition to energy privatisation in Latin America; partly to political and economic factors constraining the profitability of the firms (especially but not exclusively the Argentinean economic crisis); and partly due to weaknesses in the companies' business, especially the weakness of USA electricity companies after the California price-fixing episode, and the Enron fraudulent accounting scandal. These withdrawals are part of a global withdrawal by electricity (and water) multinationals from developing countries because the profits have not been high enough to compensate for the political and currency risks involved.

The remaining set of companies falls into five groups:

- the Spanish (and Portuguese) companies for whom Latin America represents a big former colonial market with linguistic links, consisting of the Spanish groups Endesa, Iberdrola and Union Fenosa, and the Portuguese company EdP
- the French groups which operate globally : EdF (state-owned) and Tractebel-Suez (private).
- AES, the one large USA firm which remains in Latin America and is likely to continue for the immediate future; as well as smaller operators such as Alliant and PPL. It seems unlikely that CMS, El Paso or PSEG will continue to be significant players in future, due either to their own problems or a commitment already made to exit these investments. Both AES and PPL have abandoned investments in Brazil.
- Finance capital companies, including the (state-owned) UK company CDC
- Latin American companies operating internationally - Petrobras Energia, which is owned by the Brazilian (state-owned) company Petrobras, but operates in and out of Argentina, seems to be the only example at present.

Some of the problems were summarised in a presentation on energy by the World Bank director of energy and water, Jamal Saghir, [48] who identified the key problems in the sector as: Declining interest of private sector; Decreasing faith in markets; High global energy costs; WSSD Energy Agenda; Delivery of energy services to the poor; Renewable Energy; Energy Security.

There is however a further set of problems with the economics of privatisation and liberalisation of electricity, which have been experienced in many countries. The tariff increases imposed by generators through unsustainable power purchase agreements (or through taking advantage of market power, as happened in California), or by distributors seeking higher rates of return, have proved to be unsustainable. Yet generators need the prospect of secure future demand to justify investments. As a result, the policy of attracting investment through privatisation now looks dubious.

The questions are now whether the political and economic developments are such as to provide the remaining companies with an adequate rate of return on their investments given the risks. None of them intend to expand their investments, and most of them would reduce them if it was politically and economically feasible to do so. Those which are most stable are the ones with local partners, where the finance raised and risked is local, not brought by the multinational – for example Iberdrola's stake in the north-eastern Brazilian distributors.

4.2. BRAZIL AND THE PT GOVERNMENT

By the time President Luiz Inacio da Silva (Lula) was elected in 2002, the policy of the previous government was in tatters. Power cuts in 2001 had only been prevented by a massive energy saving programme designed to reduce consumption by 20%. In addition, it was clear that many of the companies that had earlier invested in the Brazilian electricity sector had withdrawn or were trying to withdraw and new foreign investors to replace them were unlikely to materialise.

The government prioritised investment in new generation. Electricity demand is growing by 6-7% a year, leading to a requirement for about 6000MW of new capacity costing of the order US$4bn each year. Many of the new power plants would need major new transmission lines and there was also considerable scope to use the resources available more efficiently by increasing interconnections between the regions.

The distribution sector was also in some disarray with some companies exiting, such as PPL which wrote off its investment in CEMAR in 2003 and AES, which defaulted in 2003 on its loan from the Brazilian development bank, BNDES, which lent money to AES to buy Brazilian assets in 2003. However, the Brazilian government has chosen to minimise disruption to this sector and CEMAR was taken over in 2004 by Brazilian investors while BNDES took a 49% stake in Eletropaulo in exchange for renegotiation of AES's debt.

Under the new policy, large new hydro-electric plants will again dominate (the Brazilian electricity system is still more than 90% hydro). There is still huge potential for large new plants, often in excess of 1000MW, that will be cheap to build compared to thermal options.

The emergency energy savings programmes implemented in 2001 have provided some breathing space as many of these provided permanent or long-term reductions in electricity demand, for example, the wide-spread use of energy efficient bulbs. The need for new generating capacity will be determined by a central planning authority. This authority will hold competitions to establish the lowest bidder for the required amount of capacity. It will also identify attractive hydro-electric sites and carry out the preliminary design and planning authorisation processes so the developer is able to proceed.

It is expected that the new plants will be financed by a mixture of public money, mainly Eletrobras, the holding company for the five largest generating companies, and private, largely Brazilian money. The discovery of huge amounts of gas in off-shore Brazil may also make gas-fired generation attractive again. Petrobras, the publicly controlled oil and gas company, was a partner in most of the earlier gas-fired plants and may re-enter the market.

The contribution of public money has been restricted by the Brazil government's agreements with the IMF, which restrict public spending, but Brazil was a member of a group of countries that negotiated a loosening of controls for investment of public money in productive resources. Brazil's government argued that while there might be a case for restricting public expenditure going towards operating public agencies, there was no sense in preventing government from investing in productive assets. A deal concluded in April between the Brazilian government and the IMF has allowed Eletrobras to invest an additional R$4bn (US$1.2bn) per year and Petrobras R$7bn for a test period. This could approximately double the amount Eletrobras is able to invest. The changes will also allow BNDES to increase its lending and this might result in a further R$2.6bn going to electricity projects.

4.3. ARGENTINA AND ECONOMIC CRISIS

In Argentina, privatised utility contracts were 'dollarised', which guaranteed the companies the right to take revenue in dollars, so protecting them against currency fluctuations. However, in the wake of the economic collapse, the Argentine government cancelled the dollarisation clauses, and imposed a freeze on utility tariffs, thus passing the cost of devaluation on to the utility companies. The companies have since then been seeking to deal with issue either by abandoning their operations in Argentina, or by taking claims against the Argentine government to the World Bank's International Center for Settlement of Investment Disputes (60 cases pending), or hoping to negotiate easier terms. So far the government has maintained a hard position. [49]

4.4. RESISTANCE TO PRIVATISATION

Apart from the dynamics of the response to crisis in Argentina, and the approach of the PT government in Brazil, there has been significant resistance to electricity privatisation in other Latin American countries.

In Ecuador, government attempts to privatise electricity assets have repeatedly encountered organised resistance including unions, provincial and local governments, indigenous organizations and others. In 2002, these campaigns forced the abandonment of proposals to sell electricity distributors, after Ecuador's Congress passed a resolution rejecting the privatisation, and a Constitutional Court ruling that the sales were unconstitutional. A further attempt at privatisation was abandoned in February 2004 when there was not a single tender for any of the companies.[50] The utility Emelec - which was in limbo after the former owner, businessman Fernando Aspiazu, was charged in 2000 for irregularities in the administration of his bank Progreso - is being taken into public control by the city of Guayaquil, rather than being sold.[51]

In Peru, the privatisation of generating companies, which began in 1995, has faced powerful opposition. In June 2002 there were riots in Arequipa after two electric power plants (Egasa and Egesur) were sold to Tractebel. The government was forced to suspend the sale, and Tractebel backed out of the deal.

In Colombia, there has also been resistance, notably in defence of the well-established municipal utilities. The campaign to prevent the privatisation of Emcali, the utility in Cali, has been led by the union SINTRAEMCALI and won worldwide support. (These campaigns have persisted despite the continued attacks on Colombian trade unionists - two trade unionists from SINTRAEMCALI, were critically injured in a letter bomb attack as recently as 7th June 2004).

In Mexico, successive attempts to privatise the electricity system have been defeated by strong campaigns led by the trade unions, resulting in court rulings and parliamentary decisions which have prevented the president from implementing privatisation plans.

There has also been powerful political resistance to energy privatisation globally. There have been a number of cases where policy has been reversed, especially in middle income countries: South Korea – which has now suspended its previous policy to develop liberalisation – and Thailand – which recently stalled its plans for privatisation of the electricity company as a result of a strong union-led campaign.

A presentation from the consulting firm Deloitte at the WB Energy Forum in March 2003 treated political opposition as one of two key factors for the fall in private energy investment worldwide (the other factor being the losses experienced by companies in both developing countries, including India, Pakistan, Indonesia and Argentina, and in developed countries, eg California). Deloitte noted *"Growing political opposition to privatisation in emerging markets due to widespread perception that it does not serve the interests of the population at large",* which they attributed to a number of features of privatisation: *"Pressures to increase tariffs and cut off non-payers; loss of jobs of vocal union members that will be hard to retrain for the new economy; the perception that only special interests are served - privatisation is seen as serving oligarchic domestic and foreign interests that profit at the expense of the country…"*[52]

4.5. IMF changes rules, World Bank admits 'irrational exuberance'

The most important global financial institutions have changed their analyses in ways which enable governments to change their policies. In April 2004, the IMF published a report which conceded that its restrictions on government borrowing may have prevented necessary investments in infrastructure, and so proposed allowing public sector corporations to invest without infringing restrictions on government borrowing, under conditions.[53] The immediate effect of this was to free Brazil from some of the restraints of the previous regime and enable investment to take place through the public sector.

The World Bank has acknowledged in a series of papers and presentations since 2003 that its infrastructure strategy of relying on the private sector had not worked, and that it was not likely to work given the political and economic problems faced by the multinationals. In a report published in June 2004, the World Bank admits that it has promoted privatisation with *'irrational exuberance'* and that *"There are cases where privatisation was undertaken without institutional safeguards and conducted in ways widely considered illegitimate,".* [54] The policies of the World Bank are now uncertain in respect to the public sector, but the bank and its advisors seem to expect that local, national and regional financing and operation will become much more important, whether public or private.

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