

LOCAL CONFLICTS AND NATURAL RESOURCES

A Balancing Act for Latin American Governments

Lisa Viscidi and Jason Fargo

All over the world, local opposition and conflicts over energy and extractive industries projects are on the rise. Protests may stem from concerns about environmental degradation and cultural invasion or a sense that the economic benefits are not adequately distributed to local communities. From the debate over the environmental impacts of hydraulic fracturing in the United States to violent protests over copper mining in Papua New Guinea, local opposition has had major impacts, sometimes halting or delaying projects in the oil and gas, mining and renewable energy sectors around the globe. These clashes present a great quandary for governments who must ensure the supply of energy and natural resources for domestic consumption and who often rely heavily on tax revenues from the energy or extractive industries sectors.

Latin America is among the regions where such conflicts are most widespread. The region's economies are particularly reliant on commodities exports. Fuels and mining products were equivalent to 40% of South and Central American exports in 2013, compared to a global average of 22%.¹ The commodities boom over the past decade has coincided with a spike in conflicts over natural resources in Latin America, some of which have turned violent.² Peaceful protests allow citizens to exercise democracy and voice concerns about projects that may directly affect their communities. However, they also create

a challenge for governments in a region where domestic demand for energy and natural resources is on the rise due to population growth and expanding middle classes and where government budgets are particularly dependent on taxes and royalties from these sectors due to a low income tax take.

This Inter-American Dialogue report examines the reasons behind clashes over energy and extractive industries projects, analyzes the challenges for governments seeking to balance investment needs with local communities' grievances and offers recommendations to reduce conflicts in four Latin American countries – Peru, Colombia, Mexico and Chile. These countries – which are also the four members of the Pacific Alliance – are among Latin America's leaders in democracy and stable macroeconomic policies. And yet, as this report demonstrates, they also have a long way to go toward balancing economic growth with citizens' concerns.

Although each case is unique, many common themes emerge across the four countries. Local communities' grievances are mostly tied to demands for greater economic benefits, environmental protection or land rights. The governments are generally in favor of moving ahead with energy and mining projects in order to boost investment and

Foreword

I am pleased to present “Local Conflicts and Natural Resources in Latin America: A Balancing Act for Latin American Governments,” a new report by Lisa Viscidi, Director of the Energy, Climate Change and Extractive Industries Program at the Inter-American Dialogue and Jason Fargo, Latin America Team Leader at Energy Intelligence Group.

This report analyzes the causes of conflicts over energy and extractive industries projects and highlights the challenges for governments seeking to balance investment with local communities’ concerns, with a focus on Peru, Colombia, Mexico and Chile. Drawing on evidence from these case studies, the report offers broad policy recommendations for reducing conflicts. While companies and civil society organizations have an important role to play in responding to this critical test across the region, this report focuses on the particular challenges facing governments.

The Energy, Climate Change and Extractive Industries program informs and shapes policies that promote investment while encouraging economically, socially and environmentally responsible development of natural resources. While conflict over natural resources is a

critical concern across Latin America calling for deeper investigation and analysis, this report provides an excellent overview of the issues in these four countries and identifies the key questions that policymakers should focus on.

The views expressed in this report are those of the authors and do not necessarily reflect the perspectives of the Inter-American Dialogue or its partners or sponsors.

We are grateful to the Dialogue’s Energy & Resources Committee, which includes Exxon Mobil, Chevron, Shell, Anglo American, Sempra Energy, Holland & Knight and CAF-Development Bank of Latin America, for their generous support for the program, which contributes to our overall mission of advancing prosperity, social equity and democratic governance in the Americas.

MICHAEL SHIFTER
President

This report analyzes the causes of conflicts over energy and extractive industries projects and highlights the challenges for governments seeking to balance investment with local communities’ concerns.

domestic supplies. However, in all four cases governments lack clear processes, adequate resources and the political ability to prevent and defuse conflicts, leaving companies with too much responsibility for direct mediation. The governments are conscious of the problem but do not adequately engage communities in consultations throughout the project nor provide sufficient information about the plans and potential impacts. Moreover, there is a wide gap in the very understanding of what consultation means; in many cases governments view it as a process for informing locals about the impacts of a project while the communities believe they have veto power. This tension raises questions about whether local community rights should take priority over the central government's economic and social responsibility to the nation as a whole, how industry regulation should be balanced with investment promotion and how revenues from the sector should be used to further local economic development.

The key to reducing conflicts in every country appears to be proactive and sustained government-led engagement from the start of the project. In addition, both communities and government officials across ministries need to be better informed about the project and its potential social, environmental and economic impacts. In Latin America, where municipal level government capacity tends to be extremely weak, the central government has to play a larger role in regulating industry, distributing economic benefits and preventing and managing conflicts.

Peru

Peru has long faced tensions between its governments looking to monetize the nation's mineral and hydrocarbons resources and local communities concerned about environmental and social degradation on their lands. In a sign that such conflicts are continuing unabated, protests over an oil and gas project in February led to violent clashes and a political crisis for the Ollanta Humala government.

Protesters attacked an army base in the town of Pichanaki, where Argentine oil company Pluspetrol had stored equipment, demanding the firm abandon its license to develop an oil block. The violence, orchestrated by a group of protestors calling themselves the "environmental defense front," killed one person and injured dozens more. In response, then-Mines and Energy Minister Eleodoro Mayorga, who was ousted a few days later in a cabinet reshuffle, called for Pluspetrol's immediate withdrawal from Pichanaki.

This recent protest is the latest in a series of disputes that have erupted in violence, particularly in the Amazon jungle, where much of Peru's natural-resource wealth is located. Today, there are over 200 hundred conflicts in Peru, 85% of which are tied to energy and mining projects.³

Pichanaki highlights the difficulty confronting the Peruvian government in juggling its relationships with energy companies and the concerns of the local population. Peru is a top metals producer globally and holds the third-largest natural gas reserves in Latin America. It relies on energy and mining investment for 4.8% of GDP and about 40% of foreign investment.⁴ But project delays tied to local community resistance and environmental licensing have contributed to a sharp decline in investment at a time when lower commodity prices are reducing tax revenues from the sector. Investment in oil and gas exploration and production fell by 18% between 2013 and 2014,⁵ while mining investment dropped by 11% over the same period.⁶

The uncertainty over commodities markets and investment makes it all the more important for Peru to find a solution to addressing local conflicts over resource investment.

Humala was elected on a leftist platform but has also made attracting foreign investment a priority. He introduced a number of investment promotion measures, such as a stimulus package that includes easing environmental regulations. However, the president has also taken measures to improve consultation with local communities. Shortly after his election, he secured passage of a "prior consultation" law aimed at mitigating future confrontations. The law, based on the International Labor Organization Convention 169, requires the government to seek input from local communities that would be affected by energy and mining projects before such projects get the green light. The goal is to ensure that indigenous groups' concerns are addressed before work begins. It also establishes – albeit in vague terms – the state's responsibility to consider local communities' suggestions before making a final decision to proceed with a project.

The law initially got off to a slow start, and it took almost a year to draft the implementing regulations. The first oil block subject to the new process saw consultations drag on for six months. However, hydrocarbons regulator Perupetro, the body charged with carrying out the consultations for oil and gas projects, has since sped up the process and claims that more recent consultations have taken just 3-4 months. So far Perupetro has completed consultations for five jungle hydrocarbon blocks, with the participation of 10 indigenous groups, involving visits to over 200 communities. The agency was close to finishing consultations for eight more jungle blocks it had planned to launch in the auction this year, though the decline in global crude prices prompted the government to delay an auction for 25 oil blocks that was planned for the first half of 2015.

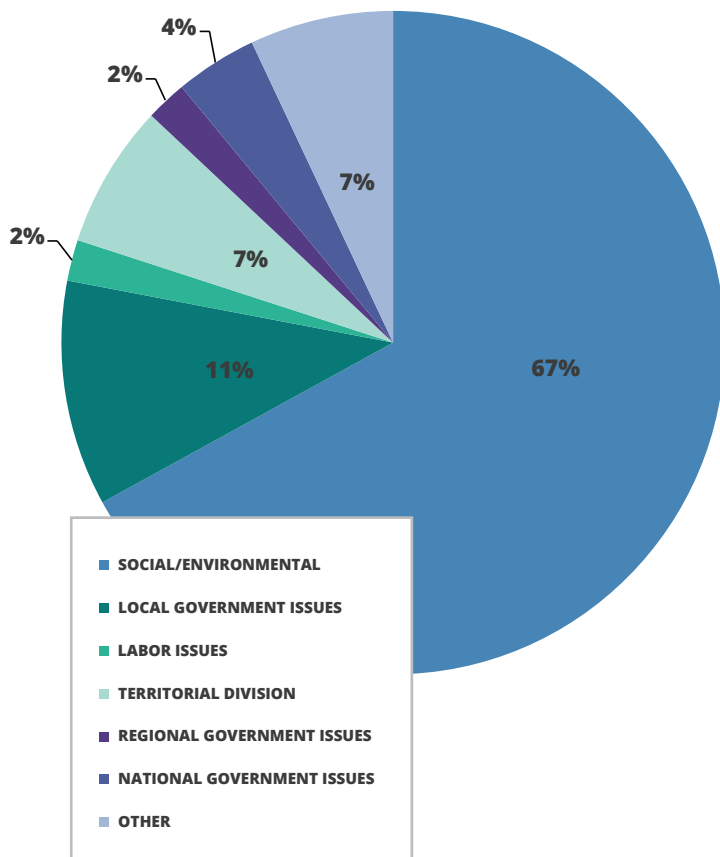
Perupetro claims that indigenous communities generally support oil and gas projects but are seeking assurances that local residents will benefit through employment opportunities and job training, as well as protections for the environment and local cultures. Some of those terms

will be incorporated into the new contracts signed with companies. Perupetro has long-standing relationships with many communities and maintains its own list of native groups, which is cross-checked with a database kept by national statistics office INEI, and with the ministry of culture, which must approve the consultation plan.

In spite of these advances, however, opposition by local communities will likely remain a challenge for the government. The prior consultation law only applies to new projects. In Pluspetrol's case, there was no formal consultation, as the company's license to Block 108 dates from 2005. The process for identifying which groups to consult is also somewhat haphazard, and some communities slip through the cracks. Many indigenous groups in Peru's Andean region do not even have official recognition from the government, meaning they do not fall under the consultation process. In addition, the law does not grant communities the power to veto a proposed development, so their requests are not binding. Overall, the government's capacity to mediate between companies and local communities remains weak.

FIGURE 1: CAUSES OF OIL AND MINING CONFLICTS IN PERU

Source: Defensoría del Pueblo – SIMCO (March 2015)



There are also disagreements within local communities. Different indigenous groups have different agendas, and agreements with some communities may not carry weight with others. Some of the demonstrators appear to be mere interlopers seeking political benefit from the chaos.

The weakness of Peru's president is also a factor. Humala's efforts to placate both foreign investors and indigenous communities have left neither truly satisfied. Recent polls show that nearly half of the population disapproves of his handling of social conflicts. A slowing economy and rising concerns over crime and corruption have also brought his popularity levels down. Repeated turnover in the president's cabinet – Mayorga's replacement, Rosa María Ortiz, is Humala's fourth energy minister – has also made it difficult for the government to set a coherent policy. With presidential elections set for next year and Humala not eligible for immediate reelection, the current administration's ability to set a new course appears quite limited.

However, the uncertainty over commodities markets and investment makes it all the more important for Peru to find a solution to addressing local conflicts over resource investment. Although such conflicts will almost certainly continue, Peru's 2011 consultation law is widely regarded as the most advanced in Latin America. Humala's administration has improved intra-governmental coordination to negotiate with protestors before conflicts turn violent. To build on these steps, Humala needs to

enhance the government's capacity to engage with and mediate between communities and companies from the start of each project. Government officials should improve information about projects for local communities while ensuring that the benefits companies provide will contribute to local economic development. More effective government involvement, it seems, is the key to reducing social conflicts in Peru.

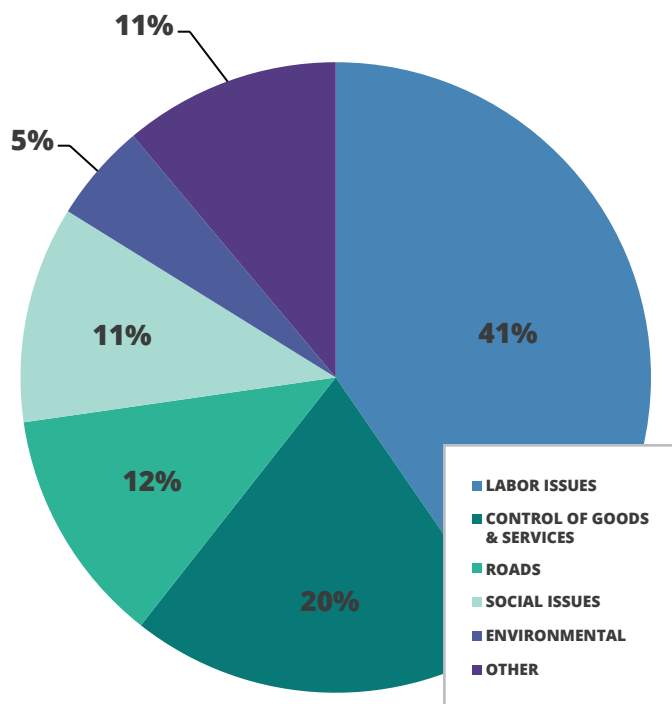
Colombia

Colombia's oil and mining industries grew rapidly over the past decade, thanks to the boom in commodity prices, improved security and policies promoting investment. However, the expansion in exploration for oil and other natural resources has also ignited a rise in conflicts, halting many of the most important investment projects in the country.

The vast majority of protests in Colombia stem from local communities' dissatisfaction with the economic benefits they receive from oil and mining projects. Protestors demand jobs or other benefits, such as service contracts, social investments in their communities or roads and other infrastructure. The number of such conflicts has increased

FIGURE 2: CAUSES OF OIL SECTOR CONFLICTS IN COLOMBIA

Source: Asociación Colombiana de Petróleo, Ecopetrol (2014)



significantly since the introduction in 2011 of a royalties reform that effectively reduced the benefits of oil and mining projects for local communities. The reform aimed to redistribute royalties more equally among producing and non-producing regions and enhance central government oversight to prevent corruption. However, it led to the loss for many municipalities of a key income source and to bottlenecks preventing dispersal of funds. It also reduced the incentive for local authorities to mediate conflicts as they gain fewer benefits from natural resource extraction projects.

Mining and oil concessions are also increasingly encroaching on ethnic communities' lands. Companies are required to carry out prior consultations with communities of indigenous peoples, afro-Colombians or other ethnic minorities that will be impacted by mining or infrastructure projects. However, the rules and regulations governing the consultation process remain unclear, and the interior ministry, which designates the zones where prior consultations must be held, lacks the capacity to properly review every case. Communities have very limited capacity to assess and manage the impacts of a project. The consultation process is often slow, and communities take months or years to decide whether or not to approve the project, occasionally opposing it altogether.

Opposition from environmental groups has also increased following several high-profile incidences of environmental damage, particularly in the mining sector. In 2013, Drummond, Colombia's second-largest mining company, was seen dumping coal into the Caribbean Sea while rescuing a sinking barge, creating a public uproar and galvanizing opposition to mining and oil activity in the country.⁷ Environmental damage from illegal gold mining, often tied to criminal activity, has further worsened public perception of the country's mining industry. Environmental opposition to hydroelectric dams is also on the rise.

In an effort to address these concerns, the Juan Manuel Santos government introduced stricter environmental permitting rules. However, the new rules increased the burden on Colombia's environmental regulators as the number of permit requests continued to rise amid the commodities boom. The National Authority for Environmental Licensing is understaffed with a large backlog, and the average wait for oil exploration permits has doubled since 2009.

Some towns have also started to hold public referendums on individual mining projects. In one of the most prominent cases of conflict with a multinational company, South

African gold miner AngloGold Ashanti took legal action in 2013 against a small town in central Colombia after local inhabitants blocked roads to prevent construction of an ore processing plant for the company's planned mine.

Colombia's criminal groups, from illegal miners to armed guerrillas, also incite protests to pursue their own agendas of blocking legal extractive activities.

Project delays linked to local opposition have contributed to a sharp decline in investment just as lower commodity prices are putting pressure on Colombia's fiscal accounts and economic growth. Upon taking office in 2011, Santos highlighted mining and hydrocarbons, which together contribute about 8% of GDP and more than 70% of export earnings, as key economic drivers.⁸ These sectors continue to provide a major source of foreign investment and tax revenues for the central and local governments. However, after years of steady increases, foreign direct investment (FDI) in mining dropped by 47% between 2013 and 2014, while FDI in the oil and gas sector fell by 5%.⁹

After nearly doubling since 2007, oil production is flattening, and output is expected to drop slightly this year. In the mining sector, not a single new project has entered into production since Santos took office in 2010, although coal production is expected to continue increasing. For the oil sector, which represents a larger share of GDP and exports, the long-term concern is the lack of new discoveries, which calls into question whether the boom can be sustained. Oil reserves rose only 2.9% in 2013 and at this rate will run out in less than 7 years.¹⁰ The only way to extend oil reserve life while increasing production is to incentivize new discoveries, which requires opening new areas for exploration, revising regulations and improving infrastructure and security.

Over the past year, as global oil prices slumped, conflicts in Colombia's oil and gas sector decreased. The number of protests in the oil sector peaked in 2013 at over 500, compared to just 91 in 2010, but declined to 455 last year.¹¹ However, in the long term, if Colombia hopes to revive the industry and maintain revenues from the sector, it will have to take a more active role in preventing such conflicts. Inadequate government involvement has left oil and mining companies to manage relations directly with local communities. Some companies are expanding corporate social responsibility programs and trying proactively to improve dialogue with local communities, reversing the previous approach of looking to keep a low profile. And the government is aware of the need to mitigate conflicts and is looking at new policies to address the issue.

Local experts agree that the government needs to further increase institutional capacity to improve dialogue with communities, become involved in the consultation process from the start of each project, and better explain the potential benefits and drawbacks of natural resource projects to local inhabitants. The state also needs to clarify the legislation governing community consultation and the rights of local authorities to regulate energy and mining industries in their communities. Finally, policymakers will have to revisit the royalties reform to find a way to distribute royalties more efficiently and equitably.

Mexico

Local conflicts over natural resources are not new to Mexico, but the country now faces the potential for a major increase in tensions as energy liberalization promises to bring substantial foreign investment in the oil and gas and electricity sectors.

The energy reform, approved in December 2013 at the urging of President Enrique Peña Nieto, ended state oil company Pemex's 76-year monopoly and opened up the electricity sector to increased private participation. As part of the legislative package, last year Mexico's Congress approved secondary laws that establish the legal framework for auctioning contracts to private companies in the hydrocarbons and power sectors. The government launched the first annual oil and gas auction – dubbed Round 1 – this past December, expecting to attract some \$50.5 billion in new upstream investment between 2015 and 2018.¹² Much of that money is expected to come from international oil companies anxious to tap Mexico's huge hydrocarbon resources, but several smaller domestic and foreign firms are also likely to invest.

The government sees bringing international oil company experience to Mexico as necessary to reverse a long decline in the country's oil production, which has hit state coffers hard since oil revenues account for around one third of budgetary spending. Pemex has seen its crude output fall from a peak of around 3.4 million barrels per day in 2004 to an average of just under 2.3 million b/d in the first two months of this year.¹³ In the power sector, with demand projected to grow by 4 percent annually between 2012 and 2026, Mexico needs to invest in its crumbling electricity grid and increase generation capacity to expand supply and lower costs.¹⁴

However, the expected surge in investment also threatens a rise in local conflicts over energy projects. Mexico's experience in the mining sector, where the lack of a formal process for consulting with communities has led to a large increase in the number of conflicts, does not bode well for other industries. In the oil and gas sector, conflicts have been less common – though not nonexistent – because Pemex has built strong relationships with local communities where it has operated for decades through generous corporate social responsibility programs. However, Pemex will have to adjust to the new regulations, which will require it to follow the same procedures as private players for community consultation. Private companies without the ability to invest similar sums will have to match social investments with stronger efforts at dialogue.

The government has made some effort to ensure that local communities' concerns receive consideration before new energy projects go forward. The hydrocarbons and electricity industry laws require the energy ministry to hold a formal consultation process with residents, including indigenous groups, prior to the launch of a project. Mexico has also constitutionally mandated prior consultation under ILO 169 since 2011, but specific procedures are lacking and implementation has been spotty. Both laws also mandate that energy companies pay local communities for the use of their lands, and that the amount of those payments be determined via direct negotiations between the companies and residents. The laws also call for a social-impact evaluation as a precondition for approval of any new hydrocarbon or electric projects. In March, the energy ministry presented draft rules for those evaluations; the proposal is now in the public-comment stage.

Despite the participatory language in the new energy laws, many communities and the NGOs that work with them claim that the government is not fully committed to listening to local concerns. They note that Mexican law considers both the hydrocarbons and electricity sectors to be strategic activities, a designation that gives the government the legal authority to force communities to accept new energy projects and thus renders pointless the entire consultation process outlined by the new legislation.

However, even if local communities lack the legal power to block new projects, that does not mean the consultation process will be easy for investors. Some of the challenges that lie ahead can be seen from the first consultation to take place under the new energy laws. In November, the federal government launched a consultation with indigenous Zapotec residents in southern Oaxaca state

over energy company Eólica del Sur's plans to build a 396-megawatt wind farm. Some indigenous groups and NGOs have complained that the government is pushing for a faster consultation than local residents want and that the community was not allowed sufficient input over the project's design. Residents also protested that the energy ministry approved the wind farm's environmental impact assessment even before consultations began, so communities are being asked to approve a project whose scope and size had already been determined.

That said, other local residents have said they would support the project, in exchange for benefits such as rural electrification. For its part, Eólica del Sur has promised to employ indigenous residents in the construction of the facility, and to purchase goods and services from locally-based suppliers when feasible. The company has also pledged to support the community's indigenous culture and sponsor health and sport programs to benefit local residents. Oaxaca's state government, meanwhile, has said that if the community rejects the wind farm, the state will respect that decision but will seek to site the project elsewhere within the state.

For oil and gas projects, there are reasons to believe the consultation process will proceed reasonably smoothly – at least for the acreage being offered in Round 1. The first auction includes many offshore blocks, development of which will have limited impact in communities on land. In addition, much of the expected onshore acreage will be in areas where Pemex has long operated – so communities should be accustomed to drilling activities. Furthermore, energy ministry officials have postponed the auction of eight shale blocks in Coahuila state, across from the Texas border, as they revise the contract terms in response to the decline in oil prices. Those blocks had been considered especially problematic because the large number of wells needed for shale development implies greater room for conflict with local communities, and because the area has seen little drilling in the past.

Mexico faces the potential for a major increase in tensions as energy liberalization promises to bring substantial foreign investment in the oil and gas and electricity sectors.

Still, in the longer term, there remains a risk that conflicts over oil and gas and electricity projects will increase, as new players enter the field. While major international oil companies have extensive experience working with local communities all over the world and generally have well-established consultation processes and corporate social responsibility programs, smaller private firms, particularly Mexican firms, will likely have more difficulty adhering to the new regulations. Government capacity to oversee consultations and mediate conflicts also remains a question. The energy ministry has set up a new division focused on community relations, but it will need to allocate adequate staff and resources to assessing and mitigating potential conflicts. Mexico has an opportunity to learn from the experience of other countries to put in a place a process for consultation and oversight that reduces the number of conflicts.

Chile

Chile, with limited domestic fossil fuel resources, has long relied on hydropower as its principal source for electricity. Yet opposition to large dams, transmission lines and power plants has intensified in recent years, raising questions about how Chile will meet growing energy demand. While the government has sought to smooth the way for large new hydro projects by improving its consultation process with local communities, such efforts may not be enough to break the deadlock.

In 2013, hydropower accounted for about 43% of the installed capacity in the SIC, Chile’s main power grid, which serves around 90% of the national population. Of the grid’s nearly 14 gigawatts of installed capacity at year-end, about

3.4 GW – 24.5% of the total – came from dams. Run-of-the-river projects, which have less impact on the surrounding environment and communities, added another 2.6 GW.¹⁵

Despite its predominance in Chile’s electricity matrix, hydropower has become increasingly controversial. Unlike in other Andean countries such as Peru, where opposition to energy projects has often come from local communities, in Chile the challenge is primarily from national, and even international, environmental lobby groups. This is particularly the case in the southern Patagonia region, which holds the most promising rivers for hydro development – as well as some of the country’s most important ecosystems and pristine natural beauty.

In their most notable victory, Chilean environmentalists last year succeeded in defeating – at least for now – a large dam project known as HidroAysén. The project was particularly controversial because of its location in the pristine Patagonia region and because it would have flooded 6,000 hectares of land by building five new dams on Patagonia’s Baker and Pascua Rivers and required construction of an 820-kilometer transmission line.¹⁶ That 2.75 gigawatt project, first proposed in 2007 by Chilean utility Colbún and Spain’s Endesa, became the rallying cry for an unprecedented mobilization of Chilean environmentalists, who coordinated the massive “Patagonia Sin Represas” (Patagonia Without Dams) campaign to stop the project. The dam’s impact on indigenous communities was also a key concern.

In response to the public outcry, Michelle Bachelet, a moderate leftist who replaced the center-right Sebastián Piñera as president in March 2014 and had made opposition to HidroAysén part of her campaign platform, effectively killed the project. In June her cabinet voted

FIGURE 3: ELECTRICITY GENERATION IN CHILEAN GRIDS BY SOURCE (GWH)

Source: Centro de Despacho Económico de Carga Sistema Interconectado Central (2013)

	THERMAL	HYDRO	WIND	SOLAR	TOTAL
SING	14018.2	78.1	0	4.5	14100.8
SIC	30856.8	19530.2	548.2	3.3	50938.5
AYSEN	40.4	90.1	6	0	136.5
MAGALLANES	290.6	0	0	0	290.6
NATIONAL TOTAL	45206	19698.4	554.2	7.8	65466.4

to invalidate the project's environmental approval. While HydroAysén's sponsors have not formally canceled the project, any effort to resuscitate it would presumably have to wait until after Bachelet's term ends in 2018.

HidroAysén's apparent defeat, however, does not mark an end to the confrontation between Chile's government and environmentalists over large hydro projects. On the contrary, the Bachelet government has said that such projects remain an integral part of the nation's energy future. Power consumption is set to double by 2025, with demand from the mining sector expected to grow by almost 70 percent. In May 2014 the government published an energy agenda that envisions the addition of about 316 MW of new installed capacity from dams on the SIC grid by 2025.¹⁷

For the government, dams are necessary to provide a base level of power generation, and they are preferable to thermal generation, which relies on imported – and often expensive – liquefied natural gas (LNG) imports or highly-polluting fuels such as coal. While the government has also made development of renewable power – particularly solar and wind projects – a national priority, such clean energy sources are not likely to make much of a dent in Chile's energy needs for quite some time. Indeed, Bachelet's energy agenda sees wind and solar together accounting for less than 10% of the SIC's installed capacity in 2025, although solar would represent 11.9% of the total in the smaller SING grid, which covers Chile's far northern desert region.¹⁸

Despite the government's position, environmentalists have made it clear that they plan to continue the fight against hydroelectric dams. One flashpoint will almost certainly be the Energía Austral project, sponsored by Origin Energy, an Australia-based power generator and gas producer, and Swiss commodities trader Glencore. The project would see construction of a 640 MW dam on Patagonia's Rio Cuervo, near the town of Puerto Aysén. Energía Austral has already received environmental approval from the Aysén region, and last year Chile's supreme court rejected an effort by dam opponents to appeal the local authorization.

While the environmental opposition that derailed HydroAysén was in large part Santiago-based, some local and indigenous communities are also opposing large energy and mining projects in Chile, and the Bachelet government has recognized that for such projects to go forward, both the state and companies need to do more to ensure their support. In a survey conducted last year by the energy ministry, nearly half of energy firms rated their relationship with local communities as "poor."

To improve the situation, the energy ministry has proposed a new "ley de asociatividad," or partnership law, which would help ensure that local communities receive economic benefits from new power-generation projects. The Bachelet administration has also sought to increase the level of citizen involvement in development decisions. Meanwhile the Social Responsibility and Sustainable Development Council, a group housed in the economy ministry, has brought together government officials and representatives from private industry and civil society to facilitate public-private relations. Another economy ministry-sponsored body, the National Clean Production Council, has launched a new voluntary program to bring companies and local communities together before a new investment project is formally proposed. The aim is to let the two sides hammer out an agreement on social and environmental concerns during the project's design phase, before it is officially presented for environmental approval.

HidroAysén's apparent defeat does not mark an end to the confrontation between Chile's government and environmentalists over large hydro projects.

The government has also improved the process for consulting with indigenous communities. In February, Chile announced an agreement with representatives of the country's nine officially recognized indigenous groups on the creation of a new ministry of indigenous peoples.¹⁹ The deal came about after a five-month consultation process, which the government says included meetings across the country with more than 6,000 indigenous leaders.

Such government efforts to boost local consultation are in their incipient stages and somewhat decentralized, as they fall under several ministries. To mitigate further conflicts, the Bachelet administration will have to improve regulations and processes for community consultations as well as environmental impact assessments, provide more information to stakeholders and strengthen institutions. As electricity demand rises, opposition to energy projects is becoming a growing challenge to governing the country.

CONCLUSION

While the slowing of the commodities boom may temporarily alleviate some of the political pressure to address conflicts, in the long term, this issue remains a concern that policymakers should continue to focus on. In order to reduce conflicts over natural resource projects, governments in Latin America and elsewhere will have to address many difficult questions, including how to balance local demands with national interests, weigh industry regulation and investment promotion and maximize local economic development.

Many natural resource projects are deemed by the central government to be in the national interest but are protested at the local level. This tension raises questions about whether or in which cases individual or community rights should trump the central government's constitutional ownership of subsoil resources and its economic and social responsibility to the nation as a whole.

Conflicts over natural resources also lead to questions about the right balance between industry regulation and the need to move forward with investment. Local communities should be consulted in a systematic and transparent process, environmental standards must be upheld and cultural rights should be respected. But governments have to find an effective process to move forward with important investments. Striking the right balance of regulation is a critical challenge for governments.

In addition, local communities often expect economic benefits from investment projects that do not materialize, and companies cannot take over the responsibilities of the state to provide basic services. Governments must intervene to set expectations while ensuring that investment and tax revenues are used to promote long-term local economic development, for example by investing in education and skills development or infrastructure. Governments also have to consider how to divide resources between resource-rich and resource-poor areas and how to ensure that revenues for the central government ultimately benefit the local communities.

Despite the many challenges, cases of successful consultation and a growing body of best practices suggest that these conflicts can be avoided or at least mitigated. For example, Peru, which has a long history of local conflicts over natural resources, has made important strides with its prior consultation law, which is widely considered the most advanced in Latin America. Its inter-ministry coordination efforts have helped defuse many conflicts before they became violent, and many projects there have proceeded successfully thanks to early and ongoing consultation overseen by the government. These cases provide examples for other countries looking to develop their natural resources without inciting conflicts with local inhabitants.

To reduce conflicts over natural resource projects, governments in Latin America and elsewhere will have to address many difficult questions, including how to balance local demands with national interests, weigh industry regulation and investment promotion and maximize local economic development.

FOOTNOTES

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