

Lobbying and renegotiation of PPPs in Chile

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A Research Partnership¹

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¹Public-Private Partnerships: A Basic Guide, Cambridge University Press, 2013.



- 1 Chile
- 2 Tribasa and Ruta 5 Norte: bankruptcy.
- 3 Prison PPPs: problems with company and conflict resolution mechanism.
- 4 Santiago Airport: procrastination or what?
- 5 Delays in expansion of Ruta 5 and 68 due to congestion



- By 2008 Chile had 50+ concessions:
 - Highways and urban highways
 - All airports.
 - Others: jails, interchange centers, government buildings, etc.
- Underground parking lots (municipalities).
- Almost all public seaports.
- 4-5 major water and sanitation companies.



Map of Chile



Urban and Interurban highways close to Santiago



The Tribasa case

- Tribasa was assigned PPP Santiago-Los Vilos, Ruta 5 (215 km).
- Should have been completed by 2000, but Tribasa could not get funding, after initial investment of US\$ 160 MM.
- In Mexico it has gone bankrupt.
- Work stopped in the highway for several months.
- Though there was prima facie evidence of dereliction, PWA Minister reluctant to punish or take away concession.
- Argued that could not punish because of flaws in contract.
- Protests by public and press became intense in August 2002.
- By October, government had caved in and had BancoMex step in and finish the highway (in 2003).



Ruta 5 Santiago-Los Vilos



Abandoned construction.



Final state



- In December 2001, Besalco-Astaldi received the concessions of 3 prisons, out of 10 by PPPs.
- The CA is the M. of Public Works but the Ministry of Justice negotiates changes in the design, without approval of MPW.
- These are so expensive (about as much as initial concession) that a conflict begins (this after the fall of Minister above in a corruption case).
- In 2004, Besalco stops construction. Subcontractors go bankrupt.



El Manzano Jail (a PPP)



- This goes to conciliation Committee in 2006, apparently with one corrupt member, approves US\$ 80MM for Besalco.
- MPW appealed (first time), rejected, appealed to Supreme Court, who agrees.
- MPW is kicked out in 2008 (too hard on private firms, tries to reform internals of MPW).
- New MPW quickly settles with Besalco. Argues that prisons needed to be finished.
- After that experience (70% increase in the 10 prisons), future M. of Justice do not trust PPP system again.



The Santiago Airport

- In 1997 airport awarded to Agunsa-Dragados *et al* (US\$ 300MM), for 15 years.
- In 2005, facing low demand, concessionaire chooses to accept variable term concession, insures against losses. Expected to last until 2017.
- Demand picks up rapidly. By 2011, design capacity reached, concessionaire very happy with project. With that demand, concession should end in 2012.
- But MPW has no project prepared! And airport needs expansion, 13MM passengers this year.
- MPW negotiates with concessionaire, which is willing to expand a bit in exchange for 2 more years concession.
- MPW supposedly will have future PPP project ready by 2015.



The Santiago airport



Case Ruta 5 Santiago-Talca and Ruta 68 Santiago-Valparaíso

- Santiago-Talca (US\$1.4 B), 266 km south of Santiago, 1998, 25 years.
- Santiago-Valparaíso (Route 68), US\$736 MM, 1998, PVR with repurchase option.
- Both congested after 12 years, with steady growth in GDP.
- MPW negotiates with concessionaires, but they ask too much.
- Suggestion by E. Engel: repurchase Route 68 and then re-auction, including value of repurchase. Minister does not accept.
- At a lunch, asked for explanation. Answer: too much trouble ... (for a presidential candidate).
- Asked: Why was Santiago airport project not prepared? Answer: no Minister wants to spend US\$2-3MM in a project for the next Minister.





Ruta 5



Ruta 68



Conclusions

- Even with *step-in* procedures, MPW reluctant to transfer PPP.
- Only one unit can negotiate with PPP.
- Conflict resolution mechanisms can be subverted.
- Need to incorporate repurchase possibility in projects.
- New project must be ready at handout.
- Even with right of repurchase, MPW does not use it, prefers to renegotiate.
- Private firms try to exploit the rules/incompetence that bind the government.
- In all these cases, there were MPW deficiencies and ¿corruption?
- Even then, Chile's PPP program a (relative) success.

