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# What is the Outlook for Paraguay's Electricity Sector?

Inter-American Dialogue's Latin American Energy Advisor

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*Q and A: What is the Outlook for Paraguay's Electricity Sector?*

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Paraguayan President Fernando Lugo has pledged to guarantee energy sovereignty for the country, claiming that its complicated energy sharing agreements with Brazil and Argentina are unfair. Paraguay is seeking to export excess power to Uruguay, an important source of revenue, but says that Argentine officials have made unreasonable demands. Are the energy sharing agreements unfair and if so, what changes should be made? How successful has Lugo been in negotiating "energy sovereignty" for Paraguay? Is the dispute with Argentina likely to be resolved soon and allow Paraguay to export energy to Uruguay?

**A: Francisco Capli, director of First Analisis y Estudios in Paraguay and Roberto Codas, journalist and director of DESA (Desarrollo Empresarial):**

"The most successful foreign policy initiative of the Lugo government until now has been its negotiation with Brazil for improving the terms of the agreement that created the Itaipú hydro dam 30 years ago. Both the Itaipú treaty and the Yacyreta treaty with Argentina were signed by dictators. It is generally accepted that the Paraguayan authorities at the time obtained personal benefits in exchange for the clearly uneven terms of such agreements. The new terms negotiated with Brazil represent an increment of 200 percent of the payment that Paraguay receives for not using the electricity and exporting it to Brazil. Nevertheless, this is seen by the Lugo government as an important advance, but not its final goal, which is that its most important natural resource—the water of its rivers—is utilized in the country for promoting energy-intensive industrial investments. The negotiations currently taking place with Rio Tinto Alcan for installing the largest aluminum plant in South America can be a key step in that direction, since that project alone will consume as much electricity as Paraguay as a whole today. With Argentina, the Lugo government has been committed to conclude the Yacyretá hydro dam, which now is operating at its design capacity. Several steps in the direction of a more thorough 'energy sovereignty' remain to be taken. One is the possibility of exporting electricity to third countries, such as Uruguay and Chile. Paraguay has been consistent in defending energy integration as a key component of the Mercosur process. Until now Brazil and Argentina have shown little interest in such concept, but slowly the Paraguayan authorities are pushing the regional block in that direction. The export of electricity to Uruguay would be a key first step in the direction of an integrated Mercosur grid."

**A: Ricardo Canese, coordinator for Paraguay's Commission on Binational Hydroelectric Entities and a member of the Mercosur parliament:**

"Brazil and Argentina do not yet recognize Paraguay's hydropower sovereignty. For this reason, Itaipú does not generate all the energy that it could because there is sometimes excess water in the Brazilian dams. Since 1994, almost 8 million MWh per year that could be generated are not generated for this reason. At the same time, a lot of natural gas and petroleum derivatives are burned in Argentina, Chile and Uruguay in thermal plants. Why, if Brazil is not using the Itaipú hydropower, does it not allow Paraguay to sell (export) the hydropower that is not produced (from November until April of every year, more or less, there is a lot of water in the Brazilian dams)? As part of the Paraguayan government, we say that we can sell or export all the Paraguayan energy, which is 50 percent of both Itaipú and Yacyretá. The change that Paraguay needs is to be able to freely sell our energy. In 2009, Brazil agreed that Paraguay can sell its own energy (50 percent of Itaipú) to the Brazilian market. In 2010, Paraguay presented to Brazil a formal proposal to sell (export) its Itaipú energy to the Brazilian market. Until now, Paraguay has not had an answer from Brazil. Though we have the right to sell our Itaipú energy to the Brazilian market, there are not yet the concrete mechanisms to do so. Because Brazil and Argentina do not recognize our hydropower sovereignty, Paraguay cannot export its own energy from Acaray (which is 100 percent Paraguayan) to Argentina. We do not know when it could be possible. In 2008, Argentine President Cristina Fernández de Kirchner said that Paraguayan energy could be transmitted through Argentina to Chile or Uruguay. After more than two and a half years, the Paraguayan energy (100 percent Paraguayan, as it is from Acaray, not from Yacyretá or Itaipú) cannot go to Uruguay. Why? Argentina intends to get enormous transportation fees/tariffs, against what the Mercosur Treaty says. It is a pity that there is no justice inside Mercosur."

**A: Gerardo Rabinovich, director of the Instituto Argentino de la Energía General Mosconi:**

"The Yacyretá Hydroelectric Project has been made possible by a binational treaty signed by Argentina and Paraguay and approved by both congresses. This agreement sets out the conditions for marketing the energy and any changes must be subject to changes in the treaty and approval by both lawmakers of both countries. I think it's a democratic and transparent way of doing things. This treaty restricts sales of energy produced by the hydroelectric plant only to the two country owners. The last major changes date back to the 1990s, and it is clear that, over time, changes have occurred that merit a revision of the treaty to suit the current situation. The condition is always that these changes are transparent and receive legislative approval in both countries' parliaments. The creation of an electricity market in the Southern Cone is a shared desire, but to make it happen there must be clear rules and shared benefits for all parties. I think the term 'energy sovereignty' is for domestic consumption in Paraguay, and does not contribute to the energy integration between the Mercosur countries. Cooperation between countries in the region has always been very close and has avoided situations of failure and power outages due to countries rapid action to assist those in need. In this context, the government of President Lugo in Paraguay has achieved important objectives, such as a higher monetary recognition by Brazil's Itaipú, and the completion of the works of Yacyretá with Argentina. Now, they want to sell electricity to Uruguay in a very complex operation that passes through the electric transmission

system of Argentina. We will see how this project can be achieved, but it is very important to create an agreement and implement valid rules of work in general for all Mercosur countries. This may take some time but we come from the failure of Argentina's gas exports to Chile in 2004 to add a new frustration to a long and difficult process of energy integration in this region."

*The Energy Advisor welcomes responses to this Q&A. Readers can write editor Gene Kuleta at [kuleta@thedialogue.org](mailto:kuleta@thedialogue.org) with comments.*