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PARAGUAY SEEKS GREATER FLEXIBILITY FROM BRAZIL ON ITAIPU DAM CONTRACT, BRAZIL REFUSES

Paraguay's President Nicanor Duarte pressed Brazilian President Luiz Inacio Lula da Silva to renegotiate the terms that dictate how power from a shared dam is handled. Paraguayan officials and media want the tiny country to earn more from the Itaipu dam, the world's largest functioning hydroelectric generator, than it currently gains under terms set by a 1973 agreement. Duarte's calls met little response from Lula during the Brazilian president's first official visit to Paraguay since coming to office in 2003. Duarte's "weak" approach to Lula and failure to gain any concessions earned him the scorn of Paraguayan media and opposition leaders.

Lula visit disappoints Paraguayan officials and press

Dams like Itaipu and Yacyreta, shared with Argentina, give Paraguay most of its electricity, but the treaties setting up the terms of how the power plants would profit from the electricity were set up during the dictatorship of Gen. Alfredo Stroessner (1954-1989). Critics of the treaties say they are less than favorable to broad Paraguayan interests, having been set up to serve narrow elites allied with the dictatorships of Paraguay and its neighbors.

Paraguay has recently been trying to get the Argentine government to change the terms of the bilateral Yacyreta agreement, which place Paraguay under a crushing debt burden (see [NotiSur, 2006-08-11](#)). Former Paraguayan officials have also sought a renegotiation of the Itaipu treaty, in effect until 2023 (see [Chronicle, 1991-08-29](#)).

Lula's visit held great hopes for Paraguayan advocates who wanted to see more flexibility in how Itaipu power is handled and have more of the energy from the plant at Paraguay's disposal, with the possibility of selling that power at market prices to other countries.

Paraguay's Ambassador to Brazil Luis Gonzalez Arias said on May 20, "We want three things: free availability [for in-country use or to sell to third countries], equality of administration, and market price." He said that President Duarte had not yet called for the change from the Brazilian government officially, and a diplomatic source speaking with BBC Brasil said that "it would be a surprise" if the Paraguayan president brought it up during the then-upcoming meeting with Lula.

Lula: dam meant for energy supply at cost, not "profit"

Lula's prepared response to Paraguayan renegotiation calls was intransigent, with Lula asserting that the goal of Itaipu company was never to earn a profit but rather to produce clean and cheap energy for the two nations. Brazil's government says that the country paid for all the energy not used by Paraguay in the first years of the dam's operation but that there was not as much demand in Brazil for power then. Now Brazil needs all the power the dam produces, argue Lula's energy officials.

After a visit to Asuncion on May 20, Lula inaugurated the last turbine at Itaipu, raising the number of turbines to 20. The production capacity of the dam increased from 12,600 megawatts

to 14,000 MW. The dam made the list of "25 Wonders of the World" put out by the tourist and travel publishing group Rough Guides.

The dam's power is divided between the two countries, but Paraguay uses only 6% of the energy produced and sells the rest to Brazil. The energy produced supplies about 20% of Brazil's total demand and 95% of Paraguay's.

Paraguayan officials say the price at which they sell Itaipu power to Brazil, US\$24 per MW/hour, is far below market rates, estimated at US\$31 per MW/h. "The ideal would be to get the best benefits from Itaipu for both countries," said Gonzalez Arias. "Still there have been no formal talks, but the general sentiment in Paraguay is that the benefits could be greater."

The past year, Paraguay earned US\$373.6 million from the dam, of which US\$196.5 million were royalties and US\$87.3 million were compensation for energy sold to Brazil's state-run power utilities. The price paid to Paraguay was increased in 2005, guaranteeing an additional US\$21 million payment over the previous year. Income from Itaipu is equal to about 4% of Paraguay's annual GDP, which was about US\$410.2 billion last year. At the beginning of its operation, when Paraguay's economy was much smaller, the plant represented an even greater chunk of the country's total economy.

The demand to sell power to third countries is prohibited under the 1973 treaty and it would be difficult for the Brazilian government to agree to such a change. As the Brazilian population and economy booms, the country is struggling to keep energy accessible and affordable. And Paraguay enjoys much less leverage than Bolivia, to take one example, which recently successfully negotiated with state-owned power company Petroleo Brasileiro SA (Petrobras) to pay higher rates for natural gas imported into Brazil (see [NotiSur, 2007-04-13](#)).

Paraguay sees Argentina as a potential client for Itaipu power, although Ambassador Gonzalez acknowledged the unlikelihood of a near-term change in Brazil's position. "The whole world is always interested in energy," he said. "At the moment the treaty won't permit [selling power to third nations], but who knows what will happen in a few years."

In January, Lula did set up a provisional measure in the agreement to eliminate a factor in the debt the Itaipu project owes Brazil, reducing interest rates on a loan nearly in half.

Paraguayan newspapers attack both presidents

The tentative approach by Duarte earned him the label of "weak" in Paraguayan newspaper La Nacion while competing newspaper ABC Color said Lula only brought worthless trinkets and false promises during his official visit. ABC Color, formerly an official party organ during the Stroessner regime, said on May 21 that Lula arrived "with a briefcase full of promises" but that "there is not much the country can expect from his visit."

"Lula arrived with his little mirrors," wrote ABC Color, alluding to baubles brought by European colonizers in the 16th and 17th centuries to the indigenous peoples of South America in exchange for natural wealth like gold and minerals.

In the visit, Lula did present an aid package to Paraguay and signed cooperation agreements regarding defense, controlling disease, and incentivizing production of biofuels, an industry Lula has been particularly aggressive in promoting domestically and abroad (see [NotiSur, 2007-04-27](#)).

"Nonetheless," argued ABC Color, "the reality shows that the Brazilians come with a series of promises that will be shaped in pompous documents by the presidents with the most expensive of pens, but in practice all of those are simple little mirrors without value, as in centuries past when conquistadores won the friendship and goodwill of the natives." The editorial called Brazil an "imperialist" country involved in "vile exploration."

La Nacion's criticisms were more measured, but still critical of the outcome of Lula's visit.

MERCOSUR implications of disagreement

Paraguayan resentments at not getting better benefits from the Itaipu dam have broader implications for the regional trading bloc of which both countries are members, the Southern Cone Common Market (MERCOSUR). Paraguay and Uruguay, the two smallest countries in the five-nation bloc, have increasingly complained about having their needs unmet as relative economic giants Brazil and Argentina dominate MERCOSUR affairs.

The larger members have expressed their displeasure at Uruguay's efforts to negotiate a trade pact with the US and Paraguay's acceptance of US troops in a northwestern military installation (see [NotiSur, 2005-09-02](#), [2006-02-17](#), [2006-09-22](#), [2006-10-27](#)). A failure to derive greater benefits from Itaipu could further alienate Paraguay from the trade bloc.

There may also be consequences for Duarte's Asociacion Nacional Republicana (ANR, Partido Colorado), the decades-old ruling party of Paraguay. There will be a presidential election in 2008, and opposition leaders will surely attack Duarte's and the Colorados' failure to secure better deals for the country.

Duarte's efforts to change the law to allow him to run for re-election have failed, meaning the ANR's candidate may not even have the power of incumbency.

[Sources: [www.bbcbrasil.com](#), 05/21/07; ABC Color (Paraguay), La Nacion (Paraguay), Ultima Hora (Paraguay), 05/22/07; Spanish news service EFE, 04/20/07, 05/07/07, 05/11/07, 05/15-24/07, 05/28/07, 05/29/07, 06/04/07, 06/05/07]