

Brazil-Paraguay Dispute over Itaipu Delays Mercosur Summit

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The summit among the presidents of Mercosur has been postponed for July 24 and 25 it was reported Monday from Asunción, Paraguay, the host of the event. Three of the four full members of the trade group, Argentina, Brazil and Uruguay, proposed the change from the original July 3 and 4, arguing political and electoral reasons.

However Paraguayan political sources point out that although Argentina and Uruguay have good electoral excuses, the decision can also be interpreted as a rebuff from Brazil that is increasingly disappointed with Paraguay's insistence on reviewing contract conditions for the power generated at the world's largest operational hydroelectric plant, Itaipu.

Argentina on June 28th is holding midterm elections that will see the renewal of half the Lower House, a third of the Senate and most provincial legislatures. The event is crucial for the Kirchner couple administrations accustomed to rule with an absolute majority in Congress and little consideration for the opposition and dissident groups inside the ruling coalition.

Furthermore it will be a presentation of the presidential hopefuls for the 2011 election and possible successor of Cristina Fernandez de Kirchner.

Uruguayan political parties that same Sunday will be voting in primaries for the nomination of presidential candidates for the October election when the Executive and the Legislative will be completely renewed. There is no presidential re-election in Uruguay.

Uruguay will be holding the Mercosur chair as of next July for the next six months.

However the two-day summit scheduled for July 3 and 4 in Asuncion included a full day of pending Paraguay-Brazil negotiations on finding a way out to President Fernando Lugo administration insistence of a fairer deal (price and clients) regarding the power generated at Itaipu, which according to the original contract is shared equally.

But Paraguay only consumes 5% of its share and Brazil takes the rest. Paraguay argues it is entitled to hundreds of millions of extra US dollars annually because the KW price was fixed in the seventies when the huge dam was built, and wants a review of the contract so it can sell electricity either in the Brazilian spot market or other neighboring countries at going prices.

Brazil rejects this option "legally" and financially: the Itaipu bilateral contract has a clause saying it can only be reviewed in 2023, which means the KW price and selling all the surplus energy to Brazil is unmovable.

Instead it has offered Paraguay infrastructure investment to the tune of almost a billion US dollars and renewing most of the country's obsolete power lines, obviously the work would have to be done by Brazilian companies.

Brazil also insists that the difference in payments for power goes to help finance a debt of several billion US dollars pending from when the dam was constructed, and never paid by Paraguay.

Paraguayan officials like to emulate the Itaipu situation and Brazil with that of the Panama Canal and United States, and have promised to insist, no matter how long it takes, on international prices for the power generated and autonomy to sell the surplus to whoever they please.

The dispute has escalated to the extreme that during President Lugo's visit to Brazilian capital Brasília, a joint press conference with his peer Luiz Inácio Lula da Silva and a ceremony to sign several bilateral agreements, with all ready for the event, were unexpectedly canceled and doors slammed: a major setback for the ever so performing and efficient Brazilian diplomacy.

Since then both countries agreed to downgrade the exposure level of negotiations, and proposals have surfaced but allegedly not much had been advanced to show in early July as was scheduled.

Furthermore Paraguay recently proposed as the next ambassador in Brasília a former secretary of President Lugo and a strong advocate of "Itaipu energy sovereignty".

Pending also is the deadline imposed by Paraguay to advances in the negotiations: next August when President Lugo should be celebrating his first year in office. Paraguay warned that it could take the case to international arbitration.

Paraguay needs the extra funding to finance social programs and a land distribution project for peasants promised by the catch-all coalition that took the former bishop to become president.

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