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## FEATURED Q&A

### *What Is the Future of Latin America's Hydro Projects?*

**Q Colbún, the Chilean power company holding a 49 percent stake in the controversial HidroAysén project, announced earlier this year that it is "indefinitely suspending" the environmental impact assessment for the project's transmission line. It is one of many regional projects that have faced local and environmental opposition, but have also been cited as necessary to meet growing energy needs. Are mega hydropower projects like this doomed in Chile and elsewhere in Latin America? What energy sources will fill in the void if such projects don't come to fruition? How are anticipated consequences of climate change, such as drought, going to change the region's current and future hydropower infrastructure?**

**A Deborah Bleviss, professor in the energy, resources and environment program at Johns Hopkins University:** "While South America has had a long and proud tradition of relying on major hydropower projects to meet its rising electricity needs, this strategy necessarily is going to have to change in the future. As is being played out in Chile, the environmental consequences, including moving of human populations, of such projects are increasingly understood and opposed by large factions of the population. And, even more importantly, climate change will mean more frequent and prolonged droughts, which is anathema to a strategy of overwhelming reliance on hydropower. Ironically, a strategy to cope with greater frequency of droughts would be to build larger hydro reservoirs, which will garner even greater political opposition. So a more diversified strategy is needed that consists of: 1) Slowing the growth of electricity demand by improving the efficiency with which electricity is generated, transmitted and used. Utilities in the United States have become quite expert in using this relatively inexpensive strategy to forestall building additional generation plants. 2) Diversifying generation to include natural gas and other renewables.

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### Petrobras Posts Quarterly Loss for First Time in 13 Years

Brazil's state-run oil company, Petrobras, on Friday posted its first quarterly loss in more than 13 years. CEO Maria das Graças Foster said the loss was due to a weaker Brazilian currency and new wells that came up dry. See story on page 2.

*File Photo: Petrobras.*

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## NEWS BRIEFS

### Mexico Issues Hurricane Watch for Ernesto

Mexico issued a hurricane watch for parts of the Yucatan peninsula as Tropical Storm Ernesto passed through the Caribbean over the weekend, Reuters reported. The predicted track of the storm is likely to hit the peninsula on Wednesday and could strengthen to a hurricane. The coasts of Nicaragua and Honduras are expected to see tropical storm conditions later today.

### PDVSA in Talks for Falklands Oil Exploration

The president of Venezuela's state oil company, PDVSA, said he met with the president of Argentina's YPF on Wednesday, discussing a partnership to drill for oil and gas around the disputed Falkland Islands, Reuters reported Sunday. In remarks to Argentine newspaper Página12, Rafael Ramírez said the company is analyzing the costs and time of such exploration. He added that the company is "proceeding with caution" as a result of Repsol's threat to take legal actions against companies involved in the development of assets that Argentina expropriated.

### Chilean Authorities Investigate ATM Fraud

Authorities in Chile are investigating complaints that the checking accounts of more than 1,500 people in the south-central Araucanía region were compromised, the *Santiago Times* reported Friday. Criminals attached card-reading devices on ATMs to capture information and then used them to create fake bank cards, authorities believe. Police believe the theft amounts to approximately 170 million pesos ($340,000). The government's National Consumer Service is investigating the matter.

# Company News

## Petrobras Posts Quarterly Loss for First Time in More Than 13 Years

Brazilian state-run oil company **Petrobras** posted a quarterly loss on Friday for the first time in more than 13 years, which CEO Maria das Graças Foster blamed on a weaker Brazilian real, which increased debt costs, as well as losses related to newly drilled wells that came up dry, Reuters reported. The loss increased concerns that Petrobras will fail to achieve its goal of becoming one of the world's three-largest producers of crude by the end of this decade. The company swung to a loss of 1.35 billion reais ($665 million) in the second quarter, a drop from its net income of 10.9 billion reais in the same period last year. The loss was a surprise to analysts who had been expecting a profit. The average estimate of nine analysts surveyed by Reuters was net income of 3.69 billion reais. "The loss number is catching all of us by surprise," Dany Rappaport of **InvestPort** in São Paulo, told the wire service. "As management recognizes some back-dated problems in the company's downstream units, analysts and investors might have to start rethinking our prospects for the company." Petrobras' preferred shares have slid 5 percent this year. In June, the company announced that it was unlikely to see major production increases before 2015 despite an investment program of $237 billion. Output fell in the second quarter, during which the company's exploration and production costs more than tripled from the first quarter to 3.4 billion reais. Declining output of oil and gas as well as the government's refusal to allow Petrobras to hike fuel prices in line with market crude price increases have also taken a toll on the company's earnings, Reuters reported.

> "The loss number is catching all of us by surprise."
>
> — *Dany Rappaport*

## Itaú Has Not Approached RBS About Citizens Bid: Report

Brazilian banking giant **Itaú Unibanco Holding** has not signaled to **Royal Bank of Scotland** that it intends to place a bid for the bank's Citizens retail bank in the United States, an unnamed source familiar with the matter told Dow Jones Sunday. Britain's *Sunday Times* had earlier reported that the Brazilian bank was seeking to acquire Citizens, which operates 1,500 branches in 12 states. The retail bank is reportedly valued at as much as $15.6 billion. RBS' chief executive officer, Stephen Hester, has said the company has "no sacred cows" and that he would not reject the idea of selling any part of the British bank's business. On Friday, Hester responded to a question about Citizens by saying the Rhode Island-based unit is a main part of RBS' plans. "It's a bank where we have improved its performance every single year since we started the RBS change and this last quarter ... is another improvement," said Hester, Dow Jones reported. "As a result of that, Citizens is much more valuable to our shareholders today than it was three years ago, and I have every confidence that it will be more valuable again three years from now." The British government owns 82 percent of RBS, which has been restructuring its business after receiving a bailout.

Hester

*File Photo: RBS.*

# Political News

## Venezuelan Voting Machines Raise Concerns About Intimidation

For the Oct. 7 presidential election, Venezuela's electoral authority plans to use voting machines that are directly attached to thumbprint readers to identify voters before they can cast their ballots,

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the Associated Press reported. Electoral officials say the thumbprint readers will be used to ensure that voters are registered and otherwise eligible. Thumbprint readers have been used before for that purpose, but this is the first election in which they will be connected to the voting machines themselves. The arrangement has raised concerns that the technology can be used to reveal how each person voted. There is no evidence to show the system has been used to reveal voters' choices and opposition leaders, who may suffer at the polls if voters stay

*The system "serves to scare" voters, said Chávez opponent Diego Arria.*

home, have been trying to assure Venezuelans that the system will not reveal their preferences. Henrique Capriles, who is seeking to unseat President Hugo Chávez, has urged voters not to feel intimidated. Chávez opponent Diego Arria, a member of the *Advisor* board and a former Venezuelan ambassador to the United Nations, told the AP that the thumbprint identification system won't ensure that each person votes only once, "but it will work for something, and it's the fundamental aim: to intimidate voters." Government employees may fear for their jobs and Venezuelans who provided thumbprints in public housing applications may be intimidated. "It serves to scare them," Arria added. Chávez opponents also have expressed concerns about the electoral council, pointing out that four of its five members are either the president's allies or are perceived to favor him. The National Assembly, which Chávez allies control, appoints the council. However, the electoral council's president, Tibisay Lucena, has said the panel is independent and has also defended the voting machines. "The Venezuelan electoral process is one of the most audited in the world," Lucena recently told reporters. "We have controls that make impossible any attempt to interfere with the public will."

## Featured Q&A

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The region is rich in renewable sources of energy, including wind, solar, small hydro (especially run-of-river hydro) and geothermal. And there are other renewables that are potentially on the cusp of being commercially viable and cost-effective, including ocean tidal, ocean thermal, wave power and offshore wind. 3) Moving toward a 'distributed' electricity system. Rather than having distant large central station power plants, smaller generation units are deployed throughout a community, such as cogeneration from an industrial facility, photovoltaics from a building rooftop or wind machines perched above a shopping center. Distributed electricity systems offer the advantages of being able to capture and use the heat from generation plants that is normally exhausted to the environment from central station plants and they reduce dependence on expensive new transmission lines."

**Amanda Maxwell, Latin America project director at the Natural Resources Defense Council:** "The future of large hydropower in Latin America may seem to be clear, since so many projects are planned throughout the region. In Panama, Brazil and Ecuador—among others—companies are indeed looking to build large dams to meet countries' growing electricity needs. Yet as the climate continues changing and droughts become more frequent and intense, the economic justification for these projects will be ever more questionable, as rivers dry up and less electricity can be generated from them. We are also seeing increasingly informed populations reject these projects. People understand the environmental and social impacts that dams cause, and they are refusing to stand idle as their ways of life are destroyed. Their opposition is already affecting how and if large dams are approved. An example of all of the issues at play is HidroAysén, the company planning to build five dams on two of Chilean Patagonia's wildest rivers, plus a 1,900 kilometer transmission line. Colbún, one of two owners of HidroAysén, recently halted all work on the project, recognizing that it did not have an appropriate political climate to proceed, or the support of the populace. Well over half of Chileans—up to 72 percent—reject the project, and they have repeatedly taken their opposition to the street, attracting worldwide attention in the process. Chile has amazing natural resources for truly sustainable renewable energy, such as solar, geothermal and wind plus energy efficiency, and people there understand that those are better technologies to develop for a secure energy future."

**Genaro Arriagada, member of the *Advisor* board and nonresident senior fellow at the Inter-American Dialogue:** "What is happening in Latin America with hydroelectricity is bad for both the region and the environment. One of the most positive features of the region's energy matrix is that hydroelectricity represents 26 percent of the total, while worldwide that contribution is just 6 percent. Now the growth of the sector is stagnating, which is demonstrated by the fact that growth in the last five years has only been one percent per year. The cause of this curtailment is not the limitations of the resource, since it is estimated that no more than 25 percent of Latin America's hydroelectricity potential has been exploited, but rather the opposition of very active environmental organizations that are absolutely opposed to large dams. The result is bad for the environment because Latin America has the cleanest energy matrix among all of the world's regions. This is a result of the high contribution of hydroelectricity and because the contribution of fossil fuels to the matrix is the lowest in the world: 72 percent versus the world average of 87 percent. Within that, coal represents a mere 4 percent while the global average is 30 percent. In this context, the maintenance of a clean matrix is almost synonymous with maintaining the current levels

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## Featured Q&A

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of hydroelectricity. Where this doesn't happen, its decline will be supplanted by fossil fuels and, in some cases, the cheapest of those, which is carbon. Chile is an illustrative example. Between 2003 and 2011, imports of fossil fuels quintupled and since 2004, all of the relevant power stations that have been inaugurated are gas or carbon. This problem is not just in Chile but all of Latin America."

**Craig Kelly, member of the *Advisor* board and vice president of The Cohen Group in Washington:** "The HidroAysén project must be seen within the complicated context of Chile's energy matrix. President Piñera has called for a doubling of Chile's electricity capacity by 2020—and this in a country that is poorly endowed with non-hydro conventional sources of power. Chile has had a frustrating experience with gas supplies from Argentina and has built two regasification plants for imported LNG—a relatively expensive source of energy. Chile continues to explore non-hydro renewables—solar, wind, geothermal—and Chilean legislation calls for Chile to derive 10 percent of its electricity generation from these sources by 2024. But it is clear that hydro power must continue to play a key role in Chile's power supply for many years. Chile is by no means alone in this. Brazil, for example, gets 81 percent of its electricity from hydro. The Chilean government is working to meet environmental concerns with respect to the hydro facilities themselves and the related transmission lines, and the large amount of national and international press shows that Chile is doing so transparently and with open debate. Colbún's decision to suspend impact studies for the transmission lines pending greater clarity on national policy is part of that national debate. The board of HidroAysén has expressed its desire to continue with the project assuming that appropriate conditions are met. This sort of deliberation on a long-term, high-impact project is positive and should help reassure environmental groups that sustainability issues are playing a key role in the process."

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*The* Advisor *welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.*


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