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## LATIN AMERICA ADVISOR ► ENERGY

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### FEATURED Q&A

#### Where Is the Future of Hydro Projects in Latin America Headed?

**Q** Colbún, the Chilean power company holding a 49 percent stake in the controversial HidroAysén project, announced last month 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?

ma 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

*Continued on page 3*

**A** Deborah Bleiviss, 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 anathe-



#### Oil Industry to Invest \$120 Bn in Colombia Over 10 Years

Despite security concerns and permitting delays, the oil industry is expected to invest \$50 billion in production and exploration in Colombia over the next decade, said the president of the Colombian Oil Association, Alejandro Martínez. See story on page 2.

*File Photo: ACP.*

### Inside This Issue

<b>FEATURED Q&amp;A:</b> Where Is the Future of Hydro Projects in Latin America Headed?.....1	Companies Sign Deal to Connect Ecuador's Two Main Pipelines .....2	OPIC Approves \$185 Million to Finance Two Peruvian Solar Projects .....4
Oil Industry to Invest \$120 Bn in Colombia Over 10 Years .....2	Pacific Hydro to Build 108 MW Wind Power Plant in Chile .....2	<b>Advisor Q&amp;A:</b> How Closely Tied Are Spain's and Latin America's Fortunes?.....4
Harvest Natural Resources to Sell Venezuela Assets to Pertamina .....2	Brazil, Nicaragua Top List for Renewable Energy Opportunities.....3	Political and Economic News: Paraguay Brazil, Mexico, Ecuador and More.....4-5

## ENERGY SECTOR BRIEFS

**Pacific Hydro to Build 108 MW Wind Power Plant in Chile**

The local unit of Australia's **Pacific Hydro** on June 15 filed an environmental impact statement for a 108 MW wind power plant in Chile, *América Economía* reported. If given approval, Pacific Hydro expects to begin construction on the \$250 million plant in the first half of 2013. It is the company's first project in the South American nation. "This is an important step and represents our commitment as a company to continue investing in the country," said the company's development manager, Alfredo Zañartu.

**Brazil's Itaú Unibanco Acquires 3.6 Percent Stake in YPF**

Brazil's **Itaú Unibanco** has acquired a stake of 3.6 percent in Argentine oil and gas producer **YPF**, which had been put up as collateral when Argentina's Eskenazi family received a loan from the Brazilian bank, Dow Jones reported Tuesday. The family relinquished the shares after it defaulted on loans that it used to acquire a 25.5 percent stake in the energy company.

**Carlos Ruiz Named Head of Sempra Mexico**

**Sempra Energy** on Thursday named Carlos Ruiz the chairman and CEO of the company's Mexican subsidiary, a newly created position. Among **Sempra Mexico's** assets are natural gas pipelines, an LNG receipt terminal and a natural-gas fired power plant as well as a major wind project in development. Ruiz formerly served on the company's board and is a partner in investment banking and infrastructure firm **Proyectos Estratégicos Integrales**. He also served as Mexico's secretary of communications and transportation for six years.

## Oil & Gas News

**Oil Industry to Invest \$120 Bn in Colombia Over 10 Years**

Despite security and permitting concerns, the oil industry is expected to invest \$50 billion in production and exploration in Colombia over the next decade, said the president of the Colombian Oil Association, Alejandro Martínez, EFE reported Wednesday. Including refining and transportation, the industry is expected to invest a total of \$120 billion over that period. Martínez also said the country hasn't reached its goal of producing 1 million barrels of crude per day because of attacks against oil infrastructure and environmental licensing delays. In an effort to prevent further such issues, the state-run oil regulator, is expediting environmental permitting, said Orlando Cabrales, the president of the National Hydrocarbons Agency, Bloomberg News reported. "There is an action plan within the government to see if the licenses can go out as fast as possible ... We've already identified the critical licenses," said Cabrales. [Editor's note: See related Q&A about the effect of insecurity on Colombia's oil sector in the March 12-16 [issue](#) of the *Energy Advisor*].

**Harvest Natural Resources to Sell Venezuela Assets to Pertamina**

Houston-based **Harvest Natural Resources** has agreed to sell its Venezuelan oil assets to **Pertamina**, Indonesia's state-run energy company, for \$725 million in cash, Bloomberg News reported Thursday. The company will sell its 32 percent stake in **Petrodelta**, which is a joint venture with **PDVSA**, to the Indonesian company. Most of Harvest's assets were nationalized by the government in 2007 and it has struggled to attract investors as a result of the political risk. "An American company does not have any leverage whatsoever in terms of getting their capital out of the country ... The people getting in to Venezuela are governments," said Zachary Prenskey, an analyst with **Little Bear Research** in New York. Harvest's shares rose 88 percent in after-hours trading Thursday in New York on the news. According to oil analyst

Thomas O'Donnell, the deal with Indonesia rather than China is indicative of difficulties that Chinese companies have had in Venezuela. "Whether in fact CNPC

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“They've got 200 million reasons to get this done.”

— Zachary Prenskey

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or Sinopec were involved at some stage, the fact that they have both not significantly increased their reserve holdings in Venezuela is a continuing sore point in their relationship with Caracas given Beijing's huge state-sponsored investments to date," he said. The deal must be approved by shareholders as well as both the Indonesian and Venezuelan governments. Prenskey was confident that the deal will go through. "It's an enormous amount of money that will accrue to the Venezuelan treasury. They've got 200 million reasons to get this done."

**Companies Sign Deal to Connect Ecuador's Two Main Pipelines**

Ecuador's pipeline company **OCP** and the country's state-owned oil company, **Petroecuador**, have signed a cooperation agreement for the integration of their pipelines, Dow Jones reported Thursday. The OCP pipeline and Petroecuador's Sote pipeline are the country's two main pipelines and the agreement allows producers to use either one in the case of an emergency. The two companies also signed an agreement to put in place mechanisms for assistance in the event of emergencies as well as everyday situations which can be renewed annually until 2023, when the OCP pipeline is slated to become state property. Also on Thursday, OCP's executive director, Andrés Mendizábal, said that the company plans to begin transporting 15,000 barrels per day of crude from Colombia and could up that amount to 150,000 in three years by expanding its network, Reuters reported. The first phase won't require additional infrastructure and would allow fields in southern

Colombia to export their oil, he said. But to transport the higher volumes, the company would require investment of as much as \$300 million to build another pipeline. Five or six Colombian producers have expressed interest in using the OCP pipeline, said Mendizábal, though he declined to name them.

## Power Sector News

### Brazil, Nicaragua Top List for Renewable Energy Opportunities

Brazil came out at the top of an index of Latin America's best countries for clean energy opportunities, followed by Nicaragua, Panama, Peru and Chile. The Multilateral Investment Fund of the Inter-American Development Bank and Bloomberg New Energy Finance ranked 26 Latin American and Caribbean countries in its Climatescope 2012 report based on their ability to attract capital for renewable energy. Brazil attracted close to 80 percent of the \$90 billion in clean energy investments between 2006 and 2011, found the report. Despite wide ranging renewable resources, the region's clean energy sector attracted less than 5 percent of the estimated \$280 billion global total. "The sector still needs intelligent support mechanisms, and it certainly needs a raft of unhelpful barriers to be swept away," said Michael Liebreich, chief executive of Bloomberg New Energy Finance. The report was released June 19 during the Rio+20 United Nations Conference on Sustainable Development. At the conference, U.N. Secretary General Ban Ki-moon said that more than 50 governments have launched new energy strategies and highlighted the initiative to ensure universal access to modern energy services by 2030. Brazil pledged to invest \$4.3 billion to achieve universal energy access by 2014. However, some analysts suggest that climate change may have an adverse effect on renewable energy production. Speaking at the Forum on Science, Technology and Innovation for Sustainable Development last week, Brazilian energy planning expert Roberto Schaeffer pointed out that many renewables rely on water, including biofuels, and

### Featured Q&A

*Continued from page 1*

generation plants. 2) Diversifying generation to include natural gas and other renewables. 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."

**A** **Johanna Mendelson Forman, senior associate in the Americas Program at the Center for Strategic and International Studies and co-chair of the Latin America and Caribbean Council on Renewable Energy:** "In 15 years, Chile will need to triple its current capacity to meet both industrial and consumer demand. For a country with solid economic potential, but no domestic oil or gas, Chile will have to diversify its energy matrix without delay. Hydroelectricity seemed to be President Piñera's solution but both domestic advocates and international environmental groups disagree. The decision to suspend environmental impact studies is a victory for advocates. While hydropower remains an essential and renewable resource to meet the growing energy demand in South America (Brazil gets 80 percent of its power from hydro), there is also a growing need to find alternative forms of clean renewable energy that do not have the same massive environmental consequences that building dams requires. In addition, existing hydroelectric generating power has been compromised in countries like Venezuela and Colombia, where droughts have been frequent. Climate change is taking its toll as water flows have been reduced in the dry season leaving some cities like Caracas with terrible power shortages. Hydropower is still a viable renewable energy resource. It should not, however, be treated as the only answer to Chile's energy needs. Today, the energy generated from hydro-plants helps carry much of the base load energy needs for mineral extraction. But an energy policy that fails to invest in other forms of alternative energy in sufficient quantities is underestimating the potential for using natural sources of energy to supplement existing hydro-generation. The Piñera government would do well to create a long-term vision for Chile's energy future that embraces the realities of the moment—an active environmental movement that seeks wider options for citizens than destroying the Patagonian wilderness. Tapping the sun in the Atacama Desert or using offshore wind power are no longer options; they are essential for meeting increased demand for clean energy sources that are less risky and less expensive than the construction of huge infrastructure projects."

**A** **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

*Continued on page 6*

are subject to variations in climate, Reuters reported. According to Schaeffer, Brazilian biomass, hydroelectric and wind energy production are particularly vulnerable to climate change. "Renewable energy seems more vulnerable compared with conventional forms [of energy], and countries must factor this into their development plans," he said.

### OPIC Approves \$185 Million to Finance Two Peruvian Solar Projects

The United States' Overseas Private Investment Corporation (OPIC) approved \$185 million to finance two 20 MW solar power plants in Peru. Private equity firm **Conduit Capital Partners** will distribute the funds for the projects' construction and operation. They will be located in the south of the country, which has some of the world's highest solar energy levels, according to OPIC. Power from the plants will be sold to Peru's national grid. "This project will enable Peru to take advantage of its great solar potential in order to increase energy access in rural, poorer areas where the need is greatest," said OPIC President and CEO Elizabeth Littlefield. It is the second solar project in Peru in the past year for the U.S. government's development finance institution. Last year, the organization approved \$123 million for the country's first large-scale power project.

## Economic News

### Canada, Mexico Joining Trans-Pacific Trade Talks

Canada and Mexico will join the Trans-Pacific Partnership trade talks, which aim to create a new Asia-Pacific trade zone. Canadian Prime Minister Stephen Harper announced on Tuesday that his country would join the talks, which seek to create a trade zone with a combined gross domestic product totaling more than \$19.6 trillion, Reuters reported. Harper made the announcement in Los Cabos, Mexico, where leaders of the G-20 nations concluded their two-day summit. The announcement came a day after Mexico was invited to join the discussions. "This is

## Advisor Q&A

### *How Closely Tied Are Spain's and Latin America's Fortunes?* *Excerpted from the June 18 issue of the Dialogue's daily Advisor*

**Q** Spanish King Juan Carlos emphasized the importance of economic ties with Latin American countries during a visit to the region earlier this month. He praised the business climates in Brazil and Chile and said Spanish companies would continue investing in the region. The king also said in Brasília that economic reforms in his country "will not take long to bear fruit." How has Spain's economic trouble changed its commercial and trade relationship with Latin America? Which companies and countries are hurt by the woes in Europe, and which regional players are taking advantage of it the most? Was the king's visit to the region a success? Why or why not?

**A** Enrique V. Iglesias, secretary general of the Ibero-American Secretariat: "Spanish King Juan Carlos has strongly supported the relationships between Latin America and Spain. Regardless of the specific political and economic situations on each side of the Atlantic, the king has participated in the Ibero-American Summit every year since 1992. The 22nd summit will take place this year in Cádiz and many Latin American heads of state will gather there. In such a context, the king's recent trip with a relevant group of economic and entrepre-

neurial leaders constituted an anticipated welcome. The king also wanted to signal that Spain is working hard to solve its economic and financial crisis and counts on Latin America's support. The cultural and economic bonds between both sides were and will always be for good. Nevertheless, we have to accept that the economic cycle affects Spanish companies' impact on Latin America, and Latin American companies' impact on Spain. During its good years, Spain was able to leverage investment in basic sectors in Latin America. Now, a great portion of the consolidated benefits of Ibero-American companies come from Latin America, but Spanish companies are there spreading knowledge and technologies. Also, many Latin American companies in Spain have access to the whole European market. In the current situation, the Ibero-American Community has a unique opportunity for building up a modern Ibero-American knowledge society, where the talent of young men and women is employed for the welfare and prosperity of the whole community. We need a new approach to be able to incorporate the talent now willing to cross the Atlantic, to make it grow and give it a path for the future. The Ibero-American Community has the talent, the cultural ties and the economic mechanisms; we have to work together."

one of the free trade initiatives that's most ambitious in the world and would foster integration of the Asia-Pacific region, one of the regions with the greatest dynamism in the world," said Mexican President Felipe Calderón. The talks previously included nine countries—the United States, Australia, New Zealand, Peru, Chile, Singapore, Malaysia, Vietnam and Brunei. The countries are seeking a trade accord that has more stringent requirements than previous pacts in areas including labor rights, environmental protection and intellectual property rights.

### Brazil, China to Sign Agreement for \$30 Billion Currency Swap

The governments of Brazil and China plan to sign an agreement within weeks to swap as much as \$30 billion worth of their currencies, Bloomberg News reported Thursday. The swap, which could total 60 billion reais or 190 billion yuan, is part of a larger agreement among the so-called BRICS nations, which also include Russia, India and South Africa, to allow them to pool resources in order to withstand global economic turmoil, Brazilian Finance

Minister Guido Mantega told reporters in Rio de Janeiro. Leaders of the BRICS nations discussed the pact earlier this week at the G-20 summit in Mexico. Brazilian President Dilma Rousseff and Chinese Premier Wen Jiabao agreed to the currency swap during Wen's visit to Brazil this week as part of the United Nations' three-day Rio+20 conference. Brazil and China last year had \$76 billion in bilateral commerce, said Mantega.

## Political News

### Paraguay's Congress Impeaches Lugo, Trial Today in Senate

Paraguay's Congress on Thursday voted to impeach President Fernando Lugo in the wake of last week's deadly clash between farmers who had occupied a parcel of land and police who were sent to evict them. Lugo's trial is ongoing today in the Senate. If convicted, he could be removed from office as early as today and replaced by Vice President Federico Franco of the Authentic Radical Liberal Party. Franco "is ready to assume command and pacify the country," Liberal legislator Enrique Lugo



*Photo: Paraguayan Government.*

Sallim Buzarquis told the Associated Press. The Chamber of Deputies, the lower house of the country's Congress, overwhelmingly voted 76-1 to impeach Lugo. In the Senate, Lugo has the support of only five of the chamber's 45 members ahead of today's trial, BBC News reported, citing local media reports. Lugo, a former Roman Catholic bishop who was elected four years ago, said in a televised address Thursday that he would not resign and would face his impeachment trial "with all its consequences," the AP reported. "We are not going to escape turbulence, it's coming," Paraguayan political analyst Horacio Galeano Perrone told the AP. Lugo, of the Patriotic Alliance for Change party, ended 61 years of presidential rule by the Colorado Party when he took office in 2008. He has few staunch

allies in Congress and has frequently clashed with lawmakers. Lugo did, however, receive the backing of the Union of South American Nations, or Unasur, which sent a delegation to the landlocked South American nation on Thursday. The drive to impeach Lugo followed a June 15 attempt by police to remove about 150 landless farmers from a remote 4,900-acre parcel of land in Canindeyu province. The land is part of the estate of a Colorado Party politician whom farmers accuse of acquiring the land decades ago through political influence. The clash left 17 people dead and resulted in the resignations of the chief of police and interior minister.

### U.S. Lawmakers Pressure Attorney General Over Mexico Weapons Sting

A U.S. House committee voted along party lines Wednesday to hold Attorney General Eric Holder in contempt for failing to provide documents related to a botched operation to track the purchases of weapons by Mexican drug cartels, CNN reported. The measure now goes to the full House of Representatives, where a vote to hold the attorney general in contempt of Congress would be unprecedented. Wednesday's vote by the House Oversight and Government Reform Committee happened after a daylong hearing that occurred after President Barack Obama used executive privilege to allow the Justice Department to withhold some documents the committee has sought related to Operation Fast and Furious. The U.S. Bureau of Alcohol Tobacco, Firearms and Explosives launched the operation to track Mexican drug cartels' purchases of weapons in the United States. However, the bureau lost track of more than 1,000 weapons that straw purchasers were allowed to take into Mexico. Two of the missing weapons were later found at the scene of the killing of Brian Terry, a U.S. Border Patrol Agent who was fatally shot in Arizona in 2010. The House committee, led by Chairman Darrell Issa (R-Calif.), specifically wants documents related to the reason that the Justice Department sought to withdraw a letter to Congress from February 2011 stating that senior officials had only recently found out about the operation.

## POLITICAL & ECONOMIC BRIEFS

### Uruguay Considers Selling Marijuana to its Citizens

The administration of Uruguayan President José Mujica is considering a plan that would allow the government to sell marijuana directly to its citizens, the Associated Press reported today. The country's defense minister said that the bill would soon be sent to Congress. Under the plan, adults would have to register on a government database in order to buy the drug. If passed, Uruguay would be the first country in the world to sell marijuana directly.

### Correa 'Seriously' Considering Assange's Request for Asylum

Ecuadorean President Rafael Correa said Wednesday on Venezuela's Telesur television network that he is "analyzing very seriously and responsibly the asylum request" from WikiLeaks founder Julian Assange, Bloomberg News reported. Assange announced Tuesday that he had taken refuge at the Ecuadorean embassy in London in an effort to fight his extradition to Sweden, where he faces sexual assault charges that he denies.

### El Salvador's Gangs Seek to Negotiate Permanent Truce

Gang leaders in El Salvador say they want to negotiate a permanent peace pact with the government following a temporary truce that has significantly dropped the country's homicide rate, the Associated Press reported. During a ceremony Tuesday to mark the first 100 days of a truce between the Mara Salvatrucha and the Mara 18 gangs, gang leaders issued a call to reach an agreement with the government for job programs or other aid. The government had no immediate response.

**Featured Q&A***Continued from page 3*

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."

**A Genaro Arriagada, 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 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."

**A Craig Kelly, 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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