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BOLIVIA & BRAZIL INAUGURATE GAS PIPELINE

Bolivian President Hugo Banzer and Brazilian President Fernando Henrique Cardoso inaugurated Latin America's longest natural-gas pipeline Feb. 9. The binational pipeline, completed at a cost of US\$2 billion after decades of arduous negotiations, is considered crucial to developing Bolivia's mostly untapped gas reserves and to supplying the ever increasing energy demands of Brazilian industry.

The ceremony took place at the El Mutun border crossing, between the cities of Puerto Suarez, Bolivia, and Corumba, Brazil. The Gasoducto Bolivia-Brasil links Bolivia's Andean gasfields with Brazil's industrial centers. The pipeline runs from Rio Grande, 40 km from Santa Cruz de la Sierra, Bolivia, to several major Brazilian cities, including Sao Paulo and Porto Alegre.

"The dream that began a quarter of a century ago has become a reality," said Cardoso. "The operation of the pipeline will bring huge benefits to Brazil and to Bolivia. It will be a powerful symbol of South American integration."

President Banzer was head of state when the agreement was signed in 1974 that would eventually result in the pipeline.

"Our growth will increase through US\$7 billion in income during the first 20 years of the initial contract," said Banzer.

The pipeline is expected to earn Bolivia US\$47 million this year and US\$500 million by 2005. Under the agreement, Brazil will initially buy 3.7 million cubic meters of Bolivian gas daily, increasing to 6 million cubic meters a day by the end of the year and to 30 million cubic meters a day after eight years.

The 3,150-km pipeline is the largest binational engineering project after the Itaipu Hydroelectric Plant. The northern 1,970-km section from Santa Cruz to Campinas, 130 km northwest of Sao Paulo, is complete. The second 1,180-km section is expected to be completed by the end of the year.

The project was delayed for years while Brazil and Bolivia haggled about operating, financing, environmental issues and the location of the pipeline. Some of the world's biggest energy companies are involved in the pipeline's construction and operation, including BHP, El Paso Energy, Royal Dutch/Shell Group, Enron Corp, and British Gas.

Among those financing the project were Brazil's Banco Nacional do Desenvolvimento Economico e Social (BNDES), the Inter-American Development Bank (IDB), the World Bank, the European Investment Bank, and the Corporacion Andina de Fomento (CAF).

Pipeline increases regional integration

Bolivia joins Argentina, Paraguay, and Venezuela as main providers of electricity, oil, and natural gas to Brazil.

Paraguay began the process in the 1970s when it ceded its rights to the Parana River for the construction of Itaipu, the biggest hydroelectric plant in the world. Half of Itaipu belongs to Paraguay, but nearly all the energy generated is consumed by Brazil, at a price considered unfairly low by the Paraguayan opposition.

Argentina and Venezuela recently became the main sources of oil imports for Brazil, and they are preparing to supply electricity to the extreme north and south of the country.

In meetings with Peruvian President Alberto Fujimori, Cardoso indicated Brazil's interest in the Camisea natural gas complex in Peru as a source of energy for the western Amazon.

Former Bolivian president and currently vice president of UNESCO Jaime Paz Zamora also attended the inauguration of the pipeline. He said the energy-integration project will unite the destinies of Brazil and Bolivia, "guaranteeing my country the minimum wage for the 21st century."

Paz Zamora said Bolivia's opening to South America's largest market only happened through the contract he signed in 1993 with then Brazilian president Itamar Franco cementing an agreement between Brazil's state owned oil company PETROBRAS and Yacimientos Petroliferos Fiscales Bolivianos (YPFB).

"The argument that finally convinced PETROBRAS was, 'You open a limitless market to us and we will open Bolivia, the exploitation of the San Alberto gas fields, to you.'"

San Alberto, in the department of Tarija on the Argentine border, is the largest gas reserve discovered in Bolivia.

"The pipeline will be the basis for economic cooperation between Brazil and Bolivia," said Paz Zamora. "We will be, in energy, a transoceanic country and the vanguard of the integration between the Comunidad Andina and MERCOSUR."

Gas companies in Sao Paulo, Parana, Santa Catarina, and Rio Grande do Sul states will invest US\$500 million in more than 2,400 km of distribution networks to supply natural gas to industry and thermoelectric installations.

The director of infrastructure at BNDES, Ivone Hiromi Saravia, said investment plans in projects related to the pipeline could reach US\$7.5 billion.

Brazil aims at increasing use of natural gas

Antonio Luiz Menezes, vice president of Petrobras Gas, a subsidiary of PETROBRAS, said Brazil expects to double its domestic natural-gas production by 2005 to help satisfy the growing demand from energy-hungry industries.

Brazil aims to increase the percentage of energy supplied by natural gas from 2% to 12% in less than a decade. To do this, it is counting on other gas pipelines planned by private concerns to bring Argentine gas to southern Brazil mainly for use in electricity generation.

Bolivia will have to overcome various difficulties to conquer the market, however. With the regional economy in decline, the expectation of energy shortages has been replaced by the likelihood of supply exceeding demand.

Many projects, including the construction along the pipeline of 12 thermoelectric reactors powered by natural gas, have been put on hold because of the slowdown in industrial activity in Brazil. And, greater investment in a distribution network that would allow the gas to be sold to a broader market has also been curtailed.

Devaluation of the real made imported gas more expensive, while international oil prices also dropped, improving the competitiveness of derivatives for industrial use.

Furthermore, the privatization of the Sao Paulo Gas Company (COMGAS), set for April, was delayed. The company was to be the distributor of the Bolivian natural gas in Sao Paulo state.

[Sources: El Nuevo Herald (Miami), 02/08/99; CNN, Spanish news service EFE, 02/09/99; Notimex, 01/17/99, 02/08- 10/99; Reuters, 02/09/99, 02/10/99; Inter Press Service, 02/10/99]