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Honduras' innovative approach to lowering energy prices, a bidding process to select a single vendor, is now mired in disputes as gas prices inexorably rise. In 2006, beset with budget-busting costs of keeping the nation's cars on the road and lamps lit, President Manuel Zelaya hired a US consultant to design a process that would have international oil companies bid against each other for exclusive right to supply the country (see NotiCen, 2006-02-02).

The unexpected winner, ConocoPhillips, looked set to take over the franchise but then came a glitch. The company had no storage facilities in Honduras. Zelaya attempted to resolve the storage problem in January with an unprecedented decree that ordered other private companies to allow ConocoPhillips to use their facilities. These companies promptly complained to US authorities that their property had been taken. US Ambassador Charles Ford said he had received calls from companies and investors asking "why the government of Honduras expropriated private property of other companies." Zelaya met with Ford to explain.

The decree states that the Honduran state "exercises its contractual right to use the oil-storage terminals of the distributing companies installed in the country for the public good, with the payment of a fair price." The president said he had invited Ford in for a talk to "give him the "timely, legal, and judicial information," because "what he had been told before was not totally correct regarding the reach of the decisions that the government is taking." After the chat, Ford said that Zelaya and his ministers "showed me the 1990 contract the company Dippsa has with the government, which has a clause allowing the government temporary use of this facility, which does not include the Texaco terminal." Dippsa is a Honduran company that recently sold half interest to the Dutch company Trafigura.

The ambassador said the information was "important data to keep well-informed not only my capital," but also "the several foreign companies that have received various announcements that logically have caused a certain concern." He said his government's interest was to support the Zelaya government in its efforts to solve its energy problems, "taking into account how to do this without hurting the interests of foreign investors, international agreements, and treaties." But the clause in the contract did not prevent Dippsa from refusing to allow its competitor the use of its storage tanks.

The government went to court to force the issue after trying to negotiate with Dippsa president Henry Arevalo, who at one point went into hiding to avoid the negotiation. The judge found in favor of the government, and Dippsa will now suffer the indignity of ConocoPhillips in its tanks. The government will have to pay an undisclosed amount in rent. Negotiations broke down when the government was offering US$0.03 a gallon and Dippsa was asking US$0.06. Arevalo explained

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to the media, "We came with the best intentions of solving things, but neither they nor we have moved from our positions. We proposed that three experts be named one for Dippsa, one for the government, and another independent to take charge of evaluating the costs to the company. Nevertheless, that was not accepted."

Secretary of Natural Resources Mayra Mejia had a different version of the meeting. "It is not true that this point was touched on. Here are the minutes, here are the recordings, and at no time was bringing in experts taken up, but the determination is already made. Now it is the attorney general's turn to deal with this." The decision to go to court was fine with ConocoPhillips. For the company it meant its contract might eventually stand up, now that it has storage assured. It also gave the overwhelmed Zelaya administration some relief from what was turning into a fiasco. Mejia said the case would not threaten supplies. "Rather, what is in play is the signing with ConocoPhillips," she said. "This process has cost everybody a lot. It was said modifying a program like this couldn't be done, and it was done. It was a success."

Zelaya issued a decree to deal with fuel shortages that were beginning to crop up in various places around the country. The decree said it would "create the conditions of competition necessary for the medium-term freeing of supplies." It also said that the international bidding process would continue "for the construction of state-owned storage terminals to be able to have strategic storage capacity and be able always to make sovereign decisions in favor of the Honduran people." Another reason for the decree was that Zelaya was tiring of the international oil companies' manipulating, and allegedly continuing to manipulate, the fuel supply.

Along with the decree, Zelaya said he would have the Public Ministry and attorney general look into the causes of the partial shortages. If justification were insufficient, those responsible would face charges of "crimes against the national economy." Besides being a national imperative, effective energy policy was one of Zelaya's main campaign promises, and neither it nor his presidency is doing well at present. He has said recently that the multinationals have been taking advantage of the government, and interfering with negotiations for securing storage was one of the ways they were doing that. He made certain to clarify that the decree did not portend nationalization of the terminals. This clarification was necessary because the possibility of nationalization was of prime concern for Ambassador Ford.

Several resident executives of the transnationals fled the country in fear of getting caught up in an expropriation exercise that had the potential to land them in jail. No storage, no contract process flawed Because ConocoPhillips did not have its own facilities and for a list of reasons having to do with the language of the agreement between the state and the company, Zelaya refused in March to recognize the outcome of the bidding process negotiated by the US consultant Robert Meyering. Apparently, Meyering had allowed certain concessions without the authorization of his client, the government.

Zelaya said the whole affair had been a failure. The bidding scheme would not reduce costs because, as would come as no surprise, if international market prices were to rise, as they have in recent weeks, oil prices in Honduras would rise. Previously, the Council of Ministers had reformulated prices giving the appearance of a reduction, but that was very short-lived. With rising market prices

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in January, the Council restructured again, raising prices substantially for gasoline, diesel, kerosene, and for propane. They did so again in February.

Former congressman Jorge Aguilar said the process was flawed from the beginning because "opposing interests were locked in a permanent power struggle, namely the US Embassy and transnationals already operating in the country against sectors allied with the Patriot Coalition." The Patriot Coalition was an alliance of civil-society and private-sector organizations supporting the process, but Zelaya broke with them because of disagreements with the ConocoPhillips contract. The coalition accused Meyering of manipulating the negotiations to favor Trafigura, in which he is a shareholder. Now that ConocoPhillips has won, the Patriot Coalition wants Zelaya to honor the negotiation. Representatives say that the president's objections are just cover for his own failures in the matter and that honoring the contract would at least have the effect of breaking the transnationals' monopoly. They say, with good evidence, that the monopoly would in effect block any possibility of reducing prices.

Zelaya has also locked horns with electricity suppliers that use oil-fired plants. In February, he asked the legislature to review contracts with a dozen local companies that generate electricity for the state-run Empresa Nacional de Energia Electrica (ENEE). He believes these companies are overcharging, straining the resources of the company. "We need a real situation with those contracts," he said. "Those that are not in agreement with the market situation are going to be sent to the Congreso Nacional for review." The problem is one of simple arithmetic.

Some companies sell to the state at US$0.17-US$0.19 a kilowatt, "and we are selling at US$0.09 or US$0.10," said Zelaya. Other companies are selling to the state at rates that allow ENEE a profit. "Thermic energy ties us to oil," the president said, and "a very high cost of production." He wants ENEE to start working on plans for new sources, mostly hydroelectric. At present, ENEE buys 62.9% of its 1,450-megawatt total capacity from thermic sources, 33% from hydraulic, and 4.1% from biomass. The total daily demand is somewhat over 1,000 MW.

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