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# Five Southern Cone countries form "energy ring" to integrate natural gas network

NotiSur writers

# FIVE SOUTHERN CONE COUNTRIES FORM 'ENERGY RING' TO INTEGRATE NATURAL GAS NETWORK

Countries in the Southern Cone Common Market (MERCOSUR) have proposed an "energy ring" that would distribute natural gas through a gas line network that would connect five countries. The project is slated to be completed by 2007 and represents an effort to alleviate the shortages of natural gas that have been aggravating citizens and businesses in the region. Although Bolivia, the continent's second-largest holder of natural gas reserves, is not currently included in the energy ring, the current government in La Paz has made efforts to keep future partnerships open.

Gas alliance a key regional integration measure

The plan would build a 1,200 km gas pipeline from southern Peru to northern Chile, thus linking Peru's Camisea fields to a network that also includes Brazil, Argentina, and Uruguay.

It is also possible that Bolivia and Paraguay could connect to the ring in the future. Last year, Peru's President Alejandro Toledo inaugurated the connection of Camisea with Lima, a project that faced controversy because of the deaths of indigenous people in the Camisea area and environmental damage (see NotiSur, 2004-04-16, 2004-08-27).

With supplies from Camisea, Peru is ready to increase its natural gas production to 17 million cubic meters per day. After improving its transportation infrastructure, Peru could potentially increase its output to 30 million daily cubic meters.

The MERCOSUR energy ring plan would bring Peru's gas from the Camisea fields through a pipeline starting in the coastal city of Pisco, about 200 km south of Lima and 800 km north of the Chilean border. The pipeline would end in the Chilean city of Tocopilla, some 400 km south of the border. Tocopilla hooks up with a network of pipelines, linking it to Uruguay, Argentina and Brazil and thereby transforming Peru into a supplier for the region. Private companies Norandino and Gas Atacama run the existing piplines in Tocopilla.

Chile could sell electricity back to Peru from its power generation plants.

It will be necessary to build 1,200 km of pipe between Chile and Peru to make the project a reality and it is calculated that it would take 14 months from the beginning of work to complete the first part of the gas duct. Presidents and energy officials from those countries have been meeting to try to speed the project along. President Toledo has called the ring "a magnificent idea."

It remains necessary to build pipelines within Argentina, Uruguay and Brazil in order to link the capital cities of Buenos Aires and Montevideo, and the state capital of Porto Alegre with cities where pipelines currently run, to make the network more complete. Investment estimates for the pipeline projects reach US$2.5 billion.

Although the gas from Peru's Camisea fields project is a key component of the energy ring, many analysts have said it will not have enough gas to meet total demand. Some even wonder if Peru will be able to satisfy internal demand and prior export commitments to Mexico, while still exporting to the MERCOSUR ring.

**Chile hopes to stem gas crisis**

Chile would be the big winner in such a deal, since currently it is wholly dependent on gas deliveries from Argentina, where an energy crisis has led to severe restrictions. Chile's industry had to do without gas in early May, as the onset of winter led Argentina to put a full stop on its trans-Andean shipments.

Natural gas shortages have contributed to power crises in the southern cone (see *NotiSur*, 2004-04-30). Chile, suffering from Argentina's decision to cut off deliveries of natural gas, has seen its problems multiply: blackouts have hit several cities and reduced business operations in many places. Additionally, pollution has increased in several areas as Chilean companies turn to dirtier, more expensive energy sources like diesel.

Carlos Pierro, president of the Comite Argentino del Consejo Mundial de Energia says that Argentina's restrictions on gas deliveries to Chile could last four or five more years. He says for the situation to change, trans-Andean petroleum companies will have to devote more resources to the exploitation of new gas wells. Since rates have been frozen for several years and companies are receiving prices much lower than market rates, the companies are not making such investments.

In Argentina, a system of rewards and punishments for industrial and residential gas users has gone into effect in order to encourage conservation. In May, President Nestor Kirchner announced a plan to invest US$800 million to increase the transportation capacity in his country by 20 million cubic meters, though the business community dismissed the plan as a political gesture not backed by proven reserves to transport.

Bolivia refuses to sell gas to Chile, still resentful about a loss of access to the ocean during the War of the Pacific (1879-1883). Bolivia has made a demand for ocean access a cornerstone of its foreign policy (see *NotiSur*, 2004-01-23), but Bolivian analysts doubt that there will be any action from Chile before the end of this year's presidential election.

In June, the front-runner for the December 2005 presidential race in Chile, Michelle Bachelet, laid out a campaign plan to conduct "broad and sustained" dialogue with Bolivia to discuss "all issues of bilateral interest, including those conditions necessary to facilitate access to the Pacific for our neighbor."

Chile's chief diplomat in La Paz, Francisco Perez Walker, has expressed the hope that Bolivia becomes part of the energy ring.

**Lost opportunity for Bolivia?**

The announcement of the energy ring came just as political turmoil was forcing Bolivia's President Carlos Mesa to resign (see *NotiSur*, 2005-06-17), leading many in that country to lament that the country has missed an opportunity to sell its massive natural gas resources to neighboring countries.

Yet demand for natural gas is up around the region and hydrocarbon prices are rising globally. Many projections show that the need for gas in the southern cone region cannot be met without supply from Bolivia's reserves of over 50 trillion cubic feet, the second-largest in the continent after Venezuela.

The President of Peru LNG, Carlos del Solar, said that it is necessary to listen to the proposals from the MERCOSUR countries that want to import Camisea gas before making commitments. "All that had been reserved was a volume of 600 million cubic feet (about 17 cubic meters) per day for export to Mexico and for the 20 years of supply 4.2 trillion cubic feet of gas will be needed," he said. In May of this year, Mexican President Vicente Fox and Mesa laid the groundwork for Mexico to import Bolivian gas (see *SourceMex*, 2005-05-11).

Del Solar says that about 12 trillion cubic feet are currently available for export and that the discovery of other reserves could create the possibility of supplying other South American markets in future years.

Yet some analysts have said that Peru's projected daily volume of 30-35 million cubic meters does not go far beyond the commitments to Mexico and the internal market. This leaves a wide space open for Bolivia to become the principal supplier for the region. Before that can happen, however, the struggle over nationalization of natural gas and the political structure of the country will have to find some sort of resolution. Until then, Bolivia will be regarded as one of the riskiest markets in which to do large-scale business.

Ring another Petrosur-like step

Venezuelan President Hugo Chavez also attended a regional summit in Paraguay in late June where eight Latin American leaders discussed regional energy cooperation. Chavez has expressed oil-rich Venezuela's interest in becoming a permanent member of the MERCOSUR trade bloc, which is made up of Brazil, Argentina, Paraguay and Uruguay.

The presidents discussed ways to counter fuel shortages in the region and a proposal for the creation of a development fund aimed at helping to boost the struggling economies of Uruguay and Paraguay.

Chavez planned to sign an oil-related and agriculture cooperation agreement with Paraguay during his visit, said Venezuelan lawmaker Ricardo Sanguino, a member of the president's ruling party. Venezuela would send oil to energy-hungry Paraguay in return for agricultural products. Venezuela's agriculture sector is currently underdeveloped because of the petroleum focus of the country's economies.

Chavez has signed agreements with Argentina and Brazil, pursuing a joint venture for oil projects. Last year the state-owned energy companies Petrobras, from Brazil, Energia Argentina (Enarsa) and Petroleos de Venezuela (PDVSA) pooled resources to form Petrosur, another effort at integrating the energy resources of South American nations.

[Sources: El Diario (Bolivia), 05/11/05; Clarin (Argentina), 04/11/05, 04/12/05, 04/22/05, 04/28/05, 05/06/05, 05/10/05, 05/19/05, 06/10/05, 06/13/05; New York Times, 06/15/05; Miami Herald, 06/20/05; Opinion (Bolivia), 06/14-16/05, 06/21/05; El Mercurio (Chile), 03/13/05, 04/08/05, 04/28/05, 04/29/05, 05/03/05, 05/09/05, 05/31/05, 06/07/05, 06/09/05, 06/10/05, 06/13-15/05, 06/23/05; Los Tiempos (Bolivia), 06/10/04, 06/14/05, 06/17/05, 06/23/05; La Republica (Peru), 06/23/05; El Comercio (Peru), 06/24/05; La Razon (Bolivia), 04/14/05, 05/11/05, 06/13-17/05, 06/20-23/05, 06/28/05; El Nuevo Herald (Miami), 06/10/05, 06/13/05, 06/20/05, 06/22/05, 06/23/05, 06/29/05]