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Can Bolivia Become a Regional Energy Hub?

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Q and A: Can Bolivia Become a Regional Energy Hub?

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News broke last week that France's Total has made a "major" gas discovery in Bolivia. The find, however, is tempered by YPFB's April 8 announcement of the results of a reserves study by U.S. company Ryder Scott. The study significantly downgraded the size of Bolivia's proven natural-gas reserves to 9.94 trillion cubic feet (TCF). How significant is the new Total find? How will the new estimate affect the country's goal to be a significant regional energy hub? How important are hydrocarbons for the future of the Bolivian economy? What is the government doing right to promote the sector and where is it off the mark?

A: Francesco Zaratti, La Paz-based energy analyst and former energy advisor to ex-President Carlos Mesa:

"Gas exportation to Brazil and Argentina is by the far the biggest source of Bolivia's income ($1.8 billion in 2010). For this reason, the Ryder Scott report of a considerable drop in proven gas reserves (from 26 TCF to 10 TCF) has raised concerns about the future of the Bolivian economy. The recent announcement of a gas discovery in a field operated by Total and Tecpetrol is the government's response to these fears, before an announced discovery of the dimensions. The figure of 3 TCF has been presented by the government, but neither Total nor, as it should be, an international certifier has confirmed this amount. In any case, Bolivia long ago renounced becoming a gas hub for the region, due to its insane policies regarding investment and competition, always stronger, of LNG and unconventional gas. Without new external markets, the growing internal market isn't attractive due to the subsidized price of fuel. For this reason, Bolivia's gas income is at risk in 2019 when the GSA contract with Brazil ends and we will find out if Argentina is still interested in Bolivian gas, ever more expensive, or if it will use its enormous reserves of 'tight' gas."

A: Álvaro Ríos, partner-director of Gas Energy Latin America, director of DIInternational for Latin America and former minister of hydrocarbons of Bolivia:

"Bolivia has large gas structures, which hold a lot of resources and need to be explored. Some estimates are around 70 to 80 TCF. It is a very rich and known area with high success exploration rates. In addition, each well from this structure produces around 90 million cubic feet per day (MMCFD) with associated liquids and is indeed a very competitive gas. Bolivia also has good infrastructure in place to neighboring countries with almost four trains of natural gas by 2014 (60 MMCMD), almost similar to Trinidad and Tobago in export capacity. The new discovery by Total is a large structure and probably holds around 3 TCF, bringing Bolivian proven reserves close to 13 TCF. The country thus has plenty of gas to supply its contracts with Argentina, Brazil and its internal market and look for other export opportunities or turn it into a urea project. Block Azero will probably be explored in 2011-2012 by Gazprom and Total, where significant additional reserves will probably be found. Thus, Bolivia, in spite of its changing legislation and political difficulties, will continue to be a reliable supplier of very competitive gas and will lead gas integration in the Southern Cone."

A: Bernardo Prado, director and editor of Hidrocarburos Bolivia:

"It is still too early to estimate the true benefits from the discovery announced by Total. In fact, the French company has estimated that it will require an investment of $800 million to develop the Aquío block. To realize the investment, Total needs to have a guaranteed market and a good price for the gas produced in Aquío. There is a big difference (around six dollars per millon BTU's) between the price of natural gas produced for export and the price of natural gas produced for domestic consumption. The Bolivian government will have a hard time balancing things to reach a win/win situation in order to make this discovery something feasible."

A: Cesar Santa Gadea, associate director at IHS Cera:

"The successes of the Aquio X1001 appraisal well after the Incahausi X1 discovery well confirms the existence of a gas field in the neighboring blocks of Aquio and Ipati. This new field has between 1.3 and 2.6 TCFs of additional reserves. The addition comes right after Ryder Scott significantly cut the estimate of Bolivian reserves from 15 TCFs in December 2004 to 9.7 TCFs in last October. The development plant in phase 1 of this new field has an expected production rate of 211 MMCFD and a maximum production rate of 460 MMCFD in phase 2 if the following delimitation wells are also successful. The total expected investment is in the range of 760 MMUSD. The resulting additional production volumes will increase gas exports to Argentina, which is in compliance with the contractual obligations until 2015. At that time the Argentine export contract will require 730 MMCFD. Later on, it will be necessary that the new discoveries enter into production in order to avoid contractual penalties for delivery or pay. Bolivia enjoys relatively high natural gas prices, an unattractive tax regime and a very puzzling regulatory environment that discourages the development of exploration activities by IOCs, leaving them in the hands of the untested national oil company, YPFB. From the government's point of view, it is critical to increase the output and consequently the tax revenue. Without this, it will be impossible to maintain the delicate fiscal balance between revenue from gas exports and the expenditures run by importing refined products that are for sale in the domestic market at heavily subsidized prices. Clearly, Bolivia is approaching a point where the cost of a nationalization policy is outstripping the benefits."

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