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Are Bolivia's Plans for its Oil Sector Overly Ambitious?

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Q and A: Are Bolivia's Plans for its Oil Sector Overly Ambitious?

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Bolivia's state-run energy company, YPFB, has said that it expects investment in the country's oil and gas sector to reach $2 billion in 2012, nearly doubling this year's record of $1.2 billion. While 64 percent will come from YPFB, the company expects the rest to come from the private sector. Is Bolivia's push to increase exploration, supply the domestic market and meet its contracts with Brazil and Argentina overly ambitious or does the state have the right plans in place? How important are hydrocarbons for the future of the Bolivian economy? What is the government doing right to promote private sector investment and where is it off the mark?

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

"Six years after the 'nationalization' of hydrocarbons, Evo Morales seems anxious to abandon radical discourse and ideology in order to tackle the real problems of the sector, which will continue to be the main pillar of the Bolivian economy. Investment has grown, but almost entirely in the exploitation and commercialization of gas, with the objective of fulfilling the Argentine market. There are now greater volumes extracted from gas wells—there will soon be two new separation plants in operation that will supply the domestic market and even export liquefied petroleum gas—but the underlying problems remain. There are no new discoveries, gas reserves are dwindling and oil production has declined (from 16,000 barrels per day to 5,000 barrels per day in 10 years), with the price fixed at an unrealistic price of $27 per barrel. There is no trust, in politics or the law, or incentives to attract investment in exploration. Social conflicts (indigenous consultation and environmental licensing), encouraged by the new Constitution, slow the progress of projects. The industrialization of gas, one of Evo Morales' promises has failed. On the contrary, subsidized imports of diesel, which the country hardly produces, have grown ($755 million for 2012). It is true that the government would like to fix the situation, but they remain hostage to their ideology, internally divided and constrained by their mistakes. A litmus test will be a round of presentations by YPFB next month in Houston. There we will see if possible investors have begun to trust the current administration or if they remain skeptical."

A: Alfonso Canedo, director of business development at Kvaerner Americas and former commercial director for Gas TransBoliviano:

"In terms of investment, the emphasis will be on production and treatment facilities, with 70 percent of investment concentrated in these activities. Exploration will only account for 11 percent, 8 percent in midstream infrastructure and the remaining 11 percent for refining and other internal market projects. The state seems to be focused on meeting its contractual obligations to its internal market, as well as with Brazil and Argentina. Traditionally, Bolivia has done a good job at keeping its supply commitments, but I believe there should be more effort in trying to conquer additional regional market share and diversification. From this perspective, I think the investment target can be achieved, but I would not say Bolivia's plans are overly ambitious. In fact, I believe they are conservative and more investment should be directed at exploration. The natural gas market dynamics are quite different now than five years ago; nobody would have ever imagined Henry hub prices at $2.30/mcf. Everything seems to indicate that it is a matter of time before we start seeing strong LNG presence as well as shale production in the region. Let's not forget that Argentina has great shale gas potential and been a strategic long-term natural gas partner for Bolivia. The hydrocarbons sector is the most important sector in the Bolivian economy, representing 61 percent of its exports and 16 percent of its GDP. In terms of what is the government doing right, back in 2009-2010, the government was able to provide timely financing assistance to national oil companies' subsidiaries through central bank facilities in order to jump start investment activity. As far as where the government's policies are off the mark, there needs to be a new hydrocarbons law that promotes E&P investment, especially in exploration, and the elimination of subsidies for internal market refined products like gasoline and diesel. These government subsidies represent a huge financial burden for the state, in addition to creating serious supply demand distortions."

A: Karla Würth, partner at Würth, Kim & Costa du Rels in Santa Cruz, Bolivia:

"The Bolivian government's plans are extremely ambitious and unrealistic. While the government needs a major investment plan to improve the economy and increase proven reserves in order to meet both foreign and domestic markets, foreign investors are reserved about investing, given the country's legal instability. Unfortunately, Evo Morales' base of popular support doesn't understand that the more leftist demands there are, the less likely that foreigners are to invest, and, even worse, more likely to leave the country. The hydrocarbons industry is of vital importance for the country. In the face of new shale discoveries, Brazil and Argentina which are current buyers of Bolivian gas, have issued a warning bell that soon Bolivia will soon not have anyone to sell its gas to. Thus, the government has embarked on a campaign to find new markets, but what the government does not realize is that any new market will take years to discover and it doesn't have much time. Despite Bolivia's dependence, the government continues to send bad signals; just this week, they have proceeded to 'nationalize' by decree a foreign company's stake in the country's largest gas exploration field. Again, Morales' government is inconsistent. It invites investment in Bolivia, but it nationalizes those who have already done so and demands major investments, of which YPFB will receive the majority of benefits. Because of this, its plans for growth are not realistic. Improvisation and constant contradiction in hydrocarbons law are passing the costs to a government that does not know how to manage the conflicts that it created. To conclude, we can recall that the government has been announcing the entrance of Gazprom in the Bolivian market for more than a year, but the date has never materialized because the Russian savor is being made to wait, along with all of its investment promises."

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