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## What is behind Bolivia's latest energy sector nationalization?

Inter-American Dialogue's Latin American Energy Advisor

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***Q and A: What is Behind Bolivia's Latest Energy Sector Nationalization?***

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Bolivian President Evo Morales on May 1 seized the local unit of Spain's Red Eléctrica, the owner of approximately 85 percent of the South American country's power grid. Morales alleged that only \$81 million had been invested in the country's power grid since it was privatized in 1997, while Spain's ambassador to Bolivia, Ramon Santos, said the takeover sends "a negative message that generates distrust," the Associated Press reported. Will the state be able to effectively take control of the electrical grid? Is the nationalization a good thing for the Bolivian power sector and will it lead to increased investment? How does the move compare to takeovers in other South American countries?

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

"The expropriation of the Bolivian subsidiary of Spain's Red Eléctrica de España (REE) is an isolated episode which is explained by the government's need to gain ground in the middle of a series of social conflicts that has damaged its popularity. Politically, Morales appealed to the typical symbols of his government: on May Day, with a nationalization decree, taking control of physical facilities, accompanied by a heavily armed military group. Legally, the Constitution provides for state control of the energy grid and REE had a monopoly on the distribution of energy in six (out of nine) interconnected departments. Urban distributors and some private generators remain out of state control. Economically, REE was taking its finances out of its Bolivian branch, as has been reported in the Spanish press, and it did not invest, knowing that it would be nationalized at some point. However, the problem with Bolivia's electricity sector wasn't distribution, but rather that generation is almost entirely state-run: the supply and demand balance is precarious and blackouts have become frequent. In turn, the expansion of the whole country's electrical grid requires major investments that the state isn't in the condition to carry out. As for the expropriation of YPF, Argentina is different. Forgetting the method, it is a structural measure with clear objectives of self-sufficiency and control of the shale gas reserves."

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

"There wasn't a technical reason behind the nationalization, but rather a political context to the Bolivian government's decision. The problem with the Bolivian electric system is not energy transmission so much as energy generation. After the nationalization of energy generation

companies, we can see that Bolivia isn't any better in terms of energy supply. We still have a very fragile balance in terms of supply and demand, and this balance will only be tipped with more investment in energy generation. However, frightening investors with this kind of political decision will ensure that investment in energy generation won't come. The message sent by the Bolivian government to foreign investors is ambiguous. First, you have state oil company YPFB working on an intense international campaign to promote the Bolivian hydrocarbon potential and attract investment. And then you have these popular May Day announcements making it harder for the government to find foreign investors. To make matters even worse in terms of attracting foreign investors, the Bolivian government announced in January the expropriation of Pan American Energy's 25 percent stake in the Caipipendi block (the remainder is owned by Repsol and BG), which contains the Margarita gas field. The nationalization was never explained or justified and, with no official explanation, the government in May praised the investments made by the same company it expropriated in January."

**A: César Gutiérrez, director of utilitiesperu.com in Lima:**

"Criticizing the nationalizations of YPF in Argentina and Transportadora Eléctrica in Bolivia from only a business perspective is not sufficient. There are different aspects to understand. Economically, both Argentina and Bolivia have had meager foreign investment in the past six years. Their regulated pricing policies have been a disincentive, a serious problem since distribution to the poor has been based on state subsidies, which cannot be infinite. Here is the original impetus: the need for cash. Any policymaker would do a cost-benefit analysis of the nationalization and here we find the reasons for taking a step forward. In South America, after 520 years of conquest, there are wounds that haven't healed. These emerge in the relationship between executives of multinational companies and local citizens and authorities, although it is not appropriate. In Argentina, although the immigration wasn't primarily Spanish, the relationship has not been good. While in Bolivia, the historical memory of the conquistadores' mining exploitation warrants indignation. Thus, we see an economically diminished Spain, with a royalty and political class that have been discredited for their frivolity and corruption allegations. In this context, the political evaluation is favorable to interventionism: it will have wide acceptance and the threats won't have an effect."

*The Energy Advisor welcomes responses to this Q&A. Readers can write editor Gene Kuleta at [gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org) with comments.*