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Continental Pipeline Proposed

by LADB Staff

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Venezuelan President Hugo Chavez has pledged to build a natural-gas pipeline that would stretch from his country to Argentina. He has met with Argentine President Nestor Kirchner and Brazilian President Luiz Inacio Lula da Silva to begin a preliminary-planning process for the megapipeline, although energy-industry analysts have expressed doubts about the economic viability of such a gigantic project and environmental groups have fears that its construction would damage the Amazonian ecosystem. The project would run between 8,000 km and 10,000 km and would supposedly require an investment of US\$20 billion, though cost estimates have varied widely.

US\$10, 20, 25 billion? Plans still "very preliminary"

Chavez promised to help build the pipeline during Nov. 21 talks with Kirchner, and the three presidents "consolidated" their will to push the project forward in a Jan. 19 meeting in Montevideo, Uruguay, where they were attending the latest meeting of the Southern Cone Common Market (MERCOSUR). Though they had the will, the way was still unclear, with officials saying plans were still "very preliminary." The trio said they intended to look at initial plans at a March 10 meeting in Argentina.

The project "is in a very preliminary stage for us to make any type of affirmation, but...the possibilities of [gas] exportation from Venezuela could be greater than 100 million cubic meters per day, that is an extraordinary thing," said Jose Eduardo Martinez Felicio, general subsecretary for South America in Brazil's Foreign Relations Ministry. Chavez has also invited Bolivia, home to the continent's second-largest gas reserves after Venezuela, to join in the megaproject. He made similar overtures to other MERCOSUR and South American nations in his statements at the Jan. 19 summit in Montevideo.

The pipeline would take seven years to build and cost US\$17 billion to US\$20 billion, according to Venezuela's Energy and Oil Minister Rafael Ramirez. The proposed pipeline would start at Venezuela's Caribbean coast and run through Brazil before reaching Argentina. The estimated cost for the pipeline running south from Venezuela through Brazil to Argentina was said to be US\$10 billion in November. Later estimates from Chavez fell in a range between US\$20 billion and US\$25 billion.

"We are moving forward with tremendous political will to make this project a reality," Ramirez said. He said the pipeline would be the "spinal cord" of South America. Venezuela has sought to deepen energy ties in the region to create new markets and lessen its dependence on the US, which takes about two-thirds of the country's oil exports. The pipeline would hypothetically complement plans to set up a proposed six-country "energy ring" designed to distribute gas through more southerly countries of the Southern Cone region (see NotiSur, 2005-07-01). The feasibility of the energy ring has repeatedly come under question as many observers have said Peru's Camisea

project, a primary supplier to the proposed project, does not have enough production capacity to meet internal demand and prior export commitments to the US and Mexico.

"We're going to build that gas pipeline," Chavez said after his November meeting with Kirchner. He said he was certain Brazil, Uruguay, Paraguay, and Bolivia would participate in the project to guarantee energy "to all of South America for the next 200 years." Venezuela, the world's fifth-largest oil exporter, also pledged in November to supply Argentina with 5 million barrels of diesel a year to help fuel its tractors and public buses, officials said.

"We want to strengthen MERCOSUR," said Kirchner, whose government was then backing Venezuela's bid to join the bloc (see NotiSur, 2005-12-02). The trade bloc also includes Brazil, Paraguay and Uruguay.

Chavez says the trade bloc is an alternative to the US proposal for a hemispheric free-trade zone, the Free Trade Area of the Americas (FTAA), which has been criticized and successfully deadlocked by Kirchner and other MERCOSUR leaders.

Questions about feasibility fuel doubts

Energy analysts have said the project will prove too costly and difficult to build. The project faces a range of obstacles including the Amazon jungle that would make it unprofitable and will probably prevent it from being built, said analyst Sophie Aldebert, Rio de Janeiro-based associate director at Cambridge Energy Research Associates. "It is very difficult to believe this will take place, because of the distance, the financing, and the supply," said Aldebert, who heads Cambridge's research on the southern part of the continent.

George Baker, director of Houston-based energy consulting firm energia.com, compared the project to US plans to build a natural-gas pipeline from Alaska to the lower 48 states. "Alaska isn't 6,000 miles (about 10,000 km) from mainland US and in 25 years they haven't built a pipeline," Baker said. "Flooding in the jungle is probably worse for a pipeline than frozen tundra, and they won't even have the attraction of US prices." The US has not, however, experienced the kind of gas shortages that have seriously hindered industrial activity in a number of countries throughout the region (see NotiSur, 2001-06-29, 2004-04-30).

Chilean officials express enthusiasm for the project, since it could ultimately help alleviate the industrial problems and rolling blackouts it experienced when Argentina, also experiencing a power crisis, cut off natural-gas exports to Chile. The effort also constitutes another element in the Chavista effort to use Venezuela's energy resources to integrate Latin America and the Caribbean, an effort that has frequently run contrary to market pressures that would ordinarily drive resources toward the highest bidder (see NotiCen, 2000-11-02, 2005-08-25, 2005-09-08, 2005-11-10 and NotiSur, 2005-08-12).

The pipeline project would create 1 million jobs, while stoking demand for steel from regional producers, according to Chavez. The plan is based on using Venezuela's 150 trillion cubic feet of

natural-gas reserves, the world's eighth largest, to help resolve the gas shortages in Argentina that have crimped economic growth and forced the government to stop exports to Chile and Uruguay.

Currently, at least 50% of Brazil's domestic gas consumption, some 26 million cubic meters per day, is supplied by Bolivia. Supply for a new pipeline, though, may not be sufficient, Baker said. Venezuela cut home deliveries of heating and cooking fuel in some eastern states in December because of shortages of natural gas. A lack of natural gas in the western part of the country has led to a reduction in oil and petrochemical production. But Venezuela's reserves may double in size as the country develops offshore fields near the borders with Colombia and Trinidad and Tobago, Chavez told reporters after arriving in Brasilia for the January summit.

Analysts also questioned the economic wisdom of the plan, especially after Brazil's government-run oil company Petrobras announced it would invest US\$18 billion to develop the country's natural-gas fields. "Both Brazil and Argentina have gas fields large enough to cover their own domestic demands. I don't see why they would like to undertake this hugely costly project, with money they don't have, not to mention environment costs," said Norman Gall, executive director of the Fernand Braudel Institute of World Economy.

Almir Barbassa, the financial chief of Petrobras, said in February that the plan as it stands is not a viable project. His comments came in response to Energy Minister Silas Rondeau being quoted in the local press saying the pipeline would be ready by 2012. "I don't have that information," said Barbassa at a press conference, "but for 2010, I don't see the project as being viable." He added that Petrobras' immediate concerns were covering growing demand for gas by developing gas fields in along the southeast coast of the country. There apparently was not a consensus within the company about the pipeline, since Petrobras gas and energy director Ildo Sauer had recently made assurances that Brazil would save US\$11 billion per year by purchasing Venezuelan gas.

Pipeline a key element in regional integration strategy

President Chavez says the pipeline is a central part of his efforts to reduce dependence on the US and its pressure for free-market policies known as the Washington Consensus. It's "the beginning of the South American consensus. "This pipeline is vital for us," said Chavez.

"It is certainly a very costly project that doesn't appear possible to make material in the short term," said professor Elsa Cardoso of the Universidad Central de Venezuela in Caracas. But she noted the resources currently at the Venezuelan government's disposal, with a barrel of petroleum selling for more than US\$60 in late 2005 and early 2006. The project, Cardoso said, "fundamentally has a geopolitical significance: construction of a Caracas-Brasilia-Buenos Aires axis, conversion of energy into a key factor in South American integration and confrontation with the US, and [oil wealth makes] Venezuela a key piece, an unavoidable link in the regional political association."

Marco Aurelio Garcia, Lula's top international aide, said in a Jan. 13 phone interview from Brasilia, "In the opinion of all the presidents, this is one of the most important steps for the consolidation of a united South America. Energy is becoming the driver of that integration."

Environmental fears strong

Environmentalists said they had serious objections when the South American leaders announced their plans to build the massive pipeline through the Amazon rain forest. They warned that it could damage part of the Amazon the world's largest wilderness by polluting waterways, destroying trees, and creating roads that could draw ranchers and loggers.

Roberto Smeraldi of the group Amigos da Terra-Amazonia Brasileira joined energy analysts in saying the short timetable seemed unworkable. "A government like Brazil's can't do similar studies for projects covering 500 km after 10 years of discussion, and now they are going to manage in-depth studies for a 8,000-km project in six months?" he said. Smeraldi said he believed the pipeline theoretically could be built with minimal impact to the environment, but the cost would be prohibitive.

Chavez has said he wants the continent's state-owned oil companies to build and oversee the pipeline. He said Venezuela and Bolivia "have gas for 200 years" and can supply fuel to Brazil and Argentina, where there is increasing demand for power generation, cooking gas, and cars. The environmental-regulation costs also add to doubts about financing the megapipeline. Although Chavez estimated the pipeline would cost US\$20 billion to US\$25 billion, Smeraldi said strict adherence to Brazil's tough environmental laws would double the cost.

Brazil's Environment Ministry referred Associated Press calls for comment to the country's environmental protection agency, which would oversee licensing of the project. However, press officer Sandra Sato declined to comment, saying "We can't take a position until there is a request for licensing."

Glenn Switkes of the International Rivers Network said that, if the pipeline were ever built, it would inevitably foul the environment. "There are a lot of issues involved: direct construction, the question of drainage, all the roads that need to be built," Switkes said. Roads are particularly devastating to the Amazon rain forest. They allow ranchers, loggers, and miners to flood into areas that previously were inaccessible.

Environmentalists estimate that each road cut into the rain forest causes destruction of the forest for 50 km on each side of the road within a few years. "They always say they're going to fly in the pipes and not build roads, but they never do that," Switkes said. "Then they say that the pipeline will go around important ecological areas, but they never do that either because it gets too expensive." Brazil's rain forest is as big as Western Europe and is thought to contain at least 30% of all plant and animal species on the planet.

Experts say as much as 20% of its 4.1 million sq km has already been destroyed by development, logging, and farming (see NotiSur, 2006-02-17). The plan also seems to conflict with other projects proposed for the region. "If the government goes ahead with this pipeline, it will have no money for any other type of investment," Smeraldi said.

"The plan to build the pipeline across Venezuela's Guayana region and the Amazon jungle should sound an alarm among people who are concerned about these areas, which serve as the planet's lungs and are also home to indigenous cultures," representatives of the Venezuelan environmental network Red Alerta Petrolera-Orinoco Oilwatch said.

To illustrate the risks, they cited the Camisea gas pipeline in Peru, "which pipes gas from the Amazon jungle to Peru's Pacific coast, and which in its few years of life has already experienced four major spills of liquefied gas, causing damages to the environment and to local communities (see NotiSur, 1997-04-18, 2004-04-16)."

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