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# Bolivia Nationalizes Natural Gas Resources

*by LADB Staff*
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The Bolivian government nationalized its large natural-gas reserves on May 1, fulfilling one of the key campaign promises of President Evo Morales and surprising international investors who had been anticipating a more moderate policy. In Brazil and Spain, where the principal companies invested in Bolivia's gas sector are headquartered, there was considerable alarm regarding Morales' move, but proponents of popular control of natural resources around the world celebrated it.

Morales ordered soldiers to immediately occupy Bolivia's natural-gas fields May 1, International Workers' Day, and threatened to evict foreign companies unless they signed new contracts within six months giving Bolivia majority control of the entire chain of production. He said soldiers and engineers with Bolivia's state-owned oil company Yacimientos Petroliferos Fiscales Bolivianos (YPFB) would be sent to installations operated by foreign petroleum companies.

"The time has come, the awaited day, a historic day in which Bolivia retakes absolute control of our natural resources," Morales said in a speech from the San Alberto petroleum field in southern Bolivia to proclaim what he called a nationalization of the natural-gas industry. The field is operated by Brazil's Petroleo Brasileiro (Petrobras) in association with the Spanish-Argentine Repsol YPF and France's Total. "The looting by the foreign companies has ended," Morales said. He wore a YPFB helmet as he gave his speech. Afterward, a soldier unfurled a Bolivian flag from atop the natural-gas installation.

Bolivia has South America's second-largest natural gas reserves after Venezuela. The estimated volume of 1,529 billion cubic meters of proven and probable gas reserves has a theoretical value of US$70 billion. Bolivia's GDP in 2005 was US$8.5 billion (US$940 per capita). All production control to go to YPFB Under the decree, all foreign companies must turn over most production control to the cash-strapped YPFB, Morales said. Bolivia gave up control of its natural-gas resources under privatization schemes in the 1980s and 1990s. Before the privatization wave, the government brought in 60% of its budget from oil and gas production, according to reporter Tupac Mauricio Saavedra of the PBS program Frontline. After privatization, the total contribution to the national budget from the multinational companies that took over hydrocarbons production was only 12% of the federal budget.

A 2004 referendum during the term of President Carlos Mesa (2003-2005) supported increased state control of the natural-gas industry, although there were many protests that nationalization was not an option on the ballot (see NotiSur, 2004-07-30). Large-scale popular protests followed the passage by Congress of the new hydrocarbons law that the referendum had mandated, with demonstrators urging that more of the country's gas resources go to the Bolivian people (see NotiSur, 2005-05-27).

Many election observers questioned Morales' commitment to an authentic nationalization program, given that during the protests against the hydrocarbons law in May 2005 while he was serving as

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a senator the Movimiento al Socialismo (MAS) leader supported increased taxation and royalty burdens on multinational companies rather than a full-on nationalization. Supreme Decree 28701 put an apparent end to such questioning, when the chief executive declared that the state would take control of all gas fields.

Companies would have six months to renegotiate contracts or be expelled. Details of new contracts are to be worked out on a case-by-case basis. Companies are obliged to sell at least 51% of their holdings to the Bolivian government while the two largest gas fields San Alberto and San Antonio must give 82% of production to the state, up from 50%. The state will take 60% of production from other fields. The renegotiation process may not proceed as quickly as the decree calls for, however, since some auditing officials have expressed concern that auditing the companies may take longer than the time allowed.

Morales has repeatedly said the country's natural resources have been "looted" by foreign companies and must be nationalized so that Bolivians could benefit from the profits that were being sent overseas. But he has also said that nationalization would not mean a complete state takeover, because Bolivia lacks the ability to tap all its natural gas on its own. The week before the decree, Morales told Brazil's Valor Economico newspaper that Bolivia would have to "set up a new battalion, a new army of oil and gas specialists to exert the property right" for a complete state takeover of petroleum production.

The move caused displeasure in the corporate and political offices of Brazil, France, Spain, and Great Britain, all of which are home to major energy companies hit by Morales' move, while it won favor in Cuba and Venezuela Washington's two least-favorite countries in Latin America. While Morales called his action a nationalization, others called that a misnomer since the government did not take total control of the foreign companies and expel their executives, as some Latin American governments did in the past.

## *Brazil's Petrobras and Spain's Repsol most affected*

Foreign companies can continue to operate in Bolivia but will have to let the government decide who will buy their gas and at what price. Morales also raised taxes on the operators of the two biggest fields, Brazil's Petrobras and Spain's Repsol. "I think the companies will end up selling their assets," said Juan Cariaga, a former finance minister, speaking by telephone from La Paz. "Who will stay here to have their capital run by someone else? Who will stay under those conditions?"

Analysts had long been anticipating some move by Morales on the natural-gas industry, since he won the presidency on the pledge to nationalize it. Debates about how to best exploit Bolivia's natural-gas reserves have helped topple two presidents in the past three years. The decree went further than expected, however, perhaps for political reasons, said Roseanne Franco, an energy analyst with PFC Consulting in Washington, DC. "The government has been facing more protests strikes by medical workers and others. This may have been a tool to strengthen him," said Franco. "We are monitoring the situation very closely," said Bob Davis, a spokesman for the world's largest oil company ExxonMobil Corp. He said ExxonMobil has a 30% interest in a nonproducing field called Itau, which is operated by Total.

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The energy companies are considering international arbitration or court fights against Bolivia. Petrobras, which has invested more than US$1 billion in Bolivia and controls 45% of its gas production, had appeared to be placated after Morales' accession to power. The company's boss, Jose Sergio Gabrielli, said he expected an excellent business climate under Morales. But the mood in Brazil's energy sector became one of betrayal and humiliation. Gabrielli described the decree as "unfriendly" and said that Petrobras would review its activity in Bolivia.

## *Brazil's President Luiz Inacio Lula da Silva concerned*

President Lula promptly called an emergency Cabinet meeting to examine the move. And an unnamed close adviser to Lula was quoted in the Brazilian press as saying that the government had been "caught with its pants down" by the military's seizure of facilities including a Petrobras refinery in the eastern city of Santa Cruz. The Spanish Foreign Ministry also expressed "deep concern" about the implications for Repsol-YPF, which controls 25.7% of Bolivia's gas production.

Spain's Prime Minister Jose Luis Rodriguez Zapatero said the move could affect the amount of assistance Madrid provided to Bolivia, Agence France-Presse reported, and he sent a delegation to La Paz to meet with officials. In all, about 20 foreign companies are affected, including BP, British Gas, ExxonMobil, and Total. Bolivia will keep up to 82% of their revenues from key fields, allowing them the remaining 18%. With no pipeline to the Pacific Ocean in place, landlocked Bolivia has been selling gas to neighboring Brazil and Argentina instead. This makes Brazil not only Bolivia's biggest investor but also its biggest customer and therefore a country that it might be painful to alienate. Brazil is also vulnerable as a consumer, with the Bolivian unit of Petrobras supplying half the natural gas Brazil uses.

Petrobras, in a letter from its director in Bolivia to Jorge Alvarado, head of YPFB, said that, while the company would continue operating in Bolivia, it was worried about the decree, and he hinted that the company could take legal action to protect its investments. Venezuela's state oil company Petroleos de Venezuela SA (PDVSA) is providing technical help to Bolivian authorities and is to sign a contract to build a gas-separation plant.

## *Echo of actions in Ecuador, Venezuela*

The announcement came less than a month after Venezuela's President Hugo Chavez ordered the seizure of oil fields from Total and Italy's Eni SpA when the companies failed to comply with a government demand that operations be turned over to PDVSA. Ecuador's Congress last month ratified a hydrocarbons reform law designed to cut into windfall profits of foreign crude producers, among them US-based Occidental Petroleum Corp. The law would give the government 50% of oil company profits whenever the international oil market exceeds the prices established in existing contracts. Most of those deals were tied to 1990s oil prices when crude was worth a fraction of the current market.

The Ecuadoran law brought sharp reaction from Washington. A US Embassy spokesperson said recently that the law appeared to violate a bilateral investment treaty between the two nations.

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Morales' decree also made ripples in Peru's ongoing presidential election, with the candidates addressing the possibility of following Morales' lead with gas extracted from the Amazon there.

## *Four-nation emergency summit follows nationalization*

A four-nation presidential summit followed Morales' action. The presidents of Argentina, Bolivia, Brazil, and Venezuela confirmed their interest in moving together toward regional energy integration on May 4 in the northeastern Argentine province of Misiones. After a three-hour meeting, the four presidents held a joint press conference in the town of Puerto Iguazu.

Argentine President Nestor Kirchner said it was "one of the best meetings" he had taken part in as president. Despite the tension and mutual mistrust that marked statements made prior to the meeting, especially between Bolivia and Brazil, the leaders met in a climate of frank, calm dialogue, they said afterwards. The leaders "agree on the need to preserve and guarantee the supply of natural gas while promoting balanced development among producer and consumer nations," and they "stressed that discussions over the price of gas must take place in a rational and equitable framework," said their statement.

The presidents opted for bilateral talks to address the impact of Bolivia's decision and set new prices for gas, while ratifying their decision to continue moving ahead toward the construction of a megapipeline in South America. Chavez, Lula, and Kirchner formally invited Morales to take part in the energy-integration project that is to pipe natural gas 8,000 km, from Venezuela's Caribbean coast to Argentina and Uruguay (see NotiSur 2006-03-03).

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