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by LADB Staff
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Bolivia's crucial hydrocarbons sector underwent turnover in its top positions in August and September, with President Evo Morales replacing both the minister of hydrocarbons and the president of the state petroleum company. The head of Yacimientos Petroliferos Fiscales Bolivianos (YPFB) resigned after opposition political figures had presented charges of corruption against him. Hydrocarbon Minister Andres Soliz, having faced censure in the Congress, resigned days later when his superiors reversed a resolution of his that had intensified conflict with Brazil. Critics say the overturn is a serious rollback in Morales' project to "nationalize" the country's natural resources. The resignations mean that the team that originally had been assigned to manage the nationalization of Bolivia's gas resources has been completely replaced.

YPFB head removed after opposition makes allegations

The president of YPFB, Jorge Alvarado, resigned on Aug. 28 amid a probe into a contract with a Brazilian company, marking a setback in the drive to nationalize the country's hydrocarbons industry. In his letter of resignation, read at a press conference in La Paz, Alvarado wrote that the accusations against him were "an attack by the oligarchy and the reactionary right wing" aimed at halting the nationalization process. He said he was resigning "to avoid causing any further harm to the great ideas for change in our country." Alvarado was one of the key figures in leftist President Morales' drive to nationalize the nation's hydrocarbons industry, but his leadership of YPFB has come under increased scrutiny as nationalization has run into trouble.

The Bolivian government acknowledged that Alvarado had violated the terms of the May 1 nationalization decree by having YPFB contract to export crude oil through an independent Brazilian firm. Opposition members of the Bolivian Senate voted Aug. 23 to open an investigation of Alvarado. Morales said Aug. 28 that Alvarado had committed "no act of corruption, nor harmed the state," and he alleged there was a "conspiracy" among opposition figures and international petroleum interests to slow down Bolivia's nationalization process.

Former YPFB vice president Juan Carlos Ortiz Banzer stepped forward to fill Alvarado's position. Under Morales' nationalization decree, YPFB is required to assume control of every stage of the production process. Foreign companies were given six months to cede operational control to YPFB or leave the country (see NotiSur, 2006-05-12). Earlier in August Bolivia announced that the "full effect" of nationalization would be suspended while YPFB underwent a complete reorganization and sought US$180 million in emergency financing.

Critics say YPFB lacks the resources or technical know-how to manage Bolivia's natural-gas reserves on its own. Hydrocarbons minister quits over Petrobras negotiations Hydrocarbons Minister Andres

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Soliz had tendered his resignation the week before Alvarado stepped down after being censured by the Congress for nationalization's limited progress, but Morales rejected his offer to resign. But Soliz and a number of his loyalists definitively left government once Vice President Alvaro Garcia Linera overturned a decree by Soliz to strip Brazil's state-controlled oil company Petroleo Brasileiro SA (Petrobras) of the right to export fuel from its Bolivian refineries.

Three other officials resigned along with Soliz, according to La Paz newspaper La Razon. The government named Carlos Villegas, former minister of planning and a loyalist in Morales' Movimiento al Socialismo (MAS), to head the effort to exert more control of foreign oil and gas facilities, although some critics regarded his role as exerting less control as the president needed help in international negotiations. Villegas was sworn in Sept. 15. Soliz said in a letter posted on the ministry's Web site that he was resigning for "personal reasons."

New York Times writer Simon Romero said that the removal of Soliz reflected "disarray" after the minister had sought to exercise "almost total control" of Bolivia's oil and natural gas. Carlos Alberto Lopez, an independent energy analyst in Bolivia, said, "It's obvious the government has bitten off more than it can chew, but it doesn't want to reveal this reality to the population."

A number of popular sectors have begun to express disappointment at the pace of the new government's project to exert control of the nation's gas resources, the continent's second-most voluminous. Protests and graffiti have called on Morales to abandon moderation in his dealings with Petrobras and other foreign petroleum corporations.

"This is another signal that the government is having problems with its nationalization plan," Eduardo Paz, vice president of CAINCO, a Bolivian business association, said. "Villegas is one of the chief men that the government has in charge of its entire economic plan, a plan that will be very dependent on natural-gas revenue. So this is a move that makes sense."

Prior to becoming part of the Morales government in January, Villegas was director of development studies at the Universidad Mayor de San Andres in La Paz. His decision to reverse Soliz's decree that gave YPFB monopoly power over former Petrobras installations indicated his willingness to toe the line drawn by the president and vice president. Morales has also replaced his hydrocarbon superintendent twice since Aug. 28.

The Superintendencia de Hidrocarburos had been observing YPFB's proposed contracting with Brazil. It made criticisms of the deal then-YPFB-president Alvarado was making. Morales purged the critics along with Alvarado. The Superintendencia, part of the Sistema de Regulacion Sectorial (SIRESE), is independent of YPFB with regulatory powers. The government has about a month left to act on the nationalization decree issued in May before it expires. Additionally, the Ley de Refundacion of YPFB is supposed to be in its final stage, with Soliz announcing that the company had US$92 million available for restructuring and, if it could get an US$88 million loan from the Banco Central de Bolivia, the company's "refounding" would be complete.

Negotiations with Brazil heat up

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As presidential elections approach in Brazil (see NotiSur, 2006-07-14), the government of President Luiz Inacio Lula da Silva is under pressure to reclaim losses Petrobras incurred under Morales' nationalization program. Brazil and Petrobras, in turn, are turning up the heat on Bolivia's government to give compensation and ease seizure measures it took against the Brazilian company's assets. Morales said his government remains "flexible" as it negotiates with Petrobras on terms for taking over the company's refining and fuel operations in Bolivia.

The Sept. 12 Soliz decree that stripped Petrobras of control of its refining assets was suspended specifically so the dispute could be resolved through talks. We're in negotiations, and we're very flexible," Morales told reporters after meeting Sept. 19 with investors at the Council of the Americas, a pro-business group in New York. "We're going to wait for technical, legal talks to play out business-to-business. After that, I'm sure there will be political decisions, too."

Deputy treasury minister Oscar Navarro, in Singapore for meetings of the International Monetary Fund (IMF), said Sept. 18 that foreign energy companies had received new contracts for review and could still meet the Nov. 1 deadline originally set for nationalization. Petrobras, the biggest oil company in Bolivia, said last week that enforcement of the Sept. 12 decree would force it to pull out of the country after investing about US$1.5 billion. Petrobras' two refineries produce all of Bolivia's gasoline and jet fuel, as well as 70% of its diesel oil.

Reports that Bolivia's domestic energy system is on the verge of collapse make the support of foreign energy consortiums even more urgent for the current government. "We want partners, not owners of our natural resources," Morales said. "The investor has to get his investment back and has the right to profit from that. But only the state has the right to its property, as in any country in the world." Morales, who campaigned for president on the nationalization plan, saw his approval ratings drop in August to 61%, the lowest of his term, according a monthly poll by Lima-based firm Apoyo Opinion y Mercado.

In Brazil, Lula is popular enough to be almost guaranteed a win in his re-election bid, but it is unclear if he will gain the 50% of votes necessary to win a first-round victory. He used a televised interview to fend off allegations by his main political rival that an ideological affinity with Morales has led him to soft-pedal Brazilian interests. Lula said the two leaders would meet at an unspecified date after the election "to find a solution to the issue" that has strained relations between the neighboring nations just as he enters the home stretch of his re-election bid. Lula's main opponent, former Sao Paulo state Gov. Geraldo Alckmin, launched a new barrage of attacks against the president Sept. 1, again accusing him of being too soft on Morales and saying the dispute is causing fear in Latin American investment circles.

Lula insisted on Globo TV's Bom Dia Brasil that he's been aggressive pointing out that Bolivia, too, is vulnerable. Bolivia provides half of the natural gas Brazil uses for industrial power generation, for cooking, and for cars, but the landlocked Andean nation needs Brazil as a client because it lacks a pipeline to a coast that would allow it to market its gas elsewhere. Lula said he made it clear to Morales that if Bolivia stops selling gas to Brazil, "it's going to be hard to sell it to someone else."

Brazil-Bolivia pipeline on hold as talks drag

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The talks have also slowed any progress on a gas pipeline planned to go between Bolivia and Brazil. Petrobras said plans to build a US$20 billion natural-gas pipeline from Venezuela to Argentina (see NotiSur, 2006-03-03) are stalled because of an impasse between Brazil and Bolivia over energy prices. A feasibility study of the 10,000-km pipeline scheduled for delivery next month won't be ready for at least a year, Ildo Sauer, gas unit chief of Petrobras, said.

The pipeline is a key part of Venezuelan President Hugo Chavez's goal of integrating Latin American energy resources. "The technical and environmental studies advanced a great deal last year but have lost steam since the Bolivia imbroglio over the natural-gas contract," Sauer said. "So what we planned on concluding around now will be delayed by about a year." The pipeline would tap Venezuela's 151 trillion cubic feet of natural-gas reserves and supply Brazil and Argentina at first, and then run to Uruguay, Paraguay, and possibly link up with existing pipelines in Bolivia. It would go online between 2013 and 2015, Sauer said.

Sauer said that estimates have placed the cost of the project at around US$20 billion and that "big international partners" such as OAO Gazprom, the world's largest natural-gas producer, are interested in the project. "Doing the math, this project is economically and technically viable," Sauer claimed. "The main stumbling block, like with the issue in Bolivia, is political."

Bolivian and Argentine officials say they expect to complete by October negotiations on a new US $1.45 billion pipeline that will allow the Andean nation to nearly quadruple the amount of natural gas it sells to Argentina. Bolivian Vice President Garcia Linera and Argentine Planning Minister Julio de Vido told a news conference Aug. 16 in the city of Santa Cruz they expect to be able to award a contract for the project's construction by the end of the year. Argentine demand for Bolivian gas has long surpassed the capacity of the existing pipeline between the two countries, which carries 7.7 million cubic meters of gas per day.

Three days after his resignation, former hydrocarbons minister Soliz called on the government to not concede to Argentine demands, claiming that Argentine President Nestor Kirchner wanted a separating plant for liquid natural gas (LNG) to be located not in Bolivia but in an Argentine port. Soliz called for "firmness" and "patience" on the part of negotiators for YPFB, saying, "Argentina needs the gas and we can still resist without signing that contract so that there will be good conditions."

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