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LADB Staff

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Bolivia Completes Oil Industry Nationalization

by LADB Staff

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Bolivian President Evo Morales celebrated the signing of new contracts with foreign companies that extract natural gas from his country at the end of October, boasting that his government had completed the "nationalization" of its hydrocarbons resources. Negotiations with Brazil's state-owned petroleum company formed the largest challenge to the nationalization project, but the two sides appeared to have come to an agreement by Nov. 1, the end of the six-month deadline Morales set for the natural-gas nationalization to be completed.

Morales: We will continue recovering natural resources

Morales announced the nationalization of Bolivia's ample natural-gas resources on May 1 of this year, sending troops to occupy gas fields owned by foreign petroleum companies (see NotiSur, 2006-05-12). The move strained Bolivia-Brazil relations since Brazil's state-owned oil company Petroleo Brasileiro S.A. (Petrobras) stood to lose huge assets, and negotiations between Bolivia's government and Petrobras remained unfinished until the last minute.

In August and September, Morales shuffled the top officials in charge of Bolivian hydrocarbons as the administration pushed to complete its vision of nationalization (see NotiSur, 2006-09-29). Morales trumpeted the completion of his ambitious natural-gas and oil-nationalization plan on Oct. 29, though key issues remained to be addressed with Petrobras, Bolivia's largest investor. Petrobras was one of seven foreign companies that signed new deals, just after a midnight deadline that night, allowing them to continue operating under the control of the Bolivian government. When Morales, Bolivia's first indigenous president, announced on May 1 that he would nationalize the country's hydrocarbon reserves, he gave the companies six months to cede majority control of their operations or leave. When the process ended just after the deadline to wrap up the nationalization talks, Morales joined representatives of eight companies for the signing ceremony in the capital of La Paz, achieving one of his nine-month-old government's central goals.

Among the companies were two affiliates of Petrobras, Spanish-Argentine company Repsol YPF, and Repsol's Bolivian subsidiary, Andina. The French company Total SA and the US-based Vintage Petroleum signed nationalization deals Oct. 27.

At the ceremony, Morales said the petroleum nationalization would be only the first step in his campaign to recover control of Bolivia's natural resources. Earlier that month, he announced plans to bring Bolivia's mines under state control. "Bolivia will not be as it was before, a beggar state with many social problems," Morales said. "We will continue on this path of recovering our natural resources, not only the hydrocarbons but also the minerals and the nonmetallics and all nonrenewable natural resources that belong to the Bolivian people.' The president commended the international companies for becoming "partners" in Bolivia's future. "As we have said before, we are
looking for good partners," Morales said. "We need partners to help us solve the social problems of our country."

The other companies signing deals were Argentine company Pluspetrol, British Gas Bolivia Corporation, British Gas subsidiary Chaco, and Matpetrol, a Bolivian company that operates internationally through its parent, Equipetrol.

**Petrobras to pay sliding royalties of 50%-82%**

Petrobras is the largest player in Bolivia's natural-gas industry. Its long-running, frequently contentious talks with Morales' government were pivotal during the nationalization process. With those tensions in the past, Morales spoke warmly of Bolivia's biggest neighbor. "As Bolivians we recognize that Brazil is the leader of the region, and that's why its businesses are so important to our country," he said. "We are obligated to live with Brazil in a marriage without divorce, because we both need each other." Morales also endorsed his ally Brazilian President Lula Inacio da Silva on the eve of his bid for re-election in Brazil's presidential runoff (see NotiSur, 2006-11-03). "I believe in my friend Lula," he said. While Petrobras is the largest producer of Bolivian gas, Repsol YPF and its subsidiary Andina control the largest share of Bolivia's known gas reserves, with 35%. Petrobras controls 16%, and Total SA 14%. All three are involved in the massive San Alberto and San Antonio gas fields in southern Bolivia, which together produce some 70% of the country's total natural-gas output.

Under the terms of Morales' nationalization decree, the state raised its share of the revenues from the two giant fields from 50% to 82%, while taking a 60% share at Bolivia's minor deposits. The signings were a political victory for Morales, who for months had been dogged by criticism about the slow and uncertain progress. Major issues for the Morales administration after the gas nationalization include plans to nationalize the mining industry in 2007, normalization of relations with Chile, completion of an Asamblea Constituyente to rewrite the Constitution, and land reform (see NotiSur, 2006-03-17, 2006-06-09, 2006-08-04 and 2006-10-13). The signing ceremony took place in the same hall where former President Gonzalo Sanchez de Lozada (1993-1997, 2001-2003) privatized Bolivia's gas industry in 1996.

In the decade since privatization, Petrobras has invested some US$1.5 billion in the exploration and production of Bolivian natural gas. Demands to renationalize Bolivia's natural-gas reserves were at the heart of violent 2003 protests that forced Sanchez de Lozada into US exile and catalyzed the indigenous political movement that eventually propelled Morales to power (see NotiSur, 2003-02-21, 2003-09-26 and 2003-10-24). The new contracts came a week after Morales and Argentine President Nestor Kirchner signed a US$17 billion deal significantly expanding Bolivia's natural-gas exports to Argentina during the next 20 years. Morales said the nationalization plan and the Argentine deal would provide Bolivia some US$1 billion in revenues this year and up to US$4 billion annually in four years' time.

**Will Brazil accept price changes?**
The deal excluded any agreement with Brazil on natural-gas prices and compensation for Petrobras' oil refineries that will become the property of the government. Brazil's Mines and Energy Minister Silas Rondeau said his government would continue discussing pricing with Bolivia and come up with a proposal to compensate for the takeover of Petrobras' two refineries. Rio de Janeiro-based Petrobras provided almost a quarter of Bolivia's tax revenue last year.

"It's going to be difficult for the Brazilians to accept a unilateral change in prices," said Dino Barajas, a Los Angeles-based lawyer for Paul Hastings LLP who was voted the best energy lawyer in 2004 by California Lawyer Magazine. "They are right in seeking some sort of compensation" for Petrobras' refineries. The extent of Morales' victory, aimed at reducing poverty in the continent's poorest nation, will depend on his ability to sell natural gas to Brazil at a higher price. Brazil's US$790 billion economy is the largest in South America and four times bigger than Argentina's, the second-largest. Bolivia supplies more than half of Brazil's gas needs and about four-fifths of all gas consumed by Sao Paulo's industrial belt.

"It's very clear that the price of gas today in Sao Paulo adheres absolutely to the price on the international market," Rondeau said. "If we don't reach an agreement, the issue will go to international arbitrage."

Brazil is developing its own Plangas deposit, which will produce as much as 26 million cubic meters of natural gas a year, and building two liquefaction plants in Rio de Janeiro and Fortaleza to bring in supplies from other countries, Rondeau said. At the same time, Morales is planning to lessen his country's dependence on Brazil by supplying natural gas to Argentina and Chile. Bolivia will almost quadruple gas exports to Argentina during the next 20 years.

Bolivia is also in talks with Chile's government to become a supplier to that country's copper district, which flanks its western border. Bolivians, however, have traditionally rejected giving gas to Chile without first gaining sovereign access to the Pacific Ocean (see NotiSur, 2003-09-26 and 2004-01-23). The Bolivian government hopes to use its increased revenues to alleviate poverty, but the Morales administration also wants to assign 2% to 3% of the taxes to spending on the armed forces.

Official US reaction to the nationalization move was negative, with Secretary of State Condoleezza Rice calling it "unfortunate." However, analysts like Newton Garver, distinguished service professor emeritus at the State University of New York (SUNY) at Buffalo, hailed Morales' handling of the nationalization as "genius."

**Vice President Garcia: Technical completion still unfinished**

But the process is not finished, as Vice President Alvaro Garcia Linera said on Nov. 5. He said that the petroleum nationalization "still has a good way to go" as the state energy company works to assume control of South America's second-largest natural-gas deposits. In an exclusive interview with the Associated Press, Garcia said that the Oct. 28 contract signings with Petrobras, Repsol YPF, and others have given the government a much-needed boost after months of unfavorable headlines. "We feel satisfied, but we still have a good ways to go," Garcia said. "We still must guarantee a
strong presence of the Bolivian state throughout the chain of production, a real and practical control through personnel, experts, technology, know-how."

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