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Bolivia at Loggerheads with Argentina over Natural Gas Contract

by LADB Staff

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May 19: The Bolivian government admitted that negotiations with Argentina to gain improved payment conditions on a bilateral natural gas sales agreement were at a "critical" point, while the local press reported they had already failed. Foreign Minister Guillermo Bedregal Gutierrez announced late in the afternoon that while the negotiations were at a critical phase, he was exploring possibilities for establishing what he called "genuine integration." At present, he said, this topic is entirely focused on the sales and purchase of natural gas. Bedregal's announcement coincided with a report by the afternoon newspaper, ULTIMA HORA, stating that the negotiations in fact, failed.

Argentine officials had refused to even consider proposals for modifying the contract when a Bolivian delegation headed by Finance Minister Juan Cariaga visited Buenos Aires the previous week to discuss the matter. According to ULTIMA HORA, Buenos Aires had decided it could no longer subsidize Bolivia via the purchase of natural gas under current contract arrangements. A Bolivian proposal that Buenos Aires pay $26 million in freely convertible currency on purchases made in 1986 was reportedly rejected. Bolivian natural gas exports to Argentina in 1986 under the existing contract were valued at $330 million.

Argentina paid less than 60% of the total in the form of convertible currency. Most of its payment for the gas imports was made in the form of foodstuffs and by earmarking payment for financing Bolivian purchases of goods and services from Argentina. May 22: According to an announcement by Bolivian Planning Minister Gonzalo Sanchez de Lozada, President Victor Paz Estenssoro and his Argentine counterpart Raul Alfonsin were considering a meeting in July to discuss a "series of bilateral economic and social development projects," including the definitive conclusion of negotiations surrounding the natural gas contract.

Because discussion of contract conditions including sales volume, price and form of payment was stalemated at the recent technical level meeting in Buenos Aires, the negotiations were passed on to the foreign ministry level. Under existing contract terms, Argentina pays for 60% of the value of its natural gas purchases in the form of freely convertible currency. The remaining 40% payment is made via deliveries of machinery, equipment and foodstuffs. La Paz is in dire need of financial resources for its economic recovery programs. Thus, the government is seeking to obtain from Argentina 100% of the value of its natural gas purchases for 1987 in the form of convertible currency.

In exchange, Bolivia has offered up to a 33% reduction on the current price of $3.75 per thousand BTU. Buenos Aires has responded by requesting a 50% price reduction, a 25% reduction in purchase volume, and the maintenance of the current payment system. (AP, 05/22/87) In the late afternoon, Foreign Minister Bedregal contradicted the planning minister's statement about an upcoming meeting between the two presidents. The economic situation, he said, must first be defined, and
that at the moment, there were no plans for a presidential encounter. According to Bedregal, the difficulties surrounding the negotiation of a new gas contract "may produce an international conflict." Argentina's ambassador to Bolivia met with Bedregal to discuss the matter.

May 27: In an attempt to break its dependency on Argentina for the sale of natural gas, in June the Bolivian government plans to reinitiate negotiations with Brazil. Minister of Energy and Hydrocarbons, Carlos Morales, plans to travel to Brazil in the second week of June with the objective of "concretizing details about negotiations to sell natural gas" to its neighbor, according to Mauricio Gonzalez, ministry undersecretary.

Gonzalez told reporters, "The export of gas to Brazil is viable and important for Bolivia. National reserves are continually increasing and if we do not find a market we will see ourselves obliged to burn the product." The negotiations seek to put into practice an agreement between the two governments in 1974. This agreement, however, was put on the shelf when Brazil insisted that Bolivia first prepare a formal evaluation of its gas reserves justifying an over $2 million investment for the construction of a gas pipeline between the two countries.

By the time La Paz had completed the quantification exercise, Brazilian interest in importing Bolivian gas waned. Meanwhile, an important gas field had been discovered in the Campos basin, located on the continental platform close to Rio de Janeiro. Despite this precedent, Bolivia plans to refurbish the initial 1974 agreement and develop a sales contract that would assure La Paz of an alternative market in early 1992, when the existing contract with Argentina expires. The Bolivian government's interest in this alternative market has been strengthened due to difficulties in financing its economic recovery programs, and problems encountered in recent negotiations with Argentina to modify payment, price and volume conditions of the existing contract.

Finance Minister Juan Cariaga announced in La Paz that Argentina is not interested in changing its previously articulated position. Consequently, said Cariaga, further negotiations to modify contract conditions in 1987 are not possible, particularly in light of Argentina's failure to fulfill its 1986 contract commitments. According to the minister, Argentina did not fulfill its commitment to pay for 60% of its gas purchases in 1986 with freely convertible currency. At present, he said, Argentina owes Bolivia $26 million in cash not paid for 1986 purchases, and an additional $27 million accumulated in the first quarter of 1987. "If Argentina does not fulfill its commitments agreed to in April 1986, we cannot pursue negotiations for the contract period in question in any meaningful sense." (Various reports, Agence France Presse and Associated Press)