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Mexico, Bolivia Announce Energy Cooperation Agreement

by LADB Staff

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The Mexican and Bolivian governments have agreed to resume discussions on an energy agreement that would give Mexico access to the South American country's vast reserves of natural gas and boost Mexican investments in Bolivian energy projects. The two countries announced their intentions to cooperate in the energy sector in early March, following a meeting in La Paz between Mexico's Energy Secretary Fernando Canales Clariond and his Bolivian counterpart Andres Soliz Rada. Also representing Mexico was Luis Ramirez Corzo, director of the state-run oil company PEMEX.

As a result of the talks, the two sides agreed to create technical committees to examine areas in the energy sector of mutual interest. The two countries are looking for ways for PEMEX and Yacimientos Petroliferos Fiscales Bolivianos (YPFB) to work together, particularly in natural gas. "We discussed the possibility of constructing a plant that would separate liquids like liquefied petroleum gas (LPG) from natural gas," Canales told reporters.

Canales said the project with YPFB would be similar to one that PEMEX already has with ExxonMobil in Deer Park, Texas. In the jointly owned plant, the two companies process Mexican heavy crude oil into unleaded gasoline and other value-added products like diesel, lubricants, and petrochemicals (see SourceMex, 1998-10-14).

PEMEX is considering a similar joint venture to construct a refinery in Central America (see NotiCen, 2005-11-10). Bolivian officials said the proposal would initially involve only PEMEX and YPFB, but might later be opened to other entities. "We have not discarded the possibility of involving private companies," said YPFB president Jorge Alvarado. The plan is compatible with Bolivian President Evo Morales' long-range plan to rebuild YPFB, which was partially privatized in the 1990s and whose current function is primarily bureaucratic. Soliz said, however, the Morales administration would not move forward on any major project, including the joint venture with Mexico, until after a plan to nationalize Bolivia's gas reserves had been completed.

Mexico interested in buying Bolivian natural gas

A Mexico-Bolivia energy agreement would also help Mexico diversify its sources of natural gas. Even though Mexico has vast natural-gas reserves in the Burgos Basin, the country lacks the resources to conduct expensive extraction and exploration activities. The Fox government has partially solved the problem by involving private companies in exploration and extraction through multiple-services contracts (Contratos de Servicios Múltiples, CSM) with private companies (see SourceMex, 2004-01-28). Because of strong congressional resistance to further involve private entities in Mexico's energy industry, the CSMs are not likely to solve Mexico's deficit in natural gas.

To meet its current needs, Mexico must import about 1 million cubic feet of natural gas daily. In 2004, Mexico spent about US\$1.7 billion to import natural gas, with the total dropping slightly to

US\$1.4 billion in 2005. The decline was in part the result of an increase in domestic production. Mexico's natural-gas imports come primarily from the US, but the Fox administration has recently considered other options, such as Russia and Australia (see SourceMex, 2004-06-16 and 2005-05-18).

The best opportunity for Mexico to reduce its reliance on US imports, however, is to increase imports from Bolivia and Peru. Thus, the Mexican energy delegation's trip in March to La Paz and later to Lima was extremely important to attain this goal. Mexico is focusing its attention primarily on Bolivia, but Canales and Corzo took the opportunity to meet with Peruvian counterparts to discuss the possibility of acquiring gas extracted from Peru's Camisea fields in the Amazon Jungle.

Discussions resume after two-year hiatus

The Fox administration had already made overtures to Bolivia in October 2003 to acquire natural gas (see SourceMex, 2003-10-29 and 2004-01-28), but the matter was placed on the back burner because of political uncertainties in Bolivia (see NotiSur, 2003-10-24). The Mexican government decided to raise the issue again with Morales, who was elected in December 2005 (see NotiSur, 2006-01-06).

Morales, who took office at the end of January, initially declined to discuss any gas deal with Mexico, which prompted the Mexican president to make a sarcastic comment that greatly increased tensions between the two countries. "The new government apparently has said that Bolivia's gas will not be exported," Fox said in early January. "Either they are going to consume it or they are going to eat it. They have a lot of gas to export."

Fox's comment elicited a sharp rebuke from Morales and other Bolivian leaders, who asked the Mexican president to show more respect for their country. "[Fox] should not try to humiliate me and my people," Morales said during a visit to South Africa. "Fox presents an image of a bad cowboy," said Sen. Antonio Peredo, a close associate of Morales and a fellow member of the Bolivian center-left Movimiento al Socialismo (MAS).

The exchange between the presidents, along with Morales' decision to invite representatives from the Ejercito Zapatista de Liberacion Nacional (EZLN) to his inauguration, appeared to drive a wedge between the two countries. "There should be one invitation to the Mexican government, which represents the Mexican state, and not to specific groups," Foreign Relations Secretary Luis Ernesto Derbez, said in reference to Morales' invitation to the EZLN.

Even as the administration was criticizing the invitation to the Zapatistas, spokespersons for the Mexican president were announcing that Fox was not planning to attend Morales' inauguration even though he had received an invitation. "As a matter of practice, Fox has never attended this type of ceremony," said presidential spokesman Ruben Aguilar Valenzuela. Aguilar was then forced to defend Fox's decision to attend the inauguration of Honduran President Manuel Zelaya, a member of the center-right Partido Liberal (PL), later in the month (see NotiCen, 2006-02-02). "Fox will make an exception to his policy, since he will be returning from a trip to Chile, and a stop in Honduras is logistically convenient," said Aguilar.

The public spat between the Mexican and Bolivian leaders seemingly jeopardized the chances that the two countries would resume talks on a natural gas agreement. But some Bolivian leaders said the

disagreement would not necessarily prevent the eventual resumption of discussions on a gas accord. "We have not made any decisions regarding the sale of gas to Mexico," Bolivian Vice President Alvaro Garcia Linera said in mid-January. "

And, if our president-elect ever made any statements about this issue, it was to talk about our willingness to reach out to Mexico." Derbez also downplayed the tensions between Fox and Morales, saying that the two leaders had quickly settled their differences. "This matter is resolved, and in reality there was not even a major problem," Derbez said in a radio interview. "Our ambassador to La Paz has initiated discussions with the incoming Bolivian government, and I will travel to that country at my first opportunity."

In the interim, the two countries quietly resumed consultations on energy cooperation in the weeks leading to the Mexican energy delegation's trip to La Paz in March. "We want to continue our historical relationship with Bolivia," Canales told reporters. "We want to reinforce our free-trade agreement with that country by expanding cooperation in the energy sector," referring to the Mexico-Bolivia accord that went into effect in 1995 (see SourceMex, 1995-01-04). [Sources: Associated Press, Agencia de noticias Proceso, Spanish news service EFE, 01/11/06, 01/12/06; El Economista, 01/13/06; La Cronica de Hoy, 01/12/06, 01/30/06; El Financiero, 01/12/06, 02/06/06; The Herald-Mexico City, 01/12/06, 03/02/06, 03/03/06; La Razon-La Paz, La Jornada, Reuters, 03/03/06; Reforma, 01/11/06, 01/12/06, 01/17/06, 01/24/06, 01/26/06, 03/06/06; El Universal, 01/12/06, 01/13/06, 01/23/06, 03/03/06, 03/06/06]

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