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BOLIVIA GETS BRAZIL TO AGREE TO PAY HIGHER PRICES FOR NATURAL GAS

Bolivian President Evo Morales has successfully negotiated a commitment from the Brazilian government to pay higher prices for the natural gas it imports from Bolivia. Negotiations had been a long-term strain between the two neighbors, with Brazil's state oil company Petroleo Brasileiro SA (Petrobras) seeking to maintain lower purchase rates as it bought Bolivia's ample natural-gas resources. The announcement of the higher price helped Morales somewhat in domestic politics, with his administration's party the Movimiento al Socialismo (MAS) facing corruption allegations and allegations of bungling negotiations of the gas-extraction contracts with foreign petroleum companies (see [NotiSur, 2007-03-30](#)).

Petrobras mulls new investments in Bolivia

Petrobras could soon invest in expanded natural-gas output in Bolivia, thanks to a gas-price agreement between the countries, Brazil's energy minister said on Feb. 16.

Brazil's agreement the day before to pay more for gas from Bolivia, the source of about half its supply, resolved the main issue in a dispute between Morales and Petrobras, the biggest company operating in Bolivia, said Silas Rondeau, Brazil's energy minister, in an interview.

By meeting Morales' demand for greater control and higher prices for resources, Petrobras is closer to having clear rules for oil and gas investments, Rondeau said. With clear rules, Petrobras can then expand output from its San Antonio and San Alberto fields, increasing Brazil's access to gas that is cheaper to produce than domestic offshore sources, he said.

"The most important victory for Brazil is that the agreement may lead to a clear regulatory environment in Bolivia," Rondeau said in his office in Brasilia after the accords were signed. "This may allow Petrobras to expand output from San Alberto and San Antonio."

The dispute about gas prices reached a peak May 1, 2006, when Morales sent the Army to seize the assets of Petrobras and other foreign oil companies in Bolivia, which has Latin America's second-largest gas reserves after Venezuela (see [NotiSur, 2006-05-12](#)). The issue became a minor political problem for President Luiz Inacio Lula da Silva, then running for re-election, as his opponent criticized him for letting Bolivia charge more for badly needed natural-gas supplies (see [NotiSur, 2006-11-03](#)).

Petrobras and other foreign oil companies have since signed new contracts that increase gas taxes and Bolivian say regarding how the fields are run. Petrobras, which refines all of Bolivia's gasoline, aviation fuel, and cooking gas and provides most of its diesel oil, must still resolve the price Bolivia will pay for a 51% stake in the Petrobras refining units, Rondeau said. The gas agreement involves two contracts. One is for about 1.2 million cubic meters a day of Bolivian gas to a 400-megawatt power plant owned by Royal Dutch Shell Plc. and Ashmore Investment Management Ltd. in Cuiaba, Brazil, near the Bolivian border. The other is for 24 million to 30 million cubic meters a day with Petrobras.

The increases should bring Yacimientos Petroliferos Fiscales Bolivianos (YPFB), the state oil company, an additional US\$145 million a year in revenue based on prices and volumes sold in 2006, said Carlos Villegas, Bolivia's hydrocarbons minister, at the signing ceremony. Petrobras, responsible for about 10% of Bolivian GDP, imported US\$1.26 billion of gas from the country in 2006, Rondeau said.

Old price "below the cost of production"

The Cuiaba plant will pay US\$4.20 per million British thermal unit (BTU) starting April 15, a price that will be adjusted quarterly based on changes in the price of a basket of international fuels. The previous price, set in the 1990s when the plant was owned by Enron Corp., was US\$1.09 per million BTU.

"The old price was unreasonable," Rondeau said. "It was below the cost of production and nobody can provide something at that price."

Brazil also agreed that Petrobras would start paying separately for gas components, such as ethane, butane, propane, liquid natural gas, and natural gasoline, that it receives under its current 20-year contract with Bolivia.

The Brazilian company will have to absorb extra costs associated with the components unless it strips them out and sells them separately, because under current contracts with distributors it cannot pass along the additional expense.

Petrobras imports about 24 million cubic meters a day from Bolivia and plans to increase that to 30 million. Under the new system, Petrobras will pay as much as 6% more for Bolivian gas, Rondeau said.

Bolivia, Brazil, Petrobras, and Braskem SA, Latin America's largest chemical company, will present a plan to Bolivia later this month for a US\$1.4 billion petrochemical plant in Bolivia near the border with Brazil, Rondeau said. Such a plant is a potential customer for the higher-cost gas components.

"We will have to find an entrepreneurial solution to this," Jose Sergio Gabrielli, chief executive officer of Petrobras, told journalists in Rio de Janeiro. "A petrochemical plant is a possibility, if we're paying for the components, we will want to use them, not burn them."

Celebration in Bolivia, anger in Brazil's opposition

The February announcement of a favorable agreement for Bolivia gas exports to Brazil met with celebration in the midst of Carnival season. It also came as the long-deadlocked Constituent Assembly came to a political agreement that had been sought for the past six months.

Political analysts quoted in the international media said they were surprised with Morales' negotiating ability. They pointed to his success in getting neighboring Argentina to accept a 50% price hike in June 2006 along with getting it to agree to partner in joint energy projects. They also pointed to an October negotiation when Morales got 10 foreign oil companies to sign new contracts with state taxes and royalties ranging between 50% and 82%. Presidential spokesperson Alex Contreras said the negotiation successes were Morales' direct responsibility, claiming that the president "does not delegate, but rather he conducts the negotiations." And when he does delegate, said Contreras, he speaks in a "direct and forceful" way to explain to his delegates how the contracts were signed in the past and how he wants them to be now.

Political and social commentator Cesar Rojas Rios told BBC Mundo, "If we look at what happened with the nationalization of the hydrocarbons, we might say President Morales is a good negotiator...[but] if we look at what has happened in the Constituent Assembly, we can say that he is not a good negotiator. In part, the institutional blockage of the assembly is the

fault of a set of tactical errors." Rojas thinks Morales is at fault for not "anticipating that the opposition can or cannot cede."

Political analyst Josias de Souza praised Morales the negotiator using a soccer term for an ace player, saying, "That Indian companero is a 'crack.'" Morales said the negotiation with Brazil was "important because Brazil does not pay a fair price for our hydrocarbons. We said at the opportune moment that it is not possible for a country, known at the international level as a poor, underdeveloped country, to provide for the needs of a developed country like Brazil."

"Humility has been important, the participation of our ministers and our technical team has been important to persuade and explain to Brazil," said Morales. Lula's political opposition reacted indignantly to the outcome, with opposition Deputy Julio Redecker complaining that "no one is authorized to be generous with public money," and calling for Lula's energy minister to explain the agreement to the lower house of Congress.

[Sources: Sources: El Nuevo Herald (Miami), 03/09/07; Bloomberg, 02/16/07, 03/12/07; La Razon (Bolivia), 03/12/07; Los Tiempos (Bolivia), 03/05/07, 03/06/07, 03/12/07, 03/14/07; www.telesurtv.net, 03/11/07, 03/22/07; www.bbcmundo.com, 02/15/07, 02/16/07, 03/24/07]