Brent Z. Kaup

Powering up: Latin America's energy challenges: Bolivia's nationalised natural gas: social and economic stability under morales

Report

Bolivia's Nationalised Natural Gas: Social and Economic Stability Under Morales

BRENT Z. KAUP
is Assistant Professor of Sociology & Environment, Science, and Policy at the College of William & Mary in Virginia, and an expert on the political economy of energy in Bolivia.

On May 1, 2006, newly elected president Evo Morales announced to the Bolivian people that "el gas es nuestro" – the gas is ours. In a move that seemingly countered the free-market shift that much of Latin America took over the past twenty-five years, Morales pledged to nationalise Bolivia's hydrocarbon sector. But the form of the nationalisation and its implications for transnational investors were radically different from the nationalisations that swept the region and the global oil and natural gas sector during the twentieth century. Embedded within a globalised neoliberal economy, dependent upon regional trading partners, and beholden to the demands of the Bolivia's social movements, Morales put forward a "nationalisation without expropriation." Understanding the opportunities and constraints that surrounded Bolivia's natural gas, the Morales government created a more socially stable investment environment that has been beneficial for greater segments of the Bolivian population and potentially for transnational investors.

BOLIVIA'S ENERGY SECTOR: AN OVERVIEW

Bolivia sits atop the second largest supply of natural gas in South America. While the country's proven natural reserves pale in comparison to Venezuela's, a favourable investment environment during the 1990s, limited internal demand, and a strategic geographic position in relation to Brazil and the Southern Cone make it the continent's largest exporter of natural gas. Over the past ten years, natural gas production in Bolivia has increased from 2.8 billion cubic meters (bm^3) in 1998 to 13.9 bm^3 in 2008. Brazil is by far the largest consumer of Bolivia's natural gas, importing 10.9 bm^3 in 2008, to satisfy close to half of Brazil's natural gas demand. Bolivia also exports smaller quantities of natural gas to Argentina. In 1999, a contract between the two countries expired and Argentina deemed that its own internal natural gas supplies were enough to satisfy its demands. However, in 2006 the two countries signed an agreement to increase the flow of Bolivia's natural gas to Argentina, potentially to levels similar to that sent to Brazil.

Bolivia's petroleum reserves are less plentiful than its natural gas and the majority of petroleum production goes towards internal use. In 2008, Bolivia produced around 41 thousand barrels of oil per day (MBD) and consumed around 36 MBD. Bolivia has two major refineries, both ofwhich operate at near capacity to satisfy internal demand. However, Bolivia faces diesel shortages almost yearly. The country's crude oil is "superlight" and not easily refined into heavier hydrocarbons. As a result, Bolivia is forced to import diesel. In recent years, these imports have largely come from Venezuela.

Other energy sources in Bolivia include hydropower, wood and other forms of combustible biomass. Currently, hydropower is limited but recent agreements between Bolivia and Brazil to dam segments of the Amazon could increase hydropower in Bolivia from 477 megawatts (MW) to 4200 MW. In rural areas, a number of Bolivians still depend on more traditional biomass-based fuels for heat and cooking.

A BRIEF SOCIAL HISTORY: 1920 TO 2006

For much of the past century, Bolivia's hydrocarbon sector has been a site of international interest and contestation. Standard Oil first entered Bolivia in the 1920s. However, linked to conflicts surrounding the origins of the Chaco War, the state nationalised Standard Oil's assets in 1937 and gave them to Bolivia's nascent state owned hydrocarbon company Yacimientos Petroliferos Fiscales Bolivianos (YPFB). In the 1950s, Bolivia again opened its hydrocarbon sector to foreign investment as the United States conditioned its aid on the implementation of a petroleum code that guaranteed foreign investors access to the country's oil reserves. While a number of foreign investors, including Brazil's state owned oil and natural gas firm Petrobras, sought to operate in Bolivia under the new code, the state granted concessions only to Gulf Oil. But as with previous foreign investment in the sector, Gulf Oil's assets became the target of nationalistic sentiment and in 1969 the state turned Gulf's concessions over to YPFB. After the nationalisation of Gulf's assets, foreign investors did not enter into Bolivia's upstream hydrocarbon sector until 1978, when Occidental and Tesoro signed minor operation contracts with the Bolivian state to extract oil and natural gas in select reserves.

In the late 1970s, Bolivia began to feel the exogenous effects of the international economic crisis. After several changes in state power, Bolivia's export-oriented elite rose to power in 1985 and slowly began to dismantle the country's state-owned enterprises. While the state primarily sought to end its role in the mining sector and open it up to private investment, its policy shifts undermined the profit-making capacities of YPFB and made Bolivia's hydrocarbon sector a ripe target for future privatisation. Seeking to increase state revenues and regain the approval of international lending agencies, the state ended its petroleum subsidies and redirected all of YPFB's earnings into central state coffers. In addition, that state prohibited all investment in new capital goods in the hydrocarbon sector. Whereas YPFB previously managed a significant portion of its revenues and made investments in extraction and transport infrastructure when necessary, the policy changes of the 1980s defunded YPFB and made it into an unsustainable renter arm of the state.

In the late 1980s, Brazil's increasing interest in Bolivia's natural gas attracted the attention of foreign investors. While the two countries negotiated an agreement in which YPFB and Petrobras would be the primary companies involved in the extraction, transport, and sale of the natural gas, the Bolivian state diminished the role of YPFB in the deal as it sought to partially privatise its five largest public enterprises with the introduction of the Law of Capitalisation in 1994. Over the following two years, the state divided YPFB into three parts and auctioned off 50 percent of each to the highest bidder. The remaining shares were reallocated to the state pension system and former employees of state operated enterprises. In an attempt to modernise and bring new flows of capital into the hydrocarbon sector, the Law of Capitalisation stipulated that instead of paying to become majority share holders, investors were obligated to invest the sale value of the company they purchased to expand, strengthen, and fortify the company's presence within the Bolivian economy.

Attempting to further spur investment in the industry, the state rewarded investors for discovering reserves in more difficult areas of exploration and extraction by lowering royalty and taxation rates from 50 percent to 18 percent on all new reserves. In the Law of Hydrocarbons 1689, the government classified all proven reserves as existing and thus subject to a 50 percent taxation rate. All probable reserves, either in existing areas of extraction or new areas of extraction, were classified as new and thus subject to the 18 percent taxation rate. However, two months after the introduction of the Law of Hydrocarbons 1689, the government put forward the Law of Hydrocarbons 1731, under which only proven reserves that were already in production at the time of the sale of YPFB were classified as existing.

The changes to the policies surrounding Bolivia's hydrocarbon sector made investment highly attractive. In the initial years after the capitalisation, investment more than doubled. In addition, Brazil increased the amount of natural gas it originally agreed to import from 8 million cubic meters (MMm3) per day to 30 MMm3 per day. In response, from 1997 to 2005, firms invested a reported US$3.435 billion in Bolivia's hydrocarbon sector. The two largest investors were

Petrobras and Repsol YPF. These investments resulted in an increase in proven and probable gas reserves from 5.69 trillion cubic feet (TCF) in 1997 to a peak of 54.86 TCF in 2003. Furthermore, proven and probable oil reserves increased from 200.9 million barrels (MMbbl) in 1997 to a peak of 956.9 MMbbl in 2003.

But while investment and extraction levels increased after the capitalisation, the majority of Bolivians failed to see the benefits of such activities. As a plan to export Bolivia's natural gas to the United States via Chile surfaced in 2003, the large-scale profits transnational energy firms gleaned from their activities in Bolivia and long-held historical resentment against Chile stemming back to 1879 War of the Pacific made Bolivia's natural gas a focal point of social movement struggles. The struggles led to the fall of second-term President Sanchez de Lozada. Vice President Carlos Mesa ascended to the presidential post and proposed a referendum on the country's hydrocarbon sector in response to the social movement's demands, in which the Bolivian populace voted to nationalise the country's hydrocarbons, re-fund YPFB, and increase tax and royalties rates on investing transnational energy firms. Unable to fully implement these reforms, Mesa resigned under pressure in June 2005. Six months later the Bolivian populace elected Evo Morales with the expectation that he would fulfil the demands expressed through the referendum.

EVO MORALES AND ANDEAN CAPITALISM – 2006 TO PRESENT

In 2006, Evo Morales undertook to nationalise the country's hydrocarbon sector. But the changes that proceeded were far from traditional perceptions of nationalisation. While the Bolivian state increased its power within the hydrocarbon sector, regained control of some of its previously capitalised assets, and increased its share of revenues coming from the sale and transport of its natural gas, the state's actions resembled more of a free-market buy-out. As a representative of YPFB noted, "this is not a nationalisation… this is a hostile takeover."

The nationalisation altered Bolivia's hydrocarbon sector in three primary ways. First, the state regained control of Bolivia's hydrocarbons by declaring some of the changes made during the 1990s unconstitutional. According to the constitution, the country's hydrocarbons are the property of the state and no concession can transfer this right to another entity. As a result, the changes that granted investors ownership rights over

Bolivia's hydrocarbons in the 1990s contradicted pre-existing constitutional law. Second, the state revitalised YPFB by becoming majority shareholders in its three capitalised companies. The state owned minority shares in each of the companies through the capitalisation agreements. To increase their shares, the state negotiated with investors to buy back some of the companies. While the state sought to enter into joint ventures with investors, a number of them refused and sold the state all of their shares. Third, the state increased the amount of rent it gained from its natural gas by increasing taxes on its sale and regaining control of commercialisation within the sector. Prior to the nationalisation, most investors paid an 18 percent royalty rate and minimal taxes. After the nationalisation, the 18 percent royalty rate was maintained and 32 percent tax was added. Gaining control of commercialisation in the sector, the Bolivian state was also able to increase the sale price of its natural gas to Brazil and Argentina.

The Bolivian state increased the rents it accrued from the sale of its natural gas. In addition, the dramatic rise in global commodity prices in the years following the nationalisation further increased the state's profits. After the referendum vote in 2004, Mesa introduced the first round of changes to the hydrocarbon sector and the government-take increased from US$287 million to US$608 million. Morales introduced a second round of changes with his nationalisation in 2006 and increased the government-take to over US$1.6 billion by 2008. While the falling global commodity prices and minor decreases in demand from Brazil have resulted in a decrease in the government-take, the Bolivian state still took in over US$1 billion in rent from its hydrocarbons in 2009.

For transnational corporations (TNCs), the nationalisation resulted in lower returns but did little to affect most of their investments. The Bolivian state only sought to regain control of its previously capitalised assets. At the time of nationalisation, the firms holding these assets only extracted 6.3 percent of Bolivia's natural gas. The companies extracting the remaining 93.7 percent did not invest in YPFB during the 1990s. After the nationalisation, these companies were forced to sign new contracts that recognised the state as the legal owner of the hydrocarbons extracted from Bolivian soil, but their daily operations changed very little. While the new tax decreased their profit potential, increasing prices made the decreases to their profit margins less significant. In addition, the rents paid after the nationalisation were similar to rents most of the investors paid in other parts of the world. As a result, while investors initially threatened to bring the Bolivian state to international arbitration, most did not and eventually signed on to the new contractual agreements.

The changes made by the Morales government have allowed it to utilise the increased profits from its hydrocarbon sector to both stabilise the Bolivian economy and pursue an array of redistributive social programs. To protect against external economic shocks and increase internal economic stability, the Morales government increased foreign reserves from around US$2 billion to US$8billion. In addition, it has increased government spending on infrastructural improvements, education, and health care. The Morales government has started campaigns to eliminate malnutrition and illiteracy, created a program to reward families for keeping their children in school, developed a system to encourage pre- and post-natal doctor visits in order to reduce child and maternal mortality rates, and improved the public pension system by increasing the number of people covered and amount of money they receive. Through the changes made by the Morales government, Bolivia's real GDP growth has risen from 3.4 to 5.2 percent annually.

While the Morales government has successfully increased economic growth and achieved some of its redistributive social goals, it faces a number of difficulties if it intends to continue to use its hydrocarbon sector as its primary engine of socioeconomic change. The material realities surrounding natural gas as a finite resource make continued investment in exploration necessary. However, the Morales government inherited a hydrocarbon sector in which very little investment has occurred in exploration activities since the late 1990s. While the Morales government has attempted to direct more funds towards YPFB and exploration activities, pushes to decentralise state funding over the past twenty years by both Morales supporters and opponents have resulted in a distribution of hydrocarbon rents that directs profits towards departmental and municipal governments. Within this context, the Morales administration has been constrained in its efforts to properly fund YPFB and thus made it difficult for the state company to appear a viable investment partner in potential joint-ventures with foreign firms. To continue to use its hydrocarbon sector as an engine of economic growth, the Bolivian government estimates it needs around US$11 billion in investment over the next three years, US$7 billion of which it needs to acquire through outside partnerships and investments.

Despite these complications, the market demand for Bolivia's natural gas still exists and both old and new investors have agreed to help develop the country's hydrocarbon sector in joint-ventures with YPFB. While Brazil has stated its intentions to become energy self-sufficient, it currently imports close to 50 percent of its natural gas from Bolivia and has a take-or-pay contract that guarantees it will remain a primary buyer of its neighbour's natural gas until at least 2019. Apart from Brazil, Argentina has stepped up its efforts in recent years to import greater quantities of Bolivia's natural gas and both Paraguay and Uruguay have expressed interest in importing natural gas from Bolivia. Chile has also continually expressed interest in Bolivia's natural gas, but historical difficulties and the lack of existing transport infrastructure make this highly unlikely. Internal demand for use in automobiles and energy production has also increased. In addition, new demands have come from actors outside of the hydrocarbon sector. Mining firms such as Jindal Steel have sought access to Bolivia's natural gas to satisfy its energy demands at its iron-ore extraction site in eastern Bolivia, and Braskem S.A. has expressed interest in using Bolivia's natural gas in petrochemical production activities. A number of transnational investors including Gazprom, Petroleos de Venezuela S.A., Total, and Repsol YPF have recently made new investment commitments in Bolivia that may help satisfy these demands.

While discussions of regional integration could lead to increased investment and market opportunities within Bolivia's natural gas sector, such arrangements have not significantly affected Bolivia's hydrocarbon sector. The Morales government spurned membership in the Free Trade Area of the Americas (FTAA), instead favouring regional integration that prioritises social well-being over economic growth through the Alianza Boliviariana para los Pueblos de Nuestra America (ALBA). But very few Latin America countries have joined ALBA and none of the current member countries are markets for Bolivia's natural gas. Bolivia's potential acceptance as a full member into the MERCOSUR Common Market Group could affect its hydrocarbon sector. MERCOSUR countries have continually debated the incorporation of Bolivia and have seen the country's natural gas supply as having a role in a South American "energy ring". However, such discussions have diminished over the past few years.

CONCLUSION

Since Morales has come to power, the Bolivian state has utilised its hydrocarbon sector to propel economic growth and to institute numerous social reforms. While a dependency upon the profits from the sector exists, recent drops in global commodity prices have not significantly affected Bolivia's economy. For private investors, increased rents have affected profit margins, but such changes have not significantly deterred investment. Bolivia's neighbours still need its natural gas and over the past year both old and new investors have agreed to explore and develop new oil and natural gas reserves on the Morales government's terms. In many ways the Morales government offers investors something previous governments have not: social stability and legitimacy. Whereas under previous governments transnational firms were often the targets of Bolivia's active social movements, working with YPFB to extract oil and natural gas legitimates the actions of transnational firms within the country and redirects criticism by social movements targeting the hydrocarbon sector towards the state. While a rising number of social movements have expressed concern over the environmental impacts of increasing oil and natural gas extraction in Bolivia, the Morales government holds widespread support throughout much of the country and recently won an easy re-election. As a result, the majority of the Bolivian population supports the Morales mandate of using the country's natural resource wealth as its engine of growth and socioeconomic change. ■