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Bolivia pays a high price for nationalisation

By Naomi Mapstone in Lima and Andres Schipani in La Paz
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Bolivia, the linchpin of gas supplies to the southern half of Latin America, is struggling to secure long-term investment for its hydrocarbons sector amid questions over its reliability as a supplier and uncertainty over demand from export markets.

Evo Morales, the country's popular leftist president who faces a presidential election in December, travelled to Russia this week to sign an agreement with Gazprom, the state gas monopoly, to develop Bolivia's gas reserves until 2030.

The government estimates the Gazprom agreement, which includes a joint project with Total of France, will be worth $3bn (€2.3bn, £2bn). It says Venezuela and Yacimientos Petroliferos Fiscales Bolivianos (YPFB), Bolivia's state-owned gas company, will together invest a further $240m.

The fact that Bolivia has to go so far abroad highlights the damage it did by nationalising its energy industry in 2006, driving away technically able international companies with a proven ability to raise funds.

The consequences will also be felt by the country's neighbours, particularly Brazil, the region's biggest economy.

Carlos Alberto López, a former Bolivian energy minister and consultant with Cambridge Energy Research Associates, says Bolivia, having undermined its strategic position, is now turning to countries such as Russia and Venezuela to fill the investment gap. However, he warns that, in the current economic climate, this could be problematic.

"For ideological reasons this government wants to rely on state-run companies. But the only efficient one is Petrobras [of Brazil]. The Gazproms, Pemexes, PDVSA and Iran are not," he says, referring to Mexico's Pemex, and PDVSA of Venezuela.

"In prosperous times they do fine, but in bad times they fail. Bolivia wants to support itself using giants with clay feet."

The Bolivian government says it expects to boost oil and gas investment to $530m this year, after it fell to $149m in 2007 from a peak of $581m in 1999.

Oscar Coca, who became the fourth hydrocarbons minister to serve under Mr Morales when he was appointed last week, told state media that attracting new investment was his top priority.

“Businesses haven’t made the necessary investments and today we’re living with the effects . . . Our chief goal is to take care of that issue in the medium and long term,” he said.

However, the 12 foreign companies that operate in Bolivia, already rattled by the nationalisation of the country’s gas and oil sector, are awaiting implementation of a hydrocarbons law required by the new constitution and are wary of getting more involved.

The government has said it will respect existing contracts but one executive from a nationalised foreign company expressed scepticism about the pledge.

“The current government has no problems in not following contracts and there is a perception that the legal system in Bolivia is not up to normal standards. So if things go wrong, an investor will have to deal with a Bolivian court and it is very unlikely that they won’t back the government,” he says.

Mr López says political uncertainty in Bolivia has hastened the arrival of new suppliers in the region.

“Unlike three years ago, when Bolivia was a preferential supplier, today we are suffering the politicisation of hydrocarbons,” he says.

“By being unreliable, Bolivia itself promoted the entrance of liquefied natural gas (LNG) in the region and can now forget about imposing, setting or negotiating prices as it did in the past.”

Bolivia, which has the second biggest gas reserves in the region after Venezuela, is the largest supplier of gas to Brazil and Argentina. Its plans to increase exports to Argentina are being held up by delays in the construction of a pipeline between the two countries and its failure to respect existing supply contracts forced Argentina to import costly LNG from outside the region last year .

Buenos Aires has been importing gas from Bolivia and exporting to Chile, but surging domestic demand prompted it to cut exports to a trickle. Both Chile and Uruguay are now exploring the possibility of LNG, which can be transported by sea from anywhere in the world as a safer long-term prospect, despite it being more expensive.

Chile, which imports two-thirds of its energy, cannot buy directly from Bolivia because of a lingering diplomatic dispute.

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