

# **SOUTH AMERICA - After Bolivia's Gas Nationalization, Toward a New Regional Map**

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*[IRC](#)- In a single sweep of the pen, Bolivian President Evo Morales has rearranged the continent's entire geopolitical map. The May 1st decision to nationalize hydrocarbons placed South America's second largest gas reserves under state control. Oil and gas are powerful weapons, capable of reshaping South American alliances, as evidenced by the close relationship between Venezuela and Bolivia-the continent's largest reserve holders in both sectors-who have taken the political initiative and displaced the primary regional powers.*

In reality, Evo Morales had little choice. Either he nationalized his country's natural resources, or his administration faced getting caught on a one-way street to serious political crisis-the same path his predecessors Gonzalo Sánchez de Lozada and Carlos Mesa found themselves on before popular pressure forced them both to step down over the issue of nationalization. The people of South America's poorest country understand that it is the last strategic resource for keeping afloat their national project.

The result is that previous alignments have been strained as new power relationships begin to form. Carlos Alvarez, President of the Permanent Commission of Mercosur, notes that it is necessary to analyze the regional map with caution because "it is reformulating" [\[1\]](#). In effect, Mercosur is in crisis, the FTAA cannot break its deadlock, the Andean Community is rupturing, and the South American Community of Nations (SACN) is not advancing.

Amidst the ruins of former integration initiatives, new initiatives have grown that have yet to be fully consolidated. Although many contradictions and regional conflicts have arisen, which is characteristic of periods marked by abrupt change, it seems clear that the new regional map will look very different from past decades, and present a sharp break from the one laid out by the Washington Consensus.

## **Mar del Plata Initiates the Change**

In November of 2005, the failure of the FTAA was sealed during the Presidential Summit at Mar del Plata. At the summit, the four member countries of Mercosur (Argentina, Brazil, Paraguay, and Uruguay) joined by Venezuela acted in unison and rejected the proposal of George W. Bush.

The failure of the FTAA accelerated events that were already unfolding. Mercosur was having difficulty navigating the always-tense relations between Argentina and Brazil, and all indicators pointed to increased difficulties with the incorporation of Venezuela (finalized in 2005) and possibly other countries. At the same time, the South American Community created by Brazil in 2004 offered a potential alternative in the face of the imminent collapse of a Mercosur that seemed unable to accommodate all the nations of the region.

After the Mar del Plata Summit, a series of acts occurred in what became a very dense month of April, replete with reunions and extraordinary events. On the one hand, the United States stepped up its offensive to sign free trade agreements with Andean countries, and as a consequence Colombia and Peru joined the free trade agreement signed by Chile in the 1990s, although their parliaments have yet to approve the measures. The tense electoral process in Peru-the result of which remains uncertain-could complicate the process of finalizing the agreement. In January, Evo Morales assumed the presidency and began a process of reforms that is being closely followed by the region's most powerful countries, in

particular Brazil, Argentina, and Venezuela. At the same time, Ecuador's free trade agreement has been stymied by the powerful indigenous uprising in March. The uprising accomplished its main goal-the rejection of the free trade agreement-in a country where the political situation is being managed by a weak transitional government until the next presidential elections.

By December, the crisis in Mercosur had become critical. While Argentina and Brazil continued to tighten their alliance and seek ways to resolve the deep commercial and economic asymmetries between them, the construction of two large paper mills on the eastern coast of the Uruguay River has strained relations between Néstor Kirchner and Tabaré Vázquez. Massive grassroots mobilizations on the Argentine side of the river that block the international bridge and impede traffic have intensified the conflict and further distanced Uruguay from Mercosur.

While relations between Buenos Aires and Brasilia are visibly improving, tension is surfacing with some of the smaller member countries (Paraguay and Uruguay). These nations assert that the regional heavyweights are not giving due consideration to their interests. In this scenario, Hugo Chavez is spearheading his own plans for integration. He proposed the construction of an enormous gas pipeline, called the Southern Gasoduct that would unite Venezuela and Argentina by passing through Brazil. The project would cover over 10,000 kilometers and cost some \$23 billion.

The geopolitical landscape until the month of March could be drawn, as Argentina analyst Julio Godio maintains, as two conflicting scenarios: the advance of the free trade agreements, which set up a "situation of balkanization," and the growing alliance between what he calls "a neo-developmental current" composed by Argentina, Brazil, and Venezuela [2].

Also during the key month of April, Venezuela's president decided to abandon the Andean Community due to Peru and Colombia's trade alliances with the United States. Chavez then began to actively support the Peruvian nationalist candidate Ollanta Humala in that country's presidential elections-a move that provoked confrontations with President Alejandro Toledo and opposing candidate Alan Garcia.

In this situation, the Venezuelan president made a risky move. On the 19th, he took part in the meeting held in Asuncion with Bolivia, Paraguay, and Uruguay and, at the Uruguayan president's request, proposed an alternative design for the Southern Gasoduct that would bypass Argentina. The fact that Venezuela is an oil exporter and the principal financier of the pipeline gives Chavez great weight. The reaction of Argentina and Brazil was immediate: they convened a meeting for April 26th in San Pablo, at which Luiz Inacio Lula da Silva and Kirchner first met alone, and then with Chavez. Just a few days prior to this meeting, Venezuela, Bolivia, and Cuba had signed the People's Trade Treaty, which sealed the new regional alliance. During the meeting in San Pablo, Lula and Kirchner reproached Chavez for his interference in the affairs of the Southern Cone, the former claiming that he was inciting Bolivia against the Brazilian oil company Petrobras, and the latter arguing that he should not support the demands of the smaller countries against the larger ones. The meeting ended with an important advance in the construction schedule of the Southern Gasoduct, and everyone went home satisfied.

After the May 1st decree to nationalize Bolivian gas, Lula met with Kirchner, Chavez, and Morales on May 4th in Puerto Iguazu, Argentina to discuss energy security in South America.

### **Consequences of Evo's Decision**

The larger countries of the region have some serious energy problems. Argentina was, until recently, a self-sufficient country and exporter of oil and gas. However, the privatization of the state-owned energy company during the early 1990s led to a drop in oil and gas prospecting so that reserves declined dramatically. In 1989, when privatization of the sector began, reserves were estimated at 14 years for oil and 37 for natural gas. By 2004, they had fallen to nine and ten respectively, and 25% of the annual extraction of oil and 15% of natural gas is still exported [3]. The result is that Argentina will have to begin importing its hydrocarbons in the near future, thus passing from a state of self-sufficiency to one of dependence.

Brazil recently accomplished oil self-sufficiency, but it imports half of its natural gas from Bolivia. A major portion of that goes toward powering industry in San Pablo-the economic and political heart of the country, where 40% of the GDP is concentrated. But oil self-sufficiency is no guarantee: neoliberalism privatized a good portion of the state-owned energy company to the point that 60% of the shares of Petrobras no longer belong to the state but to private capital from the United States or their front organizations [4]. In Brazil, an intense debate is taking place over whether the country should continue selling bids on oil reserves to foreign companies that export it, or “save” it for the hard times to come, as the United States and China are doing [5].

In a way, the large countries in the region depend on poor countries like Bolivia and middle countries like Venezuela to meet their energy needs. The flip side of the partial privatization of Petrobras is that the company has embarked on a race to acquire the continent’s hydrocarbon reserves, with special attention to Bolivia (where it controls 20% of the GDP), Argentina (where it controls 15% of the fuel market), and Ecuador (where it faces serious problems with the indigenous communities). Petrobras’s actions have created complications for Brazil across the region and worked against regional integration by promoting competition instead of collaboration between countries.

The reaction of Brazil and Argentina to the Bolivian gas nationalization demonstrated their dependence on this source. In the short term, the price they pay for gas will go up. Argentina is assured natural gas supply from Bolivia, but now at a higher price. Argentina also urgently needs the Southern Gasoduct to diminish its oil dependency.

Brazil’s situation is different. Petrobras will lose control of reserves in the Andean country. The powerful business community of San Pablo has balked at paying more for Bolivian gas, and Petrobras’s shareholders stand to lose out if the business is forced to absorb rising costs, as Lula announced it would [6]. Bolivia sells between 27 and 30 million cubic meters of natural gas a day to Brazil at a price of \$3.2 to \$3.4 per million BTUs (British Thermal Units), and between 4.5 and 7 million cubic meters of natural gas a day to Argentina at a price of \$3.18 per million BTUs, whereas the multinational corporation British Gas sells natural gas to Chile at a price of \$7 per million BTUs. If Bolivia raises its price by one dollar, it stands to gain \$300 million.

The most heavily affected country, Brazil, has looked on with discomfort as Hugo Chavez has carved out a leadership role in the region. Lula did not hide his displeasure with Chavez and Minister of Foreign Affairs Celso Amorim issued warnings that Chavez’s attitude endangered the Southern Gasoduct project and regional integration [7]. As one analyst points out, Chavez “becomes the key, predominant figure of political affairs in Bolivia” [8]. For the Venezuelan government, the situation has been win-win: Chavez consolidated a new ally in the region, affirmed his political initiative, and placed Brazil in the difficult position of having to take backstage to Evo Morales in the international arena while at home the media and public opinion have hounded the government to take a harder line on its position with Bolivia.

Moreover, the Bolivian president fiercely attacked Petrobras when he claimed the company has operated “illegally” and is now “blackmailing” his country [9]. For its part, Petrobras feels the necessity to protect the interests of its private investors, and has threatened to take the case to New York courts and stop investing in Bolivia.

All of this serves to aggravate the conflicts of interest between countries that have been working side by side for regional integration to create a common front in the face of the FTAA. On that point, Petrobras is in the eye of the storm. It’s the second most important company in the region and generates huge revenues: in the first trimester of this year it registered a liquid profit of \$3 billion, 33% higher than in 2005 [10]. The company behaves as any other transnational oil company would. Since the Brazilian state only has partial control over decisions, major conflicts crop up between the interests of Petrobras (ultimately defined on the New York Stock Exchange) and the interests of the Brazilian state.

## **An Uncertain Landscape**

In the context of the huge changes taking place, it is difficult to predict the path the region will take. The

free trade agreements with the United States are making headway, but they also face serious difficulties. A good example is what is taking place with Bolivian soy producers. Bolivia exports half a million tons of soy beans to Colombia, for \$160 million annually. By signing on to a free trade agreement, Colombia must now import all of its soy from the United States, where farmers receive substantial government subsidies [11]. Logically, Bolivian producers have strengthened alliances with opponents of the free trade agreements, like President Evo Morales, which has facilitated the formation of large fronts in opposition to the policies of Washington. "The wave of conflicts in Ecuador, Peru, and Colombia due to the free trade agreements with the United States, the closure of the Bolivian soy market, and the ensuing crisis of the South American Community, are the first economic and social impacts to be felt as a result of the trade agreement between the Andean countries and the United States, whose consequences in the medium-term are still hard to predict" [12].

Opponents of this type of vertical integration, namely those who attended the Mar del Plata alternative summit to bring down the FTAA, do not have a unified project; rather, they are aligning themselves in two separate-some might even say opposing-camps. On the government side, there is a new alignment between Bolivia, Cuba, and Venezuela, based on coinciding ideologies, including rejection of U.S. policies, as well as various proposals like Hugo Chavez's Bolivarian Alternative (ALBA, by its Spanish initials), which has failed thus far to win over the main countries of the continent.

In that sense, the recent Bolivian initiative of the People's Trade Treaty signed in Havana is a novelty. It is based on a proposal by Evo Morales to design an alternative form of trade that assures a market for small producers, artisans, microbusiness-owners, cooperatives, and community-run businesses. Once in place, however, the project will-apart from its good intentions-have little impact on the regional situation.

On the other hand, Bolivia's nationalization of hydrocarbons could influence other countries in the region like Ecuador, where elections will be held in October and the government recently canceled its contract with the U.S. oil company OXY. Ecuador has been exporting oil for decades but has no refineries of its own, and consequently must import its gasoline and diesel fuel. The Bolivian project to industrialize gas could serve as a model for the region, and other countries may follow suit.

In any case, this sector's strongest agenda has been to promote the construction of the Southern Gasoduct, which faces a difficult road since it is more a political than economic initiative. The Bolivian Secretary of Hydrocarbons, Andres Soliz Rada, made it known he aims to build the pipeline with state-owned companies: "Here there is a problem for Brazil, since Petrobras gave up 60% of its shares to the private sector. The State has shares with special privileges, but the transnationals also hold weight with Petrobras. In order for the process to take place, we need Petrobras to be transparent about its relationship with foreign companies. We conceive of the Southern Gasoduct as an alliance just between state businesses" [13]

This is precisely the key aspect of integration and the new regional map that is being drawn out. If things were left purely to the momentum of economic forces-the so-called logic of the market that is nothing more than the logic of the transnationals-the result would be a type of integration that would continue producing marginalization and poverty in every country and accentuating the inequalities between rich countries and poor countries. The key is the attitude Brazil adopts. If Lula gets reelected in the October elections, new possibilities arise to initiate a process in which political considerations take precedence over economic ones. Something like this is already taking place in Europe where, in order to make viable the formation of the European Union, powerful countries like Germany and France "help" the poorer countries offset asymmetries by specializing in the production of capital goods while opening their markets up to the consumer goods and raw materials of other members. As long as the powerful countries continue to scam the poorer countries and major inequalities persist, there can be no democratic integration.

With that in mind, during the neoliberal decade of the '90s "Petrobras embarked on a race to obtain as many reserves as possible and diversify its activities, thus positioning itself for the future" [14]. If energy integration becomes the driving force behind redesigning the regional map, the logic of the market, which

disdains the sovereignty of the state, will not take root. For this reason, the continent's large countries responsible for leading the process must look beyond the narrow scope of national ambitions. Thus far, Brazil has leaned on Mercosur in the South American region as a way to become a global player. It is an understandable goal, perhaps even beneficial since it has strengthened multilateralism, but limited because it causes conflicts in a region that feels used and disrespected, as evidenced by the tension it has with various countries.

In the coming months, the new regional map is bound to take a more definite shape as elections results come in for Peru and Ecuador, but also Nicaragua and Mexico. Stopping the FTAA was a tremendous feat, accomplished in part by governments and in part by social movements. But it is not enough. To prevent free trade agreements from advancing, it is indispensable to design and launch forms of integration that come from the people and not the markets. Perhaps the first test, following Bolivia's gas nationalization, will be the course of the Southern Gasoduct. If successfully constructed, it will serve as a good thermometer for measuring what type of integration lies ahead.

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#### Endnotes:

Página 12, May 12, 2006.

Julio Godio, "Las tensiones en el Mercosur y el rediseño del mapa sudamericano," May 20, 2006, at [www.alainet.org](http://www.alainet.org).

Félix Herrero, "Sed de petróleo y gas en el futuro inmediato," *Le Monde Diplomatique*, Buenos Aires, April 2006.

According to a recent report by O Globo, Petrobras's share capital is composed as follows: common shares (the only ones with a right to vote): federal government 55.7%, National Economic and Social Bank (BNDES) 1.9%, foreign-owned 30.3%, FGTS (a worker-social fund) 4.6%, others 5.5%. The total capital (sum of the shares with and without a vote): federal government 32.2%, BNDES 7.6%, foreign-owned 39.8%, FGTS 2.7%, others 17.7%

Carlos Lessa, "Petrobras, soberanía e geopolítica," *Valor Económico*, Rio de Janeiro, May 10, 2006. O Estado de Sao Paulo, May 6, 2006.

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Andrés Soliz Rada, interview in Página 12, an addition of Cash, May 14, 2006.

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Andrés Soliz Rada, interview in *Página 12*, supplement of *Cash*, May 14, 2006.

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<http://americas.irc-online.org/am/3290>

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## Footnotes

[1] *Página 12*, May 12, 2006.

[2] Julio Godio, "Las tensiones en el Mercosur y el rediseño del mapa sudamericano," May 20, 2006, at [www.alainet.org](http://www.alainet.org).

[3] Félix Herrero, "Sed de petróleo y gas en el futuro inmediato," *Le Monde Diplomatique*, Buenos Aires, April 2006.

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[5] Carlos Lessa, "Petrobrás, soberanía e geopolítica," *Valor Económico*, Rio de Janeiro, May 10, 2006.

[6] *O Estado de Sao Paulo*, May 6, 2006.

[7] *La Jornada*, May 10, 2006.

[8] Julio Godio, ob. cit.

[9] La Nación, May 11, 2006.

[10] Folha de Sao Paulo, May 12, 2006.

[11] Huascar Rodríguez García, “Los primeros efectos, del TLC,” May 11, 2006, at [www.alainet.org](http://www.alainet.org).

[12] Ibid.

[13] Andrés Soliz Rada, interview in Página 12, an addition of Cash, May 14, 2006.

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