

New President Creates Uncertainty About Bolivia

When does the president-elect of the poorest country on a continent plagued with high poverty rates take a pre-inauguration trip around the world, with stops as varied as Venezuela, France, China and South Africa? The answer is when that president-elect is set to take the reins of a country with huge, untapped natural gas reserves.

Evo Morales handily won Bolivia's December election after protests over developing the country's gas reserves proved to be the undoing of his two predecessors. Now there is a collective holding of breath to see what happens next in a country facing the paradox of how to generate wealth from its reserves without incurring the wrath of its desperately poor citizens.

One of the first orders of business for Morales when he took office Jan. 22 was to pass the rather controversial Hydrocarbon Law 3058, dated May 17, 2005, which provided for the mandatory conversion of existing shared-risks contracts into service contracts within 180 days of the new law taking force, and to increase taxes and royalties on gross production to a combined 50 percent take. Operators have balked at those terms, going so far as to threaten international arbitration.

The initial deadline of Nov. 15 passed without resolution, with players such as Repsol-YPF and Petrobras sitting back to see what happened next. Consequently, the deadline was extended to May 15.

Morales' campaign rhetoric railed against the foreign oil and gas companies operating in Bolivia, although he softened his stance somewhat in the final days prior to his election. While Morales may look for inspiration to Hugo Chavez, who has successfully twisted the arms of exploration and production companies operating in Venezuela, Bolivia does not yet generate enough hydrocarbon wealth to keep its foreign operators comfortably in the black.

Neither will Bolivia's oil and gas revenues allow Morales to fund a populist revolution the way Chavez has. Accepting this fact led former Hydrocarbons Minister Mauricio Medinacelli to propose incentives to increase production from marginal fields. Perhaps even more telling is a proposal to educate Bolivians about the country's gas reserves and the benefits of large-scale international gas projects.

Meanwhile, 11 blocks were reserved for state-owned company Yacimientos Petroliferos Fiscales Bolivianos (YPFB) on Nov. 24 as part of the company being re-established as a state-controlled entity. Under Article 34 of the new hydrocarbons law, areas with hydrocarbon potential are reserved for YPFB's interest or in association with third parties.

Some of these blocks are highly prospective, but also carry a high degree of risk. YPFB lacks both the funds and expertise to undertake the required exploration, and will have a difficult time finding foreign partners under Bolivia's hydrocarbons law.

The country's woes have had effects well beyond its bor-

“Evo Morales handily won Bolivia's December election. Now there is a collective holding of breath to see what happens next.”

ders. Basking in the glow of first deliveries from Camisea, Peru benefited when Repsol-YPF abandoned Bolivia's proposed liquefied natural gas project in mid-2005 in favor of the Peru LNG consortium, bringing Camisea a land-use permit for a Mexican regasification terminal in the bargain. Faced with unstable supplies and threats of higher prices from Bolivia, both Argentina and Brazil have been scrambling to shore up other sources of natural gas.

In particular, Brazil has been working overtime to increase domestic production and infrastructure. In mid-January, Petrobras announced it would be spending \$18 billion over the next 10 years for exploration and production in the Santos Basin alone. A master plan has been drawn to increase production by 424 million cubic feet a day to Brazil's southeastern market by the second half of 2008. By the end of 2010, Brazil hopes to be producing 1.06 billion cubic feet a day, thereby “making a significant contribution to reducing the country's dependence on imported gas.”

South America is beginning to realize the potential of natural gas not only to raise standards of living, but also to promote political and social integration among neighbors. Achieving this goal will require more aggressive exploration and open access, but with some of the largest natural gas reserves on the continent, Bolivia's role remains very much unresolved. □



ANNE LEONARD is editor of *IHS Energy's International Oil Letter*, a weekly analysis of global E&P activity. She can be reached at anne.leonard@ihsenergy.com.