

Bolivia's Nationalization

Understanding the Process and Gauging the Results

by Nadia Martinez
August 2007

May 2007 marked one year since President Evo Morales announced the nationalization of Bolivia's oil and gas industry. Morales, who assumed the presidency in a landslide election 18 months ago, was responding to the demands of his citizens by fulfilling one of his most popular campaign promises. Although critics and detractors claimed that his move was radical and even irresponsible, initial evidence suggests that Morales' actions have been readily accepted and quite successful. Although it is expected that it will take several years to address the country's endemic poverty, regaining control of Bolivia's natural resources was seen as a first step toward generating the revenue to promote much needed development.

Bolivia's "gas war"

With 48.7 trillion cubic feet of natural gas, Bolivia has the second largest proven reserves in South America (after Venezuela). Yet, it is the region's poorest country. Although the Bolivian Constitution declares that all hydrocarbons are property of the State, in the mid-1990s, to comply with reforms mandated by the International Monetary Fund (IMF), the Bolivian government allowed the sale of oil and gas concessions to foreign companies, including from the U.S. and Europe. All of the country's gas transportation networks were sold to a consortium owned by Royal Dutch Shell and the now defunct Enron Corp. Other corporate winners included Amoco, British Gas, Australia's BHP, Spain's Repsol and Petrobras, the Brazilian state oil company. The deal allowed foreign corporations in the oil and gas business, and increased the share of their gains to 82%, leaving a mere 18% for Bolivia's coffers.

In October 2003, then President Gonzalo Sanchez de Lozada fled the country amidst massive popular protests. Already disenchanted by his earlier privatization policies, Bolivians refused to allow yet another gas export deal, especially since the project, known as Pacific LNG, was meant to transport gas to Mexico and the United States via Bolivia's archrival, Chile. (The enmity dates back to 1884, when Chile swiped Bolivia's only coast following the War of the Pacific, leaving the nation landlocked).

Two interim presidents followed in the next three years. None was able to decidedly resolve the conflicts around the issue of Bolivian gas, while calls for nationalization became louder and more widespread. In a national referendum in 2004, 89% of Bolivian voters mandated the government to assume greater control of the hydrocarbons sector. The "gas war" was a clear indication that Bolivians were determined to reverse centuries of plunder of their natural resources. Morales, as their elected leader, is attempting to carry out those wishes.

The nationalization process

On May 1, 2006, shortly after taking office, President Morales announced a decree nationalizing Bolivia's hydrocarbons, which laid out several goals:

- 1) The state is in control of all the country's oil and gas resources, as mandated by the Constitution.
- 2) The state will regain private company shares to rebuild the dismantled state-owned oil and gas company, YPFB (*Yacimientos Petrolíferos Fiscales Bolivianos*).
- 3) The Energy Ministry will carry out audits of operating companies as the basis for new contracts.
- 4) The government will renegotiate new joint contracts with private companies operating in Bolivia within six months of the signing of the decree.

Bolivian government negotiators met the established October 31, 2006 deadline, and achieved rates from taxes and royalties of 50-80% through 44 new contracts with 12 different companies. The process stalled when the new contracts made it to the Senate for review in November 2006. Numerous errors were uncovered that required additional time to correct. Although several members of the Senate, whose majority is in the opposition, accused Morales' negotiators of wrongdoing, most of the mistakes found were a result of general inexperience and their relative lack of technical expertise. Lawmakers in the same opposition-led Senate unanimously approved the contracts in April 2007, and thus, ratified the nationalization process.

Norway's example

Many aspects of Bolivia's nationalization actually replicate Norway's oil management policies, which are known and accepted by the global oil and gas industry. Norway is an oil producer and exporter. It is an example to the world of how a country can achieve development through the strategic use of its natural resources, in partnership with private industry.

Bolivia's measures are actually quite conservative, when compared with Norway's. The Norwegian government currently takes 90% of the revenues that are generated by its oil and gas sector, through a combination of taxes and public ownership. The government owns 70.9% of the shares of the Norwegian oil company, Statoil. It also prioritizes national companies over foreign multinationals when entering into joint venture contracts or designating exploration rights and extending concessions.

The first year's report card

Although the new gas contracts only went into force in May 2007, some benefits are already apparent as a result of the nationalization. Opponents feared that any move to nationalize the hydrocarbons sector in Bolivia would compromise foreign investment in that country. In fact, all the foreign companies that were doing business in Bolivia before the nationalization actually negotiated new agreements and continue their operations, including U.S.-based giant Exxon-Mobil. The Bolivian government has estimated that the new terms will yield significant revenue into the national treasury – around US\$2 billion in 2007 – and is expected to rise to around \$4 billion within the next four years. The government did not expropriate or seize any private company assets.

The company with the largest stake in the Bolivian gas industry, Brazil's Petrobras, not only guaranteed continued investment, but Bolivia also achieved an agreement with Brazil to raise the unit price of gas it imports from Bolivia by 20% of current pricing. At the same time, Bolivia also reached an agreement with Argentina, its second largest client, to boost export sales beginning in 2010, guaranteeing yet another long-term market for Bolivia's new state-owned gas industry and potentially doubling its revenue. Although investment has slowed since the nationalization process began, the new contracts include investment clauses, signaling that they will likely resume.

According to Bolivian government figures, the state received \$1.6 billion in revenue from gas sales, taxes and royalties in 2006, a 40% increase from the previous year. As part of his social agenda, President Morales allocated part of the revenues to improve childhood education. Similar to the touted *Bolsa Familia* program in Brazil, the Juancito Pinto scholarship fund distributes cash payments directly to families with school-age children to ensure they remain in school. Revenues have also gone to fund a new interest-free and low-interest housing loan program for low and middle income Bolivians.

Morales' attempts to respond to the demands and interests of his constituencies should be understood in the context of greater demands for corporate social responsibility (a global issue) and role in resolving important problems of poverty for the Bolivian people. One of the government's main challenges will be to manage the revenues from the oil and gas industry effectively, which requires strong institutions and well-trained civil servants – an issue the Morales administration has committed to addressing.

Nadia Martinez is co-director of the Sustainable Energy and Economy Network (SEEN,) at the Institute for Policy Studies. IPS is an independent center for research and education founded in Washington, DC, in 1963. Contact: nadia@ips-dc.org or 202-234-9382 x 209. Sources consulted and cited provided upon request.