



Brazil: the agreement for Bolivian gas supplies

Roberto Stefanini

1 March 2007

Brazil: the agreement for Bolivian gas supplies

On 14th of February, the Brazilian president Luis Inácio Lula da Silva and his Bolivian counterpart, Evo Morales, signed, in Brasilia, an important contract on gas supplies. The agreement provides for a small rise in the price paid by the Brazilian state-controlled Petrobras for the most substantial part of the Bolivian supply and a relevant increase in the cost of gas bound for Mato Grosso. So, the political and commercial dispute, that began with the accession to the premiership of Evo Morales, who made the nationalisation of natural resources and the revision of contracts with the multinational companies into a pillar of his Government's policy, seems to be drawing to a conclusion. The agreement, which has to be considered as part of the tortuous process of integration of Bolivia in the Mercado Común del Sur (Mercosur), solves only a part of the questions connected to the Brazilian energetic provisions.

[Roberto Stefanini](#)

The Brazilian energetic model and the pre-existent agreements

The changes to the normative scheme that regulates the exploitation and the commercialisation of hydrocarbons in Bolivia started before the electoral victory of Evo Morales' Movimiento al Socialismo (MAS). In 2005, with the vast popular mobilisations, the then President Carlos Mesa held a referendum on the revision of the treaties with energy multinationals. The consultations and the following increase in the gas taxation, rising to 50%, were the basis of Evo Morales's Government actions which centred on nationalisations and on a new regulation applied to the foreign energy companies. The country which suffers most from the evolution of the scenario is Brazil, which has imported Bolivian gas since 1999, eventually becoming the principal buyer. For many years, the Brazilian energetic model promoted self-sufficiency through the construction of big hydroelectric stations and the increase of internal oil production. Only recently has natural gas acquired importance as a fuel for energy production in place of oil derivatives. Even if Brazilian gas supplies are increasing, the biggest part of it - about 80% - is associated with oil and is placed - for around 65% - in sea reserves, consequently its use is subordinated to oil extraction and to specific investments. So, Brazilian supplies of hydrocarbons are not sufficient to cover the increase in energy demand, heightened by the drought which has reduced the flow of big

rivers and the production of hydroelectric energy. In order to face the new juncture, Petrobras has built the 3.000 km gas pipeline named Bolivia - Brazil, connecting the Bolivian fields with the State of San Paolo, carrying about 26 million cubic metres of gas every day, half of the national consumption. However, this large investment, 1.750 million dollars, isn't risk-free. Since 2005, the idea of substantial stability of supplies has been disturbed not only by the Bolivian political upheavals, but also by the increasing gas exportations towards Argentina. On the 27th of October 2006, Petrobras accepted the requests of the Bolivian Government for the increase of the taxation on hydrocarbons, passing from 50% to 82%. The new tax regulations concern mainly the large fields of San Alberto and San Antonio, where Petrobras has already made important investments. Moreover, in order not to be expropriated, the Brazilian company has accepted that the state-controlled Yacimientos Petrolíferos Fiscales Bolivianos (YPFB) assume control of the Brazilian refineries in Bolivian territory. In this scenario, the Brazilian Government yielded to the political pressures of La Paz in fear that the YPFB could aim to control also gas exportation even without the operational capabilities and thus compromise Brazilian supplies.

Not satisfied with these results, the Bolivian Government insisted on obtaining new concessions, first of all the rise in price of gas in transit in the Bolivia - Brazil gas pipeline. It's worth remembering that the Argentine Enarsa pays 5 dollars per million of BTU (unit of measurement) of Bolivian gas, in comparison with Petrobras which pays 4,30 dollars. Achieving an agreement has been a tortuous process, up to the 11th of February Evo Morales' entourage was threatening to cancel the State visit to Brasilia if Lula's government would not commit to yield in regards to the price of gas sold to Petrobras. Brazilian diplomacy preferred to maintain the dispute on a technical level, delegating Petrobras and YPFB to solve the terms of the supply contract. The Brazilian energy company proposed to accept modifications in price according to the previous contract, which did not include modifications until 2010.

The new scenario

After complicated negotiations, an agreement emerged from the Brasilia meeting on the 14th of February, in which the Bolivian and Brazilian Ministers of Energy and the Presidents of YPFB and of Petrobras established two fundamental points. On one hand, there will be no changes to the volume of Bolivian natural gas provided by the actual contract between YPFB and Petrobras. On the other hand, the Brazilians accepted to remunerate YPFB - at the international market's prices - for the fractions of liquid hydrocarbons present in natural gas delivered which increase its heating power over 8.900 kilocalories per cubic metres, equivalent to 1.000 BTU per cubic foot. This additional clause assumes that the gas sold to Brazil has an heating power of at least 9.200 kilocalories per cubic metres, which reflects the presence of ethane, butane and propane together with methane. Even if the compensation seems to be penalizing, Petrobras estimates to take advantage soon of the presence of these elements, not considered in the original contract. According to the Bolivian Government, the new normative scheme will bring extra income of 100 million dollars, equivalent to 8% more than in 2006, when the value paid was of 1.261 million dollars.

On the contrary, the increase for the Brazilians won't exceed 4%. As Brazil hasn't a station which breaks up the different components of natural gas, Petrobras will start to build a gas-chemical pole on the border between the two countries, with a foreseen cost of 3 billion

dollars. At the margin of the principal agreement, the Bolivians obtained a rise of the gas price sold to the electric station Mário Covas in Cuiabá (Mato Grosso), which will pass from 1,19 dollars per million of BTU -according to the 1999 contract - to 4,20 dollars. The thermoelectric of Cuiabá - managed not by Petrobras but by Pantanal Energía and by Shell - satisfies 70% of the energetic requirements of Mato Grosso, while the negotiated volume provides for 2,8 million cubic metres per day until 2019. The difference of price, 44,8 million dollars per year, will be paid by the Brazilian Government which has avoided the complete revision of the contract for the supplies in transit in the Bolivia-Brazil gas pipeline.

The comments and the effects of the agreement

The price changes caused a vast series of criticism against Lula's Government, accused of following a line of concessions towards populist leaders of the area, to the detriment of national interests. That would open the way also to similar claims expressed by some politicians in Paraguay, with which Brazil jointly manages the hydroelectric station of Itaipú, near the Triple Borderline. The bilateral treaty which regulates the station provides for a half-and-half division of the energy produced; however, Paraguay consumes only 5% and is tied to exporting the remainder to Brazil. This clause is perceived as an imposition by the population and it's possible that it could cause a rise in price up to 700%. Beyond the possible international repercussions, it's important to note that Lula preferred to yield partly to the Bolivian demands; driven by the necessities of the Government of La Paz to appear determined in the nationalisation campaign of natural resources and of renegotiation of the contracts with the multinational companies. With these concessions, the Brazilian Government offers guarantees to Petrobras investments in Bolivia which were suspended due to political instability. The approach undertaken by Lula continues with the construction of roads and of a bio diesel production plant in Bolivia; Morales' reassurances on the supplies to Petrobras follow this. Bilateral negotiations in progress don't limit themselves to the price of gas, but include investments, commerce, environment, micro credit and infrastructure. Future agreements will establish the level of integration of Bolivia in Mercosur, to which it has adhered as an effective member. However, over the last few weeks Morales' declarations in regards to a further nationalisation campaign in the forest and mineral sectors have agitated both the countries of the commercial bloc and foreign investors. The Government of La Paz announced a tender for the construction of another chemical pole destined to the separation of gas components. Because the situation is delicate Brazilians don't appear really convinced of the solidity of the agreement of the 14th of February and have redoubled their efforts to differentiate the gas offer. Petrobras is accelerating its exploration plans for natural gas on Brazilian soil. The Venezuelan project of Gran Gasoducto del Sur, if the work should start, won't be complete before 2011. Because of the overall lack of flexibility in the gas market and the slow nature of exploration, Brazil won't be self-sufficient until the next decade, while in the short period the price of gas to the consumer will increase noticeably.

Conclusions - a long term agreement?

Recent agreements show an important interruption to the disputes sharpened by the campaign of Bolivian nationalisations at the beginning of 2006. The Brazilian Government operated with farsightedness because it's aware of the risks it could face if Bolivia were to

stop gas provisions to the industrialised areas in the South and Southeast . Moreover, it tried to guarantee more legal security to the investments in the infrastructure owned by Petrobras in the Andean country, the continent's first for its certified and not associated reserves. However, the increasing consumption in Brazil and the dynamic political situation in Bolivia represent important uncertainties about the solidity of the gas supply system of the South American giant.