

Bolivia's populism steps on Brazil

More than half the gas used in Brazil comes from Bolivia, which nationalized its reserves last week.

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SAO PAULO, BRAZIL – Bolivia's decision last week to nationalize its natural gas reserves shocked the West, but the country set to pay the highest price - both politically and economically - is Brazil, experts and analysts say.

More than half the gas used in Brazil is Bolivian, and in Sao Paulo - the state that accounts for roughly half of Brazil's GDP - the figure is 75 percent. Any disruption in supply from Bolivia would hit Brazil hard, and those in the heavily industrialized south of the country are especially concerned about the potential costs of last week's decision.

"If prices were to increase, industry would be very hard hit," says Saturnino Sergio da Silva, vice president of the Sao Paulo Federation of Industries, the state's most important business organization. "We want [Brazil's state-owned oil company] Petrobras to act; we have to be tough and say we don't accept this."

Petrobras's president Jose Sergio Gabrielli vowed last week not to invest a penny more in Bolivia, but Brazilian president Luiz Inacio Lula da Silva was more equivocal.

He admitted that Brazil had made a "strategic error" in relying too heavily on Bolivian gas, but told Bolivian President Evo Morales that Brazil would not abandon his country.

Although Mr. Morales, a left-wing populist who became Bolivia's first indigenous president in December 2005, had promised to nationalize the country's oil and gas reserves while campaigning last fall, few expected him to do it so aggressively.

But on May 1, Morales sent in troops to occupy foreign-owned petrochemical installations. He gave the companies 180 days to renegotiate their existing contracts and accept its decision to take 82 percent of all proceeds from production.

A commitment to negotiated settlement

Lula called an emergency summit to discuss the measures. After the meeting Thursday with Morales, Argentine President Nestor Kirchner, and Venezuelan leader Hugo Chávez, he tried to play down the affair by insisting that all sides were committed to finding a negotiated settlement.

But Lula is in an awkward position. While the former union leader shares Morales' humble background and populist goals, he can't afford to ignore Petrobras's stake in Bolivia.

The energy company says it has invested more than 1 billion dollars in Bolivia since 1994 and is responsible for 18 percent of the country's GDP and 24 percent of its tax revenue.

Mr. Gabrielli, Petrobras's president, told reporters if Bolivia does try to force up prices, his company will go to court. The contract signed with the Bolivian government to provide 30 million cubic feet of gas a day cannot be changed without both sides' approval, he says. Brazil's supply of gas is guaranteed by the contract, he adds, and consumers will not face a price rise.

But even if Bolivia does stick to the contract, experts say Lula needs to hasten development of Brazil's own natural gas reserves and take other steps to reduce its reliance on its neighbor.

"Petrobras has to speed up development and find alternatives to Bolivia," says Mr. da Silva of the Sao Paulo Federation of Industries. "We can't be held hostage to a country that breaks contracts at will."

Last month, the country declared itself one of the few nations self-sufficient in oil, amid much nationalist celebration. And last week, Brazil opened an uranium enriching plant it hopes will help it produce nuclear energy. Petrobras, meanwhile, is now under more pressure to speed up development of the major gas reserves discovered off the Sao Paulo coast, as Gabrielli confirmed in promising to invest 17 billion dollars in bringing it online by 2009.

"The country should have worried a long time ago about diversifying its sources of gas," wrote Andre Pires and Rafael Schechtman, two energy experts at the Brazilian Centre of Infrastructure, in an op-ed piece about the crisis that ran in Valor, a Brazilian business newspaper.

"President Lula, who blamed his predecessor for the lack of planning that caused the shortage of electric energy in 2001, is making the same mistake and his first term is ending with the country on the verge of a natural gas blackout."

Morales puts his money where his mouth is

Another worry for Lula - and also for the US - are the political ramifications of Morales' decision. Although a wave of leftist leaders have swept to power in Latin America recently, until now their words spoke louder than their deeds.

Analysts are now concerned that Morales' move to nationalize - made just days after he met in Cuba with Fidel Castro and populist Venezuelan leader Hugo Chávez - is evidence he plans to stand alongside those radical partners rather than the moderates led by Lula.

"I think that Lula and Chávez have disputed the leadership role in South America and this was a defeat for Lula," says Rogerio Schmitt, a political analyst with the Tendencia consulting firm.

"That doesn't mean we are seeing an irreversible shift to the left. There won't be a domino effect, other countries won't take the same measure