

Energy and Development  
in South America:  
Conflict and Cooperation

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With Jessica Varat*

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Front Row L-R- Colombian President Álvaro Uribe, Chilean President Michelle Bachelet,  
Bolivian President Evo Morales, Venezuelan President Hugo Chávez,  
Brazilian President Luiz Inácio Lula da Silva

Back Row L-R- Uruguayan Vice-President Rodolfo Nin Novoa,  
Ecuadorian President Rafael Correa, Guyanan Prime Minister Samuel Hinds

Oil Rig in Stormy Sea © Steve Bloom/Getty

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# Energy and Bad Luck in Bolivia

*Humberto Vacaflor*

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## INTRODUCTION

In the Jiangsue province of China, there is a city with an odd name. It is called Wuxi, which means “without tin.” As a young journalist coming from Bolivia—a country with many tin mines, tin miners, and tin cities—I was surprised to hear that 3,000 years ago, people living in Wuxi were sure that bad luck reigns anywhere that there is tin. The idea in that part of China appears to have been that in every place where one found tin or any raw material, people had the money to buy everything they needed and therefore forgot to work the land or to produce food. Therefore, the name Wuxi became something of an amulet to ward off bad luck.

In Bolivia, miners used to link not only tin but any metal to the devil. In 1946, Augusto Céspedes, a Bolivian writer, wrote a historical novel about the corrosive influence of tin—the country was once a global leader in tin production—in Bolivian economic and political life. The title of the novel is *El metal del diablo*, or *The Devil's Metal*. I would like Bolivia to become a Wuxi country. That is, a country that is not plagued by the deindustrialization, instability and overall bad luck that accompanies an abundance of natural resources such as tin.<sup>1</sup>

## A BRIEF HISTORY OF NATURAL RESOURCES IN BOLIVIA

Bolivia's history is replete with disasters related to minerals. The last two international wars fought by Bolivia broke out because our neighbors, the Chileans, decided to appropriate Bolivian territory rich in raw materials. In the first of these wars, which took place between 1879–1884, Chile wanted to exploit the sulfur and nitrate deposits found in the former Bolivian province of Atacama. At the time, sulfur and nitrates were used for explosives and fertilizer. When sulfur lost its value, Bolivians thought that the territory would be returned to

Bolivia. It is, after all, located in the driest desert in the world. But Chile's leaders decided to retain the territory, due to the presence of copper deposits, ultimately found to be some of the largest in the world. As a result, Bolivia lost all hope of recovering the territories and to this day, copper is still being exploited there. That territory was also Bolivia's only connection to the sea.

Raw materials or natural resources, when exploited correctly, do not necessarily spell bad luck for all countries. Yet it is unclear whether Chile, the country that took control of Bolivian territory and its access to the sea, has handled this mineral trophy well. Today, sales of copper account for almost 60 percent of all Chilean export earnings.<sup>2</sup> Is this a case of "Dutch disease?"\* Is the copper still surrounded by bad luck?

The second war, known as the Chaco War of 1932–35, was fought between Bolivia and Paraguay over the oil deposits in another area of desert, the southeast of Bolivia. As a result of that war, Paraguay kept the desert but Bolivia retained the oil deposits. Who really won the Chaco War? Bear in mind Wuxi. The political problems Bolivia has faced since 2003—the year in which the Bolivian government proposed to export liquefied natural gas through Chile—are in no small way related to the fact that there are large deposits of natural gas in the region it controlled after the Chaco war.

The natural gas boom in this region of Bolivia turned into a political nightmare when a consortium of oil companies started to study a project to export liquefied natural gas to the United States. The project envisioned using a seaport controlled by Chilean authorities, in the area seized by Chile in the War of the Pacific. When news of this scheme seeped out, Bolivians reacted with protests and riots. They believed Chile was about to benefit not only from the natural gas that would potentially go there to be liquefied, but also from billion dollar investments. Bolivians were furious about a project that would benefit the very neighbor responsible for the fact that Bolivia is a landlocked country. As popular anger triggered by that protest grew in the fall of 2003, President Gonzalo Sánchez de Lozada was deposed and forced to flee the country. I wrote at the time that this was the first example of an issue of international trade being decided in the streets.

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\* "Dutch Disease" refers to the effect of natural resource wealth on a country's economy, referring specifically to the deindustrialization that occurs as a result of high currency value and increased imports. The term was originally used to describe the phenomena that took place in the Dutch economy after the discovery of natural gas in the North Sea. [Eds.]

## NATIONALIZATION I

Historically, contact with the oil industry was a shocking experience for Bolivians. The encounter first began when the Standard Oil Company split up into seven pieces in 1911. One of the pieces ended up in Bolivia, putting Bolivia for the first time on the oil industry's world map. Standard Oil, however, had many faults. When it exported Bolivian oil to Argentina, it forgot to report its revenues to the Bolivian government. Many equated the birth of the oil industry in Bolivia with the exploitation of the country's resources by a foreign company.

During the Chaco War of 1932–35, the same company that forgot to pay taxes or inform Bolivian officials about oil exports to Argentina refused to sell gasoline to Bolivian warplanes. When the war came to an end, the Bolivian government decided to nationalize Standard Oil of New Jersey. The company that ignored its obligations to the Bolivian state and refused to supply gasoline to Bolivian warplanes received an indemnification of \$1.7 million, a huge sum at the time. The nationalization resulted in the creation of a new state-owned oil company, *Yacimientos Petrolíferos Fiscales Bolivianos*, or YPFB. What followed was an arduous legal case between the Bolivian state and Standard Oil of New Jersey. This legacy has influenced the Bolivian attitude towards the oil industry ever since.

If the first nationalization of the oil industry in Bolivia came after an international war (1937), the second one followed an internal guerrilla war (1967) involving the famous Che Guevara. In 1969, coincidentally two years after that guerrilla war, YPFB took control of the Bolivian Gulf Oil Company, paying \$120 million for its assets.

Shortly thereafter, in 1972, Bolivia began exporting natural gas through a long-term contract with Argentina that would last until 1992. Over this twenty year period, Argentina significantly increased its own capacity to produce and distribute natural gas domestically, severely reducing its need for Bolivian gas and thereby disrupting long-term agreements between the two nations. Even with YPFB's discovery in 1990 of the San Alberto field, Bolivia's most important natural gas deposit, Argentina initially showed no interest in renewing the twenty year agreement. When that original contract ended, and through 1999, short-term deals governed the flow of Bolivian natural gas to Argentina.<sup>3</sup>

Bolivians were at first disappointed with the news about YPFB's discovery of new gas deposits because the company was supposed to be looking for oil. There appeared to be no market for an increased supply of natural gas in the region and Argentina had informed Bolivia that it would not renew its long-term natural gas contract. Enter Brazil, the largest country and market in South America.

Brazil decided to buy Bolivian natural gas, but said it would only do so through a joint venture between YPFB and the Brazilian national oil company, Petrobrás. In 1993, under the privatization policies of President Sánchez de Lozada's first term in office, Petrobrás and YPFB combined efforts to establish San Alberto as a major gas field. Petrobrás and YPFB started the project of building a pipeline, the longest one in South America. The Brazilian government announced its willingness to finance the pipeline even within Bolivian territory, as an advanced payment for the natural gas it would import.

The process by which President Sánchez de Lozada carved up the company and sold its parts to international oil companies was called "capitalization" because the companies were invited to invest as partners of the Bolivian state. Even the ownership of the pipeline that was financed by Petrobrás went to an international company—Enron—only a few years before it collapsed in the most spectacular and corrupt bankruptcy in capitalist history.

## NATIONALIZATION II

One should not conclude that all of Bolivia's problems have been created by foreigners or its covetous neighbors. Bolivians are perfectly capable of creating a disaster all on their own, as we have seen from recent government actions. The tensions that erupted in Bolivia in the fall of 2006 were caused by the decision of President Evo Morales to take control of all natural gas revenues, instead of redistributing them to the governors with whom he has an extremely tense relationship. Morales appeared not to realize that the riots that erupted that November in response to his decisions worsened Bolivia's already poor reputation among foreign investors.

Bolivia faces a major challenge in attracting sufficient investment to develop its natural gas deposits. Risk analysts concur that Bolivia is a bad place in which to invest. Bolivia has lost its reputation as a reliable supplier, and as a result, Brazil and Argentina are looking to find an alternative to Bolivian natural gas. Argentina is particularly at risk due to its domestic energy crisis and heavy dependence on Bolivian gas imports, which resurfaced in 2004. Leaders of these two countries do not admit that they are trying to find substitutes for Bolivian gas, but they are taking serious steps towards this goal. It is difficult to blame them: in 2007 there were attempts by protesters from southern Bolivia to stop the normal flow of natural gas going to Brazil and Argentina.

As a result of the May 2006 nationalization, Bolivian natural gas production has fallen to such a degree that output is insufficient to meet domestic demand. Exports to Cuiabá—a major Brazilian destination for Bolivian natural gas—were

halted and exports to Argentina were cut in half. An integrated and stable energy sector in Latin America requires reliable partners in the arrangements between sellers and buyers. Given the government's actions, it will be very difficult for the region to count on Bolivian natural gas and incorporate it into serious economic policy.

Bolivia is now in the middle of yet another revolution—called by its leaders "a nationalist stand." Leaders of the *Movimiento al Socialismo* (MAS), headed by Morales, have proposed dividing the Bolivian state into 36 separate entities as a way to empower indigenous peoples with decision-making capacity. Revenues collected from foreign companies are to be redistributed to the indigenous "nations." However, even the government has been shocked by the indigenous peoples' immediate response to these offers. For example, there are currently 264 mines under control of the *ayllus*<sup>†</sup> from the highlands. The government didn't suspect that these groups would react so quickly to their invitation to take economic power. And now the government is trying to control them because they realize that the Bolivian state will be left with little to do if everything is in the hands of originary communities. Now the government is backtracking and attempting to recentralize some of the opportunities offered to indigenous peoples. Yet reestablishing state authority in Bolivia will be difficult, particularly in the wake of the May 2008 autonomy referendum in the department of Santa Cruz.

## CONCLUSION

There is a special alliance of metals and natural resources in Bolivia that further demonstrates how these natural resources foment bad luck. Bolivia's link to the international economy is the most ancient in all of South America.<sup>5</sup> It boasts the largest silver deposit in the world, Potosí. The Spaniards began exploiting Potosí's silver deposits in 1545, deciding at the time to also use coca leaves to overcome some glitches in the system of production. Miners, for example, were forced to remain inside the mines for six days at a time, from Monday to Saturday. To find the necessary stamina and offset hunger and fatigue, workers began chewing coca leaves. They were thus able to forget about eating, drinking water, resting, and even sleeping.

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<sup>†</sup> The *ayllu* is most commonly known as a form of indigenous local government used by the Incas and is still a model in the modern-day Andean region.

Coca became one of Spain's allies. To this day, miners chew coca leaves while working. In the colonial era, coca production grew apace with the production of silver. Then, in 1860, cocaine was discovered and the innocent leaf that served as the miners' companion became the new star of Bolivia's economy. Today, Bolivia's president is the leader of the coca growers union. Did the exploitation of silver, which created the coca boom, turn into a time bomb? Coca leaves are now responsible for Bolivia's doom.

The conflicts in Bolivia today are intrinsically linked to the way in which natural resources have been exploited throughout the country's history. If these conflicts are not properly addressed, cooperation within Bolivia will not be possible, and this will be an obstacle to energy solutions for the region.

## NOTES

1. Richard M. Auty, *Sustaining Development in Mineral Economies: The Resource Curse Thesis* (London: Routledge, 1993).
2. Banco Central de Chile, "Exportaciones de régimen general por sector económico," *Estadísticas Económicas*. Santiago, 1996-2008.
3. Peter DeShazo, "Bolivia," in Sidney Weintraub, ed., *Energy Cooperation in the Western Hemisphere: Benefits and Impediments* (Washington, D.C.: Center for Strategic and International Studies, 2007), p. 347.
4. "Morales Sets Bolivia Recall Date," May 12, 2008, <http://news.bbc.co.uk/2/hi/americas/7396809.stm>
5. The Potosí silver mine in Bolivia was first exploited by Spaniards in 1545, as part of the Viceroyalty of Perú. [Eds.]