

## Brazil and Bolivia: The Hydrocarbon 'Conflict'

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*On 29 October, Petrobrás, the Brazilian oil company, signed after long, intense negotiations, an agreement that will allow it to keep operating in Bolivia. In the last few months, bilateral relations between Brazil and Bolivia have been marked by tension due to the nationalisation of Bolivian hydrocarbons, which affected Petrobrás to a large extent. At the moment, both countries have become close again. Traditionally, both countries have maintained friendly relations. Moreover, Brazil has also played a major mediating role in the political crisis of 2003 and the turmoil of late 2005.*

During the institutional crisis that tested Bolivian democracy in 2003,<sup>1</sup> Brazil played, together with Argentina, a major role as a mediator between the domestic political actors. Both South American countries encouraged dialogue between the Bolivian government and the opposition on the quest for an institutional solution to the conflict. Brazil offered the government of Bolivia daily consulting between the Ministries of Foreign Affairs of both countries and fuelled a political dialogue with the opposition's moderate force, led by Evo Morales.

By mid-October 2003, the then Bolivian President, Gonzalo Sánchez de Lozada, resigned and Vice-president Carlos Mesa took over. Celso Amorim, Brazil's Minister of Foreign Affairs, highlighted, in an interview with *Agência Brasil*, that all throughout the crisis in Bolivia, the actions of the Brazilian government were mainly aimed at preserving peace and democratic institutional stability in the region.<sup>2</sup> In the following months, the *Itamaraty* (Brazil's Ministry of Foreign Affairs) kept cooperating with the new Bolivian government, fostering development, democratic stability and peace in the Andean country.

Nevertheless, only a year and a half after the events of October 2003, mass protest burst out and President Carlos Mesa was forced to resign. The root-causes of the new instability were, among others, disagreements over the hydrocarbon issue in Bolivia; an issue that largely affects Brazil as a main investor in and consumer of Bolivian hydrocarbon. From the privatisation in 1996 to 2004, oil companies paid an 18 per cent tax on production.<sup>3</sup> In February 2005, the main rural, indigenous and urban popular organisations gathered into a common platform called *Pacto de Unidad* (Unity Agreement), demanding the increase in rates to 50 per cent, amongst other claims.<sup>4</sup> Even though Carlos Mesa approved legislation including such an increase, pressure did not cease. Unable to face the strong protest led by indigenous and unionist sectors, Mesa submitted his resignation and was replaced by his Vice-President, Eduardo Rodríguez, until the celebration of elections in December 2005.

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<sup>1</sup> In 2003, mass protests forced the then President, Sánchez de Lozada, to resign. For more detailed information about the institutional crisis in Bolivia, see 'Bolivia's Divisions: Too deep to heal?', International Crisis Group, Latin America Report N° 7, Quito/Brussels, 6 July, 2004.

<sup>2</sup> Gabriela Guerreiro, 'Itamaraty confirma renúncia do presidente da Bolívia e diz que Brasil manterá cooperação com o país', *Agência Brasil*, Brasília, 17 October, 2003.

<sup>3</sup> Christina Vieira Machado Alexandre, 'A política boliviana de nacionalização do petróleo e gás', *Observador On-Line*, Vol.1, n°3, Observatório Político Sul-Americano, May 2003, pp. 28-onwards.

<sup>4</sup> 'Sucre: toma de la Brigada Parlamentaria por el Pacto de Unidad', *Indymedia Bolivia*, 5 March, 2005, <http://bolivia.indymedia.org/es/2005/03/15479.shtml>.

In the context of the new institutional crisis in the Andean country, Brazil acted as a stabilising force and encouraged the peaceful process that finally led to the elections.<sup>5</sup> The Bolivian people chose Evo Morales, former coke leader of indigenous origin, of the party *Movimiento al Socialismo*, MAS (Movement toward Socialism), as their new President. 'The MAS programme focused, therefore, on a greater control of natural resources and a reform of the Constitution to give more power to the indigenous and poorer sectors, promote agricultural reform and hold a referendum about the autonomous regions'.<sup>6</sup> What affected Brazil most was the fact that Morales's electoral platform included the agrarian reform and the nationalisation of the hydrocarbon sector as a priority.<sup>7</sup>

### Brazilian Farmers in the Eastern Regions

Apart from hydrocarbon nationalisation, on 1 May, 2006, the Bolivian President launched an agrarian reform to redistribute land among farmers and indigenous communities. This reform intended to expropriate and expel about 2,000 Brazilian families living in Bolivia's eastern region, near the border with Brasilia, most of them illegal.

These Brazilians are small farmers, most of whom grow soy and sugar cane and live in the areas bordering the Brazilian states of Acre and Rondonia. Most of these families bought this land in the Bolivian territory decades ago and have been living there ever since.<sup>8</sup> Brazilian farmers were surprised by the Bolivian government's decision, based on Article 25 of the Constitution, which forbids foreigners to own land in a strip of up to 50 kilometres from the border.<sup>9</sup>

The Brazilian government and its representatives in Bolivia reminded their Bolivian counterparts that they cannot expel all Brazilians who live illegally in Bolivia since over 70,000 Bolivians live in Sao Paulo, most of them also illegally. If the Bolivian government decides to force the Brazilians out of the country, the Brazilian government threatens to adopt the same measure.<sup>10</sup> Moreover, Brazilians make a major contribution to Bolivia's economy and their expulsion would have a negative impact on the country's development.<sup>11</sup>

So far the agrarian reform in Bolivia has moved slowly. Evo Morales started to enforce the law only over the properties near the border. In late September, the Bolivian government seized the property of a Brazilian businessman in the Pando region, in the north of the country. His land – comprising over 50,000 hectares of verdant grove - has been redistributed among indigenous communities. Moreover, Morales announced that the 'agrarian revolution' will not affect small farmers, only large landowners.<sup>12</sup> However, how the process will develop is still uncertain as the indigenous and rural communities demand more radical measures for the redistribution of Bolivia's land.

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<sup>5</sup> Mônica Hirst and Maria Regina Soares de Lima, 'Brazil as an intermediate state and regional power: action, choice and responsibilities', *International Affairs*, N° 82 – 1, 2006, p.32.

<sup>6</sup> Mariano Aguirre and Isabel Moreno, 'Bolivia, the Challenges to State Reform', *FRIDE*, July, 2006, <http://www.fride.es/File/ViewLinkFile.aspx?FileId=1055>

<sup>7</sup> Movimiento al Socialismo (MAS), *Programa de gobierno – área económica – sectores de la matriz productiva – hidrocarburos*, <http://www.masbolivia.org/mas/programa/pgsmatrizzp.htm>

<sup>8</sup> Maria Helena Tachinardi, 'Expansão de agropecuária brasileira na América do Sul: integração e conflito', Instituto de Estudos do comércio e negociações internacionais (ICONE), 22 June, 2006, [http://www.iconebrasil.org.br/EmCimadosFatos/Agricultura%20na%20America%20do%20Sul\\_MHT.pdf](http://www.iconebrasil.org.br/EmCimadosFatos/Agricultura%20na%20America%20do%20Sul_MHT.pdf)

<sup>9</sup> Bolivian Constitution, <http://pdba.georgetown.edu/Contitutions/Bolivia/consboliv2005.html#parte3titulo1cap1>

<sup>10</sup> Interview granted by the Brazilian Minister of Foreign Affairs, Celso Amorim, to journalist Oliveira, *O Globo*, Brasilia, 9 May, 2006, [http://www.mre.gov.br/portugues/politica\\_externa/discurso\\_detalhe.asp?ID\\_DISCURSO=2840](http://www.mre.gov.br/portugues/politica_externa/discurso_detalhe.asp?ID_DISCURSO=2840)

<sup>11</sup> Maria Helena Tachinardi, 'Expansão de agropecuária brasileira na América do Sul: integração e conflito', op. cit.

<sup>12</sup> Instituto Nacional de Reforma Agraria, *Gobierno desaloja a un brasileño que explotaba madera en pando*, 1 September, 2006, [www.inra.gov.bo/portaly2/Docs/noticias/uploads/Dossier010906.pdf](http://www.inra.gov.bo/portaly2/Docs/noticias/uploads/Dossier010906.pdf)

## Hydrocarbon throughout the Twentieth Century

The country that has been most widely affected by the nationalisation announced by Evo Morales is, undoubtedly, Brazil. For more than 50 years, Bolivia and Brazil have been closely related due to mutual interdependence.

After the Chaco War (1932-1935), bilateral relations between Brazil and Bolivia have always included the hydrocarbon issue. Thus, the Treaty of Roboré (1938), the Notes of the Agreement of Roboré (1958) and the 1993 gas agreements are clear examples. In 1996, when Fernando Henrique Cardoso was in office, *Petrobrás* and the Bolivian state-run company *Yacimientos Petrolíferos Fiscales Bolivianos* (YPFB) signed an agreement to build a 3,150 kilometre-long gas pipeline linking both countries.<sup>13</sup> The agreement was then harshly criticised because it was still unknown how big Bolivia's real gas reserves were.

In this first stage, *Petrobrás* was granted by YPFB the concession of the oil fields of San Alberto and San Antonio, located in the state of Tarija. The abovementioned agreement established that, in the event of finding gas, both companies would become partners with equal shares (50/50). Otherwise, *Petrobrás* would withdraw, becoming liable to 100 per cent of the costs. But in June 1999, it was confirmed that both areas had immense reserves, of around 566 billion per cubic metre. *Petrobrás* has had direct control of both large gas fields ever since.

There are two gas pipelines between Brazil and Bolivia, in large part built by *Petrobrás*. The hydrocarbon issue gained momentum amid the US-driven policies to eradicate coke plantations in the nineties. The plan was to replace the revenue from coke agriculture with that coming from gas sales. But the local population was against selling Bolivian gas to the United States. Brazil was, therefore, left as the sole appropriate consumer since it had a large enough market to receive a great volume of Bolivia's gas exports and was not rejected by the population. Nevertheless, for different reasons, the policies aimed at eradicating coke agriculture did not yield the expected outcome.<sup>14</sup>

## Lula and the Nationalisation Process

On 1 May, a few days before the elections for Bolivia's Constitutional Assembly, Evo Morales publicly read decree No. 28,701, called '*Héroes del Chaco*' (Chaco's heroes), establishing the nationalisation of foreign oil companies' properties in the country.<sup>15</sup> Brazilian company *Petrobrás* was the one to suffer the effects of the decree most. *Petrobrás* represents 18 per cent of Bolivia's GDP, contributes 24 per cent in taxes, manages 46 per cent of the country's gas reserves, and holds 95 per cent of the refining capacity and 23 percent of fuel distribution.<sup>16</sup>

This information reveals that the nationalisation decree, without adequate negotiation, could have been problematic for both countries. On the one hand, Brazil depends on Bolivia's gas, thus making it impossible to replace it in an economically feasible way until at least the year 2008. On the other hand, Bolivia also depends on the Brazilian market. The industrial state of Sao Paulo is its largest customer and the only large enough market to which the Andean country may access in the short term. Transportation at a reasonable cost is only possible to Brazil through the already existing gas pipelines. Building new gas pipelines would take at least three years, and Bolivia lacks the necessary resources to face such task. If *Petrobrás* did really withdraw its investment from Bolivia, the country would not be able to keep the gas fields operating due to a lack of the necessary financial and human resources.

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<sup>13</sup> Cristina Vieira Machado Alexandre, 'A política boliviana de nacionalização do petróleo e gás', op. cit., pp.18-19.

<sup>14</sup> Marco Cepik and Marcos Carra, 'Nacionalização Boliviana e Desafios da América do Sul', *Análise de Conjuntura OPSA*, N° 4, Observatório Político Sul-Americano, April, 2006.

<sup>15</sup> Evo Morales Ayma, 'Decreto 28701 de la nacionalización de hidrocarburos', *Bolpress*, 1 May, 2006, <http://www.bolpress.com/documentos.php?Cod=2006050115>

<sup>16</sup> Marco Cepik and Marcos Carra, 'Nacionalização Boliviana e Desafios da América do Sul', op. cit., p. 8.

In the first months after the announcement of the *Héroes del Chaco* decree, Lula faced the disagreements with Morales in a very conciliating mood, within the good neighbourhood framework. He stated that the nationalisation was legitimate and that it had been decided by a President chosen democratically. Moreover, he assured that he relied on the negotiations with Morales over the future of hydrocarbon trade between both countries.<sup>17</sup> In the last few months, however, amid an electoral campaign, the Brazilian government saw it suitable to defend the interests of Brazilian citizens more toughly. With elections two weeks ahead and the opposition criticising his soft hand with Morales,<sup>18</sup> Lula decided to defend the national interests more firmly. Brazil's President backed up *Petrobrás*, pushing Bolivia to the point of being determined to submit the conflict to an US arbitration tribunal if the Andean country insisted on increasing gas prices without proper negotiation.

### **Lula Forces the Resignation of the Minister of Hydrocarbons**

Lula raised his voice when Andrés Sóliz Rada, Bolivia's Minister of Hydrocarbons, announced a resolution that would have had hard effects on *Petrobrás* and the energy situation in Brazil. The minister had advocated for the nationalisation of Bolivian natural resources for decades. The 'intellectual father of the nationalisation' presented on 12 September a resolution that established that Bolivia's oil company, YPF, would exercise property rights over oil and liquefied petroleum gas (LPG) and their by-products.<sup>19</sup>

Brasilia rejected this resolution immediately since it would have had serious effects on *Petrobrás*. A telephone call from President Lula and the confirmation that negotiations over gas prices would freeze unilaterally forced Bolivia to step back. Bolivian Vice-president, Álvaro García Linera, faced with Brazilian pressure, disavowed the authority of the controversial resolution. On 25 September, Sóliz and all his team resigned<sup>20</sup> and he was replaced by Carlos Villegas, a politician that turned out to be much more moderate towards the hydrocarbon issue.

The new Minister of Hydrocarbons announced, at a press conference, that Sóliz's resolution would not have been overruled, but 'frozen', although indefinitely. In an interview, he said that both Brazil and Bolivia depend on each other, making negotiations necessary.<sup>21</sup> He stated that *Petrobrás* is very strong in the Andean country since it is present in all the hydrocarbon chain and is the only market that can take up Bolivian gas in the next years, whereas Brazil depends on Bolivia's energy reserves.

### **Petrobrás Signs Agreements with Bolivia**

After several weeks of intense negotiations, *Petrobrás* closed last 28 October a deal to continue operating in Bolivia in San Alberto and San Antonio gas fields. Apart from *Petrobrás Bolivia* and *Petrobrás Energía* other six foreign companies entered into agreements, thus completing the nationalisation process of the hydrocarbon sector within the time established by the Bolivian government, which was fixed by presidential decree of 1 May 2006.

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<sup>17</sup> Radio broadcast, 'Café com o presidente', *Radio Nacional*, 8 May, 2006, [http://www.mre.gov.br/portugues/politica\\_externa/discursos/discurso\\_detalhe.asp?ID\\_DISCURSO=2828](http://www.mre.gov.br/portugues/politica_externa/discursos/discurso_detalhe.asp?ID_DISCURSO=2828)

<sup>18</sup> See Felipe Neves, 'Alckmin e Heloisa dizem que Lula foi "omisso" e "incompetente" com a *Bolivia*', *Folha de São Paulo*, 14 September, 2006.

<sup>19</sup> República de Bolivia, *Resolución Ministerial 207/2006*, La Paz, 12 September, 2006, [http://www.hidrocarburos.gov.bo/Hidrocarburos/Marco-Legal/normas-sectoriales/Resoluciones/RM\\_207\\_2006.pdf](http://www.hidrocarburos.gov.bo/Hidrocarburos/Marco-Legal/normas-sectoriales/Resoluciones/RM_207_2006.pdf)

<sup>20</sup> *Carta de Renuncia de Andrés Sóliz Rada*, *hoybolivia*, La Paz, 15 September, 2006, <http://www.hoybolivia.com/news.php?seccion=73&d3=39769>

<sup>21</sup> The interview has been published in *teleSur*, <http://www.telesurtv.net/v3/secciones/noticias/nota/index.php?ckl=484>

The new agreements establish that YPBF will become a partner of the foreign companies through a share in their turnover. In accordance with the *Héroes del Chaco* decree, those companies which refuse to sign new contracts in these conditions within a 180-day term, to be due at the end of this month, will leave the country with no compensation.

As *Petrobrás* Chairman José Sergio Gabrielli stated, the company managed to keep its revenue over 15 per cent.<sup>22</sup> Although *Petrobrás* earnings are decreasing, the company still makes a profit, which is even higher than that of any other foreign company in this sector in Bolivia.

### Future Uncertainties

There are several different opinions in Brazil about the outcome of Lula's foreign policy with regards to Bolivia. Especially between May and September this year, when Morales announced the nationalisation and Brazil suffered its first effects, the opposition and many experts criticised Lula's diplomatic way.<sup>23</sup> However, after the agreements were signed a few days ago, positive voices prevail. For Rafael Villa, professor of International Relations at the University of Sao Paulo (USP), Lula has faced the conflict with Bolivia adequately. From the very beginning he had a conciliating attitude towards the issue and did not lose sight of the main objective: South American regional integration. Moreover, Brazil was not interested in having strained relations with Bolivia since its energy matrix depends largely on Bolivian gas. However, Lula had to satisfy certain social groups at home and thus he took a stronger stance in the most critical moment and forced the withdrawal of the resolution, which would have prevented *Petrobrás* from staying in Bolivia.

Apparently, Brazil's more aggressive position towards Bolivia seems to have rendered good results. The Brazilian oil company got a better deal out of the negotiations with Bolivia than any other company. Brazil's Minister of Foreign Affairs, Celso Amorim, declared in an interview that, 'we are satisfied with the agreement with Bolivia, which is linked to the supply of gas to Brazil'.<sup>24</sup>

Even though *Petrobrás* profits are decreasing and the price of gas in Brazil is rising, the most affected sectors, Sao Paulo industries, have realised Brazil has little room for manoeuvre in the Bolivian gas issue, given the high-level of dependence on this resource. Therefore, the relationship between the Andean country and the South American power has returned to normal. Bolivia's government has moved the most nationalist sectors away from hydrocarbon management. This attitude on Bolivia's part has made Brazil more confident in the strength of the agreements they have recently entered into.

However, the situation is still difficult. Some sectors in Bolivian society are pushing the government to make the nationalisation of natural resources more radical. Bolivia is suffering again domestic instability as many social sectors are not satisfied with Evo Morales's 'moderate' policy. If the more radical position won, Brazil would have serious problems to keep operating in Bolivia's hydrocarbon sector. In this context, tensions between Brazil and Bolivia have not faded completely.

<sup>22</sup> Cláudia Schüffner, 'Petrobrás terá retorno acima de 15% na Bolívia, garante Gabrielli', *Valor Econômico*, 1 November, 2006.

<sup>23</sup> Bruno Ayllón and Eduardo Viola, 'Lula y el déficit de realismo estratégico en política exterior', *Política Exterior*, N° 113, September / October, 2006, pp. 123-134.

<sup>24</sup> Eleonora Gosman, 'Elecciones en Brasil: Entrevista exclusiva con el Canciller Celso Amorim – Brasil y Argentina serán el eje para la integración de América del Sur', *Clarín*, 1 November, 2006, <http://www.clarin.com/diario/2006/11/01/elmundo/i-01815.htm>

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