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Bolivia and Argentina boost energy ties

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Argentina's President Cristina Fernández this week travelled to Bolivia where she met her peer Evo Morales to discuss energy. After Brazil, Argentina is Bolivia's biggest market for gas exports. While the meeting yielded the agreement that Bolivia would boost exports to its neighbour, it took place against an awkward backdrop; Argentina's Astra Evangelista Sociedad Anónima (AESA), has been implicated in a scandal involving Bolivia's state energy company, Yacimientos Petrolíferos Fiscales Bolivianos (YPFB).

Despite speculation that the meeting could include discussion of price changes, this was not addressed and the main agreement to emerge was that Bolivia export an extra 5.95m cubic metres/day (cmpd) to Argentina by 2013 to reach 19.2 cmpd. An "interruptible" clause means that neither side will face financial penalties for failing to comply. Under the 2006 contract, amended in 2010, Bolivia's sales are slated to rise to 27.7m cmpd by 2026. This increase is aided in part by the new Juana Azurduy gas pipeline (Gija), a 478km route of which 13km lies in Bolivian territory, which was inaugurated last year [WR-11-27]. On YPFB figures, gas exports to Argentina reached US$599m in the first five months of 2012, or 28% of Bolivia's US$2.12bn in total gas exports, up 43.25% year-on-year. (Of that, sales to Brazil were worth US$1.44bn.) The new deal also provides for the sale by Bolivia to Argentina of some 500,000 tonnes of liquefied natural gas (LNG) in the second half of 2014, thanks to two new separation plants (Gran Chaco and Río Grande), currently under construction by AESA and Spain's Técnicas Reunidas in the eastern regions of Tarija and Santa Cruz respectively.

Gas prices

Argentina paid an average of US$10.62 per million British Thermal Units (BTU in the first three months of 2012, up from US$7.62 per BTU over the same period in 2011.

The renewed focus on the hydrocarbons sector – Bolivia's main export sector, accounting for 52% of exports in the first five months of 2012 - came at an unfortunate point for YPFB which is reeling from corruption allegations. On 8 July YPFB announced investigations, for charges including the wrongful use of State property and illicit enrichment, into two former employees, Gerson Rojas Terán, the former head of YPFB's department for liquid separation plants, and Agustín Ugarte Méndez, a former member of the committee responsible for adjudicating the

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contracts for the Gran Chaco and Río Grande plants. Rojas's dismissal at the end of last month was linked to a car crash which took place while he was drink-driving: in the car the police discovered documents revealing funds had been deposited in the Banco Mercantil Santa Cruz (BMSC) bank to the tune of B$90,000 (US$13,000). Ugarte Méndez subsequently admitted that he had received a B$100,000 bribe in relation to the October 2010 decision to award the contract for the Río Grande plant to AESA, which is part of Argentina's state oil company Yacimientos Petrolíferos Fiscales (YPF). Rojas also faces allegations of nepotism in relation to claims that he hired his girlfriend Vanessa Avilés Méndez as an engineer despite the fact that she was unqualified for the post. Avilés Méndez's sister, Brenda, an AESA employee, is accused of obstructing justice in relation to the case.

Dubbed "Santos Ramírez II", the case has invoked comparisons with the 2009 scandal which resulted in the dismissal of YPFB chief Sergio Ramírez, [WR-09-05]- one of the biggest scandals to hit the Morales government (see sidebar). It is the latest sign of the problems afflicting YPFB and the sector – as was also underlined in January with Morales' appointment to the energy portfolio of Sosa, a former YPFB vice president.

Morales faces prospect of legal action

The Morales government is facing the prospect of two new legal cases in relation to the mining sector. On 16 July the Indian company Jindal Steel Bolivia (JSB), a subsidiary of Jindal Steel & Power Ltd, issued a statement confirming once and for all the termination of a US$2.1bn contract signed with the Bolivian government for the development of the El Mutún iron ore mine – the biggest investment by any foreign company in a single project in Bolivia and the largest by an Indian company in South America. The statement followed Jindal's threat in May to take legal action against the government for breach of contract [WR-12-18]. According to the statement, Jindal "intends to pursue international arbitration relating to the contract." Interior minister Carlos Romero has since told reporters that there are "at least 15 companies interested in exploiting the mine, in particular from Russia and China".

The announcement regarding Jindal's exit came less than a week after Canadian company South American Silver (SASC) announced plans to pursue legal action in relation to Morales' decision to nationalise Mallku Khota mine, owned by Compañía Minera Mallku Khota (CMMK), an SASC subsidiary. The decision follows recent unrest caused by local communities who opposed CMMK's development of the mine [WR-12-23]. Over the past month, seven people, including mine employees were taken hostage by mining opponents and one person died in unclear circumstances. Four of the hostages were rescued on 6 July, with the other three released by their captors two days later. The latter group included engineers employed by SASC and accused by the local community protestors of spying on them. With indicated resources of 230.3m ounces of silver and 1,481 tonnes of indium, plus inferred resources of 140m ounces of silver and 935 tonnes of indium, Mallku Khota has the potential to be Bolivia's biggest mine.