Bolivia moves closer towards nationalization of power sector[1]

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On 1 May 2010, Bolivian President Evo Morales announced the nationalization of four power companies as part of a ceremony to mark International Workers' Day. According to the *Latin American Herald Tribune,* this brought 80% of the country's electricity generation under the control of state-owned power company ENDE.

This follows Bolivia's nationalization of the oil and gas sector under state oil company Yacimientos Petroliferos Fiscales Bolivianos (YPFB), a process that began in May 2006 and was completed in July 2009.

The government stated that the latest move would secure labour stability and reduce the cost of electricity by 20%, with the ultimate goal being to nationalize the entire sector. Although it is not clear how these cost reductions will be achieved, Bolivia already has a long history of providing energy subsidies as a way to curry favour among the general population and the private sector.

According to a review of Bolivia's energy sector conducted last year by the Centre for Socio Eco-Nomic Development (CSEND), the most significant subsidies are centred on the country's hydrocarbon resources. The research concluded that subsidies are an inefficient way for Bolivians to benefit from the profits of hydrocarbon exploitation.

The IMF have stated that subsidies on imported fuels alone are roughly equal to the revenue raised by the country's excise tax on fuel consumption, around 2% of GDP in 2009.

A similar conclusion was reached by a 2005 IMF study, which found that 4.3% of Bolivia's GDP was spent on fuel subsidies in 2004 (gasoline, diesel and liquified petroleum gas), of which only

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2.6% was reflected in the national budget. Of this spending, only 15.3% of the subsidy was found to reach the poorest 40% of the population, with the rest leaking to higher-income households.

News reports also note that much of the money spent on fuel subsidies has been redirected into smuggling, as in the last five years gasoline and diesel prices have been up to two times more expensive in neighbouring countries such as Prazil, Peru and Chile. Over and above the economic waste involved in taxpayer money being used to fund foreign consumption, this resulted in diesel shortages that were particularly harmful in some agricultural communities during seeding and harvest time.

For all these reasons, the allure of subsidies could represent a significant missed opportunity for Bolivia, given that it has the second largest endowment of hydrocarbon resources in South America, with 2005 estimates of 1,111 million barrels of crude oil and 48.7 trillion cubic feet of natural gas. Due to high prices in 2008, 50% of the country's exports consisted of gas sales to Brazil and Argentina, although it imports diesel and last year had to import gasoline. Subsidies to fossil-fuel resources can also be significant for prices in the electricity sector, given that 42% of the country's electricity supply is generated by gas and 14% by oil.

The CSEND policy study recommended that a more efficient option would be to sell the country's energy resources to the highest-paying consumer, whether domestic or foreign, and then convert the fiscal income into financial assets, such as microcredits or business loans with 'soft' conditions for being paid back, in order to diversify the economy and increase long-term employment. It also recommended that Bolivia follow Norway in the creation of a state fund designed to manage hydrocarbon wealth, with the aim of protecting the economy from fluctuations in international oil and gas prices and ensuring that profits are well-managed for the benefit for future generations.

It is doubtful, however, that such strategies will find a champion in Bolivia for the forseeable future, given Morales' current ideology-bound approach to the country's development and Bolivia's negative past experiences with privatization of the petroleum sector. During the leadership of previous presidents, such as Sanchez de Lozada or Hugo Banzer Suárez, foreign companies were seen to have received resource access at rates highly disadvantageous to the country, and some were involved in serious disputes regarding damage to the environment and indigenous communities.

This situation, where a lack of administrative infrastructure to effectively target social welfare payments leads to indiscriminate energy subsidies, is not uncommon in developing countries, despite the large amount of spending that tends to be captured by wealthier consumers. It is for this reason that, contrary to popular belief, the majority of fossil-fuel consumer subsidies are to be found in developing and not developed countries: the latest IEA figures estimate that 37 large developing countries spent US$ 557 billion on energy subsidies in 2008, the majority of which were spent on fossil-fuels.

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CSEND's review of Bolivia's energy sector, part of its trilogy Profiling an Outward Orientated Strategy in Trade, Enery and Environment for Bolivia*, can be downloaded from its website:* *http://208.83.26.110/diplomacy/files/file/20100625-Bolivia%20Trade%20Energy%20Environment%202009.pdf*

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