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**The South American Energy Summit and Regional
Integration: A Path Paved with Good (and Not So
Good) Intentions**

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Summary

The South American Energy Summit held in mid-April 2007 in Isla Margarita, Venezuela, yielded scant results and fell short of the grand expectations raised by the host country.

Introduction

The South American Energy Summit held in Isla Margarita had raised major expectations before it was held, especially among the main countries that were the driving forces behind it: Venezuela, Bolivia, Ecuador and Argentina. In line with these expectations and before the final results were known, it should come as no surprise that the host of the conference, Venezuelan President Hugo Chávez said with great pomp and rhetoric at a reception dinner for his guests, ‘South America is rewriting its history’.

The organisers of the summit, especially the Venezuelan government, hoped the meeting would produce decisive steps in the process of energy integration in South America. In order to achieve this, the goals on the agenda included the idea of making clear progress in defining an overall energy plan for the subcontinent, using as a main reference the enormous reserves of gas and oil in the subsoil of Venezuela and also gas in the case of Bolivia. But there were other objectives that were no less important, such as creating a South American gas equivalent of OPEC (*Oppegasur*), a definitive thrust towards creating the Bank of the South (*Banco del Sur*) –a project initially supported by Venezuela and Argentina and later endorsed by Bolivia and Ecuador– and a redefinition of the Community of South American Nations (CSN o CASA in Spanish). After the summit it emerged with the new name, Union of South American Nations.

Positive signs surrounding the summit, which state-owned news agencies made sure to broadcast, forecast a strong turnout among the invited Presidents, almost a full-house. The only no-show would be Uruguay’s Tabaré Vázquez, not keen on the idea of meeting with his Argentine counterpart Néstor Kirchner. Vázquez’s wariness stems from a project to build two paper mills on Uruguayan territory, a plan that has soured relations with neighbouring Argentina. At the last minute, also dropping out of the summit was Peruvian President Alan García, who in his current term in power has shown he is little inclined to travel.

When it was all over the summit drew an uneven reading. On the one hand there were those who saw it as a resounding success, an undeniable step forward in the process of South American integration. The most enthusiastic analysts and journalists praised the gathering by calling it things like ‘an unsurpassed chance for Chávez to show his leadership has no counterweight in South America’.¹ Then there are those –more numerous– who viewed the results of the summit as a clear victory for Brazilian President Luiz Inácio ‘Lula’ da Silva over Chávez, with the latter the big loser in this presidential summit. However, as is often the case with this kind of meeting, things ended up a bit more contradictory than one would discern with a superficial reading of events. Thus, the main goal of this study is to evaluate the South American Energy Summit of Isla Margarita in the framework of the current balance of power in the region as far as energy is concerned and the regional integration process itself. We will also take into account post-summit events as we try to

¹ Patricio Navia, ‘UNASUR, Energy and Chávez’s Leadership’, *Infolatam*, 18/IV/2007, <http://www.infolatam.com/analisis.php?id=3593>.

clear up some uncertainties which, looking to the future, the energy integration process carries with it and also the state of the regional energy sector after this high-level gathering.

The summit had an important political backdrop in the increasingly open struggle between Lula and Chávez for the mantle of regional leader. For this reason Venezuelan diplomats, in the wake of strong statements by Fidel Castro and Chávez himself, sought a public condemnation of biofuels, although without a direct mention of Brazil, a statement which in the summit ultimately did not issue.

The Energy Summit

The Energy Summit of South American was attended by Presidents Néstor Kirchner of Argentina, Evo Morales of Bolivia, Michelle Bachelet of Chile, Álvaro Uribe of Colombia, Rafael Correa of Ecuador, Nicanor Duarte of Paraguay and Venezuela's Hugo Chávez. Also present were the Vice-President of Uruguay, Rodolfo Nin Novoa, representing President Tabaré Vázquez, and the Prime Ministers of Guyana, Sam Hinds, and Suriname, Gregory Rusland. At the last minute it was announced that President Alan García of Peru would not attend; he was represented by the Foreign Minister, José Antonio García Belaúnde, and Energy and Mining Minister, Juan Valdivia. Most of the Presidents took the opportunity to hold bilateral meetings, such as those that Michelle Bachelet held with her counterparts from Bolivia, Ecuador and Venezuela. Before the presidential summit, the Energy and Foreign Ministers of the region conferred to write up a Final Statement, a task that ended up being more complicated than had been expected.

The summit was held amid tight security. Isla Margarita was militarised, and nearly 5,000 members of the Venezuelan security forces, including the army, disrupted the normal, day-to-day routines of the people of Venezuela. Armoured personnel carriers and heavily-armed police guarded the area around the Hilton Hotel, where the summit was held. In the nearby bay, warships and artillery-equipped speed boats kept civil craft away. In order to reduce the number of people passing through the summit area, the day was declared a holiday, the press hall was monitored by soldiers who barred any unauthorised movement and residents of nearby areas had to carry credentials. This intense police and military surveillance, which shows a certain fear on the part of the Venezuelan government over security problems, contrasts with the 7th Iberoamerican Summit, also held at Isla Margarita in 1997. Those attending at the time included the King and Queen of Spain and Fidel Castro, and even so there was no such level of militarisation.

As is often the case in this kind of Latin American presidential gathering, the agenda did not stick strictly to the main theme of the summit, which was energy. Thus, political issues abounded, leading to discussions on a broad variety of problems, many of them unrelated to each other. Rhetoric flowed freely and above all the leaders strayed from the main subject, energy. For instance, two of the issues raised by the Presidents were support for Argentina's claims over the Falkland islands,² and the formation of Unasur,³ instead of the CSN (which is in fact mentioned specifically in the Final Statement) although in the end these two subjects were not included in the Final Statement,⁴ but rather in separate, presidential statements.

² 'Presidential Statement on the Malvinas Islands',
<http://www.mercosurabc.com.ar/nota.asp?IdNota=1106&IdSeccion=3>.

³ 'Political Dialogue Decisions by the Heads of State or Government',
<http://www.integracionsur.com/americalatina/VzDialogoPolitico2007Unasur.htm>.

⁴ 'Margarita Statement. Building Southern Energy Integration', 17/IV/2007,
<http://www.integracionsur.com/americalatina/DeclaracionMargaritaVzEnergia07.htm>.

It has practically become the rule with these summits that the expectations raised beforehand are much greater than the final results. Before the Isla Margarita summit, it seemed the Presidents were going to make a breakthrough and that when it came to energy anything was possible in South America. However, ultimately most of what had been expected to come out of the summit did not. A good example of how expectations did not coincide with facts is seen in an article published in *Clarín* in Buenos Aires on 17 April. It said: ‘A consensus on Oppegasur was reached in the meeting of Energy Ministers before that of the Presidents. In that meeting the Ministers spelled out step-by-step each project to build all kinds of gas pipelines, with the huge Gas Pipeline of the South as the integrating element of a regional network’ and ‘The position of Brazil towards creating a South American gas equivalent of OPEC was pro-active, at least in its public statements’.⁵ Given the meagre results finally obtained by the summit, and the tough posture Lula showed during the summit on some of its core issues (such as the Bank of the South or Oppegasur), it is clear that what the Ministers agreed on (and was published in the media) either was not that at all, or was of little use.

The first sign that things were not going at all well at the Summit was the fact that the Energy Ministers failed to reach a consensus on the Final Statement after 11 hours of heated discussion. Organisers and the press in general thought the meeting would take two or three hours at the most – the maximum needed to draft what was expected to be a compromise agreement among all those present–. As this was not the case, the Foreign Ministers, who were to have started working after their Energy counterparts, started their own meeting three-and-a-half hours late. They could not study the final statement –and hand it over to the Presidents– because of the discord among the Energy Ministers. A presidential spokesman who asked not to be identified said the dispute over biofuels was the main cause of the disagreement among the South American governments. This official blamed the rigid position of Brazil, something that was present throughout the summit. Brazilian officials maintained the same tough posture during the whole meeting.

In the end, the Final Statement was released to the press six hours after the Presidents left the summit. As is becoming routine in this kind of regional gathering, the statement is full of good intentions but offers no concrete proposals. It features 17 points: they seek to use joint investments to promote the infrastructure of the region’s energy integration, ‘work to establish a systematisation and evaluation of the South American energy balance’, ‘push’ the development of renewable energies and ‘strengthen’ existing relations. It also ‘ratifies’ what was approved in earlier meetings, ‘reiterates’ that access to energy is a basic right and underlines that regional integration is ‘important’. The only point that led to a concrete measure is the last one written for the statement. It creates an Energy Council of South America, made up of the Ministers in this field, although it is given the task of no more than presenting a new project to be considered in the next regional summit.

Beyond the ever-present rhetoric in favour of regional integration, which hammers away at the same old clichés, this energy summit should be seen basically as part of Venezuela’s strategy to consolidate itself as an international energy power and maintain the leadership that President Hugo Chávez is trying to build, with mixed results, in Latin America. From that point of view it is interesting to see how in Isla Margarita, Venezuela sought to claim a role as a world and regional energy power. To do this it used a clearly South American strategy, which involves re-evaluating its hydrocarbon reserves while at the same time guaranteeing the region’s major consumers access to these resources through a variety of mechanisms. With this goal in mind, the Venezuelan Energy Minister Rafael Ramírez said the first South American Energy Summit was a decisive step towards the creation of a regional energy market that must use the huge advantages it has through gas and oil. For this Venezuela boasts the ‘extraordinary concentration of energy resources and hydrocarbons in the Orinoco oil belt’ and one of the world’s largest reserves of natural gas.

⁵ <http://www.clarin.com/diario/2007/04/17/elpais/p-00601.htm>.

Problems at Isla Margarita

Despite the great expectations that were raised, the presidential summit lasted less than 24 hours and, starting with President Kirchner of Argentina, the leaders began to make themselves scarce. The meeting heard repetitions of most of the clichés and arguments associated with regional integration and in particular on energy, which has become the centre of attention of most integration projects. This meeting of most of the leaders of the subcontinent had two main protagonists, the Presidents of Brazil and Venezuela, Lula da Silva and Hugo Chávez. And despite the rhetoric about integration that permeated Isla Margarita, each of them basically stuck to their guns in defending their national interests, especially on energy policy.

Just as Venezuela came to the summit with its own agenda and wanted to use the meeting to its advantage, Brazil also had its own specific interests. Over the mid- and long-term the energy projects included in the recently designed Growth Acceleration Programme (PAC in Spanish) are not enough by themselves to guarantee Brazilian economic expansion or chip away at regional inequalities. For this reason, from Lula's standpoint it is increasingly necessary to assure South America's ability to supply itself with energy and guarantee connections with sources of electrical power in neighbouring countries. Another source of worry for the Brazilians is the legal status of Petrobras investments in the region and access to gas and oil in neighbouring countries. One must also note Brazil's interest in creating a worldwide network to supply biofuels.

Despite the constant clashes among the different parities, on the rhetorical front people minded their manners and there were some notable convergences, something that did not happen in terms of facts and concrete results, which tend to be more stubborn than words and good intentions. Whereas Chávez described the meeting as 'the perfect summit', Lula said the summit 'will be important to the extent that we can define the future of South America for the next 10, 15 or 20 years'. Along with the rhetoric, there was no shortage of good intentions, such as the proposal from President Morales, not based on any concrete study, to create a 'permanent council' for the use of energy in a clean way and without harming the environment.

From the outset, it was clear to Brazilian diplomats that the summit was set up to advance Venezuela's projects for consolidating its regional leadership. For this reason Lula spent much of his time on Isla Margarita trying to stop a series of Venezuelan initiatives (some supported by Argentina, Ecuador or Bolivia, depending on the case), such as the attack on biofuels or the projects to create Oppegasur or the Bank of the South. It is no coincidence that upon returning from Venezuela, Lula met for four hours with the Chairman of Petrobras, Sergio Gabrielli; this gives an idea of the magnitude and scope of the issues addressed.

An initial assessment of the results of the summit turns out to be quite negative for the interests of Hugo Chávez. His main proposals (Oppegasur and Bank of the South) were rejected or postponed by most of the Presidents or drew support that was scarce and lukewarm. The summit was also supposed to express resounding support for the Great Gas Pipeline of the South (*Gran Gasoducto del Sur*), but this issue was all but ignored. Still, kind words flowed. Marco Aurelio García, Lula's main adviser on international affairs, said the governments of South America had achieved a close consensus on the need to devise an energy integration that is 'complex and sophisticated' and that the final document 'is good, one of consensus'. He said it 'addresses all the concerns' of governments on the region's energy future and its effect on development.

In the same vein, President Uribe said the summit established ‘the foundations for a South American accord that includes the issues of oil, gas and alternative fuels, fuels made from agricultural products such as sugar cane, African palm, and the issue of hydroelectric energy’. He said the summit began to deal with ‘the issue of energy interconnection with gas, with energy transmission lines’. But what really happened was something else altogether, and the summit centred on hydrocarbons.

Venezuelan Oil

According to the last *Energy Statistics Report* by the OLADE (Latin American Energy Organisation), in 2005 the region’s oil reserves amounted to 115 billion barrels. Of these, 80.55 billion corresponded to Venezuela and 11.77 billion to Brazil. Since 2004, Latin America’s proved oil reserves have grown at an annual rate of 2.06% after stagnating for the 10 previous years. However, production fell 1.16% compared with 2005, especially in Peru, Chile and Argentina. Venezuela’s statistics are not entirely trustworthy for determining the specific evolution of the country’s oil production.⁶ In 2005 South America produced some 6.704 billion barrels of oil, 8.38% of the world total. OLADE forecasts crude production of 3.857 billion barrels in 2008 in a scenario of ‘low integration’, and 4.2 billion in one of ‘high integration’. But big investments are needed to make this come true. A more agile and integrated domestic market must be encouraged. And legal security must be provided for a high-risk business that is capital-intensive and features rates of return over the mid-term, in addition to having a strong environmental and social impact. Despite their importance, these are issues that the Venezuelan government is not pushing, as was seen in the nationalisation of the fields in the Orinoco oil belt.

Venezuela’s Energy Minister, Rafael Ramírez, said the agenda of the summit included major projects that were ‘under way’ such as the Great Gas Pipeline of the South, which will take gas from Venezuela to Argentina; the Transoceanic Gas Pipeline between Venezuela and Colombia and the creation of an organisation of South American gas-producing and exporting countries (Oppegasur). Statements by Chávez and Ramírez show that Venezuela’s goal at the summit was more nationally-oriented than regional. With the exception of biofuels, debate centred on gas and oil –the kind of energy resources controlled by Venezuela–. There was less discussion –and it was more superficial– of hydroelectric power, nuclear energy or other sources of renewable energy. It is no coincidence that in all of the projects that were discussed, Venezuela is directly involved. The main objective of the government of Hugo Chávez was to claim a role for his country as a world energy power. In order to achieve this, as far as the summit was concerned Chávez believed the best way was to defend a South American strategy that emphasised his nation’s hydrocarbons and guaranteed access for them to South American markets.

Venezuela wants to link the process of regional integration to energy, and in order to do this it is relying on the strong increase in demand, the fact that Venezuela has the largest oil reserves in Latin America and that Bolivia, one of its main regional allies, has vast gas reserves. For this reason Venezuela’s reading is based on the premise that any strategic regional energy plan should keep these two countries in mind. Chávez has thus managed to change the fundamental nature of the debate on regional integration, which is now based on energy. However, in this area there exists the paradoxical situation in which Chile, a country surrounded by gas producers (Argentina, Bolivia

⁶ Paul Isbell, ‘Hugo Chávez and the Future of Venezuelan Oil (I): The Resurgence of Energy Nationalism’ and ‘Hugo Chávez and the Future of Venezuelan Oil (II): The Sacking of PdVsa and the Threat to its Production’, ARI nr 14/2007 and nr 15/2007, 9/II/2007 and 12/II/2007, Elcano Royal Institute, http://www.realinstitutoelcano.org/wps/portal/riecano/contenido?WCM_GLOBAL_CONTEXT=/Elcano_es/Zonas_es/America+Latina/ARI+14-2007 and http://www.realinstitutoelcano.org/wps/portal/riecano/contenido?WCM_GLOBAL_CONTEXT=/Elcano_es/Zonas_es/America+Latina/ARI+15-2007; and Norma Gall, ‘Oil and Democracy in Venezuela’, Braudel Papers, nr 40 and 41, http://www.braudel.org.br/publicacoes/bp/bp40_es.pdf and http://www.braudel.org.br/publicacoes/bp/bp41_es.pdf.

and Peru), must import liquefied gas from Indonesia and other parts of the World due to its neighbours' reluctance to make regular shipments and with no strings attached.

Chávez says his plan would let all the countries of the region come together in joint projects to extract crude oil and gas, process and transport it and finally convert it into petrochemical raw products to stimulate the various national markets. Starting with gas extraction –Venezuela created Delta Caribe, a project stemming from several exploitation plans, in which each country has its option to extract and export– the scheme foresees the construction of so-called Industrial Gas Centres Gas (Cigas). These are plants that will allow gas to be processed in South America. From these liquefied gas would be exported. This is a product that until now did not exist in Venezuela, and the project would require the construction of several regasification plants in the destination countries.

Under Venezuela's model for regional integration, based essentially on hydrocarbons, state-owned oil and other energy companies should become the key players. However, here we find a wide range of companies and experiences in countries that are either producers of hydrocarbons or mere consumers. So the energy reality of South America is much more complex and varied than the driving forces behind the summit would want to admit. The companies differ depending on whether they are fully state-owned or just partially, and also due to their size, capital, experience, management capacity and level of activity. While some only deal with downstream operations, others work upstream; some are firm defenders of a state monopoly, while others advocate cooperation with privately-owned companies. Belonging to this varied universe are PdVSA (Petróleos de Venezuela), YPF (Yacimientos Petrolíferos Fiscales de Bolivia), Enarsa (Energía Argentina), Petroecuador (Empresa Estatal Petróleos del Ecuador), Petrobras (Petróleo Brasileiro), Ecopetrol (Empresa Colombiana de Petróleos, which is about to be partially privatised), Petropar (Petróleos Paraguayos), Petroperú (Petróleos del Perú), Uruguay's ANCAP (Administración Nacional de Combustibles, Alcohol y Portland) and Chile's ENAP (Empresa Nacional del Petróleo).⁷

An essential component of President Chávez's energy strategy is to achieve total state control of hydrocarbon production.⁸ As part of this strategy he has decided to retake state control over the fields of extra-heavy oil of the Orinoco. However, the path towards a greater presence of the state is not a strictly Venezuelan phenomenon. Rather it is a trend seen around the world. With Russia as the prime example, most states seek to control their gas and oil resources, as seen in their growing presence in the handling of oil reserves. Today more than three-quarters of these reserves are in the hands of states and 14 of the top 20 oil companies are state-owned.

In Latin America PdVsa has become one of the main regional players, along with Petrobras and Pemex (Petróleos Mexicanos). Of the three, PdVsa is the one with the most aggressive policy, which is actually an extension of Venezuelan oil diplomacy, aimed at consolidating the country's regional leadership. In order to achieve this, PdVsa has based its Latin American expansion on financing a wide variety of projects and providing the necessary technology. So far only some of the projects have been realised, while most remain under study or just as declarations of intentions.

⁷ According to Patricio Navia, 'UNASUR, Energy and Chávez's Leadership', *Infolatam*, 18/IV/2007, <http://www.infolatam.com/analisis.php?id=3593>, 'To the extent that Chávez manages to build a network of cooperation among those companies, the incentives for other countries to nationalise their energy sectors and take advantage of the opportunities for cooperation will increase. Chávez's aim is for countries that promote privatisation policies to end up isolated and for their energy costs, especially that of gas, to rise significantly. Thus, the incentives for joining this energy unification project will grow... Besides exerting political pressure to join the Chávez project, this model of energy integration, if successful, will end up being very costly for countries which refuse to participate'.

⁸ See Manuel Hidalgo, 'Around a Petro-State: Oil, Politics and Democracy in Venezuela', in Carlos Malamud, Paul Isbell and Concha Tejedor, *Anuario Iberoamericano 2007*, Elcano Royal Institute-EFE, Madrid, 2007.

It is not just a question of making inroads in other countries through investment, but also of urging governments and state-run companies to invest in the Orinoco oil belt fields.

Venezuela's plans calling for working this belt jointly with state companies of South America, for which Chávez proposed to his counterparts the creation of a 'South American bloc', with participation from companies that are already present (Petrobrás, Enarsa and Ancap), and Ecopetrol, ENAP and Petroecuador possibly joining up. The proved reserves of the areas on offer, the precise geographic location of which has not been disclosed, total 10.5 billion barrels of crude oil and Chávez says it 'would be available to all of South America'. He also suggested that part of the participating bonds that the Oil and Energy Ministry will receive in the bidding process for the blocs that are now being quantified and certified in the Orinoco belt –they will total US\$5 billion– be deposited in a fund to drive regional projects.

Bolivia and Ecuador are two countries in which PdVsa has increased its presence. In Bolivia, technicians of the Venezuelan company have played an active role in the process of nationalising hydrocarbon resources, launched with President Morales' signing of the Supreme Decree on 1 May, 2006. The Venezuelan presence in YPFB has been more than obvious. On 13 May 2007 the Bolivian government sanctioned Supreme Decree nr 29130, which authorised YPFB to team up with foreign firms, be they state-owned or private. As Morales said, 'YPFB can carry out (exploration and exploitation) jointly with state companies from all over the world. If we do not find state companies for exploration, especially with reserved fields, it can also be with multinational private companies; and if there is no possibility of this we will resort to an international tender'. The message is clear: the main hope is that PdVsa invests in Bolivia, and then that other state-owned companies follow suit –such as the one in Iran– and if this is not enough, a small door will be opened for private companies in the sector.

Since Rafael Correa came to power in Ecuador, Venezuelan activity in that country's oil sector has increased. On the sidelines of the Isla Margarita summit, Presidents Chávez and Correa signed several agreements to regulate the presence of PdVsa in the development of Ishpingo-Tambococha-Tiputini, one of Ecuador's richest oilfields, with reserves of one billion barrels. As it is located inside the Yasuní National Park, the working of this field has drawn protests from environmental groups. Add to this the fact that isolated indigenous groups live in the area. From Ecuador's point of view, one possibility is to not work this field if the government receives US\$350 million a year. In the case of Paraguay, PdVsa plans to invest US\$600 million in Petropar to build a refinery. Some Paraguayan analysts believe Venezuela's goal is to gain control of the joint venture which might emerge from such an investment.

One key element of Venezuela's expansion strategy is the issue of refineries, vital to processing its extra heavy crude oils. This need has become more acute since the government took control of the oilfields in the Orinoco belt. Venezuela has conventional crude reserves of 80 billion barrels, equivalent to 6.8% of the world's proved reserves, making the country sixth in the world ranking. If one includes the extra heavy crude, the figure soars to 270 billion barrels, which would give Venezuela the world's largest oil reserves, even ahead of Saudi Arabia. However, as Genaro Arraigada points out, 'working with heavy crudes is difficult, it requires greater investment that matures over a long period, it is less profitable and above all it requires special refineries in the exploitation areas to raise the API gravity of the oils (the higher the degree the lighter the oil) and normally in the destination countries. Venezuela's extra heavy crudes cannot be processed at a conventional refinery'.⁹

⁹ Genaro Arraigada, 'Oil and Gas in Latin America. A Political Analysis of International Relations from the Standpoint of Venezuelan Policy', WP nr 20/2006, 19/IX/2006, Elcano Royal Institute, http://www.realinstitutoelcano.org/wps/portal/ri/elcano/contenido?WCM_GLOBAL_CONTEXT=/Elcano_es/Zonas_es/America+Latina/DT20-2006.

At least 13 refineries would be needed to fulfil Venezuela's expectations for processing all the oil produced at the Orinoco belt. With that goal in mind and amid the different refineries that PdVsa wants to build, one highlight is the construction of a huge refinery in Manabí. It would allow the export of fuel to China. To this one must add the refinery at Penambuco (Brazil), with a capacity for refining 200,000 barrels a day, and the much smaller refinery (40,000 barrels a day) that is to be built in Paraguay. Venezuela is also interested, along with Petronic (Petróleos de Nicaragua), in building a refinery in Nicaragua with the capacity for producing 150,000 barrels a day. This project would compete with a similar one by Pemex, which wants to construct a refinery in Central America.

Meanwhile, Argentina wants to build a plant that would increase its refining capacity, but faces problems to finance the construction. The Chairman of Petrobras, Sergio Gabrielli, said 'we think the (Argentine) pricing system does not stimulate much investment'. His remarks triggered a nasty dispute with the Argentine Planning Minister, Julio de Vido. In light of the scarce direct foreign investment that flows to Argentina, which is more noticeable in the energy sector, the government of President Kirchner plans to finance the project worth nearly US\$3 billion with a 'friendly invitation' to the main energy companies operating in the country –Repsol YPF, Petrobras, Pan American Energy, Esso and Chevron– to invest in it. That appeal did not sit well at all among executives of the companies.

The Energy Treaty

At the Isla Margarita summit, President Chávez said Venezuela had presented the other South American governments with a proposal that 'promises to be the first document of a South American energy treaty'. Here it is worth pointing out the large degree of improvisation with which the summit was called. At least in theory this treaty should have been on the meeting's agenda, and a draft of it should have been circulated beforehand by the Venezuelan Foreign Ministry among its South American equivalents. That said, regardless of whether there was improvisation or not, there is no doubt whatsoever that here again one sees the desire of the Venezuelan government to set the energy agenda and, with its own criteria, lead a process of regional integration based on energy.

According to the driving forces behind it, the Treaty should be based on four issues –oil, gas, alternative energies and energy savings– and its main objective should be to avoid energy crises in the various countries of the region by way of Venezuela's resources. This is an important point: if OPEC forecasts mentioned by Chávez turn out to be accurate, demand for oil in Latin America through 2020 will rise 47%, well above the projected global figure of 22%.

Chávez said the treaty should essentially commit Venezuela and Bolivia to addressing the energy needs of the 12 countries of South America, plus some nations of the Caribbean and Central America. The idea is that Venezuela's reserves are sufficient to meet the needs of Latin America for two or three centuries. The Treaty should develop in a way that complements national and regional plans for energy savings and alternative sources of energy. Finally, it was agreed to create a ministerial-level energy council that will coordinate all South American agreements on energy. Beyond the Venezuelans' commitment to try to avert energy crises, the question that was not solved at the summit and remains outstanding is what the countries that receive hydrocarbons from Venezuela and Bolivia will have to give in return.

Energy and integration: Oppegasur

Even though they were the unifying theme of the summit, strategic questions on the terms of what energy integration should be remained in the area of generalities, and at no time did they come close to anything more detailed. Along these lines one must interpret the remarks of Marco Aurelio García, international affairs adviser to President Lula, who said the summit's final statement contained 'the proposal of all the countries of the region' to work for 'complex, sophisticated and generic fuel integration'. The government of Brazil believes that South America can become 'the world's great energy reservoir, if it combines ethanol, bio-diesel, oil, gas, hydroelectric resources, wind energy and in some cases, such as Argentina and Brazil, nuclear'. Once again we hear grand objectives and good intentions, but nothing that explains the mechanisms and steps to take to reach this desired goal.

The idea of creating a regional OPEC (Oppegasur) bringing together gas-producing countries such as Venezuela, Bolivia, Peru and Argentina arose at a meeting held in Buenos Aires five weeks before the summit. The main forces behind the project were Presidents Chávez, Kirchner and Morales. The government of Lula rejected the idea on the grounds that 'it is equivalent to creating a cartel of gas producers', although initially the Bolivian Energy Minister, Carlos Villegas, had said Brazil was interested in taking part in the initiative. However, Brazilian Foreign Minister Celso Amorim quickly cleared up any doubts when he said a meeting like the summit was not the place for dealing with an issue such as Oppegasur: 'If we are involved in an integration effort, we cannot separate consumers from producers of gas. To the contrary, we must reconcile and harmonize their interests'. These remarks have two readings: either the agenda and the summit itself were poorly designed, or the goal of the meeting was more political than technical. However both reveal how badly the presidential summit was lacking.

For Venezuela, Oppegasur has two immediate goals. On the one hand, to shore up the position of its partner, Evo Morales, in his tumultuous relationship with Brazil, and on the other to turn it into a lever to start exporting Ecuador's gas, either as liquefied natural gas or through a complex network of gas pipelines. By 2012 Venezuela hopes to have capacity to produce 4 million tons a year of LNG, and estimates that in its initial phase the Southern pipeline will carry 50 million cubic meters of natural gas from Venezuela to Brazil.

The network of gas pipelines that Venezuela is pushing as a way to connect much of South America is one of the pillars of Oppegasur. Highlights of this grid include the Great Gas Pipeline of the South, which would run from Venezuela to Argentina and Uruguay, passing through Brazil, the Simon Bolivar Trans-Andean line, which would join Venezuela, Colombia, Ecuador, Bolivia and Peru, and the Transguajiro Gas Pipeline between the east of Colombia and the west of Venezuela. As for the first of these pipelines, there are conflicting versions. Argentine and Brazilian sources report that negotiations on building it have ground to a halt, whereas Venezuelan sources say that in 2012 the first stretch between Brazil and Venezuela will be operating. The basic idea discussed at the summit was that in the space of 10 years all of South America would be connected with gas pipelines so that all the countries of the subcontinent could buy and sell gas among themselves, with not too much concern over the origin of the gas. Clearly, as we shall see further on, this is an ideological and strong-willed approach to the problem but does not take into account how markets work or the defence of national interests.

For this reason we should not be surprised by the messages of caution or even outright criticism that are starting to come out of Bolivia on the negative repercussions that the Great Gas Pipeline of the South will have for Bolivia's gas production. This pipeline would be 9,000 kilometres long and cost an estimated US\$25 billion to build (although serious studies have yet to be carried out) and aim to supply Brazil and Argentina, although with branches extending to Uruguay, Paraguay and Bolivia. Some reports speak of 12,500 kilometres of pipeline, which gives an idea of how scantily developed

the project is. One must keep in mind that Europe's longest oil pipeline, which runs from the Caspian Sea to the Mediterranean, from Azerbaijan through Georgia and Turkey, does not exceed 1,700 kilometres and took 10 years to build.

According to some sources, in late 2009 Venezuela and Brazil agreed to begin construction of the first leg of the Great Gas Pipeline of the South, a process which would last until 2013. This stretch of the pipeline would be 5,879 kilometres long and cost US\$11 billion. Venezuela is to build 960 kilometres of it and Brazil the remaining 5,000. These same sources say that Argentina and Bolivia also agreed to open the tender process in mid-2007 for the construction of the North-East Gas Pipeline, with an investment of US\$1.8 billion that would theoretically multiply Argentine imports of Bolivian gas by four in the year 2010. However, the first of these projects has yet to end the phase of technical or environmental impact studies, and bidding has not yet begun for the northern Argentina gas pipeline. Furthermore, the contract signed by Argentina and Bolivia says that in the event of a crisis or supply problems, domestic demand is to be addressed first, followed by that of Brazil and finally that of Argentina. This naturally complicates things for investors making bids.

The chairman of Petrobrás, Sergio Gabrielli, says the Great Gas Pipeline of the South project will remain in the study phase (at least 100 technicians are working on it) at least until December 2007. The results of these studies will determine if his company invests in the project, and if so, how much. Later, the project will have to go through a series of detailed engineering studies, as well as conceptual, financial and environmental impact analyses. In any case, for natural gas integration to advance clearly, certain current problems must be overcome, such as low production, insufficient infrastructure and inexperience in large-scale consumption of gas. All of this requires the heavy investment of capital.

In a recent article, Hugo del Granado warned of the risks that building this major gas pipeline carried for the Bolivian gas sector. He said the plan carried big advantages for Venezuelan gas and much detriment for Bolivia's. By meeting demand for such extensive markets and at very low (subsidised) prices, the project places serious limits on Bolivia's prospects for competing efficiently for the markets of Argentina and Brazil. At the same time, such as a pipeline would definitively rule out the possibility of Bolivian gas reaching the Pacific coast and becoming industrialised. Granado said Venezuelan gas would pass from Argentina to Chile through the many trans-Andean pipelines, which would definitively shut Bolivia out of the Chilean gas market, and also end prospects for a negotiated end to the conflict that has pitted the two countries against each other since the 19th century. In this way it would be hard to reach the coasts of Chile and without them it would be difficult to build large plants. So Bolivia would take a definitive step away from industrialising its gas. No country that produces hydrocarbons has built world-class GTL or LNG plants (to liquefy and re-gasify gas) far from the coast because these facilities need so much water.

However, in the event Bolivia can finally manage to activate the iron and steel complex linked to the rich deposits at El Mutún near the border with Brazil, demand for gas would increase enormously and the supply available for export would be drastically cut, unless massive foreign investment flowed in for the hydrocarbon sector. After Evo Morales came to power, all possibility of Brazilian capital moving in was shut off. Bolivia opted instead to work with the Indian firm Jindal, but despite prolonged negotiations that have been underway for nearly a year, no firm agreement has been reached. The worst part of all is that with its blow at Petrobrás following the nationalisation of the Bolivian hydrocarbon sector and other measures against Brazilian investors – a strong presence in Bolivia until the arrival of Morales – the government of Bolivia opted to accept favours from Venezuela and all but ruled out a path towards development that would have involved a strategic and increasingly close alliance with Brazil. Time will tell the magnitude of Morales' error, but for now Venezuelan development aid – now greater than that which comes from the US – cannot compete with Brazilian investment. Over the mid-term one can say that the Brazilian IED's capacity to create thousands of jobs is simply inferior to cooperation from Venezuela.

The Bioethanol Conflict

One of the most sensitive topics at the summit was the bioethanol dispute between presidents Lula and Chávez. The battle waged by Cuba and Venezuela against biofuels had become a sort of crusade ever since the Presidents of the US and Brazil, George Bush and Lula da Silva, during the former's visit to Brazil, agreed to encourage the use of such fuels and form a sort of alliance to increase their production and use. The first to speak out explicitly was President Chávez, who centred his arguments on two basic facts: on one hand, bioethanol helps the automobile industry and worsens pollution around the world, while on the other hand production of bioethanol would aggravate hunger in the world and condemn huge numbers of people to poverty. The reason is that food production, added to intensive utilisation of arable land and water, would go toward manufacture of biofuels. Chávez is convinced he will triumph in this latest crusade against American imperialism and its allies: 'just as we defeated ALCA, now we will defeat ALCO'.

The position of Commanders Chávez and Castro stems from the fact that they want to defend not just the central role –and the price– of Venezuelan oil in Latin American politics, but they also want to maintain the influence of Cuba and Venezuela in the Caribbean. Here one must keep in mind that the Brazilian-US project to encourage production of ethanol involves using the now-depressed sugar cane sectors of several Caribbean islands so as to be able to take advantage of the CAFTA-DR (Central America-Dominican Republic-United States Free Trade Agreement). Both Cuba and Venezuela have tried every way they can –oil diplomacy, grants, medical aid, etc– to enhance their influence in the countries of the Caribbean. This provides them with important support in terms of votes at the Organisation of American States, the United Nations and other multilateral organisations.

However, opposing bioethanol is a complicated fight, despite a recent warning from the United Nations against indiscriminate production of biofuels and unbridled use of natural resources, mainly land and water. For now, industrialised countries see biofuels as providing an opportunity to diversify their sources of energy and reduce emissions of greenhouse gases, as stated recently by the European Union. For developing countries, biofuels are a way to stimulate rural development, create jobs and save money spent on importing expensive oil. Both worlds have developed wide-ranging programmes to produce biofuels from a variety of plants such as corn, sugar cane, rapeseed, African palm and others. The countries that have this kind of programme include the US, nations of the European Union, India, Thailand, China, Colombia, Brazil and Argentina. Ethanol from sugar cane grown in south-central Brazil is the most economical biofuel, and starts to become profitable once oil prices exceed US\$35 dollars. However, importing it is difficult in some countries, such as the US, due to stiff tariffs that some governments impose to try to keep national production free of competition.

For the most part Chávez's denunciation of biofuels was taken up later by Fidel Castro, who hardly added any new arguments to the one he had expressed earlier in two articles published in *Granma* in late March and early April. With the pompous headline 'Thoughts from the Commander-in-Chief', he stressed it is an 'evil idea' to turn food into fuel (basically ethanol). Castro said this would cause international genocide through famine. Indeed, his first article published on 29 March, 2007 was entitled 'More than three billion people in the world condemned to a premature death through hunger and thirst'. In his response, Lula did not mince words. He said, 'no one anywhere in the world goes hungry for lack of food, but rather for lack of income'.

The odd thing is that after Cuba and Venezuela came out against bioethanol, some ecological and environmental groups which had defended biofuels, and some on the left, began to change their tune. For this reason it should come as no surprise that from other places on the Chávez ideological spectrum we should hear arguments that are the same as or similar to those used by Commanders Castro and Chávez. Such is the case of the Spaniard Carlos Monedero, a professor at Madrid's

Complutense University and an adviser to Chávez. Monedero has said: 'Venezuela is doing the right thing in trying to rebaptise the words because the words were stolen. They announced a green revolution and that meant doing away with part of subsistence agriculture in Latin America and Asia. Now they are dealing in another lie, which is the word biofuels, as if drinking a litre of ethanol were healthy, instead of calling them agro fuels'.¹⁰

Despite Chávez's fierce criticism of bioethanol, the defence carried out by the government of president Lula bore fruit. Brazil hopes to benefit from ethanol not just economically but also politically, gaining more influence in the Caribbean, among other things. Marco Aurelio Garcia, Lula's main international affairs adviser, was adamant in defending biofuels in a newspaper opinion piece. In the same vein, and also in a bid to achieve a greater consensus among the different countries of the region, Lula reaffirmed the importance of ethanol, so long as it does not affect food production. Brazil launched a major media offensive before the summit in order to enhance the image of ethanol. It is from this perspective that we must view the announcement made two days before the summit that Cosan, Brazil's largest producer of sugar and ethanol, would invest US\$1.7 billion over the next four years to boost its production capacity and upgrade its plants.

The summit's Final Statement ended up taking a position half-way between those of Brazil and Venezuela. This shows once more the power of rhetoric in the whole integration process. Most of the region's governments chose not to make enemies with either side, attempting what is known colloquially in Spanish as *nadar y guardar la ropa* –avoid taking risks–. Thus, the Presidents signing the statement ignored most of the criticism made against the summit in the days leading up to the meeting and acknowledged the 'potential of biofuels to diversify the South American energy grid'. They committed to 'join in making efforts to exchange ideas with an eye to achieving maximum efficiency in the use of these resources' and 'promote social, technological, agricultural and productive development'. Thus, the leaders at the summit produced a section that did not condemn the intentions of some countries, such as Brazil, to raise ethanol production, nor did they mention the possible effects for food-oriented agriculture.

Although Chávez chose to tone down considerably his clash with Brazil over ethanol, Evo Morales, who had clashed with Lula by nationalising refineries that belonged to Petrobras, decided to comment on the biofuels clause in the final statement. Chávez did not want to force a confrontation with Brazil that might end up harming Venezuela's interests, as it could have forced other South American countries to take a position for or against his own in a battle in which Chávez did not have much to win.

As it has been presented so far, the biofuels debate stems more from political issues (Brazil and the US moving closer together) than technical ones. With this in mind, it is worth recalling that in 2006 Venezuela bought 100 million litres of ethanol from Brazil, although these imports were suspended in October. After the aforementioned debate, Venezuela resumed the imports. It was also decided that bilateral commissions would rule on the future of the imports and their amounts.

The bioethanol debate revealed the existence of different interests and points of view among producers and non-producers of oil. In this context we should note remarks by Uruguayan Vice President Rodolfo Nin Novoa, who defended his country's right to develop ethanol as an 'alternative' to 'gain independence from buying oil'. He said earmarking part of the country's agricultural production in order to make ethanol does not jeopardise the region's food supply. 'We are a huge producer of food, considering the size of our population. Uruguay can feed many millions of people in Latin America', he said. Paraguay is also an advocate of ethanol, so much so that it is seeking an active role in the Brazilian project to boost production of this vegetable-based

¹⁰ *El Universal*, Caracas, 22/IV/2007, http://archivo.eluniversal.com/2007/04/22/pol_art_ahora-teneis-otras_260448.shtml.

alcohol. Meanwhile, President Néstor Kirchner of Argentina –paradoxical as it may seem, given the country’s potential in this issue– sought to strike a middle ground between Chávez and Lula. However, Kirchner’s financial and political commitments to Chávez shaped his performance at the summit, and they have also shown up recently in various actions by his government on the foreign policy front, such as letting Chávez use a football stadium in Buenos Aires for a rally against the presence of Bush in Uruguay and other displays of anti-US sentiment that did not sit well with the US State Department.

The Bank of the South

The idea of creating a regional bank, named Banco del Sur, or Bank of the South, was proposed in February 2007 by Presidents Kirchner and Chávez, and later endorsed by the leaders of Bolivia and Ecuador. From Kirchner’s point of view, this bank should be a tool for freeing his country once and for all from dependence on multilateral lenders such as the International Monetary Fund, the Inter-American Development Bank and the World Bank. Kirchner says this dependence has been disastrous for his country’s development. The initiative takes on new value following the cancellation of Argentina’s nearly US\$10 billion debt with the IMF. The Argentine government, just like that of Venezuela, has placed too many hopes in the regional bank. According to the Argentine presidential Chief of Staff Alberto Fernández, ‘the Bank of the South can help boost development of infrastructure in the whole region’. But that is not all. The idea is to give the new financial entity a wide range of functions, a concept which, because of its ambiguity, has failed to draw interest from the government of Brazil.

The sponsors of the project want to create a US\$7 billion fund, to be drawn from the increasingly large foreign currency reserves of South American central banks, with the goal of financing infrastructure, economic development and regional trade, as well as preventing fiscal and external crises that might jeopardise the stability of the governments now in power. But before committing themselves to the project, Brazilian authorities want to define the goals of the bank clearly, see what kind of structure would be built, (if the idea is to replace the IMF and the World Bank or to substitute for the National Bank of Economic and Social Development –the BNDES– Brazil’s largest development-oriented bank).¹¹ On top of these concerns come others, such as the idea that similar banks already exist so there is no need to double up and thus cause problems such as a boost in supranational bureaucracy, among other worries. To some extent, much of Brazil’s wariness stems from the existence of regional organisms that already carry out the same tasks that the Bank of the South would. These include the Inter-American Development Bank, the CAF (Andean Development Corporation) –which is doing an extraordinary job– and even Fonplata (Financial Fund for Development of the River Plate Basin), despite having limited resources. Despite its misgivings, Brazil has taken part in technical-level meetings to define the characteristics and charter of the bank. Paraguay has also taken part, as have Bolivia and Ecuador.

Lula made clear at the summit that the ‘Isla Margarita meeting’s goal was not to discuss that financial institution’, an argument he used to quash the subject and keep it from being debated. In any case, Brazil supports the idea that the bank should limit itself to financing construction of major infrastructure projects. Along these lines, a week before the summit the Brazilian Finance Minister, Guido Mantega, suggested that his country would only sign on to the bank if it were a regional development entity whose main goal was to support and finance projects of physical integration. In fact, Brazil already has the BNDES as a powerful tool for its domestic development projects and does not need new ones. On the other hand, Argentina once had a Development Bank, but does not any more, and Ecuador and Bolivia suffer from the same problem. For Venezuela the bank would

¹¹ At the summit Lula said: ‘First we must debate over what this new institution is. That is to say, whether it pretends to be a kind of regional IMF, or something like World Bank for the region, or for instance, it is more similar to the National Bank of Economic and Social Development in Brazil. Until we reach agreement on this point, no of the rest can advance’.

be a useful mechanism for expanding its influence in Latin America. Venezuela has given the idea a 'southern' stamp with which it is seeking to give a clear corporate identity to its regional initiatives.¹²

In the end Lula accepted the idea of President Correa for the Finance Ministers to meet in Quito. So the Ministers from Argentina, Bolivia, Brazil, Ecuador, Paraguay and Venezuela met on 3 May in the Ecuadorean capital. Despite strong pressure from President Correa, the Ministers only reaffirmed their desire to press on with the creation of the Bank of the South. President Correa had proposed creating two institutions: the Southern Fund to collect foreign currency reserves from countries and avert the devastating effects of fiscal and external crises, and the Bank of the South, which would finance development projects, especially infrastructure, in line with the proposal made by Brazil.

Because of Brazil's wariness of the whole project, discussions of the idea of creating a Southern Fund with some functions similar to those of the IMF were postponed to a later date. It was decided however to strengthen the Latin American Reserve Fund (Flar), with the goal of confronting potential fiscal crises, although no concrete step to this end was taken. The Ecuadorean Minister Ricardo Patiño, seeking to justify the position of his government, said that initially the fund would handle commercial transactions. 'Ecuador's proposal was to start using a monetary accounting unit that could be the seed of what in the future would be called a South American currency'. But rhetoric continued to dominate the gathering, as the Venezuelan Finance Minister Rodrigo Cabezas showed by saying 'We will create a bank that takes the place of the old practices of the multilateral organisations'.

However, one of the biggest problems the new institution will have to address, besides the definition of the Bank of the South, is the issue of funds. Although there is talk of a contribution of US\$500 million from each member state, big questions remain: where would the capital to found the bank come from? Who will make the main contribution or contributions? Proponents talk of using countries' foreign currency reserves, which have grown considerably in recent years. But the issue is whether all countries will want to invest them, and in what amounts, in this adventure. Finally there is the possibility that the Bank of the South, like so many other experiments in the long, controversial and rarely successful process of Latin American integration, will end up as an empty shell that nonetheless has a costly payroll allowing at least half a dozen people to earn big salaries and other hefty privileges.

In the month of May, first a technical commission and then the Finance Ministers were to define the goal and functions of the bank, the charter of the governing and administrative bodies (structure, shareholders, votes, etc), and the capital regime. In the meantime, Argentina and Ecuador proposed that each member state of the Bank of the South have a vote on the board of directors. So far it has been agreed that the bank's priorities will be to finance infrastructure projects, foreign trade and development of member countries. Finally, on 22 or 26 June, depending on how well the parties think the process is advancing, the six countries will sign the founding manifesto of the bank, thus clearing up all doubts. They will do so either at the Mercosur meeting in Asunción or at the opening of the Copa America in Caracas. The Brazilian Finance Minister Guido Mantega justified his rejection of the Southern Fund, saying 'placing the two organisms together would be more difficult to make viable. It is difficult to found a bank, and it would more difficult to found two. For this reason, first we are going to assign priority to the development bank (Bank of the South) and then think about a stabilisation bank, which could stem from taking advantage of another institution'.

¹² This is the case of Telesur, Unasur, Petrosur, Opegasur, Radio Sur, the South Atlantic Treaty Organization (SATO), South-South cooperation, the Great Gas Pipeline of the South, Editorial del Sur, the Southern Commission of the Non-Aligned Movement or the Armed Forces of the South, among a wide variety of initiatives.

As in other areas, a lack of definition and the presence of strong will are the norm. Thus, leaders announce grandiose measures that eventually come to nothing and end up being a new source of frustration. In Cochabamba, the Bolivian government pushed for the construction of the South American Parliament, a project which like so many others in the process of regional integration would be born void of any meaning. But that did not stop large amounts of money from being spent to build it, nor more large amounts going to salaries of lawmakers, advisers and support staff. The same can be said of the recently constituted Mercosur Parliament. In late April, while visiting the site where the legislature is to be built, Evo Morales followed Rafael Correa's cue and said that in the region there is a consensus to create a common currency. But he did not clarify in which countries this consensus exists, or what would be the process for creating such a currency.

Morales believes a common currency is a key element on the road to regional integration, rather than a consequence of it. It is like building a house by first doing the roof, and in this case concentrating first on the name. 'That is the task, which is the result of much debate; we have even come up with a name, let's call it Pacha, looking a bit to the future. Venezuela also has a proposal (for a name). All the countries have a proposal, but there is agreement that all of South America should have a common currency. There is agreement on that'. Morales said the leaders interested in this include the President of Ecuador, Rafael Correa, who 'strongly supports' the single currency. He also said a commission –another one– has been set up and in December will produce a draft of a constitutional charter for regional integration centring on Unasur.

Relations Between Brazil and Bolivia

Relations between Brazil and Bolivia deteriorated greatly starting on 1 May, 2006, when the government of Evo Morales signed the Supreme Decree nationalising the country's hydrocarbons, a move that affected Petrobras. Some observers described the bilateral meeting held by the Presidents as their worst ever, with a 'tense debate'. As stated earlier, the decree marked a turning point in the already troubled relations between Brazil and Bolivia. The government of Evo Morales made a Venezuelan-style decision which over the long term has caused deep and irreparable damage to the process of Bolivian growth.

Another sign of the deterioration of bilateral relations was the signing by Presidents Chávez and Lula of an accord to create two joint venture companies that would build a petrochemical complex that would include an ethylene plant and a polypropylene plant in the Jose Cryogenic Complex. The joint venture project, which calls for US\$5 billion in investments, will be carried out by Pequiven, a subsidiary of PdVsa, and by Brazil's Braskem. It turns out that Braskem had planned to build the petrochemical complex on the border between Bolivia and Brazil, with an investment of US\$1.3 billion. The project would have created 100,000 jobs in Bolivia, but in the end the initiative went nowhere because of a prolonged lack of response from the government of Evo Morales to the Brazilian proposal. In December 2006, Braskem withdrew it.

Another factor that is not helping bilateral relations is the pro-Iranian shift that the government of Evo Morales is displaying, with a nudge from Hugo Chávez. Morales arrived in Venezuela a day before the start of the summit and accompanied Chávez at the inauguration of a dairy plant built with Iranian technology. Later, during the program *Alo Presidente*, Chávez suggested to Morales that he undertake negotiations with Iran to build factories similar to the ones set up in Venezuela to produce cars, tractors, plastic and processed food. At the same time, Iranian officials reiterated a plan by Mahmud Ahmadineyad to create in Venezuela an operating base for importing and exporting products to and from Latin America. With this goal in mind a joint company will be created to develop bilateral business deals, into which Chávez asked to incorporate Bolivian products.

One of Lula's constant complaints about the negotiations with Morales on the status of Petrobras in Bolivia is that the government of La Paz is always changing its mind. At the Isla Margarita summit, the main dispute between the two leaders centred on Bolivia's attempt to buy two Petrobras oil refineries which the Bolivian government wants to nationalise. While Petrobras wants to sell them at the going, market rate, Bolivia wants to buy them for their book value. Bolivia wanted to spend between US\$50 million and US\$70 million (initially there was talk of US\$90 million), arguing that when Petrobras bought the facilities in 1999 (in February of that year a barrel of Brent oil cost US\$10), it paid a similar amount. Petrobras wanted US\$200 million, which it later lowered to US\$153 million, and finally said it would accept US\$112 million. The Brazilian government says it gave in so as not to cause a crisis in the Bolivian government, already struggling with a variety of conflicts on different fronts. Lula did not want to be depicted as the source of a crisis in Bolivia or the fall of its government.

After long, tense negotiations failed to produce an accord, in early May the Bolivian government decided to turn to an international consultant to settle the dispute. Sources close to Evo Morales said that if no agreement could be reached, the President would sign a decree allowing the government to seize the cash flow from the refineries, although this was only a way to exert more pressure in the negotiations. As could be expected, government officials –especially the Bolivians–said publicly there was no conflict. Morales said after the summit that 'there has been no dispute' with Lula and that in the past the President of Brazil had ended up resolving problems stemming from a lack of agreement on the price of the gas Bolivia sells to Brazil.

Despite this, the Brazilian press said the argument was quite heated, especially after the Brazilian government got tired of Bolivia's evasiveness and constant changes of direction. Lula, also getting tough in the talks, made his own threat: if no deal were reached he would pull all of Petrobras' investments out of Bolivia and urge other countries to do the same. However, once an accord was reached, a senior Petrobras official said his company would invest in Bolivia again only if current circumstances changed.

Evo Morales does not want more tension now, either. And for this reason, at an appearance with the press in which he did not take questions, he said in a firm voice, albeit his words were hardly credible: 'In Brazil they make his look like a fight with our colleague Lula. In any case, our respect, our admiration (for Lula)'. Besides the nationalisation of the refineries and talks on the price of the natural gas that Bolivia sells to Brazil, one of the main issues in the bilateral conflict is the tax of US\$30 million a month that Petrobras must pay to YPFB, just as Repsol YPF and Total Fina must, corresponding to 32% of its production. The tax cost Petrobras US\$99 million in 2006, which took its toll on the company's earnings that year. It posted profits of US\$27 million, a quarter of the US\$107 million it made in 2005.

One of the consequences of the summit was a meeting that Lula held upon his return to Brazil with the Chairman of Petrobras, Sergio Gabrielli, who said shortly thereafter that his company would invest US\$22.4 billion in the exploitation and production of gas through 2011. Thus in 2010 supply should treble from 42 million cubic metres a day to 121 million. This supply would be guaranteed by Brazilian production. So the volume purchased from Bolivia would grow little, rising to 30 million cubic metres. Brazil will import another 20 million cubic metres of liquefied gas and 71 million would be Brazilian production. This is something Bolivia will probably not be pleased with.

Brazil's Minister of Mining and Energy, Silas Rondeau, said his country wants to buy liquefied natural gas from whatever country offers competitive prices and guaranteed supplies, such as Qatar, Trinidad and Tobago, Nigeria, Oman or Algeria. In line with this, on 25 April Petrobras signed with Nigerian GNL its first agreement to import liquefied natural gas, as part of its strategy to diversify its suppliers of gas and ease its dependence on Bolivia. Petrobras also signed a confidentiality accord with Oman GNL for possible imports of gas from the Persian Gulf. With these transactions

in mind the Brazilian government has already approved the construction of two regasification plants. They will be built in states of Rio de Janeiro and Ceará and come on line in May 2008. They will have capacity to re-gasify 20 million cubic metres of gas per day, nearly 80% of what Brazil now imports from Bolivia.

Other Energy Issues

Argentina: Gas and Oil

Kirchner's arrival as Argentina's President in 2003 marked an about-face with regard to the energy policy developed by previous governments. His strongly statist interpretation of the economy led him to envision the energy sector as a strategic nucleus that must be controlled by and from the State. To that end the company Energía Argentina (Enarsa) was created. Lofty goals were announced for it but the company has still to get off the ground. One of its goals was to use its own undertakings to neutralise a significant drop in investments in exploration and exploitation by private companies (gas and oil) that operate in the country. The powerful Planning Minister, Julio de Vido (responsible for the energy sector), was categorical when on 18 April, after the energy summit, he said he was not pleased with the investments made by oil companies. De Vido said 'exploration is not rising the way we had hoped' and 'I don't think they are investing a lot. Furthermore, what they want is for me to pay them US\$60 a barrel, or, what is worse, that the end user pay this'.

This situation has led the Argentine government to consider reviewing 18 hydrocarbon exploitation contracts. As for Repsol-YPF, the Energy Secretary Daniel Cameron said the investments announced by the company are below the level of those made in January 2002, after the grave economic crisis that rocked the country. One must keep in mind that since the peso stopped being pegged one-to-one to the dollar and was devalued (in January 2002), the Argentine government has frozen fuel prices and is applying taxes known as 'export withholding' amounting to 45% of overseas sales of hydrocarbons. This is one of several regulations that have drawn complaints from the oil industry.

Constant pressure on the Spanish oil company, which went so far as to include the possibility of a re-nationalisation of it, led its Chairman Antonio Brufau to announce recently that Repsol-YPF would not mind if a minority Argentine investor acquired a stake. For now, the potential partners do not want to take that step. Many of them are wary of having just a secondary position and prefer to take charge of the management of the company. So new government pressure on Repsol cannot be ruled out.

Argentine oil production rose 3.52% in the first two months of 2007, reaching 6.2 million cubic metres in the first increase since 2001. This slight rise is in contrast with the stagnation of natural gas extraction, the volume of which only covers 50% of domestic demand. As a result of this, Argentina has reduced its sales to Chile and imported gas from Bolivia. In both cases, the reasons for the stagnation of the sector lie in the paralysis of investments as a result of a rate freeze and a deterioration of regulatory frameworks and legal guarantees for investors.

Relations Between Colombia and Venezuela

In the complex, ever turbulent field of bilateral relations between Colombia and Venezuela, the meeting between Presidents Chávez and Uribe added an important touch of normalcy. Despite the major political and ideological differences that exist between the two leaders, the bilateral relationship is solidly anchored in trade that right now is doing better than ever. In 2006 trade hit the figure of US\$4.3 billion. This is a fact that makes it more and more necessary to define a new framework for bilateral trade, in the wake of Venezuela's withdrawal from the Andean Community of Nations (CAN). However, nor can we totally rule out a return by Venezuela to the CAN,

inasmuch as it could make this situation compatible with Venezuela's condition as a member (although not a full-fledged one) of Mercosur.

During the summit, the governments of Colombia and Venezuela committed to signing a bilateral trade agreement in July to re-launch commerce. They also discussed specific energy projects. Their agenda featured four issues: (1) a gas pipeline running underground in La Guajira department, with the goal of expanding gas networks to satisfy demand in both countries. The project is scheduled to finish in August; (2) an oil pipeline running from Maracaibo in Venezuela to Colombia's Pacific coast for the purpose of exporting Venezuelan oil to Asia (China); (3) joint exploitation of the extra-heavy oil of the Orinoco; and (4) sale of petrol from Venezuela at below-market prices to Colombian border towns in order to eradicate illegal trade in petrol. In the case of the Transguajiro gas pipeline, there was also study of a possible extension to Panama. As we can see, pragmatism on both sides has taken hold of Colombian-Venezuelan relations. Of special note is Colombian President Alvaro Uribe's ability to resist responding to the constant provocations to which he is subjected.

South American Integration

In early May 2007, the former Chilean President Ricardo Lagos acknowledged the achievements of the Energy Summit but issued an important warning. He said that in Latin America one should not mix up 'political and economic areas when speaking of integration' because this will lead to confusing 'the references and the goals'. Given the varied economic features of the countries of the region, 'economic integration... requires... a variable geometry' based on different national interests, and with this one defines how to move forward.¹³

Despite this, one of the things touted as a big achievement of the summit was announced as the adoption of the name Union of South American Nations (Unasur), instead of the Community of South American Nations (CSN or CASA). As stated earlier, this definition was not included in the final statement, although it is in a separate statement signed by all the Presidents who attended the summit. The statement calls for the headquarters of this new institution to be set up in Quito (as a way to reward the loyalty of a close ally of Chávez), where the permanent secretariat would be set up. The job was offered to former Ecuadorean President Rodrigo Borja. The main difference with the CSN is that the latter was to have a *pro tempore* secretariat, not a general secretariat.

Behind these questions on what to name things we once again find the struggle between Brazil and Venezuela for regional leadership. The CSN project, now obsolete with the creation of Unasur, had been pushed by Lula in a summit in Cuzco in 2004. The differences of opinion between him and Chávez can be seen in the latter's statement that one of the goals of the integration process is that 'we incorporate the social currents of our peoples', rather than place the emphasis on commercial or economic integration or in the construction of infrastructure, which was the basis of the Brazilian proposal.

A few days before the energy summit in Isla Margarita, the so-called Puebla Panamá Plan –initially sponsored by Mexican President Vicente Fox– held its own summit. This one was attended by Colombia, which decided to join this integration blueprint. The Mexican regional initiative calls for the construction of a refinery in Central America. This project could clash with Venezuela's plans for Central America and the Caribbean. Colombia's joining the Puebla Panamá Plan allowed Nicaraguan President Daniel Ortega, more and more aligned with Hugo Chávez –as shown by his growing and close relations with the regime in Iran– to miss the summit. Ortega's main argument was that Colombia had endorsed the Puebla Panamá Plan only to see new support in its dispute with

¹³ Ricardo Lagos, 'Differentiating Between Political and Economic Integration', *Clarín*, 6/V/2007, <http://www.clarin.com/diario/2007/05/06/opinion/o-03802.htm>.

Nicaragua over the San Andrés Archipelago and the Roncador, Quitasueño and Serrana keys in the Caribbean. But Ortega did join Evo Morales in attending the ALBA summit that Chávez organised in Barquisimeto starting 28 April 2007. Ortega's argument was really just an excuse. But in any case it serves as more evidence that Venezuela's Latin American policy is more a factor of division than of unity.

The regional problem is that political issues and even ideological ones are constantly getting mixed up with economic issues. The idea now, and it is one we observe as one of the driving forces within the ALBA, is that the confluence of political and ideological positions will help consolidate the process of regional integration and that this convergence among different governments characterised by growing nationalism and statism will be enough to chip away at (or even eliminate) the differences.

So it is interesting to discuss what in fact is the integrating potential of the energy agenda, in which some Latin American leaders, starting with Hugo Chávez, but not limited to supporters of ALBA, think they have found the key that will open all the doors to regional integration. Some analysts, such as Bolivia's Alfredo Seoane Flores, believe that the process of energy integration, added to that of infrastructure and finances, is the best path to a united and integrated Latin America.¹⁴ Despite this, as seen in the evolution of the electricity market, very little has been done in the processes of connecting countries amongst each other (Central America is perhaps the most spectacular case). At the same time there is the case of Paraguay, a major producer of hydroelectric energy with its dams at Itaipú (shared with Brazil) and Yaciretá (shared with Argentina), but which does not export all the energy it could because of the low rates its neighbours want to pay for it. As Venezuela is not a major producer of this kind of energy, electricity, its generation and its distribution were not main issues at the summit.

The ALBA Summit

Ten days after the energy summit in Isla Margarita, the first summit of the ALBA was held, also in Venezuela, in the city of Barquisimeto from 27 to 29 April. In attendance were the Presidents of Venezuela, Bolivia and Nicaragua and the Vice-President of Cuba, Carlos Lage. The countries are so far the only signatories of this regional accord, although in the future Ecuador and some countries of the Caribbean should not be ruled out. So there were special guests at the ALBA summit, some of them from the Caribbean, an area looked after carefully by the diplomatic machines of Cuba and Venezuela. Among the Caribbean delegates one who stood out was Haitian President René Preval, who is seen often of late with Chávez.

According to the Venezuelan President, ALBA, which has more of a political than economic component, promotes a brand of Latin American integration based on 'solidarity, cooperation, not competition and capitalist winning'. As a tool of Venezuelan oil diplomacy and with the summit so recently held, energy could not be left aside. Venezuela proposed to the member states of ALBA (Cuba, Bolivia and Nicaragua) and to Haiti that it would cover their energy needs by financing 50% of their bill for purchasing hydrocarbons. Chávez says that amount must go towards developing the 'ALBA fund' which would promote 'agricultural products, food production and small and medium-

¹⁴ Alfredo Seoane Flores, in 'Unasur: ¿Change of Name or Direction?', *La Razón* (La Paz), 22/IV/2007, http://www.la-razon.com/versiones/20070422_005884/nota_246_417584.htm, says 'the current dynamic is different from that which was present in the decade of the 90s, one of significant advances in trade liberalisation and openness to investment. These days, the integration agenda has shifted towards one which, besides trade, contains issues of true impact and potential for generating dynamics of integration of the economic area, such as the processes under way in integration of infrastructure, energy and financing of development, (Bank of the South), so that markets that were once separated are more and more a single market. In Margarita, the central focus of the meeting was energy integration, a field that can become the basis or most solid pillar of South American integration... In South America, thanks to integration, one would guarantee energy supplies in the future and give the region a strategic vision in a sector as essential as energy. Any way you see it, this means giving it the right map for navigating globalisation'.

sized industry' in creditor countries. Venezuela guarantees the countries which have joined ALBA, and Haiti, supplies to meet all their energy needs. 'Furthermore, we propose financing 50% of the oil bill generated by those supplies' and the 'the time has come for Venezuelan oil to serve the causes of development and unity among our peoples, the same way it once boosted the development of the US'.

During the ALBA summit in Barquisimeto, President Chávez announced his plans to quit the World Bank –including the International Centre for Settlement of Investment Disputes– and the International Monetary Fund. His policy of abandonment will also touch on the OAS (Organisation of American States) if it comes out against Chávez's desire to close down Radio Caracas Televisión (RCTV), known for opposing his regime. Chávez had harsh words for the Secretary General of the OAS, José Miguel Insulza, when he expressed concern over the case.

This policy of growing isolation had one of its peak moments when the Pope visited Brazil. The Vatican's Secretary of State, Tarcisio Bertone, said the Holy See was worried about the emergence of 'authoritarian governments in Latin America, such as in Venezuela'. The Pope himself took up the idea in his final speech, although he made no specific mention of Venezuela. Venezuela's answer was emphatic. The Foreign Minister Nicolás Maduro warned the Vatican it should not label the Venezuelan government in any way and said that otherwise the Vatican 'will receive a powerful response'. In light of this and other, similar comments by Venezuelan diplomats, it would come as no surprise that in the event the Spanish government issued a harsh assessment of the situation in Venezuela –because of a growing deterioration in its democracy, a possible attack on Spanish interests or any other controversial issue– that Venezuela would make a tough response which might include among other possibilities abandoning or boycotting the system of Iberoamerican summits.

The question is where the isolation in which Chávez is immersing Venezuela will take his country. The worst part is that, as it drifts Venezuela is taking with it its closest allies, Bolivia, Ecuador and Nicaragua, poor countries that do not have the hefty resources that feed Venezuelan coffers. In late April the Ecuadorean President Rafael Correa expelled the representative of the World Bank, on charges of trying to blackmail him with a US\$100 million loan when he was Finance Minister in 2005. Later, at the ALBA summit, the Bolivian President Evo Morales announced that the signatory countries had agreed to 'withdraw and denounce jointly the CIADI convention, guaranteeing the sovereign right of peoples to regulate foreign investment in their territory'. His main argument was that some foreign companies, not abiding by the laws of Bolivia, had decided to resort to the CIADI, taking on the legitimate rights of Bolivia. Morales said the CIADI usually ruled against countries and in favour of companies, even if they break the law, except for a few times when it backed the US. The idea was taken up by Chávez, who insisted that so long as there are international organisations subordinated to the 'interests of the empire', they will lack legitimacy to impose their decisions. Despite this desire to break with the CIADI, countries that are a part of it are obliged to remain under its discipline for a period of 10 years after disavowing the treaty.

While Venezuela may boast of not needing foreign investment, a *boutade* that is difficult to fulfil, Bolivia and Nicaragua (signatories of ALBA) need a lot of it. This idea was ratified by Morales himself on the first anniversary of the Supreme Decree that nationalised the hydrocarbon sector in his country. Morales admitted that without foreign investment it would be difficult for his country to advance. So in a tone somewhat less threatening than in the past, he invited oil companies to keep negotiating terms for continuing to operate in Bolivia. This appeal contradicts the announcement that Bolivia is leaving the CIADI: the latter not only increases insecurity and the risk involved in remaining in the country, but also discourages new investment.

The same thing might happen to the companies present in the Orinoco oil belt, be they ones that have already agreed to stay in Venezuela, such as the US firms ChevronTexaco and ExxonMobil, British Petroleum, France's Total and Norway's Statoil, or those which have not yet done so, like the American firm Conoco Philips, Italy's ENI and Petrocanada. Although the negotiating terms are very strict, these companies have opted to stay because leaving would mean losing most of the US\$17 billion they have invested. Thanks to these companies, every day 600,000 barrels of oil are extracted from the Orinoco belt. This is practically one fifth of the 3.5 million barrels that the Venezuelan government says the country produces every day, although international observers estimate it is a bit less. If Venezuela pushes too hard, the risk is that the incentives for the companies to leave will become greater than the incentives for them to stay, or that if they do stay they will reduce investment to a minimum, as can be seen in the case of Argentina. Without the technology and management capacity of these companies, which are virtues lacking at state-owned PdVsa, it will be difficult to maintain current production volumes, regardless of invitations made for state-run companies in Argentina, Brazil, Chile, China, India or Iran to invest in Venezuela.

Conclusions

Although the central theme of the Energy Summit was in fact to have been energy, the agency was rapidly politicised and rather than specific projects the leaders discussed other issues, some of which –the Falkland Islands, the Bank of the South and the common currency– were far removed from the main focus of the gathering. In any case, and despite Venezuela's expectations, the summit failed to take any significant step forward in the process of creating a regional energy market. Venezuela's goal was to impose its own agenda as a major international energy power and have the summit centre on the potential of its gas and oil. To some extent, this brushed aside discussion of other energy sources, such as hydroelectric power or renewable energies, even though these were conveniently mentioned in the final statement. However, for better or for worse, energy is now the axis around which the entire process of Latin American integration turns.

Given the pronounced statist slant of the countries that were the driving force behind the summit (Venezuela, Argentina, Bolivia and Ecuador), it comes as no surprise that emphasis was placed on the role that state-owned companies can play, ignoring the huge wealth-generating capacity of private investment and in particular that of direct foreign investment. For the same reason, and as the summit embraced the omnipresence of the state in economic activity, some important issues on the international energy agenda such as global warming and protecting the environment did not draw much attention. The same can be said of nuclear energy, which none of the region's governments oppose, regardless of their political or ideological persuasion.

To some extent, and as we wait to see how events will play themselves out, the summit appears to show the virtues of Lula's policy toward Chávez when it comes to neutralising him. The idea is that it is better to have him inside the system than outside. But to do this Lula had to start raising his voice in defence of his points of view and not give in on each and every Chávez demand. Such was the case of the unfeasible –not to mention its risk of backfiring– Great Gas Pipeline of the South. Opposition from Brazil prevented the summit from addressing anything involving the Bank of the South and the stagnated process of creating Oppegasur.

In light of these issues Chávez has realized that he has nothing to gain in an open confrontation with Lula and Brazil and that if the atmosphere in the region turns tense many of his potential allies (either through conviction or self interest) could end up turning their back on him. Nobody in Latin America wants to clash with Brazil, even if it is not as generous as Venezuela. Therefore in his speech opening the summit, Chávez called for 'diversifying the energy grid' and said biofuels, which he said he does not oppose, 'are a valid strategy, above all without ignoring the issue of food'.

One of the biggest issues at stake in the summit was that of regional leadership. Judging from recent events –with corruption allegations against his government now behind him and having won re-election– Lula and his Brazil seem ready to take on their role as regional leaders. To some extent this means curbing Hugo Chávez’s aims to dominate Latin America, in particular South America. However, Brazil must finish deciding if it wants to be a major international power or settles just for being the most important country in South America. In this respect, one big test will be the OECD’s plans to take in new members; Brazil is a potential candidate. Previously, Lula’s government had said it would not consider joining the organisation.

One of the big paradoxes of the summit is that it has placed a big question mark next to an idea that had been taken for granted: that the foundation of regional integration in the next few decades would be based on energy. However, in certain circles in Latin America an idea seems to have emerged that is getting more and more attention. It holds that Bolivarian integration proposals tend more to divide than to unite and over the long term contribute little to the desired goals. In any case, and beyond the creation (recreation or renaming) of Unasur, the concrete advances in the process of regional integration reached at Energy Summit of Isla Margarita have been hardly significant or even non-existent.

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