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Featured Q&A With Our Board of Advisors

Q Earlier this month, the government of Bolivian President Evo Morales sent police and soldiers to forcibly remove protesters who had seized two natural gas facilities, highlighting increasing disenchantment among some groups with Morales' "nationalization" of the South American nation's hydrocarbons sector. How will Morales address popular frustration with the nationalization program? Has the Bolivian leader bitten off more than he can chew?

A **Guest Comment: Gustavo Guzman:** "The nationalization of Bolivian gas and oil is not going backward. The nationalization of hydrocarbons in Bolivia is a process that has three phases: 1) when the Movement Toward Socialism (MAS) presented its plan to the Bolivian government and said that all natural resources ought to return to Bolivian hands; 2) when President Morales achieved his electoral proposal and signed the nationalization decree (May 2006) and when all the foreign companies that operate in Bolivia signed new contracts to continue working in the country under new rules and with better benefits for the state (October 2006); and finally, 3) when the government of President Morales decided to take on the restructuring of Yacimientos Petroliferos Fiscales Bolivianos (YPFB), the state-owned company that has a fundamental role in the nationalization. The events that took place in Camiri two weeks

ago are explained by the last of the three phases noted above. Today in Bolivia, how YPFB should be restructured is being discussed. At no time did the civic movement that led the protests in Camiri question the nationalization as it was undertaken by the government. Moreover, it demanded speed in defining the structure of YPFB and proposed a set of demands relating to the marginal exploration fields and refineries situated in Cochabamba and Santa Cruz. These demands were accepted by the government in making the final decisions with regard to what will be the national law governing the functioning of YPFB."

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PHOTO OF THE DAY



Maria Consuelo Araujo resigned Monday as Colombian foreign minister after her senator brother was arrested on charges of colluding with outlawed paramilitary groups. See story on page 2.

Photo: SNE.

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NEWS BRIEFS

Mexican Miners Hold One-Day Strike To Mark Deadly Blast

Miners in Mexico staged a one-day strike on Monday to mark the one-year anniversary of a blast that killed 65 people at the Pasta de Conchos coal mine, the Associated Press reported. Thousands of miners protested to demand better safety conditions and the recovery of the victims' bodies. To date, only two of the bodies have been found. Officials have not determined the cause of the explosion.

Nicaragua's Aleman Admits to Spending Government Funds

Former Nicaraguan President Arnoldo Aleman admitted Saturday that he spent \$1.8 million in government funds, mostly in the period after Hurricane Mitch ravaged the Central American country in 1998, the Associated Press reported. Some of the spending was for jewelry, a honeymoon trip, food, and crafts purchased abroad. Aleman, who prosecutors accuse of stealing \$100 million from government coffers, in 2003 was charged with money laundering and embezzlement during his 1998-2002 presidency.

DR's Economy Grew 10.7 Percent in 2006

The Dominican Republic's Central Bank said Monday the Caribbean nation's economy grew 10.7 percent in 2006, up from 9.3 percent growth in 2005 and continuing a strong recovery from a recession triggered in part by the 2003 collapse of **Baninter**, one of the country's biggest banks, Reuters reported. Growth last year was driven by the telecommunications and construction sectors, which expanded 26.1 percent and 22.9 percent, respectively, the Central bank said.

Political News

Colombian Foreign Minister Resigns Amid Paramilitary Scandal

Colombian Foreign Minister Maria Consuelo Araujo resigned Monday, just days after her brother, Senator Alvaro Araujo, was arrested on charges of colluding with outlawed right-wing paramilitary groups. "I am leaving because I am tied to no office," Araujo wrote in her resignation letter to President Alvaro Uribe, according to Colombian state news service SNE. "But on the other hand I see clearly that the judicial process must be free of any interference." Araujo, who took office just six months ago, was the first high-ranking official in the Uribe government to resign since allegations surfaced in November of ties between pro-Urbe lawmakers in

new foreign minister. He is not related to his predecessor.

Calderon Rewards Soldiers For Work in Mexican Drug War with Pay Raises

Mexican President Felipe Calderon announced Monday pay raises of nearly 50 percent for the military to reward soldiers for their participation in the fight against drug trafficking and organized crime. In a speech to commemorate Army Day in Mexico, Calderon said rank-and-file soldiers would see their pay rise from 3,500 pesos (\$US 319) to 5,200 pesos monthly, applied retroactively to January 1, while officers will receive similar pay increases, Calderon said. In addition, the government will implement a program to make housing loans available to members of the army and navy, the president stated. "In the name of the people of Mexico I make a

Araujo, who took office just six months ago, was the first high-ranking official in the Uribe government to resign since allegations surfaced in November of ties between pro-Urbe lawmakers in Colombia's Congress and illegal paramilitary groups.

Colombia's Congress and illegal paramilitary groups. Last week, Sen. Araujo and four other pro-Urbe lawmakers were arrested on charges of colluding with paramilitary leaders. Three other pro-Urbe lawmakers were previously jailed on similar charges. Colombia's paramilitary groups are accused of killing thousands in a decades-old war against leftist rebels, protecting drug traffickers, and other crimes. The recent scandal involving pro-Urbe lawmakers threatens to undermine US support and financing for the Colombian leader's pro-security program, with some members of the Democrat-controlled US Congress saying the US should reconsider the \$700 million in mostly military aid that Colombia gets each year. Uribe, who says he welcomes the investigation to purge his government of paramilitary influence, appointed former Interior Minister Fernando Araujo, who escaped from rebels on New Year's Eve after six years in captivity, to serve as the

special recognition of [the military's] courageous participation in the fight we are waging against those who threaten the security and peace of citizens, and who are trying to poison the bodies and souls of children and youth," Calderon said. "Our armed forces have been on the front line of the battle, with patriotism." Immediately after taking office in December, Calderon launched a major counterdrug offensive, sending thousands of police and soldiers first into his home state of Michoacan, and then into the border city of Tijuana and to Acapulco, to take on drug gangs, which have been responsible for spiraling violence in recent years. On Sunday, the government announced it was sending thousands more police and military to the border states of Nuevo Leon and Tamaulipas. Calderon's use of the military in his counterdrug offensive is the biggest since former President Ernesto Zedillo deployed soldiers in counterdrug operations in the late 1990s. However, the use of

the military backfired on Zedillo with the 1997 arrest of the army general Zedillo had put in charge of the operations. [Editor's note: see related Q&A in the January 8, 2007 issue of the *Advisor*.]

Company News

Official: Ecuador May Ask Mobile Operators to Lower Subscriber Fees

Ecuador's secretary of telecommunications said Friday the government may ask foreign-owned mobile phone operators **Porta** and **Movistar** to voluntarily reduce subscriber fees while they negotiate new contracts with the government, Reuters reported. "This is a right of the Ecuadorean state and it's a needed move to benefit the poor," Roque Hernandez was quoted as telling reporters, referring to the possible request to reduce fees. His remarks came two weeks after President Rafael Correa said Porta and Movistar enjoy a "quasi monopoly" and said the government may revoke or renegotiate their concession contracts if a review of them turns up any irregularities. Porta, controlled by Mexico-based regional mobile giant **America Movil**, had a 66 percent share of Ecuador's mobile market at the end of last year, followed by Movistar, the local unit of Spain's **Telefonica Moviles**, with 29 percent, according to Ecuador's telecommunications superintendency. **Alegro PCS**, controlled by state-owned fixed-line operator **Andinatel**, had the remaining 5 percent market share. The companies have said that their rates are fair because of the investment they have made to develop the market in Ecuador, according to Reuters.

Economic News

Venezuela, Trinidad and Tobago Agree to Divvy Up Gas Fields

Venezuela and Trinidad and Tobago have agreed that almost three-fourths of the natural gas in an offshore field along their maritime border belongs to Venezuela, Venezuelan officials said Saturday, according to Reuters. Venezuelan Energy

Featured Q&A

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A **Guest Comment: Jose Valera:** "Evo Morales is having a taste of his own medicine, in spades. The events at Camiri last week are symptomatic of an increasing sense of frustration and disappointment over the government's inability to bring about the core Morales campaign promises: nationalization of the hydrocarbons industry, industrialization of gas in Bolivia, and the 'refounding' of YPFB as a leading oil and gas company. Morales has been in office over a year now, and to date the nationalization program has been fulfilled only with respect to the signing of the operations contracts, the transfer to YPFB of the shares in the capitalized companies previously administered by the pension funds, and the payment of an additional 32 percent tax by the operators of certain large gas fields. Despite having been signed, the operations contracts are not in effect yet. YPFB has not yet acquired ownership of more than 50 percent of the shares of the capitalized companies. YPFB does not operate anything or control anything of any significance. The government, Congress, and different social sectors are still endlessly debating how to reorganize YPFB into a capable and efficient company. Large numbers of Bolivians are getting

mad and frustrated. They were expecting that things would have happened by now, as promised. Many are challenging the government and attempting to take matters into their own hands. Street protests, closure of roads, and takings of facilities are all things that frustrated people do, and this is happening in various parts of the country. The government caves in more often than not (with more promises), thus encouraging this behavior. It is very hard to assess how Morales is going to address this popular frustration. There is no question he has bitten off more than he can chew. YPFB simply does not have the technical and financial capability to be a leading operating company. To make matters worse, the forced conversion of the contracts is going to slow down new investment in exploration at a time when the government has to satisfy internal demand for gas on top of fulfilling export commitments to Argentina and Brazil."

A **Guest Comment: Ivan Rebolledo:** "The protests last week were rather local and spearheaded by citizens of Camiri (southeast of La Paz), which in the early 20th century was home to some of Bolivia's biggest gas wells, but produc-

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Minister Rafael Ramirez said a binational committee determined that 7.3 trillion cubic feet of natural gas in the Loran field, which has a total of 10 trillion cubic feet of gas, belongs to Venezuela. In 2003, the two countries agreed to negotiate the allocation of offshore gas reserves along their maritime border under a process known as "unification" of reserves, according to Reuters. The binational committee has also determined that the offshore Drago gas field in the Caribbean north of Venezuela was not linked to adjacent gas fields in Trinidadian waters and so will not be subject to unification. Venezuela said it has agreed to reach a deal with Trinidad & Tobago over how to develop the Drago field.

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Featured Q&A*Continued from page 3*

tion then moved elsewhere. They are now demanding that the central government broaden its petroleum nationalization and expand state energy company YPF's operations in southern Bolivia, as well as the relocation of YPF's exploration and exploitation unit to their town. This office was planned before Morales was inaugurated last year, but axed as YPF reorganizes itself under the terms of the oil and gas nationalization. These demonstrators also demanded that President Morales seize two oil refineries operated by Petrobras—a decision his government announced last September, but quickly aborted in the face of international criticism and pressure from Brazil. In May 2006, the government nationalized Bolivia's natural gas fields, sending soldiers to surround foreign companies' installations. But following months of negotiations, the companies were allowed to remain in the country after signing new contracts granting YPF a significantly larger share of their revenues, as well as control of production. Many protesters say that the government failed to make good on vows to return several small gas fields in the region to state control. With President Morales' triumph in Brazil on Wednesday over increased prices of Bolivian natural gas, he will definitely see an upswing in his poll numbers. Whatever popular frustration he might have experienced, this new deal with Brazil will leave all of that in the past—at least for the time being at the national level. Wednesday's agreements will represent additional revenues of approximately \$144 million a year for Bolivia—11 percent more than the \$1.26 billion that Brazil paid for natural gas imports from Bolivia last year."

A Guest Comment: Katja Newman: "There is little President Morales can do to address popular frustration with the nationalization program. Like many of his predecessors, he faces a dangerous situation when social movements begin forcing government decisions outside of the democratic process. Morales

opened himself up to this dilemma by promising his supporters too much during the campaign. Now his backers demand full and immediate nationalization of the hydrocarbons sector, which is unrealistic. They demand overreaching powers in the Constituent Assembly process, which is causing a stalemate. They have conflicting demands in the mining sector, which is leading to chaotic protests in the capital. The opposition, often in the form of powerful civic committees, increasingly threatens to gain autonomy through more violent measures. This is a recipe for disaster. As a result, private companies are losing patience and investors are scared off. Already, thousands who serviced the petroleum sector are out of jobs, and the country faces an internal gas supply shortage this year. Bolivia's reserves were once regarded as the region's second most important; they are now losing relevance. If Morales establishes an open dialogue, pursues fair negotiation—perhaps with outside mediation—and provides ample public information, he will be able to address some of the many difficult issues he has 'bitten off.' He fares better when focusing on realistic goals, such as negotiating contracts with companies and maintaining trade relations with important neighbors. But he must do so within a democratic process—not by bending to radical demands or bending the Constitution to steamroll his supporters' agenda."

Gustavo Guzman *is the Bolivian Ambassador to the United States.*

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