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Bolivia Emulates Norway; Why Doesn't Canada?

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Bolivia's nationalization of its petroleum industry actually replicates Norwegian policies well-known to the oil industry. In stark contrast, the Canadian experience reveals a trend in the opposite direction, especially with Tar Sands development. What lessons does the Bolivian experience hold for Canada?

When President Evo Morales nationalized Bolivia's petroleum industry on May 1, 2006, he was called a dangerous populist and a pirate. The International Monetary Fund (IMF) warned of "far-reaching consequences". (Rojas 2006) Morales' critics ignore the resolve of Bolivians, especially the indigenous majority, to reverse centuries of exploitation by foreign conquerors and local elites. In October of 2003, half a million people took to the streets carrying banners demanding "Gas for Bolivians, not for multinationals" and "Death to neoliberalism". (Khol and Farthing 2006, 11)

The protests against the sell-out of hydrocarbon resources forced President Gonzalo Sanchez de Lozada to flee to Miami and set the stage for Morales' election as Bolivia's first indigenous President. The "gas war" illustrates Bolivians' determination to reverse a history of plunder of silver, tin and guano[1] that made a few rich while leaving the vast majority the poorest people in South America.

Eduardo Galeano explains why the Bolivian people "rose up to prevent the gas from evaporating into the hands of others" in light of their history:

"The silver of Potosi left a barren mountain;
The guano of the Pacific coast left a map without a sea;
The tin of Oruro left a multitude of widows.
That and only that, they left." (Galeano 2006)

Popular demands for nationalization grew after the 2003 gas war when Bolivians stopped private companies from proceeding with a US$5 billion scheme to export natural gas to the United States and Mexico via Chile. These same companies had refused to invest US$40 million to provide western Bolivia with much needed liquefied petroleum gas. Mass mobilizations, strikes and road blockades were met with repression that left more than 70 demonstrators dead and hundreds wounded.

In a 2004 referendum 89% of Bolivian voters backed the nationalization of hydrocarbons. This overwhelming support reflects popular anger aroused by the 1996 privatization of Bolivia's oil and gas industry. This privatization was deemed illegal as it was never approved by Congress. It allowed foreign investors to make extraordinary profits. An executive of the Spanish petroleum transnational, Repsol, boasted that his company earned ten dollars for every dollar invested in Bolivia whereas a three to one return on investments elsewhere would be satisfactory. (Intermón Oxfam 2004, 27)

After privatization royalties on "new hydrocarbons" were reduced to just 18% from 50%, leaving 82% of revenues in the hands of private investors. Then several existing gas fields were reclassified as "new". This reclassification cost Bolivia US$3.2 billion equivalent to 64% of its external debt. (Intermón Oxfam 2004, 4)

The May 1st decree would turn this arrangement on its head by allocating to the public purse 82% of the revenues from the two largest gas fields (those that produce more than 100 million cubic feet of natural gas a

[1] Guano is a source of nitrate fertilizers made from centuries of bird droppings found on what was once Bolivia's Pacific coast which was lost to Chile in the War of the Pacific (1879-84).

day) while leaving 18% in private hands. For smaller gas fields the state will assume a 51% interest.

The nationalization aims at ensuring that Bolivians benefit first from their non-renewable hydrocarbons. It does not expropriate all the assets of foreign corporations. As President Morales told European investors: **"We don't want masters any more. We want partners."** (cited by Saavedra 2006)

Negotiating a stable partnership with foreign owned companies will not be easy in light of Bolivia's financial situation. In August of 2006 the Morales government declared a temporary suspension in its plans to re-establish YPFB, the state oil company, as the primary hydrocarbon producer due to a lack of funds.

Under the terms of the nationalization decree foreign companies operating in Bolivia must renegotiate their contracts by November first or leave the country. A new deal reached between Bolivia and the French firm Total promises to raise royalties by US$32.2 million. Last June Argentina agreed to a price increase from US$3.63 per million Btu (British thermal units) to US$5 while increasing export volumes from 7.5 million cubic metres a day to 20 million by 2009.

Similar negotiations are underway with Brazil. If Bolivia succeeds in obtaining higher prices for sales to Brazil, it would earn enough to realize its plans for turning its gas into higher value industrial products such as plastics, fertilizers and petrochemicals.

Despite its fiscal constraint the Morales government refuses to turn to the international financial institutions (IFIs) for financing. In the past both the IMF and the World Bank have put pressure on Bolivia to accelerate exports of unprocessed gas, while threatening to cut off loans if Bolivia were to use its gas for petrochemical industries. (Khol and Farthing 2006, 182) When Bolivia's agreement with the IMF came up for renewal last March, Morales refused to extend it, freeing Bolivia from onerous IMF conditions.

Is an 82% government take excessive? Not by Norway's standards.

In demanding an 82% return from the largest gas fields Bolivia is in fact following the lead of Norway which has shown how a sovereign country can reap most of the benefits from exploiting natural resources in partnership with private corporations. Five weeks before the nationalization, a Norwegian delegation met Bolivian officials to discuss how to design petroleum contracts and establish export prices. (Hoyos 2006)

Bolivia's Ministry of Hydrocarbons will decide on a case by case basis what compensation is due to foreign companies after a thorough audit of their past investments, repayments, operating costs and profit margins. Much to the consternation of the transnationals, Norwegian consultants will go through the books of the seized companies and advise Bolivia on what compensation, if any, might be owed.

According to an executive from state-controlled Norsk Hydro the Norwegian government currently captures 90% of the revenues generated by its petroleum sector. (Hoyos 2006) It achieves this through a variety of measures: a 28% corporate tax; a special tax of 50% on the petroleum sector (after allowing deductions for expenses) and public ownership through a State Directed Financial Interest which gives Oslo a stake in petroleum projects. The government owns 70.9% of the shares in Statoil and a majority of Norsk Hydro. (Ministry of Petroleum and Energy 2006)

Norway's allocation of only 10% of revenues to private firms has not deterred foreign oil companies, including Shell, BP, Exxon, Petro-Canada and Talisman, from operating profitably in partnership with state-owned firms.

Norway's approach to development goes beyond simply maximizing revenues. It also gives preference to domestic firms in allocating exploration rights and reinvests in developing domestic industrial and technological capacities. Norway "demands [that] companies use Norwegian goods and services as well as carry out [at least] half their North Sea research and development in the country." (Crane 1982, 311)

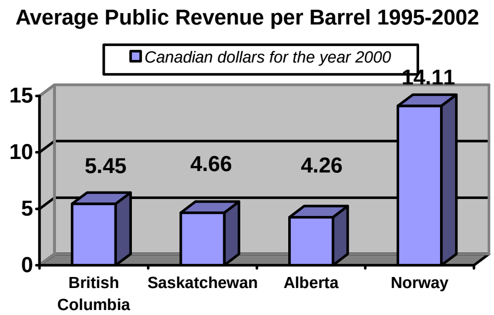
Bolivia's plan is actually modest by Norwegian standards. For the two largest gas fields Bolivia will apply an 18% royalty, a 32% direct tax on production and an additional 32% participation by the state-owned petroleum firm YPFB. This arrangement leaves 18% of the proceeds from gas sales for foreign companies, principally Brazil's Petrobras.[2]

Canada Takes Much Less

Canada's treatment of private petroleum corporations is much more generous than Norway's. Over the years 1995 to 2002, average per barrel public revenues from petroleum production were $5.45 in British Columbia, $4.66 in Saskatchewan and $4.26 in Alberta as compared with $14.11 for Norway.[3] In other words, **Norway collected from two and a half to three and a third times more revenue per barrel than did Canadian jurisdictions**.

[2] Although Petrobras is nominally a state firm with 55.7% of its voting shares held by the government, it is actually 60% owned by private US shareholders, 49% directly and 11% through Brazilians who hold shares on behalf of US investors. (Rede Jubileu Sul/Brasil et. al. 2006)

[3] All figures are for barrels of oil equivalent and converted to Canadian dollars for the year 2000. (Taylor et. al. 2004 Table 4-2)



These figures are for conventional oil and gas. They exclude revenues from the tar sands where public revenues are even lower. Over the same period tar sands share of total oil production in Alberta increased from 12% to 20% while Edmonton's take from tar sands royalties declined from $1.60 per barrel in 1995 to just 60 cents in 2002. (Taylor et. al. 2005, 43)

The principal reason for this decline is that since 1996 tar sands producers have had to pay Alberta only a 1% royalty until they recover all their capital costs. After all the costs of bringing a project on stream have been covered, the companies will pay a 25% royalty on net project revenue, that is, after deducting operating costs. (Taylor et. al. 2005, 41) Invariably this incentive motivates companies to keep expanding tar sands projects rather than make more ecologically responsible investments.

Once tar sands projects have reached their final pay out, the 25% royalty and relatively low federal and provincial income taxes will result in the companies retaining 38% of project income with 62% going to federal and provincial governments. (Taylor et. al. 2005, 44) This is considerably more generous to private corporations than their share of revenues from conventional oil and gas production. Over the years 1995 to 2002 private companies operating in Alberta's conventional oil and gas industry retained 31 cents out of each dollar of income over the costs of production, leaving 69 cents for governments. In contrast Norway over the same period captured 88% of petroleum revenues available after accounting for production costs for the public treasury. (Taylor et. al. 2004, Table 4-8)

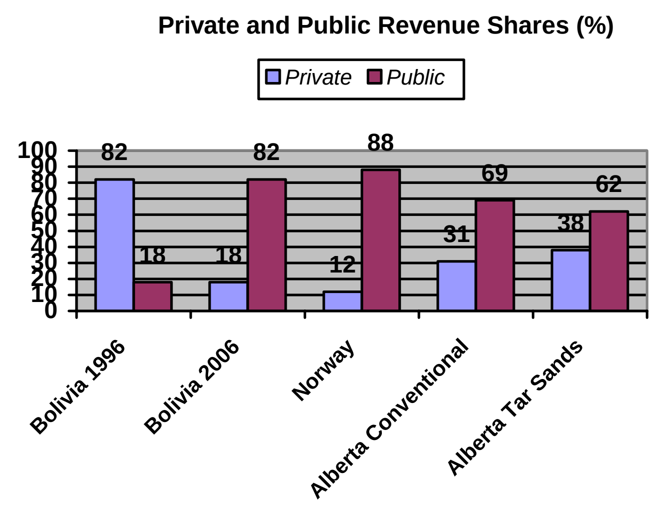
Security and Prosperity Partnership

While Alberta's low royalty rates are partly responsible for the rapid pace of tar sands investments, the USA's voracious appetite for crude petroleum and its preoccupation with national security are also driving the expansion. These two obsessions are enshrined in the Security and Prosperity Partnership (SPP) initiated by President George W. Bush, Mexican President Vicente Fox and Prime Minister Paul Martin in Waco Texas in March of 2005. The North American Energy Working Group is one of the most active SPP sub-committees.

Beneath a thin veneer of talk about "North American" energy security, the real purpose of the SPP is to mobilize Mexican and Canadian energy resources to serve the US market and enhance US security. An SPP-sponsored workshop on the tar sands held in Houston in January of 2006 envisioned an increase in tar sands production from around one million barrels a day currently to five million barrels by 2030 with most of the increase exported to the USA. According to industry sources the tar sands will account for at least one-quarter of all North American oil production by 2015.

The SPP is a "NAFTA plus" vision for North American integration. It builds on the privileged access to Canada's natural resources already accorded to the US under NAFTA. That agreement's proportional sharing clause restricts Canada's ability to cut back on future oil exports in order to conserve scarce non-renewable hydrocarbons for the transition to a post-petroleum era. NAFTA Article 605 obliges Canada, but not Mexico which won an exemption, to continue exporting hydrocarbons to the US in the same proportion of total supply as was sold to them over the three previous years, even if these exports lead to domestic shortages.

Instead of challenging NAFTA's limitation of Canadian control over our non-renewable resources, both Liberal and Conservative governments have endorsed the SPP. When Prime Minister Harper went to Cancun for the second SPP summit with Presidents Bush and Fox in March of 2006, he was accompanied by members of the Canadian Council of Chief Executives, including Richard George, President and Chief Executive Officer of Suncor Energy Inc., a principal tar sands operator.



At the Cancun meeting the three government leaders established a new trinational business advisory group called the North American Competitiveness Council to which Mr. George was promptly appointed. This Council has privileged access to government leaders while democratically elected legislators only get briefings.

Social and Ecological Costs

Neither the fiscal incentives promoting rapid tar sands development nor the NAFTA and SPP geopolitical determinants of Canadian energy policy take into account its vast social and ecological costs. It takes two to five barrels of water to produce a barrel of synthetic crude from the tar sands. Projected water withdrawals for the tar sands could absorb as much as half the annual flow of the Athabaska river. (Canadian Press 2006)

In situ extraction of oil from the tar sands involves injecting steam into wells. This method requires burning 1,000 cubic feet of natural gas for each barrel of bitumen converted into crude oil – enough gas to heat an average Canadian home for three and a half days. Many commentators compare using relatively clean burning gas to extract heavy crude to burning gold to make lead, a questionable practice when Canadian reserves of conventional natural gas are disappearing fast.

Moreover, new gas reserves from the Arctic shipped South through a Mackenzie Valley pipeline are likely to end up fuelling tar sands extraction. Calgary journalist Andrew Nikiforouk calls this a "criminal waste" since it would only accelerate the climate change that is already melting Northern permafrost. A preferable alternative, says Nikiforuk, would be to set up a fund like Norway's Petroleum Fund to use revenues from the sale of hydrocarbons for development of geothermal, wind and solar alternatives. (MacGregor 2006)

The tar sands are already the largest contributor to the growth of greenhouse gas emissions in Canada. Tar sands produce three times as much carbon dioxide as conventional oil extraction. Tar sands emissions of greenhouse gases are projected to rise by 450% to 562% between 2003 and 2020 depending on technological improvements in the ability of industry to contain these discharges. (Bramley et al. 2005) These emission increases will preclude any possibility of keeping Canada's commitments under the Kyoto protocol, let alone the reductions needed to truly address global climate change.

In contrast to the Harper government's refusal to live up to Canada's Kyoto commitments, Norway is dedicated to reducing its greenhouse gas emissions and fulfilling its Kyoto promises. Hence Norway collects a carbon tax of NOK 0.79 per litre (about 13 Canadian cents or 12 US cents a litre) which is explicitly aimed at reducing carbon dioxide emissions. (Ministry of Petroleum and Energy 2006) No Canadian jurisdiction has yet instituted a carbon tax although Quebec has announced plans for a special tax on wholesale sales of oil and gas which is unlikely to affect extractive activities.

Moreover, Norway has created a $3.4 billion fund for investing in renewable energy and energy efficiency.

In conclusion, we must ask if Bolivians are so determined to follow Norway's example and reassert sovereignty over their hydrocarbons, why don't we Canadians strive for the same goal?

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