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**Focus: Bolivia searches for an energy role**

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Landlocked Bolivia could play a part in influencing the demand for LNG in Brazil and Argentina. Buyers might need to satisfy questions about reserves first.

Four years after the nationalisation of Bolivia's oil and gas industry by President Evo Morales, Bolivia has lost its exclusivity as a supplier to neighbouring countries Brazil and Argentina.

The country is now "trying to find its place in the new geography of Latin American gas", according to Nikos Tsafos, US-based senior analyst at consultancy PFC Energy.

The two Bolivian gas importers have incorporated a growing share of LNG into their supply mix since their entry into the global LNG market two years ago.

And Bolivia has reacted over recent months, reaching out to both Brazil and Argentina.

Brazil's success changes game

Bolivia's approach to Brazil comprises two interlinked elements: the renewal of its natural gas supply commitment; and a proposal to partner with Petrobras in developing the first liquefaction project in eastern South America.

Bolivia supplies Argentina via the Gasbol pipeline. Its 20-year contract covers 31.5 million cubic metres (Mm³/day) from 1999 to 2019. Brazilian natural gas imports averaged 25.91Mm³/day in the first seven months of 2010, government data showed.

According to analysts, it is likely that Brazil and Argentina will extend the contract for at least another decade. The question mark is over the contractual terms. Brazil will be in a stronger negotiation position than in 1999, thanks to discoveries of natural gas, both onshore and offshore, in recent years.

"If Bolivia does not provide greater reliability and commercial/operational flexibility in the future, it may miss the opportunity to renew and/or enlarge existing supply contracts," said Claudio Steuer, principal at UK-based consultancy SyEnergy.

Brazil is inclined to maintain Bolivian imports largely because of their price. According to Wood Mackenzie analyst David Richardson, the average border price of Bolivian gas delivered to Brazil in 2010 has been \$5.18/MMBtu. This compares with the \$6.75/MMBtu Petrobras paid for a Nigerian spot cargo in July on a free-on-board (FOB) basis, according to the most recent government data.

However, Petrobras needs flexible supply to factor in the seasonal swing in thermal power demand and to better manage its growing supply mix. Most gas in the pre-salt fields is associated, so production is exposed to oil market trends. Also, Brazil's LNG imports will largely depend on spot market conditions in the Atlantic Basin.

Brazil uses LNG as a peak-shaving fuel in the dry season and a backup to hydro generation with the 14Mm³/day Guanabara Bay and 7Mm³/day Pecém terminals.

In Brazil, LNG accounted for 7.17% of the country's total gas imports between January and July this year, according to the latest data from the Brazilian energy ministry (see GLM 24 September 2010).

In addition, Petrobras has plans to build a 5-7Mm³/day onshore LNG terminal in the country's southeast region by 2012-2013, its head of gas and energy, Graça Foster, told ICIS Heren earlier this year (see GLM 4 June 2010).

In order to better balance its gas system, Brazil's Petrobras is also developing two liquefaction projects. The first is a 14 Mm³/day floating LNG project in the Pre-salt with BG Group, Repsol and Galp, which is slated to reach final investment decision (FID) in 2011 (see GLM 4 June 2010).

Sensing an opportunity, Gas TransBoliviano (GTB) - owner of the Bolivian tranche of Gasbol - offered earlier in May to develop a liquefaction project with Petrobras in Brazil, its CEO Christian Sandoval told ICIS Heren then (see GLM 4 June 2010).

From Bolivia's perspective, the investment might be attractive because it could stabilise income for YPFB in situations when Petrobras would otherwise attempt to reduce Bolivian imports. The target market for Brazilian LNG would likely be emerging LNG terminal projects in Europe, according to Sandoval.

Response to Argentina's growth

Bolivia's approach to Argentina comprises upgrading interconnection capacity, in order to meet the South American economy's growing demand. It remains to be seen to what extent Bolivian gas will compete to regain market share from LNG.

Reaching out to Argentina, YPFB announced in September that it would spend \$287m to upgrade its pipeline infrastructure in 2010 and 2011, and that the bulk of the cash will be used to increase interconnection capacity between the countries. The 27.7Mm³/day GJJA pipeline is therefore slated to become operational by 2011-2012, according to YPFB. The GJJA connects the Bolivian Yabog pipeline with the Argentinian compression station of Campo Durán, and is the equivalent of Gasbol for Argentina.

The key point to watch is how quickly Argentina will build its side of the GJJA link. Enarsa and YPFB agreed in August to start GJJA in May 2011, according to Bolivian media, but it is unclear if Enarsa has already footed its share of the bill.

Wood Mackenzie's Richardson believes the capacity upgrade will probably only fully materialise by 2015: "Commitments for the next five years depend on further investment in infrastructure."

Interconnection capacity is currently 7.7Mm³/day, and will increase to 15Mm³/day by 2011, reaching 27.7Mm³/day in 2015, he added.

According to Richardson's calculations, which factor in forward prices of other commodities, Argentina will pay an average price of \$6.13/MMBtu for Bolivian gas in 2010 at the border.

"It is clear that the greatest prospect is for more Bolivian gas to flow south to Argentina. The country remains chronically deficient in gas, and it is looking everywhere for supply," said PFC's Tsafos.

Argentina uses LNG as a peak-shaving fuel to meet heating demand during the southern hemisphere's winter. The country's future demand differs from the Brazilian pattern, as it is set to change to year-round demand next year. Excelsior Energy aims to complete the 14Mm³/day Escobar LNG terminal in May 2011, company president Rob Bryngelson told ICIS Heren in September (see GLM 24 September 2010). The country currently has one 14Mm³/day terminal in operation, at Bahia Blanca, which has been conceived as operating on a seasonal basis. The South American country is also developing a third LNG terminal with neighbouring Uruguay, slated to be operational by 2013 (see GLM 30 April 2010).

Tight reserves are a long-term issue

All Bolivia's long-term plans are contingent on the development of its natural gas reserves. According to several experts' calculations, the country is very likely to be able to supply Brazil, Argentina and its own growing internal demand at least until 2018 in the worst-case scenario. Further out, the country will need to convert potential and probable reserves into proven reserves.

According to Alvaro Rios, partner and director at consultancy Gas Energy, Bolivia will be in a position to guarantee supply of 3.8 trillion cubic feet (tcf) - 107.7 billion cubic metres - to Brazil over the next 10 years, as well as 4.1tcf to Argentina and 1.5tcf for its domestic market.

"These add up to 9.4tcf, which compares to the 9.7tcf the country has today in proven reserves - hence, leaving no room for future gas value-added projects or other markets," Rios told ICIS Heren.

The issue of reserves is politically sensitive in Bolivia. The government has not recognised independent appraisal studies since US-based De Golyer MacNaughton's 2004 assessment of 24.6tcf of proven reserves. The firm lost its contract with the government after reducing its estimate in 2006. Earlier this month, Bolivian media reported that a preliminary study by Ryder Scott for YPFB saw Bolivian proven reserves at a mere 8.35tcf, which prompted the Bolivian opposition to demand that the government publish an updated official figure. According to knowledgeable sources, the likeliest number is closer to Ryder Scott's than the official values.

Yet there are promising signs that Bolivia will successfully develop new reserves. In August this year, Repsol announced a discovery of a gas field in the Rio Grande area, near Santa Cruz de la Sierra, with a potential 1tcf of gas.