- a statement that the government will not intervene by subsidising nuclear power stations or embarking on a government controlled and financed programme if the measures referred to above prove inadequate. (This is a difficult one; it needs to be said in order to disarm the renewables lobby and to ensure that the industry does not overstate the obstacles to a market solution in the hopes of obtaining subsidies; however, will it be believed if the government is saying that nuclear is an essential contribution to the solution?)
- a statement about reactor choice and the steps the government expects the NII to take to minimise delay in the licensing process, and possibly co-ordinating clearances with safety authorities in other major countries.

It is in these last three areas that the debate needs to concentrate, and unless the government clearly sets out the options and its preferences, if not intentions, in these areas, the argument following publication of the Review is likely to degenerate into a squabble between committed anti- and pro- nuclear factions.

The Geopolitical Causes of High Oil Prices

Walid Khadduri considers the instability of Iraq, its causes and challenges

Whatever the purpose of the US occupation of Iraq in March 2003, the results so far have been disappointing. In the first half of 2006, over 6000 people were murdered in Baghdad alone – mostly for sectarian reasons; around 20,000 people have been kidnapped; and approximately 180,000 people were displaced from their homes as a result of ethnic cleansing.

A Series of Mistakes

It was always assumed that the removal of the Saddam regime would be difficult and full of retributions. However, what has come as a surprise to many, including some of the most senior members of the Iraqi government, is the number of mistakes committed by the occupation authorities in the past three years. Their frequency and seriousness have left few viable and peaceful options in the period ahead.

There is the familiar list of mistakes

It includes, among other things, a military doctrine that has grossly underestimated the required number of soldiers to carry out nation-building following the war. Instead of the approximately 450,000 members of the armed forces and security personnel under Saddam, the United States has deployed around 130,000 men and women. Their task is not only to protect the nation's borders, but also to patrol the streets and maintain law and order in rebellious Iraqi cities and towns.

There is also the disbanding of the Iraqi armed forces, the one and only state institution that could have maintained law and order following the collapse of the totalitarian regime. The decision to dissolve the army and police created a big vacuum that the allied forces could not have possibly filled. This has resulted in widespread theft and the destruction of private property, the wide opening of the borders, as well as some 2–3 million people being left without any income.

Finally, there is the indiscriminate de-ba'thification process that has dismissed thousands of civil servants and teachers from their jobs, and left state institutions with few experienced personnel.

These three decisions resulted in the absence of security, the deterioration of state institutions, and the creation of a fertile ground for terrorism and sectarianism.

Questions Unanswered

There are, moreover, scores of questions that remain unanswered. How could a superpower, with such access to information and analysis, not take into consideration the debilitated conditions of Iraqi society after three major wars and comprehensive international sanctions, and plan economic recovery accordingly?

> "The big problem, of course, lies within Iraqi society itself"

Why were the priorities of Iraqis for security and the provision of basic daily needs neglected in favour of grandiose capital-intensive projects? It has not gone unnoticed that while multi-billion dollar projects were awarded to major US firms, the people lacked electricity, gasoline and jobs. Many of these projects have not been implemented for budgetary and security reasons, while the basic daily needs are still lacking.

Why was there such poor planning and execution to bring the country back to normalcy? The fix-it as you go approach, the rapid change of the first occupation authority after barely a month in power, and the failure to re-establish functional and accountable state and local authorities have driven the country to near civil war.

Why the War?

However, a more fundamental

problem concerns some of the premises provided for the war.

If the US purpose was to create a new Middle East, friendly to democracy and modern society, then why build a religious state? More seriously, why throw the US weight behind sectarian politics? And, if pragmatism necessitates working with grassroots religious and ethnic parties, then why isolate and marginalise the secularists – a major component of Iraqi society?

The big problem, of course, lies within Iraqi society itself.

There was an informal social contract that governed Iraqi society and politics throughout most of the past century, albeit with many shortcomings and setbacks. However, one of its most notable achievements was the building of a country on the basis of meritocracy, irrespective of religion, sect, gender or ethnicity. It allowed students from rural and urban areas to compete on an equal footing with similar chances for higher education and professional success. It also allowed for religious freedom, without prejudice and sectarianism, so much so that Iraq was one of the few secular states in the Middle East.

"It is difficult for Iraqis to understand how a country with such oil wealth … all of a sudden finds itself short of gasoline"

The Saddam regime, the wars and the international sanctions tore apart this social contract. The neo-conservatives in the Pentagon saw fit to bury the last remnants of the contract by disbanding the army. They did this without any back-up plan of how to run a state of over 25 million people.

The USA allied itself with Saddam's opposition who are playing a zero sum game towards others, floating objectives that cannot be accepted by their friends and foes, and with no spirit of Truth and Reconciliation, like that in South Africa. Iraq has not only lacked a Nelson Mandela, but also the political culture and tradition that would save the country from the massacres and carnage that are witnessed today. The fact that some of these political forces are allied with neighbouring states, particularly a theocratic Iran, adds fuel to the fire.

The Oil Industry

Iraq has the second largest oil reserves in the world, after Saudi Arabia, and has the potential to increase its production capacity to 6 million barrels per day, if there is peace, stability and an agreed upon Social Contract among the major domestic political groups. However, the oil industry has suffered much during the past three years, to the extent that production has decreased from an average of 2.6 mb/d during 2002 to the current 2 mb/d. As a matter of fact, the industry has been inflicted by many of the security and political problems discussed above. Its experience is a microcosm of why Iraq is where it is now.

One popular image of post-war Iraq is the picture of a marine standing guard at the Ministry of Oil the first day after the fall of the Saddam regime while gangs were looting the Iraqi museum. The message was clear to all: there were orders to protect the oil wealth and none to safeguard the country's heritage.

The fact of the matter is that while the Ministry of Oil was protected, other oil institutions, such as the State Oil Marketing Organization (SOMO), the Exploration and Production Department, the main water injection plant that provides the necessary pressures for the southern fields, the whole range of drilling rigs available to the oil industry, the trucks, cars, and so on … all were stolen, destroyed and looted. So much so that the Ministry of Oil had no means in April and May 2003 to communicate with the operating companies in the north and south except by renting taxis and dispatching its officials to go back and forth giving instructions, and surveying what was needed.

A second image is the long queues of cars waiting at the petrol stations. It is difficult for Iraqis to understand how a country with such oil wealth and no previous record of petroleum products shortages, all of a sudden finds itself short of gasoline.

The answer is simple. A new law was passed in mid-2003 allowing the import of cars and trucks – tax free, as part of a greater trade liberalisation policy. Over a million cars were imported in two years, doubling the consumption of gasoline. This happened at a time when the war-fatigued refineries were working on hand-to-mouth spare parts and equipment, as a result of 12 years of sanctions. Moreover, and more important, the insurgents, tribesmen and terrorists have targeted – among other things – the pipeline system extending from the fields to the refineries and distribution centres. They also kidnapped drivers carrying products from neighbouring countries, killing over one hundred. To make matters worse, a large network of gangs, with the collusion of local employees in the oil establishment distribution system facilitated the building of an extensive black market.

"a weak Iraq on the brink of a civil war can only invite intervention from neighbouring regional states"

In essence, what we have here is the enactment of laws and orders that do not take into consideration the overall conditions of the economy, the lack of security because of the absence of police and army, and the spread of graft.

The third image is that of massive corruption, way beyond the experience of any other oil-producing country. Oil revenue, to the tune of around $1 billion monthly, is lost because of smuggling and corruption.

Both the Inspector Generals of the Ministry of Oil and the US Army published in May 2005 detailed reports about the activities that

surround such operations. Some of the facts provided are inexplicable. There are eight illegal ports along the 65 km Shatt al-Arab. One would think that the British Army could put a stop to them. The fact that smuggling gangs continue operating is a testimony to the fact that these groups, some of them active in the previous regime, have merely changed their protectors – the politicians.

So far, the country has been preoccupied with politics. Deliberations on the oil question have been very limited. However, taking into consideration the experience of the past three years, and the narrow personal interests of the politicians that have taken precedence over the country's national interest, it will not be surprising to see a major battle over oil policy and revenue distribution in the months ahead.

Challenges

Iraq under the Saddam regime had reached a dead-end. The system was not going anywhere, burdened by international sanctions and a leadership that was cut off from global developments. What the occupation has offered is the opportunity to draw up a constitution and have elections.

The problem lies with the foundations of the new system being established. Instead of building a secular society that attempts to bring together all national elements and political parties, it took off by embracing sectarianism. It is difficult to see how stability can be maintained in Iraq under such a system, and without a national reconciliation to remedy the situation.

Moreover, a weak Iraq on the brink of a civil war can only invite intervention from neighbouring regional states who would exploit the conflict to their advantage, whether for security reasons, regional ambitions, or support of ethnic and religious groups associated with them.

Furthermore, and as long as the occupation continues, it is safe to assume that conflict will continue, either by resistance fighters or by religious terrorists who have taken up the challenge to fight the USA on Iraqi soil.

Finally, it is necessary for the Iraqis to gradually find for themselves a new Social Contract. The Saddam regime obliterated civil society. It is necessary to build a new one that encompasses all parts of society. It must be clear by now, and after taking the country to the brink of civil war, that force alone will not resolve the conflict. A policy of reconciliation could offer an alternative. While this may be the only option for a better future, there are no easy solutions or short cuts. Much damage has already been done because of the gravity of the mistakes that have been committed. It will take time and much effort to regain civility again.

Eric Rouleau analyses the conflict between Iran and the USA over nuclear

The security of the Gulf depends to a great extent on the future of relations between Iran and the United States; thus the keen interest in the situation in those countries in the region whose economies depend on the supply of petrol. And the feeling of relief since a military intervention against the nuclear installations in the Islamic Republic began to be considered less and less likely, at least in the foreseeable future.

In a report published in Washington on 13 March, entitled National Security Strategy Paper, it was suggested that the USA would abstain from attacking Iran. Moreover, for several months American military experts, particularly some retired generals, were explaining that air bombardments would be extremely risky. First of all, it would be very difficult, if not impossible, to destroy most of the nuclear installations, which are dispersed over the vast area of Iran, some of them either unknown to the intelligence services or well protected in deep underground tunnels. The US intelligence services (as well as the Israelis it is claimed) are not even sure of the existence of any construction of a strictly military character. Estimates of the length of time needed to manufacture a bomb, supposing that Tehran intends to do so, vary between five and ten years.

"The US intelligence services … are not even sure of the existence of any construction of a strictly military character"

In any case it is generally considered that the political and economic consequences would be seriously damaging. The ambassador of Saudi Arabia to Washington, Sheikh Turki al Faisal, warned the administration in June that such a military confrontation 'could double or triple the price of oil', thus threatening the world economy. Many observers have commented that Iran would undoubtedly retaliate, all the more easily given its considerable influence among the Shiites of the Gulf, particularly in Iraq, the Achilles heel of the USA. What would happen, one retired American general asked, if 100,000 Iranian 'volunteers' infiltrated the country to join up with the ranks of Iraqi insurgents? Tehran could also encourage the tensions between the Lebanese Hezbollah and the Palestinian Hamas on the one side and Israel on the other, so increasing instability in the Middle East. In addition of course the Islamic Republic could disrupt to some extent petroleum traffic through the Straits of Hormuz, despite the presence of the US navy.

In order to block the Iranian nuclear project, Washington has two other options: to negotiate and if that fails

to impose international sanctions on the regime in Teheran. This second option remains unlikely given the opposition in the Security Council of Russia, China and perhaps even France. And there are good reasons for this: Washington has not been able to prove either that Iran is on the way to producing atomic bombs or that it has violated the rules of the Nuclear Non-proliferation Treaty, of which it is a signatory. The uranium enrichment by Iran, which the western powers are opposed to, is perfectly legal within the terms of this Treaty. Moreover, it seems to be established that Tehran is coming up against serious material and technical problems which are preventing it from enriching uranium in sufficient quantities to manufacture a nuclear bomb. And even if a resolution is passed in the Security Council, the effectiveness of the sanctions would be extremely uncertain as experience in a number of cases has clearly shown.

"It is difficult to envisage Washington accepting to conclude a non-aggression pact with Tehran"

Unilateral US sanctions would leave the field open to China and Russia whose ambition is to establish a bridgehead in the Islamic Republic in order to penetrate the Gulf. Beijing is currently negotiating the conclusion of a contract worth several billion dollars which will allow China to import Iranian liquefied gas during the next quarter century. For its part, Russia would be very pleased to be able to become the principal partner of Iran in the field of energy; together these two countries have at their disposal the largest oil and gas reserves in the world. Moscow could contribute to the modernisation and development of the Iranian energy installations, even though its technology is clearly inferior to that of the United States. In any case, in the course of the next 25 years Moscow could supply part of the necessary investment which is estimated at $160 billion. In the long term the big loser from this relationship would be the United States.

Such considerations were not far away when Washington decided on 31 May to embark on the path to negotiation alongside France, Germany and the United Kingdom, the European triumvirate which has tried in vain since 2003 to establish a common ground with Iran.

President Bush's decision represents an important turning point in American policy towards Iran and perhaps marks the beginning of a broader dialogue. Nevertheless, the negotiations risk being long, difficult and perhaps doomed to failure at first. It seems unlikely that Iran will give up definitively the enrichment of uranium without obtaining in exchange explicit assurances that its security will be guaranteed, which would oblige America to renounce its doctrine of preventive war as well as its policy of 'regime change'. It is difficult to envisage Washington accepting to conclude a non-aggression pact with Tehran or to undertake formally never to have recourse to force against the Islamic Republic.

However, it might be possible to get around this obstacle if the United States would agree to take part in negotiations on all the differences between it and the Islamic Republic since the Khomeini revolution in 1979. For the moment, Washington only wants to deal with the nuclear crisis, which is against all logic if one thinks that a full normalisation of relations with Iran would serve the interests of the USA by bringing peace not only to the Gulf but to the whole of the Middle East. In fact Iran would inevitably have to give up its support of the Lebanese Hezbollah, the Palestinian Hamas, and to cease all interference in Iraq and elsewhere where there are strong Shiite minorities.

Logically, it would also be in the interest of the Islamic Republic to turn over a new page on its tumultuous relationship with the USA. Iranian opinion, according to all the polls, would be favourable and the regime would then be able to stabilise and strengthen itself. A necessary condition however would be that its role as regional power is recognised, which of course is opposed by America which wants to maintain exclusive hegemony in the Gulf countries.

"it would also be in the interest of the Islamic Republic to turn over a new page on its tumultuous relationship with the USA"

Unfortunately, for 27 years Khomeini's Iran has been regarded by Washington not as an adversary but as a diehard enemy. Recently the US intelligence service sent to President Bush a study which described the Islamic Republic as being 'the most dangerous challenge' that the USA will have to face in the coming years. The firm belief of the US leaders is that it would be useless to hope that the Islamic system is capable of reforming itself, in other words to become a 'friend' or even an 'ally' of America like all the other Gulf states. Indeed, it is difficult to imagine that Tehran will resign itself to accepting the network of American bases that besiege it, from Iraq to Qatar, from Kuwait to Bahrain.

If it is premature to hope for an early Iranian–US reconciliation, it is not impossible that a compromise will be found to settle the nuclear imbroglio. The incentives offered by the allied powers could seduce the Iranian leaders, at least the more moderate among them. The United States is offering among other things to remove most of the sanctions imposed over the last ten years, to supply the necessary technology to develop the nuclear industry for peaceful use, to participate in the development of oil and gas resources and to support the entry of the Islamic Republic into the World Trade Organisation (WTO).

Despite its reticence and maximalist demands, the Tehran government seems to believe in the success of the nuclear negotiations. Clearly it is

actively preparing to join the WTO by announcing this month a vast programme of privatisations, which goes completely against its traditional statist doctrine.

Despite everything, many observers remain cautious and envisage much less optimistic scenarios. One of them takes into account the influence of intransigent anti-Americanism at the heart of the regime, as well as that of supporters of the use of force in the highest levels of the US administration – admittedly small in both cases. If one or the other (or both) comes to prevail, there would be the danger of an impasse leading to confrontation. What is certain is that the coming months or weeks will be decisive for peace in the Gulf region and stability in the Middle East.

Philippe Copinschi discusses unrest in the Niger Delta

Expected to become a key element in the future supply of oil and gas to the USA (25 percent of US hydrocarbon imports in 2015 according to some projections), Sub-Saharan Africa is seen, especially in Washington, as being strategic to the world energy supply. However, this hope could be frustrated by the effects of the failure of economic development and the collapse of political structures – which all African oil states are victims of, in particular Nigeria, the most important of them. Nigeria is a victim of the 'Dutch Disease' and like all the African oil states has become deeply dependent on the revenues from its oil resources. These represent more than 90 percent of the value of its exports, around 80 percent of government revenues and about 60 percent of GDP (all of which vary according to changes in the world price of crude oil). This dependence on oil receipts has extremely negative consequences in terms of governance (endemic corruption and the collapse of state structures) and development (the disappearance of non-oil activities, especially agriculture).

"In Nigeria the economy is organised exclusively around oil rent"

In Nigeria the economy is organised exclusively around oil rent. In providing the government with huge revenues almost automatically, oil rent tends to take away any motivation to develop a diversified economy. Above all, by pushing up the real exchange rate of the local currency (due to the massive capital inflows), the rent makes all other economic activities non-competitive, both agricultural and industrial, and tends to marginalise them or even cause them to disappear. This has even more pernicious implications since the oil industry does not create employment for the local population: oil is an economic enclave which generates few jobs and has little impact on the other productive sectors of developing countries. Through a ricochet effect the question of the distribution of the rent tends to become the focal point of political debate or power struggles. The exercise of power is even more attractive since it is the only way to gain access to the oil wealth – it is the state that negotiates with the oil companies the rights to exploit the petroleum resources of the country.

Given the environmental degradation caused by oil exploitation and neglect by the local authorities, which are generally corrupt, the local population tends to turn straight to the oil companies to obtain the fruits of what they consider to be 'their' oil. Since government institutions are practically non-existent on the ground (or at least invisible), the companies are the sole representatives of public authority that are accessible to the local populations. For although the companies pay considerable sums to the state in the form of royalties and income taxes, most of the population of the Niger Delta feels completely excluded from the benefits of oil activity. Regularly and in a more and more violent way, young members of these forgotten people demonstrate their hostility to the oil companies. Pressure is applied in various ways, ranging from sabotage of pipelines, kidnapping employees and occupation of installations, including offshore shallow water platforms. The companies find themselves caught in a vicious circle, where their activities and the revenues they generate distort the political life, increase the tendencies towards the formation of a rent economy and the collapse of political institutions, and so create the frustrations of which they are the first victims – at the same time being seen as guilty by sections of public opinion in the Western countries!

"oil is an economic enclave which generates few jobs and has little impact on the other productive sectors of developing countries"

The deterioration of the socio-economic situation in the Niger Delta began at the end of the 1980s, when the collapse of oil prices and the subsequent drying up of oil revenues gave birth to numerous organisations with a marked ethnic identity, for example MOSOP (Movement for the Survival of the Ogoni People) who were fighting for regional autonomy and denouncing the inequity of the division of the oil rent (from which they consider the local populations do not benefit enough). This movement was the first to focus its discourse on the environmental impact of oil exploitation, claiming large financial compensation not only

from the federal government but also the oil companies who were active in the region (the foremost being Shell). Thanks to the active support of large transnational NGOs like Greenpeace and Human Rights Watch, the political-ecological campaign led by MOSOP against Shell under the leadership of the writer Ken Saro-Wiwa found an international response which profoundly affected the public image of the company. In the face of the sometimes violent mobilisation directed against it, in January 1993 Shell decided to leave the Ogoni country and shut down its installations – which remain closed today. This unprecedented decision intensified the repression of the MOSOP leaders, ending in the arrest and execution of Ken Saro-Wiwa in 1995, which in turn provoked intense international mobilisation, at the diplomatic level as well as public opinion. The regime of General Abacha was blacklisted as well as the Shell company which was accused of complicity, at least passive.

"The companies are well placed to know that the substantial revenues they pour into the federal government are 'lost' well before they could be of benefit to the local communities"

Since then the Niger Delta region has frequently suffered from violence that opposes local communities and ethnic groups demanding better access to positions of power and, more specifically, a redefining of the distribution of oil rent in their favour. The two main oil towns of the Niger Delta (Warri and Port Harcourt) are particularly affected by the troubles – the occupation of installations and sabotage of pipelines are commonplace. Although Shell, as the historical actor that dominates the Nigerian oil scene and the real incarnation of the country's oil industry, is particularly targeted by acts of violence, in fact all the companies (ChevronTexaco, Total, ExxonMobil, ENI and so on) are equally affected by the troubles and regularly forced to temporarily close some of their installations, which results in surges in world oil prices.

Confronted by this double threat (local instability and accusations at the international level) the oil companies have for several years tended to react by setting up programmes for local development. These programmes, which are intended to enable the local populations to benefit directly from the presence and activity of the companies in the exploitation of oil resources, have become an element that cannot be ignored (and is given much publicity in the media) in the strategies of the companies to seek legitimacy from the local populations as well as international observers (NGOs for example). Dozens of schools and clinics, as well as roads, networks for electricity and water distribution have all been constructed through funding by the oil companies.

However, much of this infrastructure is usually not operational since there is no public finance to take charge of the running costs (teachers' salaries, health equipment, maintenance of roads and so on). Without any lasting impact on local development, because of lack of partnership with the public authorities (often non-existent), these programmes seem essentially to be intended as a response to the critics and to pressure from the local populations and international NGOs. In fact the companies find themselves not only obliged to make hundreds of ineffective appointments but, above all, to take the place of the state in order to assure the minimum of public services. Thus they are locked in a vicious circle where, by taking on the role of the state to buy short-term social peace, they perpetuate a situation (the weakening of the state) which is the source of the problems they are facing.

On the basic questions (the lack of transparency and governance by the political authorities), the companies avoid calling into question the systems of corruption which have formed around oil activities. However, corruption and the lack of governance are said by everyone involved in oil to be the basis of the social troubles which frequently occur in the Niger Delta. The companies are well placed to know that the substantial revenues they pour into the federal government are 'lost' well before they could be of benefit to the local communities, whose frustrations turn them against the companies. 'Bunkering' (theft and the blackmarket in oil which today is said to involve between 10 and 15 percent of the production of Nigeria) is another consequence of the widespread practices of corruption.

"corruption is a problem of systemic order linked to the development of rent economies and the concomitant collapse of the institutional structures of the state"

The risks that the oil companies face in their activities in Nigeria result from the problems of governance peculiar to the rent economies which are characteristic of oil-producing countries. The oil companies however, being private economic actors, are not in a position to respond to these systemic problems. Particularly in Nigeria, corruption is a problem of systemic order linked to the development of rent economies and the concomitant collapse of the institutional structures of the state. Since they act from an industrial and financial, not political logic, the companies are overcome by inertia in their relations with the governments, whose legitimacy they cannot call into question, even in the name of ethical principles. Lacking an appropriate international legal framework and in the absence of an international organisation able to impose it, they perpetuate a system which they know is deadlocked and whose consequences will seriously jeopardise the oil development of the region, and thus the supply of the world market.

Anouk Honoré considers the case of Bolivia

Introduction

Latin American countries undertook structural reforms and economic liberalisation during the 1990s, hoping to increase their economic growth on a sustainable basis and alleviate poverty. In a radical move from these fairly market-oriented policies of the past decade, many countries have now elected leftist governments. The recent victories of Evo Morales in Bolivia, Michelle Bachelet in Chile, Alan García in Peru are just new additions to the group of left-wing governments in Latin America, which includes Hugo Chávez in Venezuela, Luiz Inácio Lula da Silva in Brazil, Néstor Kirchner in Argentina and Tabaré Vázquez in Uruguay.

Some countries like Chile, Uruguay and even Brazil are trying to enhance improved social policies while retaining the liberalising reforms of the 1990s. Other countries like Venezuela, Argentina and Bolivia are developing more radical policies, close to the Latin American tradition of populism. This concept of 'populism' describes the means by which the masses are brought into the political system in an effort to cure the social ills caused by capitalism. In Latin America, this was accomplished in their time by populist leaders such as Juan – and Eva – Perón in Argentina, Víctor Paz Estenssoro in Bolivia and Getúlio Vargas in Brazil.

The sovereignty over oil and gas resources is back on the political agenda. After two years of a 'gas war' which ended up with the election of populist Evo Morales in December 2005, Bolivia nationalised its hydrocarbon resources on 1 May 2006. This was a clear sign that the situation has changed, but will the impacts be as negative as energy analysts have described them? Is it the beginning of a new era in Latin America or rather a symbolic reply to the 1990s' policies failure? What can we expect for the future?

The 2006 Bolivian Nationalisation

On 1 May 2006, Bolivia's left-wing President Evo Morales kept his election promise by nationalising the hydrocarbon resources, and ordering the renegotiation of existing natural gas production contracts. The presidential Decree gives the 26 foreign oil companies operating in Bolivia (including Spain's Repsol, Petrobras of Brazil, UK's BP and BG and Total from France) 180 days to hand over control and ownership of oil and gas produced at the wellhead to YPFB, the newly state-owned company. YPFB will also be responsible for determining all aspects of production and commercialisation of reserves, including output volumes and prices for internal and external markets.

> "The sovereignty over oil and gas resources is back on the political agenda"

While new contracts are being drafted, fields that produced more than 100 million cubic feet a day in 2005 will pay 82 percent of the value of production in taxes and royalties in order to help YPFB cover new exploitation costs and investments. Foreign companies will keep only 18 percent. This precise measure might seem surprising, but the 82–18 percent split is only the mirror-image of the tax regime established by the original privatisation contracts in the 1990s. Moreover, in practice only two fields will be affected by the measure: San Alberto and San Antonio, both operated by Petrobras. And the surtax only applies for 180 days, a period during which contracts will be renegotiated after an audit for each company.

Despite the fact that international energy analysts interpreted the Decree as an unforeseen event and highly criticised it, the move is in fact the logical follow-up of the New Hydrocarbon Law of 2005, enacted before Evo Morales' election. Moreover, the President was elected on the basis of an ambitious nationalist agenda he had been pushing while in opposition. The 1 May Decree can not therefore be called a surprise. Even before 1 May, it was clear that contract renegotiation would be a key element of the new government's energy policies as the contracts did not conform to the 2005 Hydrocarbon Law. Symbolic measures such as the nationalisation were expected as Morales needed a significant change in the status quo. Sending troops to seize 56 oil and gas fields was also a symbolic measure, which was internationaly criticised. In reality, things went rather smoothly, with no threats or use of force whatsoever.

What's next?

Foreign companies have invested about $4 billion in the Bolivian hydrocarbon sector in the last ten years, which is an important, but not an excessive amount compared to investments realised in bigger markets such as Venezuela for instance. In theory, this would make it easier for the companies to walk away from Bolivia if the rules of the game for the natural gas sector become too unattractive. However, despite increasing concerns, companies with longstanding investments in the country are most likely to try to comply with the terms the government is offering. The problem is for new investors who will fear that any rules can be changed by the government at any time, and therefore may prefer to invest in markets where the perception of risks is less important.

Bolivia is rich in natural gas, but it has a small domestic market for the fuel and needs foreign partners to

develop and provide external markets for that gas. The future of the country's energy sector depends on how the Decree is interpreted; both the government and the companies know this. Even oil companies admit that Bolivia's Decree is extremely broad, and are agreeable to a case-by-case solution, which leaves scope for negotiation. Of course, any agreement will be less profitable than before 1 May for these companies, but this will not be commercially disastrous, even for Petrobras which is the biggest investor in the gas sector and the largest buyer of the country's gas exports. The Decree aims only to re-equilibrate the balance of power and the distribution of profits. After a short period of tension due to the 'surprise' of the 1 May Decree, relations with Argentina and Brazil (the two main markets for Bolivian gas) have already eased.

"despite increasing concerns, companies with longstanding investments in the country are most likely to try to comply with the terms the government is offering"

In the short term, uncertainties due to the renegotiations should not result in constraints on natural gas exports. However, Bolivia's ability to increase production and exports is at risk, as investment decisions will likely be delayed until the new rules for the natural gas industry are known. Argentina and Brazil could be affected by these delays, as they do not have access to significant alternative gas supplies in the short term. However, both countries will probably start to look for alternative sources of supply for the long term which will replace potential additional demand for imports from Bolivia, affecting its export market potential. For instance, Petrobras has already declared its intention to build two Liquefied Natural Gas (LNG) terminals and not to increase Bolivian gas imports beyond what is already planned. However, if the renegotiation of the contracts between Petrobras and the Bolivian government goes relatively well, the Brazilian company can still revise its strategy later. Argentina is likely to continue to increase its imports from Bolivia, but also to try to boost its own production to meet its rising demand. Both these solutions for Brazil and Argentina are economically less interesting than importing Bolivian gas (on grounds other than security of supplies) even if tariffs are increased to $5–5.5/Mbtu. In markets where natural gas provides a relatively large share of the energy mix and where imports rely on one main source, alternative measures should be looked at, even in the absence of political tension with the supplier country, in order to ensure security of supply in case of gas disruptions, which could be due to non-political reasons such as technical incidents.

Conclusions

Bolivia is not an isolated case in Latin America. During the past four years, governments in Argentina, Venezuela and Ecuador have also raised taxes on the oil and gas producers and changed contracts unilaterally. In time of high commodity prices with additional fears about scarcity, it happens that governments tend to hike up taxes and change contracts terms. There is nothing intrinsically wrong in trying to maximise royalties and taxes in poor countries in order to raise money to develop the economy; but whether any contract renegotiation is voluntary or coerced is the key issue. Investors in Bolivia or Venezuela may well be able to invoke international arbitration against these mandatory renegotiations, which is what happened in Argentina following the crisis of 2000–2001 with the devaluation of the peso and the unilateral decision to freeze tariffs in the country.

But nationalisation and renegotiation of contracts in Latin America are not just a response to high oil and commodities prices. They are linked to the desire to exercise power on natural resources and to maximise rents, but they are also a response to the failure of the 1990s liberalisation policies. Market-oriented measures were enacted following initially the International Monetary Fund and other international organisations in order to develop the economies of the countries and alleviate poverty. But a decade later, some Latin American countries remain very poor; among them Bolivia, the poorest. And it is hard for leaders in vulnerable countries to resist the temptations of Venezuelan aid, even if highly politicised. Evo Morales can hardly expect to gain from making concessions to the United States, as shown in the last 10 to 15 years with the coca eradication policies for instance. Knowing that the country needs financial, technical and political help, it is easy to understand Morales' viewpoint, that he might as well follow the populist tradition of Latin America and count on Chávez's support. Bolivia might also join Venezuela, Brazil and Argentina in making possible the so-called 'Southern Pipeline' stretching more than 9000 km between Venezuela and Argentina, even if Bolivia had previously dismissed the project as impracticable.

"After a short period of tension … relations with Argentina and Brazil … have already eased"

Venezuela, Argentina and Bolivia are seen as forming a radical populist grouping in Latin America that contrasts with the more moderate leftwing governments of Chile and Uruguay, while Brazil has sought to steer a middle course. However, revenues from gas exports are fundamental for the Bolivian economy, representing about 15 percent of the gross domestic product. The challenge for President Morales will be to balance his nationalistic agenda and the country's need for international support and foreign investment, and not only from Venezuela. The ability to achieve a safe and sound equilibrium will shape Bolivia's future economy and energy landscape.