

## Pacific LNG Project

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The Pacific LNG Project is a project by which Bolivian gas is planning to be exported to Mexico in order to enter not only the Mexican market but ultimately the Californian market. The natural gas needs to be transported through pipelines to a port in the Pacific Ocean, to be liquefied and then transported by ship to the shores of Mexico where it will be re-gasified and then distributed to the above mentioned markets. The project has an estimated cost of 5 to 7 Billion dollars. Pacific LNG Project is based on an exclusivity agreement (which had an original deadline for May of this year, but as a consequence of the described below it has been postponed several times), entered into, on the one hand by a consortium known as Pacific LNG which is composed by three companies, Repsol YPF (with 37.5%), British Gas (with 37.5%) and Pan American Energy (with 35%) and Sempra Energy on the other.

Even though this project is a commercial venture, like thousands of others entered into by international companies, it has become an extremely controversial issue which not only entails commercial relationships but ultimately, it has become a diplomatic turning point for Bolivia. The crux of the diplomatic issue is the port by which the gas needs to reach the Pacific Ocean. The two options on the table are Chile and Peru, both options have advantages and disadvantages, but these are not so simple to qualify or quantify as there are other issues such as national sentiments and historical controversies and the timing of the decision making period is at a moment of government transition.

The main issues faced by the Bolivian government in order to decide are: cost of the construction of the duct and other technical issues, right of way, tax incentives, applicable law, labour laws, environmental laws, time and the possibility of inclusion of future ventures. The negotiations have been conducted behind close doors, which has caused much speculation by the media, but given the extensive lobbying by the mayors of the ports involved, the following can be established:

Peru has offered the port of Ilo, where Bolivia already has signed a treaty by which the port ( a "rented port") is not under the Peruvian sovereignty. The area that has been "rented", 200 hectares, to Bolivia for a period of 99 years, is not enough for the magnitude of the Project. Ilo's mayor has offered a surface of 1.560 hectares, in concession for 99 years, renewable, and under Bolivian sovereignty for the gas pipeline, the oil pipeline and the construction of the liquefying plant. Peru's offer of Bolivian sovereignty entails that the applicable law would be the Bolivian thus reducing the discussion in regards to double taxation and other legal matters. The above mentioned mayor has also pointed out that Ilo does not have the seasonal earthquakes that occur in the northern part of Chile. Peru's main disadvantage is that it adds about three hundred more kilometres of pipeline that would be necessary to be constructed in order to arrive from the Bolivian gas fields to the port of Ilo, thus increasing the cost of construction. Notwithstanding Peruvian Ambassador in Bolivia announced that his country (Peru) has been considering the option of absorbing this cost in order to materialize the project.

Chile's case is more complicated. Firstly, Chile's government has originally offered the port of Mejillones in the second region. This has caused an internal competition between port cities throughout the northern part of Chile. The city of Mejillones and the city of Iquique, which currently is a free zone area, have been lobbying both inside Chile and in Bolivia for their ports to be chosen. Secondly, Chile was originally not aware of Bolivia's priorities in regards to the payment of taxes, and the applicability of labour and environmental legislation, Bolivia stresses the importance of the application of the same laws in the gas fields as well as at the port by which the gas is to be shipped to Mexico. This based on the principle that hydrocarbons are considered a national resource and should be used in the benefit of the country. Some of the media have informed that Chile has agreed that the taxes resulting from the sale of the gas will be paid in total to Bolivia, and it has agreed to exempt the project from IVA and temporary interning of equipment. The third and most controversial of the issues is the fact that Bolivia and Chile do not have diplomatic relations. This dates back to 1879, when Chile won the department of the *Litoral*, in which the port of Mejillones is located. If Mejillones would be chosen, this would be an open acceptance of Chile's sovereignty over the territory that Bolivia lost in the War of the Pacific. This is an issue that has divided the country into two, as many see and has struggled for Bolivia's historical rights to the ocean, and find it unacceptable, and some politicians even call it treason, to recognize Chile's sovereignty on the territory. Bolivia's government is to utilize the current situation as a leverage for the access to the sea, but Chile has made it clear that it is not part of the negotiations.

Bolivia is at a very precarious position, as time is its biggest enemy. The lack of decision of the port by which the Bolivian gas should be exported is causing a strain in the agreement between the Consortium and Sempra Energy, the main issues being the price at the delivery point, that would vary depending on which port is chosen. The exclusivity agreement is also in play, if Bolivia misses this window of opportunity it would have to wait fifteen years before it would be able to attempt to enter the Californian market again, making Bolivia dependant of Brazil as its main purchaser of natural gas. The most pressing matter is that there are four other countries competing for the Californian market, such is the case of Peru (Camisea), Rusia (the Sakhalin Islands, Australia (Western Shelf) and finally Indonasia (Botang). Camisea of Peru is the more developed in regards to the project than Bolivia, and the Sakhalin Islands is the one that has the most advantages, as it is closer to the Californian coast, and it already counts with a liquification plant.

The new government, headed by President Gonzalo Sánchez de Lozada has requested 30 days, which Sempra has acquiesced, in order to get acquainted with all the information regarding the negotiations and an additional 90 days to decide on the port of export.

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