



# BOLIVIA INFORMATION FORUM

## Bolivia Information Forum Bulletin

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### [1] Constituent Assembly Disputes

Three months after it was formally inaugurated in the city of Sucre, and with only ten months of its allotted term still to go, the Constituent Assembly has hardly begun its substantive task of rewriting the country's constitution. The proceedings in Sucre have been absorbed with the contentious issues of defining the Assembly's status and the method of voting it would use. The ruling MAS was pitted against some of the opposition parties, chiefly the right-of-centre Podemos coalition.

#### 'Originaria' or not?

The MAS holds that the Assembly is by nature '*originaria*', ie is the expression of the sovereign will of the Bolivian people. As such, the MAS maintains that the Assembly is plenipotentiary, superior in its jurisdiction to the existing Congress, the Supreme Court and even the executive branch itself. This was an important theme in President Evo Morales' speech to inaugurate the Constituent Assembly, delivered in Sucre on August 6. He argued that even his own continuance in office was subject to the will of the Assembly.

The MAS believes that the large majority it obtained in the presidential and congressional elections of 2005, combined with its majority in the Constituent Assembly elections of July 2006, give it the political mandate and authority to transform the country's political institutions. To this end, argues the MAS, the Assembly must ultimately wield authority over the existing powers of the state.

For Podemos, the claim to be '*originaria*' goes beyond the legal mandate of the Assembly. It argues that until a new constitution emerges, the Assembly must abide by

the existing constitutional arrangements. These do not, it maintains, contemplate a Constituent Assembly setting itself up with supreme authority.

### **Two-thirds or one-half?**

The other contentious question has been the method for reaching decisions within the Assembly. The lack of clarity in the Ley de Convocatoria for the Constituent Assembly has not helped in resolving what has become an extensive and bitter argument.

The MAS argues that while the new constitutional text must be finally approved by a majority of two-thirds of the *constituyentes*, individual resolutions may be approved by absolute majority (i.e. 50% plus one of the Assembly members). It says that a two-thirds majority would make it practically impossible to draft a new constitution, and would enable Podemos and its allies simply to block the most important changes, thereby frustrating the whole purpose of the Assembly. It has however accepted that the final draft constitution would need to be approved by a two-thirds majority, pending final ratification in a referendum.

Podemos, for its part, maintains that the absolute majority formula simply turns the Assembly into a rubber stamp for ratifying whatever the MAS wishes to do, given that the MAS, with 137 seats, has more than half of the total 255 seats in the Assembly, while Podemos has only 60. Podemos claims that the MAS wants to close down political pluralism in Bolivia, concentrating all power in its own hands.

### **When push comes to shove**

After lengthy discussions, the MAS forced the issue of the Assembly's '*originaria*' status to a vote on September 29. In the end, 162 members of the Assembly voted in favour of *originaria* status. This was slightly less than a two-thirds margin but well above the absolute majority. The 162 'yeses' were made up of 133 votes from MAS members, three from Unidad Nacional, eight from the Movimiento Bolivia Libre (MBL), one from Podemos and the rest from an array of smaller parties. So far as the MAS is concerned, the margin of support was sufficient for the measure to be passed, while for Podemos the decision was illegitimate since it was not passed by a full two-thirds margin.

Morales reacted to opposition criticism by questioning Podemos's own democratic credentials, referring to its origins in the ADN, a party founded by one-time military dictator General Hugo Banzer Suarez. Juan Ramón Quintana, Minister of the Presidency, was more conciliatory. He said that the Assembly owed its elevated status not to its indigenous representation but to its historic character; that the new constitution would not be a 'radical ethnic code' and that the MAS would, unlike previous governments, exercise its majority responsibly.

The voting issue led Podemos and its allies to appeal to public opinion in those parts of the country where its support is strongest. These are the departments of Santa Cruz, Tarija, Beni and Pando – making up the so-called crescent or '*media luna*'. The prefects of these departments are all from opposition parties. Meeting at the beginning of October in Santa Cruz, the prefects of all four departments agreed not to recognise the validity of any Constituent Assembly decisions passed without a two-thirds majority.

The Supreme Court also issued a statement questioning the legality of the declaration of plenipotentiary powers by the Assembly.

### **Autonomy and the issues behind it**

The vote in the Assembly also raises once again the vexed issue of autonomy. A referendum on regional autonomies held at the same time as the Constituent Assembly elections produced a majority 'yes' vote. At their October meeting, the prefects and representatives of the civic committees in the '*media luna*' accordingly threatened to push ahead with their own agenda for greater autonomy if the Assembly fails to respond adequately to the referendum result. (Civic committees in Bolivia have a long tradition of harnessing regionalist sympathies against central government in La Paz.)

Behind the Constitutional Assembly and autonomy questions lie two key issues that are of immediate concern to the business elites of the '*media luna*':

1. Government policy on hydrocarbons and the re-nationalisation agenda. Private companies in the oil and gas sector, opposed to this agenda, are well represented on the Santa Cruz Civic Committee, the Comité Pro-Santa Cruz, through the Chamber of Industry and Commerce, Camara de Industria y Comercio (Cainco). Outright opposition to nationalisation from local (as opposed to foreign-owned) interests has nonetheless been pacified somewhat by actual and potential concessions over autonomy, as it now seems more likely that at least some of the increased tax and royalty revenue claimed by the central state will find its way back to Santa Cruz and the other resource-rich regions.
2. Government policy on agrarian reform and land redistribution in the eastern lowlands. The Comité Santa Cruz contains the Chamber of Agriculturalists of the East, Camara Agropecuaria del Oriente (CAO), and other landowning interests opposed to land reform.

The political makeup of the '*media luna*' region has however changed over recent decades, largely due to a recent influx of low-income migrants from the highlands. Thus in the recent Constituent Assembly elections the MAS won the largest single bloc of seats in Santa Cruz department, and also won more seats than any other party in Tarija.

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### **[2] The battle for the Huanuni tin mine**

On 5<sup>th</sup> and 6<sup>th</sup> October violence broke out in the Huanuni tin mine in Oruro. Self-employed co-operative workers from the Fencomin federation clashed with state company (Comibol) employees. Each group was seeking control of the mine, with Fencomin workers strongly rejecting a recent government proposal that control be shared with Comibol.

At a meeting on the morning of October 5, co-operative miners resolved to take over the mine and Fencomin members subsequently took control of the compressor delivering air to Comibol miners underground. It is not entirely clear how or where the violence originated, but at its height slings were used to catapult dynamite into groups of people milling about. Tyres filled with explosives were pushed downhill, blowing up an on-site

mill. Latest figures suggest 16 people were killed and 61 injured. Police are now investigating the deaths, at least some of which were from gunshot wounds.

In spite of the death toll, the co-operative miners failed to wrest the mine from the unionised mine workers, though the mill and other property was destroyed.

The state's response has been criticised on two fronts:

- i) The police were accused of being slow to move in and separate the warring factions, although the government argues that their rapid deployment would have further inflamed the situation.
- ii) In the aftermath, Morales removed the Fencomin-linked Minister of Mining Walter Villaroel, replacing him with Guillermo Dalence. As Dalence is a former leader of the FSTMB, the union associated with Comibol, Fencomin then refused to take part in further talks

### **Some background:**

#### Huanuni's place in Bolivian tin mining

- The Comibol operation at Huanuni currently employs some 1,000 workers. However, there are also four co-operatives **at** Huanuni that employ around 4,000 people. Most of these work the tailings, but some also operate directly in the less important or largely worked-out areas of the mine.
- Bolivia has been an important tin producer since the beginning of the last century, though it uses expensive underground production methods
- After the world tin price crashed in 1985, most of Bolivia's nationalised mines were closed or sold off, as the crash coincided with adjustment measures undertaken by then-president Victor Paz Estenssoro's government. Colquiri and Bolivar mines, two of the richest mines, were acquired by Gonzalo Sanchez de Lozada, then planning minister and later president (1993-1997).
- Other mines, including Huanuni, were part privatised through the signing of joint venture agreements. Comibol nonetheless maintained formal ownership. Huanuni, formerly the most productive of Comibol's tin mines, remains Bolivia's premier tin mine and further exploration has revealed important new mineral-rich seams.
- During the second government of Hugo Banzer, 1997-2001, the British firm Allied Deals began work in the mine after entering into a joint venture agreement with Comibol. Allied Deals subsequently went bankrupt, passing on its Huanuni interests to another British firm, RBG, which nonetheless also went bust. The Bolivian government then returned the concession to Comibol. The dispute with co-operative leaders may originate in this transfer, as according to some versions co-operative leaders had in the meantime purchased RBG shares, leading them to believe themselves entitled to at least part ownership of the mine once RBG went bankrupt. In the event, however, legal ownership of Huanuni was still in the hands of Comibol.
- Tin prices have risen greatly over the last couple of years, now standing at over \$US4 per fine pound. This is their highest level since the 1985 crash. Bolivia, like

other mineral producing countries, has benefited from higher minerals prices across the board in recent times, a consequence of strong demand from China and India

- High tin prices have encouraged growth in production, leading to clashes between co-operative producers and miners working for Comibol over who should have access to the richest parts of mines. There has also been conflict between some co-operatives and small companies on the one hand, and local indigenous groups (*ayllus*) on the other over land rights. The events of 5<sup>th</sup> and 6<sup>th</sup> October were the latest in a series of recent events in which unionised mineworkers made common cause with members of local *ayllus*, presumably in exchange for their political support and backing against the co-operative miners.

#### The politics of the mining sector

- The co-operative segment of the mining industry is economically and socially significant as it provides some 40,000 people with work: although co-operatives usually comprise only a small number of full associates, they buy in additional, often poorly-paid, wage labour. The co-operatives have, like other mining concerns, benefited from recent high prices, especially as they do not pay taxes.
- Co-operatives have pressed in the past for access to state support for machinery and equipment, winning access to a concessionary \$US3 million fund under the government of Carlos Mesa (2003-2005).
- Morales's appointment of Walter Villaroel, former head of Fencomin, as Minister of Mines was perceived at the time as a signal to co-operative miners that the new government would take their concerns seriously.
- The Morales government nonetheless also has to consider the views of the Mineworkers' Federation (FSTMB), considered an important ally. (For this reason, an FSTMB representative was given the vice-ministerial post at the same time as Villaroel was appointed Minister of Mining). The FSTMB represents formal-sector mineworkers, ie private-sector miners as well as workers who remain in the employ of Comibol. Concerned about the employment and wage implications of present government policies, the FSTMB is little inclined at present to support either outright re-nationalisation or the imposition of higher taxes on private mineowners.
- The replacement of Villaroel as minister by Dalence will be read in some quarters as a shift in government policy favouring the unionised over than the co-operative sector. The implications for Huanuni and other mining areas are yet to become clear.

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### **[3] Government Social Initiatives**

#### **Water supply**

Evo Morales visited the mining town of Llallagua, in the north of Potosi department in September, the third time he has visited this mining town since he came to office ten months ago. He was accompanied by Abel Mamani, Minister for Water and previous leader of the neighbourhood committees (Juntas Vecinales) in El Alto.

The visit was to inaugurate the first stage of a potable water system for the town and

surrounding areas. The water supply in this tin-mining area, home to the combative Siglo XX mine before economic adjustment and the closure of many Comibol mines in the 1980s, has always been poor. Piped supplies looked not unlike *copagira*, the greyish acidic residue left from tin mining. Clean water is almost unheard of, and can only be obtained by collecting it during rainstorms.

The German government and the European Union had been working for several years to support the local population with this water and sanitation project, which will also benefit the nearby towns of Catavi and Uncía. The project is unusual in that the municipality and local social organisations will be involved in the running of the service organisation. Thus, instead of giving responsibility over to a private contractor, the project is designed to encourage popular participation in decisions regarding the overall running of the service (*mancomunidad*). A similar proposal has been approved to provide water for the city of Cochabamba from the Misicuni hydro system. The thrust of these projects is in clear contrast to previous conflictual attempts to privatise water, such as that involving the Bechtel Corporation, forced to withdraw from Cochabamba in 2000 after trying to impose large price increases. There is also an ongoing campaign in the El Alto district of La Paz to force out a private company, Suez-Aguas del Illimani, which has been accused of charging excessively for connections.

### **Social protection**

Government measures taken in pursuit of its declared priority to benefit the poor majority include the following:

- One of the first acts of the new government was to introduce an austerity drive by halving the salaries of the president, executive, judiciary and congressmen. Morales now earns about US\$1,750 per month, with all other senior public officials earning less. A member of Congress, for instance, now earns about US\$1,300; although some judicial personnel have reportedly refused to switch to drawing the new, lower salaries. These savings have helped finance the costs of hiring more teachers and healthworkers.
- Social protection measures have included a 25% reduction in the price of electricity for families that only use small amounts. This has benefited some 480,000 homes throughout the country, in both urban and rural areas, with around 200,000 of the beneficiaries located in El Alto and La Paz.
- Pensioners are among the country's lowest earners. Approximately 134,000 pensioners received an increase, backdated to January
- State health coverage for women, which had previously been limited to maternity and post-natal care, has been extended to cover a wider range of illnesses.
- Following problems with land takeovers organised by the homelessness organisation Movimiento sin Techo, an emergency housing plan for the homeless was approved
- The minimum wage was increased for the first time in several years, rising by 13.6% from Bs.440 (US\$57) to Bs.500 (US\$65) per month. Wages paid to health workers and teachers were raised by 7%, as compared to annual increases of no more than 3.5% in recent years.

- A campaign to provide identity cards has been running since the beginning of the year, supported by the Venezuelan government. The card is especially important for the elderly, who need identity documents to access the yearly payment of the Bonosol, an annual universal cash payment of around US\$230 given to adults over 65.
- A nationwide literacy campaign was launched in March
- The government has restored some workers' rights lost during in the 1980s owing to neoliberal policies, re-introducing union leaders' entitlement to time off for union affairs (*fuero sindical*). Article 55 of Decree Law 21060, which had opened up the labour market by abolishing indefinite work contracts, has been repealed. The government has also reverted to more centralised state planning and greater state participation in running companies like YPF (the oil and gas company).
- In early June Morales finally handed over title deeds for 3.1 million hectares of land, due for some time to be redistributed to 35,000 beneficiary families. The government is currently reviewing cases in the lowlands where it is alleged that land is not being used productively. Certain timber concessions have also been cancelled.

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#### **[4] Economic pointers**

The most recent figures from the Treasury Ministry suggest that the Bolivian economy continues to expand. Government officials insist that this is a tribute to their management of the economy, while opposition economists say that growth is attributable to previous policies of economic liberalisation. In fact it is mostly due to buoyant international demand for the country's main exports.

##### **Growth**

GDP expanded by 4.5% in the first half of 2006. This is considerably higher than the 4.1% figure projected at the beginning of the year. Taking into account the fact that population growth is at 2.2% annually, this year's GDP per capita growth should accordingly be about 2.3%.

The sectors of the economy that have grown fastest have been hydrocarbons (12.4%) and mining (18.7%).

GDP growth rates have been on an upwards path in recent years:

2001 - 1.7%

2002 - 2.4%

2003 - 2.8%

2004 - 3.6%

2005 - 4.0%.

In per capita terms, growth is somewhat slower.

### **Exports**

Bolivia's exports have grown rapidly in recent years. In the eight months to August 2006, they stood at US\$2.75bn. (By comparison with US\$2.8bn for the whole of 2005). As of June 2006, mineral exports accounted for 26.9% of the total, hydrocarbons for 48.8% and 'non-trationals' for most of the remainder. Non-trationals include cash crops such as soya and sugar, as well as manufactured items.

### **Imports**

Imports have increased alongside exports, but at a lesser pace. The gap between them (the trade surplus) has accordingly tended to widen. The trade surplus for the first eight months of 2006 was US\$925.8 million. Imports for the first eight months of 2006 stood at US\$1.82 billion, as against US\$2.34 billion for the whole of 2005.

### **Reserves**

Net international reserves of the banking system (the Central Bank plus other banks) stood at US\$3.41 billion at the end of August 2006, compared with US\$2.02 billion a year earlier.

### **Inflation**

Accumulated inflation for the first eight months (January-August) was 2.8%, down from 3.3% in the same period of 2005.

### **Exchange rate**

The real exchange rate has been appreciating in recent years, with inflation outpacing the rate of devaluation against the dollar. The nominal revaluation of the boliviano (not taking inflation into account) was 0.37% between January and the end of September, and 0.42% for the twelve months to the end of September. While currency revaluation helps keep the lid on inflation, it reduces the international competitiveness of non-traditional exporters.

### **Fiscal surplus**

The fiscal surplus for the first eight months came to the equivalent of 5.7% of GDP, thanks mainly to an increase in primary exports (especially hydrocarbons), increases in the rates of taxation and a widening of the tax net. Taking into account the amounts needed to pay pensions, a heavy burden on the state, the Treasury Ministry is forecasting an end-of-year surplus equivalent to 1.5% of GDP. Last year, there was a surplus of 1.1% of GDP. Bolivia's previously high fiscal deficits gave considerable leverage to the IMF.

### **Investment**

The main source of concern for the future of the economy is the lack of investment, for which no-up-to-date figures are available. Figures for foreign investment from 2002 show a steady decline in foreign direct investment, though there appears to something of a pick-up in the first half of 2006. Both local private sector investment and public sector investment have been very sluggish in recent years. The government's five-year economic plan is nonetheless premised on a sharp recovery in investment rates across the board.

### **Economic co-operation (see also section 5 below)**

Bolivia has signed a Peoples' Trade Agreement (TLP) with Cuba and Venezuela, an alternative to the proposed Andean Free Trade Agreement with the United States. For

Bolivia, the TLP will provide markets for its soya production (under threat from the FTA), \$US100 million from Venezuela for small-scale productive sector projects, and scholarships for study in Cuba (mainly medical) and Venezuela (mainly hydrocarbons related).

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## **[5] Nationalisation and Energy News**

The May 1 2006 hydrocarbons nationalisation decree gave foreign investors six months (180 days) in which to agree to the terms of new contractual arrangements. The deadline expired on October 31. On October 28 and 29, the various companies involved – including Petrobras (Brazil), Repsol-YPF (Spain), Vintage (US) and Total (France) agreed to the new contractual terms. Basically, these now become simply service operators for the state company Yacimientos Petroliferos Fiscales Bolivianos (YPFB).

The contract with Petrobras for exploitation of the San Alberto and San Antonio fields is for 30 years. According to the May decree, these fields will pay more than 80% in tax to the government. The contract with Repsol-YPF for the Margaritas field will be for 24 years.

Since the passing of the new hydrocarbons law in May 2005, income to the state has increased from its previous rates. (These had been between 18% and 50% of the value of production, depending on the size of field concerned). Since 2005, all field sizes have been liable to pay 50% to the government, with the rate at the country's two most productive fields at 82% since May 2006. Income from gas, plus better Customs administration, has helped to turn a public sector deficit of over 8% into a surplus (see also Economic Pointers).

The deal with the four major foreign investors should settle the row that broke out when the 2006 Hydrocarbons Law obliged them unilaterally to abandon contracts signed in the late 1990s in the wake of privatisation. Both Petrobras and Repsol have committed themselves to an investment programme in Bolivia, although it remains to be seen how much they will be prepared to pay. Although the new contracts will afford a greater measure of juridical stability – subject to ratification by the Congress – their operation will depend a good deal on the small print.

The companies' willingness to stay in Bolivia was enhanced by a new agreement to increase both the amounts and prices paid by Argentina for the gas it receives from Bolivia. Argentina agreed to raise the price it pays for gas from US\$3.3 to \$US5 per million BTUs this year. Based on this new price, a US\$17 billion natural gas supply agreement was signed between Argentina and Bolivia on 19 October. The agreement commits Bolivia to increasing its supply from the present 7 million cubic metres per day to 27.7 million by 2010. Concerns were raised by some analysts about the capacity of Bolivia to meet this commitment unless it could significantly increase current levels of investment in production capacity. The new contracts should help calm such fears. Bolivia has also signed deals with Paraguay and Uruguay to supply them with natural gas.