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Energy Conflicts: a Growing Concern in Latin America

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Energy Challenges in the Americas

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Cover Image:

Ribeirao das Lajes dike with its forest bordering the reservoir, an example of Light S.A.'s reforestation program. Light, a subsidiary in Brazil of the French company EDF (Électricité de France), distributes electricity to 80% of the State of Rio de Janeiro and implements environmental protection programs. ANTONIO SCORZA/AFP/Getty Images.

Energy Conflicts: A Growing Concern in Latin America

By Patricia I. Vázquez



Protesters burning Christmas decorations in La Paz during a December 30, 2010 Gasolinazo protest against a decree by Bolivian President Evo Morales to remove fuel subsidies. Photo by James Bruncker/Latin Content/Getty Images.

The past decade has witnessed a proliferation of energy projects in Latin America. Many have been central to the domestic economic development plans of governments; others have been efforts to expand much-delayed regional energy cooperation or

consolidate a particular political agenda across borders. As oil, gas and hydroelectricity developments have multiplied, so have conflicts brought on by the negative political, social, environmental and/or economic externalities these projects have generated.

While the dynamics of the conflicts vary, the disputes at

national and local levels share two underlying triggers: first, Latin America's deep-rooted economic inequality and the marginalization of certain societal groups; and second, weak state management of the revenue from extractive industries. The region succeeded in reducing inequality levels in the last decade through

improved education and increased transfers to the poor. The quality of the education the poor receive, however, remains lower than that attained by the top 10% of the population, and redistribution is minimal.

Persistent social and economic differences in spite of increased natural resource revenues in producing countries create frustration among the population and are at the heart of energy-related conflicts in Latin America. These conflicts can be regional, national or local. Regional conflicts may be geopolitical; in other words, related to the use of energy, particularly oil, as a tool for building political alliances across borders, or border conflicts related to unresolved, long-term geographical frictions that hinder energy cooperation between nations. At the national level, disputes stem from revenue conflicts or clashes over the distribution of natural resource revenues among different ethnic or economic groups. Local conflicts, in turn, emerge from disputes within the boundaries of areas under oil, gas or hydroelectricity development.

Revenue and local conflicts in particular build on historical economic inequalities, especially those affecting ethnic minorities, in addition to weak institutional frameworks and incomplete implementation of the rule of law. If not addressed properly and in a timely manner, these disputes may prove a challenge for economic development models based on extractive industries and threaten the stability of democratic governments.

Geopolitical Conflicts

Countries with large hydrocarbon reserves sometimes leverage their abundant resources to exert

political pressure on governments dependent on energy imports. In other situations, they may use the wealth they accumulate through exports to push broader political or ideological agendas. Russia, in its handling of gas supplies to its European customers, fueled a geopolitical conflict.

In Latin America, Venezuelan President Hugo Chávez has used his country's ample oil and gas reserves—80.5 billion barrels of proven oil and 149 trillion cubic feet of natural gas—to craft energy cooperation initiatives that have gained political allies. The specter of supply interruption hangs over those who do not share his ideology. Chávez, a strong critic of the United States, has also used his country's hydrocarbon might to challenge opposition political views.

Border Conflicts

The most challenging border conflict in the region is between Bolivia and Chile and traces its origin to more than century ago. Since the War of the Pacific in the 1880s, when Chile took away Bolivia's access to the Pacific Ocean and left it landlocked, Bolivians have maintained a historic claim for return of the coastline. That grievance resurfaced in 2002 in the form of massive popular opposition in Bolivia to proposals to export gas from new reserves through a Chilean port. Violent uprisings left dozens dead and ousted two presidents—Gonzalo Sánchez de Lozada in 2003 and his successor, Carlos Mesa, in 2005—in what became known as the “Gas War.”

When the private consortium project to export Bolivia's gas fell through, the companies turned to Peru instead. Had the original export venture succeeded, it would have turned Bolivia, South

America's poorest country, into the region's first exporter of liquid natural gas (LNG). Instead, that privilege is enjoyed by Peru, which became Latin America's first LNG exporter in 2010.

Revenue Conflicts

Estimates of Bolivia's proven natural gas reserves increased from roughly 4.3 trillion cubic feet (tcf) in 2000 to 27 tcf in 2009. Bolivia has since been immersed in a long period of political instability as opposing groups struggle to control gas resources. This struggle has highlighted Bolivia's persistent class and ethnic differences: The relatively small percentage of the population of Spanish descent, which controls the gas-rich southeastern provinces of Tarija, Santa Cruz and Cochabamba, has squared off against the majority indigenous population in the country's western highlands. Underlying these differences are historical economic inequalities, as revenues from the eastern energy-producing departments have usually failed to improve the living standards of the poor in the rest of the country.

In March 1990, a nationwide march organized by the indigenous population—*Marcha por el Territorio y la Dignidad* (March for Territory and Dignity)—precipitated a series of laws that increased recognition of indigenous peoples' rights and their participation in the country's political life. Most important among them was the Law of Popular Participation, which aimed to decentralize state power by transferring political and administrative control – and 20% of the national budget – to local municipalities.

The ascendancy of indigenous President Evo Morales in 2006,

which marked the first time Bolivia's majority indigenous population has held political power, can be traced to the push for inclusion that gained momentum throughout the 1990s. Morales also sought economic power through greater control of the profitable gas revenues in Bolivia's southeastern states. Rather than acting as a balancing force, however, his election deepened the divide between the rich eastern lowlands and the poor western highlands. Morales set out to mandate a redistribution of some 30% of gas revenues to pay for social programs for retirees, public school students and other groups in the western states. The move weakened the autonomy movement, but many governance inefficiencies continue to create popular discontent. Clientelism, rent-seeking practices and corruption persist, particularly within the state-owned oil company (Yacimientos Petrolíferos Fiscales de Bolivia, or YPFB). Most important, thriving gas revenues, which went from \$620 million in 2004 to \$3.2 billion in 2008 (more as a function of price than increased investments), have failed to improve the livelihood of most poor Bolivians.

Morales is trying to reach a balance between the gas industry and growing discontent among indigenous groups who have yet to enjoy the benefits of oil and gas projects in their territories. Pushing forward with hydrocarbon development could erode Morales's indigenous support, open the way to increased confrontation from his own constituency and lead to the development of local conflicts.

Local Conflicts

With conventional oil reserves becoming harder to tap around the world, a new and largely undeveloped hydrocarbons frontier in the heart of the

Amazon has attracted the interest of governments and oil and gas producers. Similarly, attempts by Latin American governments to promote regional energy integration and cooperation have resulted in several new hydroelectric projects, again mostly in the Amazon, as part of the South American Regional Infrastructure Integration Initiative (IIRSA). The growing emergence of oil, gas and hydroelectric projects



Protesters demonstrated against the construction of the Belo Monte Dam in Brazil in front of the Brazilian Permanent Mission to the United Nations on April 28, 2010 in New York City. Photo by Ben Hider/Getty Images.

in areas inhabited by indigenous communities that are now more effectively voicing their grievances has spawned a proliferation of local conflicts.

Energy-related local conflicts are arguably the most difficult to solve because of the variety of actors involved, the complexity of the issues that need resolution and the intricacy of the applicable legal framework. The potential for such conflicts to spread depends on several triggers:

1. *The environmental and social standards of the company involved in the energy projects.* In the past decade, Latin America has seen a proliferation of small oil and gas companies as well as large national oil companies (NOCs), some of which observe less stringent social and environmental safeguards than the big majors.
2. *The local community's level of radicalization and opposition to the energy project.* Indigenous movements have radicalized their actions and gained more sophisticated negotiating skills across Latin America in the past two decades. The extent of opposition and radicalization may depend on various factors, among them local culture, the historical relationship between the community and extractive industries, and NGO involvement.
3. *The availability of institutional mechanisms to mediate conflicts.* Latin American countries often lack well-functioning institutions with the capacity to effectively mediate conflicts. An exception to this rule is the Peruvian Ombudsman's Office, which holds a high degree of legitimacy among all stakeholders and has succeeded in de-escalating conflicts. Local NGOs usually have lower success rates in mediating energy-related conflicts.
4. *The extent of law enforcement.* A constant source of energy conflicts is laws that are overlooked or improperly applied, or an abundance of overlapping rules that

make them confusing and inoperative. Combined with government failure to comply with international legal standards, such as those imposed by the ILO 169 Convention and the UN Declaration of the Rights of Indigenous Peoples, ineffective law enforcement could lead populations affected by energy development to resort to violence to seek answers to their problems.

5. *The existence of old grievances or a history of negative externalities related to energy projects.* In areas with a history of social or environmental damage from previous energy projects, local inhabitants tend to more actively oppose similar new developments. Such communities also tend to be more radicalized. The best example is the widespread opposition to new dams in light of the deep scars left by similar projects in the past.
6. *The level and nature of involvement of international non-governmental organizations in the conflict.* International NGOs have grown in power and sophistication over the last 20 years and are particularly active in the Amazon. They play a fundamental role in supporting communities in their negotiations with companies and governments, but have also been accused of contributing to the escalation of some conflicts by imposing agendas that do not fully represent the demands of local communities.
7. *The degree to which companies and governments comply*

with previous agreements with local communities. A government's or company's failure to comply with a previous commitment to a community leaves locals feeling betrayed and is often a source of conflict. Trust that is eroded is difficult to rebuild. Communities often protest the breach of contract with force or violence.

Frequently underlying these seven elements are the historic economic disadvantage and social and political exclusion of the affected population. In many cases, indigenous communities find themselves suddenly negotiating with large oil corporations for access to basic education. Quasi-isolated and forgotten groups see these negotiations as their only chance to draw attention to their living conditions and improve their livelihood, or at least gain access to basic services. When the outcome of the negotiations is perceived to be unfair, communities affected by energy projects may resort to protests and sometimes violence to express their dissatisfaction. Conflict in these circumstances may become an instrument for forcing some kind of a solution to old grievances. Increased coordination over shared grievances by indigenous groups at the international, national and regional levels often exacerbates the conflicts. Unless properly addressed, discontent over historical injustices could build and become a source of democratic destabilization. The deadly confrontations in the Peruvian Amazon city of Bagua in 2009 offered a glimpse of this threat.

Potential Political Repercussions

There are four types of energy-related conflicts in Latin America: geopolitical and border conflicts at

the regional level; revenue conflicts at the national level; and local conflicts with the potential to reach national importance unless properly addressed. Geopolitical and border conflicts normally receive the most attention from the general public and the media. Revenue and local conflicts, however, carry a greater risk of destabilizing the region by building on largely unresolved inequalities, weak governance and the increasing radicalization of the indigenous movement.

Expanded energy projects are necessary for economic growth in Latin America, where installed hydroelectric capacity remains very low and large oil and gas reserves await development. At the same time, the infrastructure required for such projects constitutes a tremendous risk factor, as most of the still-untapped oil and water sources are in environmentally and socially sensitive areas.

These social and environmental fragilities, combined with the dire economic reality and historical marginalization of the communities affected by energy development, generate gradually more conflictive situations. Unless addressed rapidly and properly, these conflicts could pose important challenges to Latin America's political stability and the region's prospects for economic growth. ■

Patricia I. Vásquez is an independent energy expert and former senior fellow at the US Institute of Peace, and an advisor on energy and sustainable development issues.