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Bolivian Government Renationalizes Spanish Electric Company

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On May 1, Bolivia celebrated International Workers' Day by nationalizing the Spanish company Red Eléctrica Española (REE), the monopoly in charge of distributing electricity to almost the entire Bolivian population. Two weeks earlier, neighboring Argentina had partially expropriated another Spanish company, oil firm Repsol—the state took back 51% of the shares of Repsol subsidiary Yacimientos Petrolíferos Fiscales (YPF), which was privatized in the 1990s (NotiSur, May 4, 2012).

Besides the two affected companies sharing the same home country—Spain—and both South American countries having intensified the process of regaining control of their natural resources, a third similarity exists in the two cases: the two Spanish companies were returned to their former owners (the Bolivian and Argentine states) because, during their years under new management, neither company made the investments promised in the privatization contracts.

That is where the similarities end. In Bolivia, the transfer was decided by decree. In Argentina, it was through a law, passed by a larger majority than any other law in recent years. It was the approved by 80% of governing-party and opposition senators and deputies (with one isolated exception and the absolute rejection of the rightist Propuesta Republicana [PRO], the party of Mauricio Macri, mayor of the Argentine capital Buenos Aires). In Bolivia, the company was "nationalized" with a promise of fair payment. In Argentina, it was "expropriated" with a promise of fair payment. What is fair payment is each case? Time will tell. In both countries, supporters of the recovery of state assets prefer to call it renationalization.

Nationalization comes on International Workers' Day

In what has become a constant in Bolivian political life, the administration of indigenous President Evo Morales has given a second meaning to International Workers' Day. Besides its historic meaning—a day of homage to the four anarchist workers hanged in 1887 in Chicago, Illinois, for demanding an eight-hour workday—in Bolivia, although not officially declared, it is also a day to reaffirm sovereignty.

This past May 1, Morales had just read the "nationalization" decree when hundreds of workers waving the official Bolivian flags—the tricolor red, yellow, and green adopted during the War of Independence against the Spanish crown and the multicolor wiphala of the indigenous ancestors—marched alongside the military, which had been tasked with taking over and protecting the REE headquarters in the central city of Cochabamba.

The president explained that the measure had been taken "as just tribute to the Bolivian workers and people, who have fought to recover natural resources and basic services." Morales then justified the nationalization, saying, "Since that Spanish company took control of the service [in 1996], it invested only US$81 million, an average of just US$5 million a year."

From the moment he read the decree in the main room of the Palacio Quemado (Bolivian government headquarters) and in the days following, Morales has reiterated that Bolivia "is a

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country respectful of its contractual obligations" and open to receive "those who want to invest for their own benefit, which is natural, but not at the expense of the country and its sovereignty."

Consistent with his discourse, just three hours after announcing the renationalization of the REE, Morales went to Campo Margarita in the southern department of Tarija, where he and Antonio Brufau, world president of Spanish firm Repsol, inaugurated a second gas processing plant that will allow Bolivia to nearly double gas exports to Argentina and Brazil. In 2011, sales to its much larger neighbors provided Bolivia with US$4 billion in earnings, or 42% of the country's total exports.

REE has participated in energy distribution in Bolivia since 1996, but it has controlled 99.94% of stock in the company since 2002, with the remaining .06% in the hands of workers. Until its nationalization, the Spanish company owned and operated the Sistema Interconectado Nacional (SIN), which serves 85% of the national market and has 73% of the transmission lines. The REE takeover completes the nationalization of the sector, which had been under complete state control until the privatizations in the mid-1990s. On May 1, 2010, during the celebration of another International Workers' Day, the government had nationalized the country's four major hydroelectric plants.

Bolivia alleges company failed to reinvest

To explain why it had decided on the nationalization, and anticipating both national and international critics who would say that the measure signified the end of "legal certainty" in Bolivia, the president argued, "We invested US$220 million in generation, and others take advantage by merely distributing the energy."

In 1996, when the network was privatized, the Spanish company—which has strong interests in Brazil, Argentina, and other countries in the region—had paid US$39.9 million to take control and operate 2,772 km of cables. "By saying that [REE] never invested anything, the president really said that the REE people had become simply cable administrators," said a columnist in the daily Cambio.

In contrast with its virulent reaction following Argentina's Repsol expropriation, the conservative Spanish government of Prime Minister Mariano Rajoy took a more moderate stance regarding Bolivia. It never issued an official statement, although anonymous spokespeople quote by Spanish news agency EFE said that the measure had not pleased the Madrid government—an obvious observation—and they pointedly limited their comments to defining the nationalization as "a very negative action for Bolivia."

The person who spoke openly and on the record was Spain's Ambassador in La Paz Ramón Santos. No one warned him that, in Madrid, Rajoy and his ministers were maintaining a stony silence. After accompanying Brufau in the ceremonies at Campo Margarita, Santos recalled Rajoy's heated defense of Repsol's interests in Argentina and said that his government had issued an official communiqué indicating that "the measure taken against REE would send a profoundly negative signal to investors, who see that in Bolivia, as in Argentina, there is no legal certainty."

The ambassador, relying on his own imagination, added that, in the communiqué, Rajoy had expressed "his firm commitment to defend Spanish companies anywhere in the world." The Madrid government did not say that or anything else, not on May 1 or during the following days.

Santos was left unpleasantly vulnerable when he momentarily abandoned his diplomatic role, broke with the limits that should define his function, and entered the terrain of the most absolute

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interference in the affairs of another state. "For a long time," said Santos, "we have been stressing the need for a foreign-investment law so that companies know where they can invest and how to move; it is necessary for Bolivia to clarify immediately what its legal status is." (Another reference to "legal certainty," the key to investors coming—or not—to a country.)

The discourse in favor of legal certainly, touted as well by analysts from the Associated Press, the rightist dailies from around the region, and US State Department spokesperson Mike Toner, was destroyed on May 3, two days after the REE nationalization, when Alicia Bárcena, executive secretary of the Santiago, Chile-based UN Economic Commission for Latin America and the Caribbean (ECLAC), released the annual report on investment in the region.

Responding to a specific question, the UN official said that there were no indications that the Argentine and Bolivian expropriations would affect direct investment in the region. "We do not see any tendency in any direction," Bárcena said. She said that in Argentina investment flows represent just 5% of the total for the region (some US$153 billion) and that in Bolivia it is even less relevant.

Bárcena continued upsetting the applecart of the lovers of legal certainty as the key to investment when she said, "In spite of the prevailing uncertainty in global financial markets, Latin America and the Caribbean economies attracted important amounts of foreign direct investment during 2011. These amounts should remain high in 2012." She then added a comment that should concern the governments of those quoted analysts: "This historic capital flow is very negative because it reinforces the region's productive specialization in raw materials; hence a way to redirect those resources toward other sectors will have to be found."

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