Energy and Conflicts: A Growing Concern in Latin America

By Patricia I. Vasquez

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 at expanding much-delayed regional energy cooperation or, in some cases, to consolidate a particular political agenda across borders. As oil, gas, and hydroelectricity developments multiplied, so did conflicts brought on by their negative political, social, environmental, and/or economic externalities.

While the dynamics of the conflicts vary, the disputes at national and local levels share an underlying nature embedded in Latin America’s deep-rooted economic inequality and marginalization of certain societal groups, as well as in the persistent governance weakness around managing extractive industries’ revenues. The last decade saw some improvements in terms of reducing the rising trend in inequality seen in the past twenty years that some authors argue could be traced back partly to improved education levels among the workforce and increased transfers to the poor (Lopez-Calva and Lustig, 18). However, the quality of the education accessed by the poor remains lower than that attained by the top 10 percent of the population and the extent of the redistribution remains small. These persistent social and economic differences are at the heart of the energy-related conflicts that have emerged in Latin America in the last decade. In general terms, the conflicts can be grouped into three geographical categories: those with a regional scope, those that expand nationally, and those that grow locally.

Regional-level conflicts may be Geopolitical conflicts linked to the use of energy, particularly oil, as a tool for building political alliances across borders, or they may be Border conflicts. There are several examples of unresolved border frictions blocking the development of energy projects. Sometimes decades-old disputes, rather than conflicts created by new investments in the energy sector, are what today hinder energy cooperation between Latin American nations.

Nationally, the obstacles stem from Revenue Conflicts, or clashes over the distribution of natural resource revenues among different ethnic or economic groups.

Local conflicts, meanwhile, emerge from disputes within the boundaries of the oil, gas, and/or hydroelectricity developments. They are frequently located in territories inhabited by indigenous peoples or in farming communities. Although local conflicts unfold in the geographic areas where the energy projects are being developed, they may have national consequences if not properly addressed.

*Patricia I. Vasquez* Patricia I. Vasquez is an independent energy expert, and former Jennings Randolph senior fellow at the U.S. Institute of Peace and advisor on energy and sustainable development issues. Previously, she was the head of the Latin America department at Energy Intelligence.
Revenue and local conflicts, in particular, build on Latin America’s inherent failings: historical economic inequalities, particularly those affecting ethnic minorities; a weak institutional framework; and lack of full implementation of the rule of law. Unless addressed properly and in a timely manner, these disputes may prove not only a challenge for economic development models based on extractive industries but they may even threaten the stability of democratic governments.

I. Geopolitical Conflicts

Countries with large hydrocarbon reserves sometimes leverage their abundant resources to exert political pressure on governments dependent on energy imports. Or 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, Venezuela sits at the heart of a classic geopolitical conflict. 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; while at the same time, the specter of supply interruptions hangs over those that do not share his ideas. The Petrocaribe initiative, for example, builds allies by guaranteeing Venezuelan oil at preferential prices to Caribbean countries, while the Bolivarian Alliance for the Americas (ALBA)

Chávez, a strong critic of the United States, has also used his country’s hydrocarbon might to challenge opposition political views. Venezuela’s natural gas trade with neighboring Colombia was threatened by months of cross-border political bickering that peaked in July 2009 when Caracas withdrew its ambassador from Bogota. Venezuela was unhappy with Colombia’s decision to step up the presence of U.S. military forces in its territory, a move Chávez sees as a threat to his country. In response, Chávez has raised the possibility of shutting down the 224-kilometer Trans-Caribbean Pipeline, which carries around 4.3 million cubic meters per day of natural gas from northern Colombia’s Ballena field to Venezuela’s oil-producing Maracaibo region.

Despite its expansive natural gas reserves, Venezuela does not produce enough gas to support its oil production and must rely on imports from Colombia. But by 2012, when Colombia’s gas production is expected to stagnate and Venezuela’s to grow, pipeline flows will be reversed. An interruption of that flow could prove more detrimental for Colombia in the long run, a reason for Bogota to stay on good terms with Caracas, despite their political differences. Shutdown of the gas pipeline is possible, but it is more likely that Chávez will limit himself to threats to exert pressure on Venezuela’s neighbor. Proof of that pragmatism is found in recent political efforts—by both sides—to de-escalate the conflict. Lately, Chávez seems to have toned down his use of oil diplomacy as his country tries to cope with a seriously deteriorating economy.

II. Border Conflicts

Latin America has a long history of border conflicts that remain unsettled or were resolved under unclear terms, and regional energy
cooperation has suffered as a result. When regional conflicts prevent countries from importing cost-effective supplies from neighbors, those countries are forced to search globally to meet their energy needs. In 2005, Peru redrew its maritime boundaries with Chile by unilaterally altering an agreement signed fifty years earlier. This limited Chile’s ability to consider imports of Peruvian gas to make up for shortages in Argentina, its main gas supplier at the time (Vasquez, 2005). In the end, Chile imported liquefied natural gas (LNG) from international markets, a more expensive option but one that guaranteed regular supplies.

The most striking border conflict—one with serious and long-term economic consequences—is between Bolivia and Chile and is rooted in a more than a century-old grievance. Since the War of the Pacific in the 1880s, when Santiago took away Bolivia’s access to the Pacific Ocean and left it landlocked, La Paz has maintained a historic claim for return of the coastline. The deep-rooted sovereign claim has fostered Bolivians’ antagonism toward Chileans. That grievance resurfaced in 2002 in the form of massive popular opposition by Bolivians 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 through Chile to the United States and Mexico 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 LNG. Instead, that privilege will be enjoyed by Peru when it starts exporting LNG in late 2010.

In Latin America today, ethnic and class differences and economic inequalities sit at the heart of both revenue and local conflicts. Classic internal revenue conflicts have played out clearly in Bolivia while local conflicts are overwhelmingly occurring in territories inhabited by indigenous and farming communities throughout the Amazon and Andean regions. These two types of conflicts pose the greatest challenges because they can result in democratic de-stabilization if not properly and timely addressed.

### III. Revenue Conflicts

Bolivia provides the region’s best example of internal revenue conflict. Estimates of Bolivia’s proven natural gas reserves increased from roughly 4.3 trillion cubic feet (tcf) in 2000 to 27 tcf in 2009 (USEIA). Bolivia has since been immersed in a long period of political instability owing to a struggle by opposing groups seeking control of gas resources; this struggle has brought to light Bolivia’s ongoing class and ethnic differences, with the relatively small percentage of the population of Spanish descent, which controls the gas-rich southeastern provinces of Tarija, Santa Cruz, and Cochabamba, squaring off against the majority population of indigenous origin that has traditionally lived in the western highlands.

Underlying the ethnic and class differences are historical economic inequalities. 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 2002, the national poverty rate increased among all Bolivians, but it climbed considerably more among indigenous peoples to 73 percent, versus 52 percent for the rest of the population (Jimenez, Landa, and Yanez, 2006).

In March 1990, the majority indigenous population for the first time organized a nationwide march—Marcha por el Territorio y la Dignidad (March for Territory and
The Morales administration does not seem to have bypassed the country’s traditions of clientelism, rent-seeking practices, and corruption.

Dignity)—that changed the face of Bolivia forever (Postero-Zamosc, 2004). Following the march, passage of a series of laws increased the recognition of indigenous peoples rights and their participation in the country’s political life. Most important among them was the Law of Popular Participation (LPP) aimed at decentralizing the power of the state by transferring political and administrative control to local municipalities (Strobele-Gregor, 1997). The law allocated 20 percent of the national budget to these municipalities.

The ascendency to power of indigenous President Evo Morales in 2006, which marked the first time Bolivia’s majority indigenous population held political power, can be traced to the push for inclusion that gained momentum throughout the 1990s. Morales wanted to also gain 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 initially deepened the divide between the rich eastern lowlands populated by Bolivians of Spanish descent and the poor western highlands.

Morales was confronted by calls for autonomy by leaders from the gas-producing states, who saw their control of gas revenues threatened by an increasingly state-oriented government. He set out to redistribute by law some 30 percent of gas revenues in those states and directed them to pay for social programs for retirees, public school students, and others. Although the government’s gas redistribution policies were met with bloody protests in the eastern provinces, where demonstrators blocked major highways and airports, prevented food and fuel distribution and, most importantly, disrupted gas exports to Brazil and Argentina (Associated Press, 2008), they weakened the autonomy movement.

Through programs to benefit the poor, the majority of whom are indigenous, the president has attempted what he considers to be a more equitable distribution of gas revenues. But the Morales administration does not seem to have bypassed the country’s traditions of clientelism, rent-seeking practices, and corruption. Longstanding corruption at state-owned oil company Yacimientos Petrolíferos Fiscales de Bolivia (YPFB) seems to continue (La Razon, 2009). So far, there has been a general failure to apply gas revenues to sustain long-term development projects. And Morales has been accused of acting in favor of his own ethnic group, the Aymaras, while disregarding others.

Morales faces what will likely be one of his most challenging dilemmas, fueled by discontent among indigenous groups in the Amazon jungle who are seeing increasing numbers of oil and gas developments in their territories. The government is faced with the need to reach a balance between rejection of oil projects by some indigenous groups, and the further development of the profitable hydrocarbons industry. With gas revenues climbing to $3.2 billion in 2008, from $620 million in 2004, a rejection of natural-gas developments might not be the wisest step to take. Yet pushing forward on the projects could erode Morales’ indigenous support, open the way for increased confrontation from his own constituency, and likely guarantee the development of local conflicts.

IV. Local Conflicts

Although they vary in each country, local conflicts related to energy projects are arguably the most complex, because of the variety of actors involved, the complexity of the issues that need resolution, and the intricate legal framework they play on. Oil, gas, and hydroelectric projects are not new in Latin America. What is new, however, is growing strategic interest

3Higher gas revenues were more a function of price than increased investments.
in the region—particularly in the Amazon—as a source of oil and gas for the world and of electricity for Latin America. This occurs in tandem with the increasing power of indigenous peoples to influence events, the result of growing activism, at home and internationally, that started in the 1990s across Latin America.

With conventional oil reserves becoming harder to tap around the world, a new and largely undeveloped hydrocarbons frontier in the heart of the Amazon started to attract the interest of both governments and oil and gas producers. Similarly, attempts by Latin American governments to promote regional energy integration and cooperation resulted in several new hydroelectric projects, again mostly in the Amazon. The emergence of increased oil, gas, and hydroelectric projects in areas inhabited by indigenous communities that are now more effectively voicing their grievances has led to a proliferation of local conflicts. By mid-2010, private estimates put the number of unresolved reported conflicts linked to oil and gas projects at around 16 in Peru and 23 in Ecuador (Killeen, 2007).

The potential for local 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 both small oil companies and large national oil companies (NOCs), some of which have shown less stringent social and environmental safeguards relative to the big majors. Many of these junior companies are not publicly listed; this leaves them less concerned about their image and less subject to shareholder pressure to perform as well as the largest corporations do. Furthermore, they generally operate under more restricted budgets than their larger counterparts and the contractual span of their oil projects is much shorter, meaning that they may not have the time, the resources, or the interest in engaging in long-term relations with the local populations.

2. **The local community’s level of radicalization and degree of opposition to the energy project.** This is probably the most intricate issue since the position of local communities may range from total rejection because of potentially negative environmental and social effects, to outright approval based on job expectations and other economic benefits. In between these two extreme positions, companies and communities negotiate within a wide variety of options that they adapt to various ends. Recently the indigenous movement has radicalized its actions across Latin America while gaining more sophisticated negotiating skills. These, combined with non-homogenous views within the community vis-à-vis the energy development on their lands, have often resulted in protracted conflicts.

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**Indigenous Movements in Latin America**

The search for recognition by the indigenous populations of Latin America can be traced back to the colonial period, with natural resources always playing a fundamental role. But it was not until the 1990s that their grievances were heard nationally and across borders. Several actors contributed to this: an increasingly organized indigenous movement in the Andean countries that allowed for more political participation and representation, and the naissance of an international body of law for the recognition of their rights. Most prominently among these international laws were the 1989 International Labor Organization (ILO) Convention 169 on Indigenous and Tribal Peoples and the 2007 United Nations Declaration of the Rights of Indigenous Peoples.
The Chixoy Dam in Guatemala, built in the 1970 to 1980s, entailed the forced displacement of more than 3,445 people, mostly indigenous, with no viable resettlement plan.

3. The availability of institutional mechanisms to mediate conflicts. More often than not, countries lack well-functioning institutions with the capacity to effectively mediate conflicts. An exception is the Peruvian Ombudsman Office, an organization with an unusually high level of legitimacy among all the stakeholders and with proven success in de-escalating conflicts. Local NGOs have also participated in mediating conflicts but usually with lower success rates.

4. The extent of law enforcement. A brewing source of conflict is the improper enforcement of national laws or international conventions to which the country is a signatory. National laws may be either overlooked or not properly applied. Typical examples of this are oil projects developed in protected national parks, with full disregard for the laws that shield these socially and/or environmentally sensitive areas. At the same time, an overabundance of overlapping laws sometimes creates confusion as to their application, leaving them practically inoperative. These situations, combined with governments’ failure to comply with international legal standards—such as those imposed by the ILO 169 Convention and the U.N. Declaration of the Rights of Indigenous Peoples (see box on page 5)—could lead populations affected by the energy developments to resort to violence as they seek answers to their problems. Indigenous communities often accuse governments of infringement of their right to free prior and informed consent, as granted by those international agreements. Very often, consultations are conducted after the license has been granted to the private energy operator and it is too late to object. Adding to the tensions is the slow pace of the legal system, which can take decades to settle a case, as illustrated by the lawsuit against Chevron that started in Ecuador 17 years ago and has still to be resolved.

5. Old grievances, or the history of previous energy projects in the area. In areas with a history of social or environmental damage from previous energy projects, local inhabitants tend to be more active in opposing similar new developments for fear of a recurrence of past negative externalities. Communities affected by old projects also tend to be more radicalized. The best example is widespread opposition to new dams, which builds upon the deep scars left by similar projects in the past. The Chixoy Dam in Guatemala, built in the 1970 to 1980s, entailed the forced displacement of more than 3,445 people, mostly indigenous, with no viable resettlement plan. That project also included allegations that the forced relocation included human rights violations by the then-military government. Another example is the legendary Yaciretá hydroelectric power plant built between Argentina and Paraguay in the 1970s; it displaced as many as 50,000 people.

6. The level and nature of involvement of international non-governmental organizations in the conflict. International NGOs not only have grown in power and sophistication over the last twenty years but, because of their strong environmental focus, they have become particularly active in the Amazon. They have played a fundamental role in supporting communities in their negotiations with companies and governments. However, they have also at times been accused of contributing to the escalation of conflicts through the imposition of agendas that did not fully represent the demands of local communities.

7. The degree to which companies and governments comply with agreements reached with local communities. A government or a company’s failure to comply with a previous commitment with a community leaves locals feeling betrayed and is very often a source of conflict. Trust is eroded and difficult
to rebuild. Communities often protest the breach of contract with force or violence.

A major conflict trigger underlies these seven elements: the economic disadvantage and social and political exclusion that has historically marked this population. In many cases, indigenous communities find themselves suddenly negotiating with large oil corporations for access to basic education or health care—services normally expected to fall under the realm of the state. These negotiations are usually the only chance these quasi-isolated and forgotten groups have to improve their living standards or, at least, to gain access to basic services. These negotiations between very unequal parties seldom result in agreements perceived to be fair. As a result, violence is many times used to express frustration or to force a change or to simply gain government attention; indigenous groups’ increased coordination at both national and regional levels over similar grievances further exacerbates the conflicts. Unless addressed with the seriousness and depth they deserve, these conflicts could grow and become a source of destabilization, as happened in 2009 in the Peruvian Amazon city of Bagua, where dozens were killed in confrontations between indigenous peoples and the police (BBC News).

Conclusion

This paper identified four types of energy related conflicts in Latin America: geopolitical and border conflicts at a regional level; revenue conflicts at a national level; and local conflicts that carry 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. However, revenue and local conflicts carry a greater risk of destabilizing the region because they build on largely unresolved inequalities, weak governance, and increasing radicalization of the indigenous movement.

Energy project expansion is necessary for economic growth in Latin America, where installed hydroelectric capacity remains very low and large oil and gas reserves await development. However, these infrastructure needs also constitute 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 a dire economic reality and historical marginalization of the communities affected by the energy developments, result in gradually increasing conflictive situations. Unless addressed rapidly and properly, these conflicts could pose important challenges to Latin America’s political stability and to the region’s economic growth prospects.
References


About the Series

We are pleased to publish this Inter-American Dialogue report, “Energy and Conflicts: A Growing Concern in Latin America,” which explores the increasing resistance to energy projects from indigenous groups and other local populations, and how companies and countries are attempting to resolve the arising conflicts. It was written by Patricia I. Vásquez, an independent energy expert, and former Jennings Randolph senior fellow at the U.S. Institute of Peace and advisor on energy and sustainable development issues.

The Dialogue’s Energy Policy Working Group was established in September 2009 with the support and cooperation of the Inter-American Development Bank. It includes some twenty people drawn from a dozen countries—including energy specialists, policy and political analysts, business leaders, and former officials of private and public oil companies. The group meets regularly to discuss Latin America’s most pressing energy policy issues and choices. Participants review and comment on analytic papers drafted for each session, and prepare the way for dissemination and public discussion of the papers and recommendations of the group. These efforts are directed to informing and shaping national and regional policy debates on the energy challenges confronting the countries of Latin America, improving the quality of attention to those challenges, and encouraging multilateral cooperation to address them.

This report is part of a series. Other reports are being published this year on Latin America’s energy matrix; the performance of Latin America’s national oil companies; the special challenges nuclear development faces in the region; and fiscal issues in managing petroleum resources. In preparation are studies of the emerging market for natural gas in South America; how subsidies affect energy pricing and cooperation; and climate change and energy initiatives as a basis for greater hemispheric integration.

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