# From Land Wars to Gas Wars: Chile–Bolivia Relations and Globalisation

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**Aparajita Gangopadhyay**
aganguly@unigoa.ac.in

**Abstract**

Chile and Bolivia have been intertwined in a complex relationship of hostility and cooperation for over a century. Since the Bolivian defeat in the War of the Pacific and the Treaty of Peace and Friendship of 1904, issues of resource sharing and Bolivia's sovereign access to sea on the Pacific side have altered the dynamics of such a relationship. Indeed, they appear to be the major stumbling blocs to attempts at normalisation of relations between the two Andean neighbours. In the recent years, Chile–Bolivia relations have been strained over the issue of gas. Bolivia's political volatility over gas and Chile's refusal to discuss the issue of access to the sea were viewed as being part of the same quagmire of relations. However, despite disparities in development between the two countries, globalisation has altered the context of mutual engagement. Against this backdrop, the article specifically looks at one such contemporary issue of bilateral contestation, that is, the gas issue. The article will examine its geo-economic significance in the larger context of regional cooperation and energy security. It intends to probe the plausibility of the argument that the gas issue has the promise and potential to lighten the sedimented antagonism between the two.

**Keywords**

War of the Pacific, Access to the Pacific, gas wars, energy security, globalisation

The grapple for natural resources and territorial gains has been a proximate cause, for a large number of border disputes across South America. Generically speaking, most of these conflicts have their genesis, in the demise of colonisation and have come to define neighbourly relations since. In reality, these disputes generally remained border morasses, inherited from colonial times. The intensity and levels of animosity, has varied over centuries, yet these hostilities, have persisted. Subsequently, in the nineteenth and twentieth centuries, the articulation of such animus became essentially polemical, predominantly confined to imperilling gestures and a certain form of 'sabre-rattling', rather than adventurous indulgences in frequent military skirmishes with each other. So, for Chile, even today, relations with Bolivia, mark a thorny mixture of post-colonial territorial claims and economically motivated tangible measures, aimed at corralling natural resources. Thus, to this date, it continues to be among one of the most contentious regional issues in South America.

Historically, Chile's territorial disputes were trained on its neighbours like Argentina and Bolivia. Since its independence from the Spanish colonial rule, Chile has managed to resolve most of these territorial and border issues. However, the Chile–Bolivia border issue remains abidingly outstanding between the entities, one that has not only impacted, but in fact conditioned, all future interactions and interchange between the two, which in spite of an amicable resolution of most contentious issues, has been tepid and cordial at best. Commenting on the façade of peace, over the last few decades, many scholars have called it nothing, but a transitory interregnum, terming this interlude phase as *a zone of negative peace or a zone of violent peace* (Kacowicz 1998, 67–124). Such phraseology succinctly captures and expresses the predominant existence of unresolved border issues. Notwithstanding, they also clearly indicate the unlikely morphing of such agonising issues into potential full-blown armed conflicts, implying that in general, such rivalries have shaped the course of interstate relationships in South America. Against the backdrop of such historically constructed and carved-up animosities, the article attempts to address in a comprehensive fashion, the factors and impulses responsible for the Chilean–Bolivian rivalry and its impact on a contemporary issue of bilateral contestation, viz., the subject of 'gas', juxtaposed against the template of an emerging energy crisis in South America. An effort will be made to examine the proverbial 'gas war' and illuminate its epochal geo-economic significance, within the overarching and underpinning context of regional cooperation and energy security, contending the hypothesis, that the issue has the wherewithal to engender an attenuation in this seemingly inveterate mutual antagonism.

## Chile–Bolivia Rivalry: An Overview

The antecedents of the Chile–Bolivia rivalry could be traced to the War of the Pacific (*La Guerra del Pacifico*) or the Nitrate War in 1879. It was a military conflict between Chile, on the one hand, and Bolivia and Peru, on the other, over the nitrate-rich Atacama region. Previously in treaties made in 1866 and 1874, Chile and Bolivia had adopted the 24th parallel of south latitude as the boundary line in that region. These treaties had granted Chile various customs and mining concessions in Bolivia's portion of the Atacama, like paying new taxes for the next 25 years. However, trouble began when the Bolivian President Hilarión Daza demanded a new tax on the companies in 1878, leading to the Chilean occupation of the port of Antofagasta in February 1879. Bolivia declared war on Chile and was joined by Peru, a partner in a secret alliance. The Chilean navy won a decisive victory at Point Angamos in 1879, followed by naval victories with the capture of Tacna and Arica in 1880. Chile's occupation of the Bolivian and Peruvian nitrate provinces resulted in Bolivia withdrawing from the war. In January 1881, Chile occupied Lima, forcing the Peruvian government into the highlands. After two years of occupation, Peru accepted Chile's peace terms in the Treaty of Ancón on 20 October 1883, ceding the province of Tarapacá to Chile along with the provinces of Tacna and Arica on the condition that a plebiscite would be held. Under a treaty signed in 1884, Bolivia surrendered its Atacama province to Chile and became a landlocked nation. Thus, with the conclusion of the formal hostilities ended between Chile and Bolivia in 1884 by the Treaty of Valparaiso, by which Chile retained the possession of the sea coast, that is, modern day Antofangasta, pending a definitive peace settlement (Collier 2003; St. John 2001).

For Bolivia, which had lost its one sea coast possession and becoming a landlocked country, it became an issue of national honour and thereon resulted in acute hostilities and acrimonious sentiments towards Chile. The treaty of Peace and Friendship ratified in December 1904 recognised the perpetual dominion of Chile over the disputed territory. So with the end of the war in 1904, Chile's possession of the sea coast was recognised. Chile permitted Bolivia the construction of a railway line linking La Paz with the seaport of Arica—the chief economic link with the outside world. However, the Peruvian government strongly resented what it saw as an attempt to deny its rights, and protested vigorously about the failure to implement the treaty of 1884 (St. John 2001). In 1910, this brought about the severance of relations between the two countries. It was not until the 1920s that pressure from the US brought about the resumption of direct negotiations among the various parties. At the Second Treaty of Ancón in 1929, Chile retained Arica, but accorded port facilities to Peru at its harbour, while Peru obtained the Tacna.[1] So, for the Bolivians it meant nothing except a continuation of a guaranteed access to Arica (Jane 1929). Ever since, their desire for a secure 'corridor' to sea dominated the bilateral relations between Bolivia and Chile. However, this was opposed and obstructed diplomatically by Chile and Peru; Chile referring the matter to Peru and vice versa (Dominguez et al. 2003). Thus, the Bolivians perceived a Chilean 'antipathy' towards finding a workable solution for its demand. Consolidated with the pre-existing bitterness associated with its own landlocked status and the related absence of sea access increased the Bolivian loathing and suspicion for Chile.

Subsequently, in the period post Second World War, tensions flared-up between Chile and Bolivia in 1962 over the problematic issue of the Lauca River. The conflict was over the use of the waters of the Lauca River which originates in Chile and flows into Bolivia. On one hand, Bolivia accused Chile of diverting the water towards its own territory, while on the other Chile claimed that as the river was international waters, which meant equal rights to its usage. Bolivia in turn politicised the issue linking it with access to the sea and took its complaint to the OAS (Organization of American States). Chile in the meantime was able to get a resolution passed in its favour which called for a peaceful bilateral solution to the sharing of river waters (Grabendorff 1982, 270–271). According to scholars, the issue of the access to sea could have been resolved at the Charaña Hug in 1975, under the governments of Augusto Pinochet and Hugo Banzer, had both the sides agreed on the draft deal. The draft agreement had stated that Chile would grant Bolivia sovereign access to the Pacific through the north of Arica, and that Bolivia would give Chile territorial compensation as a trade-off (St. John 2001). Chile forwarded a condition that stated that it would determine which area of land Bolivia should receive, and proposed it be in the Los Lipez region. The Los Lipez region, although at a great height above sea level and almost deserted, was well populated since the colonial times, because of its vast mineral riches. Notwithstanding, the issue that broke the talks—the area of land concerned had to be equal not only to the area of land surrendered but also to that of the 200 mile wide strip of sea to which possession of a coastal strip would give Bolivia rights (Grabendorff 1982, 271). As the territories in the north of Arica were formerly Peru's and was later included in the Chilean–Peruvian border accord of 1929, it was impossible to do so without a Peruvian consent. While using its veto power to block an agreement between Chile and Bolivia, Peru proposed the creation of a zone of shared sovereignty for the three countries in the Arica province. Chile rejected Peru's proposal on the grounds that it violated its sovereignty bringing an end to the talks. In later decades, Chile and Bolivia continued to have few and far between meetings to discuss their bilateral ties. Diplomatic relations between the two broke in 1978 as Bolivia announced that Chile's commitment to its demand for access to the sea was neither genuine nor visible (Government of Bolivia 2004).

Resultantly, the question of access to the sea became the dominant issue in Bolivian politics. By the mid-1970s, with the approach of the symbolically important 100th anniversary of the Pacific War, there fuelled a feeling of immense hostility towards Chile that could not be contained. Chile in turn stirred the turbulent internal politics of Bolivia where the partial social revolution of the 1950s had left people angry and frustrated, with many living in conditions of great poverty. In the same vein, the Bolivian armed forces had consistently sought to frustrate any further attempts to resume the process of social change which resulted in their own internal polarisation. In 1979, Bolivia by commemorating the 100th anniversary of the Nitrate War sought to redress its demand at the OAS. The OAS approved of a resolution that asked both the parties to find a peaceful solution to the issue which was to include granting Bolivia sovereign access to the sea as well as encouraging Chile to assess the possibility of not asking for territorial compensations. However, such a resolution was not acceptable to Chile (Pascal 1994; St. John 2000).

Almost a decade later, by April 1987, talks were again initiated between the foreign ministers of Bolivia and Chile, Guillermo Bedregal Gutiérrez and Jaime del Valle, at Montevideo that led to a fresh, if not new, Bolivian proposal. Bedregal met on a regular basis with his Chilean counterpart to negotiate for an outlet for Bolivia. He proposed the creation of a sovereign strip, 16 km wide that would run north of the city of Arica and parallel to the Peruvian border (St. John 2001). The tone of the negotiations suggested that an agreement was imminent. However, on 10 June 1987, Chile rejected Bedregal's proposal, sending shock waves through the Bolivian government. The self-assurance of the Bolivian government was seriously shaken by this so-called 'foreign policy defeat', especially after so much emphasis had been placed on its success. Bolivians were, swept by another wave of anti-Chilean nationalism in support of their government (St. John 2001). Members of Bolivia's civic organisations spontaneously imposed a symbolic boycott of Chilean products. Relations with Chile were again suspended, and there appeared little hope for any improvement in the near future remained (Hudson and Hanratty 1989).

After the Chilean return to democracy, President Patricio Alywin sought to alleviate mutual distrust by offering a complementary trade agreement, which both the countries signed in 1993. The successive governments of Eduardo Frei and Ricardo Lagos tried further commercial relations between the two countries through the negotiation on a FTA. Due to change in the political scenario in Bolivia, the negotiations could not proceed as envisaged. Trouble also arose over the use of the waters of the Silala River.[2] The access to sea continued to dominate the Bolivian psyche and the Bolivian Finance Minister Antonia Araníbar Quirogar inevitably raised the subject at the XXIV meeting of the General Assembly of the OAS in June 1994. The Chilean foreign minister while maintaining an uncompromising stance reiterated that any question of the Bolivian seaport on the Pacific died during the negotiation of 1904 Treaty of Peace. Chile maintained that it had not altered its position, that is, there would be no intervention of the sanctity of the treaties and all the parties to the treaty had to respect and accept it. Araníbar persevered to raise the question in the next couple of years and the political tussle continued with Araníbar stressing that Bolivia would not alter the focus of its maritime position which it had adopted many decades ago. The foreign minister of Chile, José Miguel Insulza, while stating that the maritime issue was a conflict of the past, he added that Chile would assure Bolivia that it would have a sovereign presence on the Pacific coast. Subsequently, the Bolivian government came out with a report on its relations with Chile. The report recommended that there be a joint action to transform the bilateral relations with Chile—from one of conflict, confrontation and frustration to one of cooperation, sustained confidence, friendship and

common interests. The report also recognised completely the importance of regional and continental development in the contemporary world economy (St. John 2001). Furthermore, it made a significant foreign policy statement on four separate but inter-related strategic imperatives. First, it stated Bolivia must re-establish its maritime presence in the Pacific coast as defined in the report, that is, to be a sovereign participant there should be full recognition of Bolivia's access to the Pacific Ocean. The other associated issues like freedom of transit, highway and railway expansion, interoceanic corridors, port development and duty-free zones should be included in this. Second, it recognised that as Bolivia–Chile share borders, which could provide for 'interesting opportunities' for cooperation and development. In order to do so, Bolivia would have to expand the existing border regime with Chile in areas such as migration, contraband control and water resource utilisation. Third, Bolivia's target should be a greater economic complementarity with its neighbours by promoting economic integration, facilitating and diversifying commercial exchange and encouraging investment. Finally, there should be greater emphasis on the need to promote peace and security on the border. Throughout the report, the Bolivian foreign ministry also emphasised that the maritime issue was a trilateral issue which had to include Peru as a third player in any future comprehensive settlement (St. John 2001).

As a result, the Bolivian Foreign Minister Javier Murillo de la Rocha tried to popularise the Bolivian maritime position in various other international fora. In Caracas in June 1998, he emphasised that the Bolivian landlocked status was an unjust reality and was an obstacle to regional and national economic development (St. John 2001). On its part Peru, which had entered the dialogue after the successful conclusion of the Global and Definitive Peace Agreement with Ecuador was seeking to be a prominent regional player. On the issue of the Bolivia–Chile discord, the Peruvian government reiterated that it was open to a discussion to seek a resolution with Chile on all the outstanding issues related to the 1929 Treaty and its additional protocol (St. John 2001).

The foreign ministries of Peru and Chile were engaged in long and complicated negotiations for the next year. It was in November 1999 that the foreign ministers of Peru and Chile, Fernando de Trazegnies and Juan Gabriel Valdés signed a series of documents that collectively executed the 1929 Treaty and additional protocol, and ended 70 years of controversy. The Acta de Ejecución (Act of Execution) addressed the requirement in Article 5 of Treaty for Chile to construct for Peru a wharf, customs office, railway terminal station at Arica. According to Article 2 of the additional protocol, Chile was asked to provide for an absolute free transit of persons, merchandise and armaments to and from Peruvian territory. The Act also recognised the right to servitude including its application to the Tacna and Arica railway corporation, where it crossed into the Chilean territory. Furthermore, in order to facilitate further exploration and transportation from the mining region in Bolivia, Chile agreed to improve and upgrade the road running from the San Cristóbal mines in Bolivia to the Chilean port of Tocopilla (St. John 2001). However, the essential question of the Bolivian demand for access to sea remained unaddressed.

The conflict with Chile continued to dominate the Bolivian geopolitical thought and the access to sea, persisted to be the point of contestation for both the countries. Despite a number of incentives on the part of Chile to promote and enhance cooperation with Bolivia, it remained a sore point leading to an indefinite deadlock in relations. The issue remains a volatile one that dictated and coloured all bilateral questions. The impending changes brought in by globalisation have compelled these countries to fall in line to make enhanced attempts at transforming this fraught relationship. Despite the easing of tensions by the end of 1990s, the Bolivian government came out with a document entitled,

*The Blue Book: The Maritime Claim of Bolivia*, in 2004 which reiterated the centrality of the sea access issue in Bolivian thinking.

> [The Nitrate War] deprived the country of much more than sovereignty. It took away the fundamental point of gravitation for the nation. The economic potential represented by the Pacific and the South Pacific was lost. Bolivia has suffered other territorial losses, in the Plata, the Chaco [and the Amazon], but none have had such repercussions for the nation as the loss of the coastline. (Government of Bolivia 2004)

Commenting on the criticality of this issue, Jorge Heine writes that Bolivia's long-standing claim is hampered not so much by the lack of will on the Chilean side, as much by history and geography. While Chile has indicated it would be willing to grant a strip of land with access to sea north of Arica, next to its border with Peru, it was totally rejected by Lima. Chile claims that to provide such a strip of land anywhere else would divide the Chilean territory into half which was naturally not acceptable. Subsequently, the hostility over access to sea became also intertwined with the Bolivian gas issue and its distribution to neighbours such as Chile. Bolivia is the richest source of natural gas in South America and distributes to energy deficient neighbours like Argentina, Brazil and Peru. The idea of sale of gas to Chile caught the imagination of those protesting the Bolivian government's various economic and social policies in 2002 which became entangled with the access to sea issue, ultimately leading altogether to the total rejection of the government plans of selling gas. The popular belief in Bolivia was of *gas por mar* (gas for sea) (Jorge Heine 2010).[3]

## The Gas Wars and Its Aftermath

A dispute arose in early 2002, when the administration of the Bolivian President Jorge Quiroga proposed building a pipeline through neighbouring Chile to the port of Mejillones, the most direct route to the Pacific Ocean in order to export gas. Later, a plan costing $ 6 billion was drawn up to build a pipeline to the Pacific coast through the Chilean port of Say Tocopilla. Groups within Bolivia began campaigning against the Chilean option, arguing instead that the pipeline should be routed through the Peruvian port of Iio, 260 km further from the gas fields than Mejillones (Webber 2005). However, the Chilean government according to its estimates stated that the Mejillones option would be $ 600 million cheaper than the Peruvian option. Contrarily, Peru stated that the difference would be no more than $ 300 million. The Bolivian proponents of the Peruvian option also stated that it would benefit the economy of the northern region of Bolivia if the pipeline would pass through there. On the other hand, the Chilean pipeline supporters argued that the US financiers would be unlikely to develop gas processing facilities within Bolivia. Ultimately, this idea of selling gas was superimposed to the Chilean refusal to give Bolivia access to the Pacific (Speiser 2008, 12).

The 'Bolivian Gas Wars' came to a head in October 2003, leading to the resignation of the Bolivian President Gonzalo Sánchez de Lozada. Strikes and road blocks mounted by indigenous and labour groups (including the COB trade union) brought the country to a standstill (Ayoub 2011). Violent suppression by the Bolivian armed forces left some 60 people dead in October 2003, mostly inhabitants of El Alto, located on the *Altiplano* above of the capital city La Paz. Lozada was

succeeded by the vice president, Carlos Mesa, who put the gas issue to a referendum on 18 July 2004. In May 2005, under duress from protesters, the Bolivian Congress enacted a new Hydrocarbons Law, increasing the state's royalties from natural gas exploitation (Ayoub 2011). Thus, the *Guerra del Gas* or 'Gas War' became the highlight from which all facets of the future Chile–Bolivia relations began to be defined.

The fallout of the Bolivian 2003 popular revolt ended an international consortium's plans to export Bolivian natural gas to Western US via the ports in Northern Chile. This delay led the US purchasers to sign contracts with Indonesian suppliers instead (Ayoub 2011).[4] Although this infrastructure would be built to export gas to the US, it could also serve the Chilean markets as well. In Chile's northern zone, the price of Bolivian natural gas would be cheaper than that from Argentina's north-east basin. This scenario could provide an incentive to install gas powered plants in Chile's northern zone to serve the country's central region. With his coming to power in Bolivia, President Evo Morales strongly opposed and condemned a foreign consortium's right to export natural gas without processing it in Bolivia (Ayoub 2011). Despite such violent protests, negotiations between Chile and Bolivia continued from 2001 to 2006 over the issue of exporting gas. It was clear that the hegemonic discourse illustrated that Chile became the 'catalyst' unifying various protesting social groups in Bolivia and also impeded any negotiations towards sale of gas.

## Chile–Bolivia and Energy Security: Mutual Requirement?

This section explores the Chilean and Bolivian energy concerns and their associated ramifications on the region. A closer scrutiny indicates that Chile is no stranger to the problems of energy dependence and the challenges of securing consistent energy supply. As of 2006, 70 per cent of Chile's domestic primary energy consumption came from foreign sources (a 23 per cent increase since 1992). Apart from abundant resources and minimal hydrocarbons and hydroelectricity, Chile possesses limited conventional energy sources. For example, more than 30 per cent of electricity generated in Chile depends on unstable natural gas supplies from Argentina. Chile's hydropower resources, from which 50 per cent of the nation's electricity is derived, are often vulnerable to changing weather conditions (Speiser 2008).

Before 1997, Chile utilised little natural gas as a fuel source for electricity because domestic production of gas was low. In 1996, gas only constituted 8 per cent of total energy consumption (ibid., 1). Then, a combination of increasing energy demand, environmental concerns, and the unreliability of hydropower prompted the Chilean government to reconsider its energy policy and encourage the use of natural gas. During the 1990s, a total of seven gas pipelines were constructed to link Argentina's gas supply to Chile's electricity grids. With these seven pipelines, new gas distribution networks and new combined-cycle gasfired power plants, close to US$ 4 billion has been poured into Chile's recently developed gas infrastructure (Balmaceda and Serra 2004; Speiser 2008, 2). Currently, 100 per cent of Chile's gas imports and 80–90 per cent of Chile's gas consumption comes from Argentine gas supplies. However, Chile's long-term plans to depend on Argentine gas supply came to a sudden halt in 2004, when Argentina decided to reduce gas exports to Chile in order to ease its own domestic gas shortages (Speiser 2008, 2).

The Chilean government's *Energy Security Policy* of 2006, and in the additional reports since then, have stated that its revitalised energy policies have included all of the following: importing liquefied natural gas (LNG) through one or two terminals that would begin operations in 2009; intensified exploration and production of oil and gas in the southern Magallanes Basin; renewable energy producers; feasibility studies for implementing nuclear energy; possibly pushing for regional gas integration or bilateral agreements with Peru and/or Bolivia and enforcing energy efficiency measures (Speiser 2008, iv). However, the centrality of the bilateral hostility overshadowed the possibility of any flexible and pragmatic compromise between Bolivia and Chile on the gas front.

Evo Morales adeptly shifted the discussion from an exclusive focus on Chile on to the most important aspect of the internal political process then, the writing of a new constitution. It was possible to do so with the identification and creation of a new enemy: the market and its supporters. He stressed on trust and friendship with Chile. Morales met with Ricardo Lagos of Chile during his visit to Santiago. Although these visits seemed merely symbolic acts, by March 2006, during such a bilateral meeting in Santiago, a '13-point bilateral agenda' was launched between the two countries to sustain and strengthen mutual trust. Presidents Morales and Bachelet met nine times in 2006–2007 to further advance the bilateral dialogue.

Morales was successfully able to remove Chile from the centre of any debate and concentrated on building a new relationship with Bachelet through 'symbolic gestures and material cooperation' (Wehner 2010, 18). One of Morales' first such gestures was to invite Bachelet to his inaugural ceremony in January 2006. The two presidents had a set agenda and the most controversial points of this agenda were over the sharing of the water resources of the Silala River along with the maritime issue. Chile and Bolivia reached a preliminary agreement over sharing of the river waters that took four years (Chile will pay 50 per cent for the use of Silala's waters). Subsequently, this agreement was replaced by a new long-term agreement based on further study on the distributing the river waters (*Santiago Times* 2009). Both the presidents stressed the need to strengthen bilateral relations and emphasised the necessity to develop a strategy to institutionalise these symbolic gestures and to encourage a new dialogue between the two countries. The Congresses in both the countries agreed to work together through their respective commissions of foreign affairs and involve the other parties included in the Treaty of 1929, that is, it was mandatory that be included in these talks.

The Bolivian official position on the prospective of re-engaging with Chile over new gas agreements remained the same as it did in 2004. Bolivia still exports oil to Chile, but with the 2004 referendum, the government had promised its people that exporting gas to Chile was out of the question unless Chile relinquished part of its northern territory. In fact, when contracting a gas agreement with Argentina in 2004, Bolivia stipulated that 'not a molecule' could be resold to Chile. Furthermore, the Bolivian government endorsed a plan since then to export LNG via a terminal in Peru instead of Chile just to avoid benefiting Chile, calling upon the discomfiture of the international investors who have balked at the idea of incurring higher costs (Wehner 2010, 12).

Chile has been thus vulnerable on the gas issue from at least two negatively impacting events which have entangled the energy issue with the politics of the region. First, political tensions and nationalist pride played a huge role in 2003 as the Bolivian people pressured its government to withdraw the entire planned $ 5 billion LNG project off the coast of Chile (Wehner 2010, 8).[5] The second event directly affecting Chile was the manner in which Argentina's own gas supplies were reduced because of decreased

investment in their gas sector, that is, this translated into less gas available for export to the other buyers in the region.

In South America, Bolivia is the second largest source of gas after Venezuela with estimated gas reserves ranging from 0.68 Tcm to 0.74 Tcm. Bolivia had been receiving huge gas royalties. The overall investments in exploration and production of Bolivia's hydrocarbon resources peaked in 1998 at US$ 605 million, but by 2006, investment in Bolivia's hydrocarbons declined to just over US$ 197 million (Speiser 2008, 6–7). Therefore, the possibility of regional gas integration as proposed by many South American leaders remains uncertain because Bolivia is viewed by many as a 'very unattractive energy partner' in the region. Given Bolivia's 'nationalist' policies in recent years to, (a) extract 50 per cent royalties from foreign investors in its energy sector, (b) to rescind its proposal to export LNG to North America via a terminal on the Chilean coast and, finally (c) its Nationalization Decree of 2006, Bolivia's energy infrastructure and gas-producing capacity has deteriorated. Because of the high royalty rate and stringent tax regime, investors see it as illogical to assume the hardship and risk of operating in Bolivia when they could instead invest in Peru and Brazil.[6]

In addition to the dramatic decrease in investment in the hydrocarbons sector, there has also been a dramatic drop in the number of drilling rigs in operation in Bolivia. While there were 38 rigs in country in 1998, only 2 now remain. While there are no official figures on natural gas reserves after 2004, declining investment in exploration and production had a detrimental impact on total proven and probable reserves. Deliverability is also in question for Bolivia. In 2006, there was a production deficit of 1.5 MMcmd (million cubic metres per day), and it was estimated that this deficit would likely increase to 8.2 MMcmd by 2010 (Speiser 2008, 9). Thus for Bolivia, the precipitous fall in proven and probable reserves was due to the lack of investment, falling pressures in the mega fields of San Alberto, San Antonio, Itaú and Margarita, and lack of new data to be able to certify reserves originally estimated (Speiser 2008, 10). The inability of the buyers to purchase gas as same levels as before (Argentina), the lack of domestic infrastructure in terms of reprocessing and the failure to attract foreign investment in the gas sector had added to this bleak picture. In addition, the existing buyers like Brazil are on a look out for similar gas pipelines with its other neighbours Venezuela and Peru.

The Bolivian government's failure in seeking a solution to the problem accounted for dual losses in terms of revenue. Consequently, the gas from Bolivia which otherwise would have found a ready market in Chile, which was negotiating with the US and others for setting up reprocessing plants on its coastline due to its enormous gas needs. Thus, Bolivia will neither benefit from these facilities, nor the existing port and other facilities to export the gas to existing markets in the US and Mexico. While this creates a situation of consistent acrimony between the two; many scholars have also stressed on the fact that these act as an obstacle, stalling the ready flow of investment into the gas sector. The failure has additionally hindered the probability of establishing an energy hub in South America which would make it possible for the countries to attain self-sufficiency in terms of energy security and integration.

Currently Chile is at crossroads where it needs to re-assess its relations with Bolivia on the gas/sea access issue. Its historically status quoist outlook along with its own 'superior' levels of development has allowed it to hold on to a very rigid, non-negotiable stance towards this overlapping issue. For Chile, the ability to ward off any concrete resolution at the OAS or any other multilateral fora is temporary relief since Bolivia will continue to repeatedly raise the issue at many such meetings. In a goodwill gesture, the Chilean foreign ministry had proposed that Bolivia assume the Secretariat of the UNASUR (Union of

South American Nations), which was presided over by Chile. In order to find alternative sources of energy for its developmental needs, the other alternative available for Chile was to access gas from Venezuela. This option would be far more difficult keeping in mind the volatile responses from the Venezuelan governments past and present on its relations with reference to Chile (Diaz 2007). Today, Chile makes huge payments to purchase gas essentially from Asia and other regions, creating a heavy burden on its economy. The ongoing energy compulsions along with transforming regional and global scenarios are compelling Chile to re-evaluate its bilateral equations within the region.

The region needs to forge a pragmatic energy policy. All plans towards regional energy integration have been waylaid to a certain degree. For instance, there are examples of some of these countries cooperating bilaterally on energy sharing while the others have decided to do it individually. In addition, there are those who are working at attaining self-sufficiency. For most of the countries of the region efforts at bilateral cooperation are guided by interests that are both political and economic. In the case of Venezuela for example, which has signed a joint investment agreement with Bolivia in 2008, with which Venezuela shares a particular 'ideological' perspective and considers it thus an ally. In 2007, Venezuela built a gas pipeline to Colombia, which remained open despite the diplomatic crisis in March 2008 when Venezuela had briefly severed ties with Colombia. In the recent past, Venezuela has also spearheaded the region's only major integration proposal, a 'great gas pipeline of the south' that would criss-cross the continent stretching from Venezuela to Argentina via Brazil and Uruguay. Such a project is estimated to cost $ 20 billion, and many experts have agreed that it is not an economically viable project (Speiser 2008, 9–10).

Whereas, the Venezuelan polices on energy seem extreme, some countries of the region like Ecuador, Bolivia and Argentina have adopted policies that seem 'impractical and unsustainable'. Others like Brazil, Colombia, Peru and Chile have adopted the prudent policies by liberalizing their oil and gas industries and have begun to identify new suppliers from within and outside the region. Brazil has taken the initiative and opened its oil sector to energy competition. Petrobras, the Brazilian national oil company has been engaged in energy partnerships with foreign investors since 1997. Colombia is also attempting to replicate the Brazilian success. Many critics state that Brazil and Chile have adopted 'prudent, reasonable' policies that have allowed them to do so at a low cost (Hanson 2008).

Experts present several different scenarios for the future energy landscape in South America. Many suggest that the notion of regional integration will be superseded by global integration. South America is currently cut off from the international natural gas market because its abundant regional supplies that has limited its need to seek imports elsewhere. Chile and Brazil, however, have begun to look outside South America to secure additional supplies. Both countries are building LNG terminals that will create a disincentive to buy natural gas from neighbouring countries. Those terminals will be in operation for decades and will connect South America to the global LNG market. Consequently these will help to lower gas prices in the region, benefitting some countries while hurting others. For instance, for sellers of gas like Bolivia will also need to become more competitive supplier for countries in the region like Brazil, who aspire to see lower natural gas prices emerging out of competitive prices. Given the history of energy regulation in the region, some believe the current wave of nationalisations will abate, bringing increased foreign investment. The popular dissatisfaction with the Washington Consensus—a set of macroeconomic policies implemented in the 1990s—has subsided. Oil and gas companies have reduced or frozen investment in places such as Bolivia and Argentina now, but some experts say these companies

have short memories and are likely to reinvest eventually. In the interim, the economic consequences of falling or static production will only grow (Hanson 2008).

While regional integration of the sort envisaged in the 1990s is unlikely, analysts say bilateral initiatives will continue. 'In the areas where there is very clear physical need but also political imperative to keep interconnections going, you will see those continue,' stated Jed Bailey, the managing director for Asia and Latin America at Cambridge Energy Research Associates. These pragmatic agreements might be preferable to tackling political disagreements directly. As Sidney Weintraub writes in *Energy Cooperation in the Western Hemisphere*, 'Deep-seated political impediments to cooperation cannot be resolved by a simple recommendation that they should be resolved.' Instead, he suggests, addressing basic regulatory and technical matters can illustrate the tangible benefits of cooperation and diminish political tensions (Hanson 2008).

## Chile–Bolivia Relations: The Way Ahead

In the recent past, the pace of change in relations between the two neighbours has been prudent and measured. Presidents Ricardo Lagos and Evo Morales had met in Bolivia in January 2006. In their meeting in Santiago in March 2006, the new dialogue and a 13-point bilateral agenda was launched. The first item on the agenda was the development of mutual trust between Chile and Bolivia (Wehner 2010, 6–7).[7] There on, the presidents of both the countries have met and interacted many times. Expanding the scope this cooperation, Presidents Bachelet and Sebastian Piñera have met with president Morales a number of times. In fact, president Bachelet was the guest during the swearing in of president Morales and him during the swearing in of president Piñera. Subsequently, these visits were followed by the reciprocal visits of ministers of defence and commanders of the navy. When presidents Morales met Bachelet at the XVII Ibero–American Summit at Santiago in 2007, he referred to these talks as a 'way to continue building trust . . . before we were like enemies, but we are over that and now we have a lot of trust in each other' (Wehner 2010, 19). More recently, the Chile's minister of energy and the hydrocarbons minister of Bolivia met to discuss new energy partnerships, particularly in sharing expertise on geothermal energy development (Camisea Gas Project 2008; Global Insight 2007).

These gestures appeared to be a positive step towards developing mutual trust between the two countries and are also intended to shift the exclusive focus of the relationship away from the gas issue (*gas por mar*). The 13-point agenda is inclusive of the gas export under the category of other issues. The purpose behind putting the gas issue under the label of other issues was to depoliticise and disconnect the issue from the border problem by sending a clear and concrete message to the Bolivian civil society that still continues to identify Chile as the enemy. In fact, the consul general of Bolivia in Chile Roberto Finot recently stated, '"Gas for sea" is not a good equation; it is not viable . . . Another opportune phase [that has come up in this debate] is "not even a molecule of gas", meanings like that "would lead us into a fight"' (Wehner 2010, 19–20).

Meanwhile, Bolivia still continues to commemorate the Sea Day which is in memory of its defeat during the War of the Pacific and the loss of Bolivian territories. However, in the recent past change towards Chile is evident as the motto of the military has altered from 'Subordination or

Perseverance: Long live Bolivia, Death to Chile' to 'Homeland or Death: We will prevail' (Andean Information Network 2010). This changing perception was consolidated when Evo Morales during his speech on 23 March 2008 on Sea Day spoke of healing between neighbours,

> What we can say with all sincerity is that we have established an important basis for developing mutual trust from *pueblo* to *pueblo* and from government to government, with our neighbour brother, the Republic of Chile . . . with our neighbours, mutual trust is the most important aspect . . . important steps and clear signs that these two countries want to solve a historical problem, the issue of the sea. (Wehner 2010, 20–21)

In a gesture towards creating trust, Chile in June 2008, stated that it was exploring ways of expanding sea access for Bolivia, authorised it to import goods under its own authority and without the intervention of Chilean customs through the Pacific port of Iquique (ibid., 21).

The normally distant relations between the countries have tempered a bit since the gas wars of 2003–2004. The onset of changes brought in by globalisation is making it imperative for both the neighbours to rethink their centuries old entrenched position vis-à-vis the other. The need for energy and the desire to be part of an energy security arrangement has compelled these neighbours to re-evaluate these policies. Energy security is and will continue to dominate in both domestic and international scenarios, as unquestionably there are intricate and undisputed linkages between energy and development. Thus, any bilateral unyielding position damages the future prospects for both these countries and in the long run will create scenarios leading to the failure of their set development goals.

While Bolivia could move away from the century-old position, Chile could also make certain concessions. The 13-point bilateral agenda is a well-meaning attempt to keep the issue of gas from colouring all aspects of the bilateral relations and is a positive step ahead. In addition, any issue pertaining to the sea access will need the cooperation and support of the third party of the troika, Peru, without whose participation, no solution is possible. It is imperative for the Bolivians to take stock of the existing realities and assess the current situation. Their continued insistence on a Bolivian corridor cutting through the heart of Chile may not be a feasible option. Moreover, the consistent efforts to project Chile as the villain is not aiding the Bolivian cause. The Peruvians too need to look at the issue with greater pragmatism and assist in finding a solution to this century old bilateral issue. On the Chilean side, it is not clear whether the new centre-right government will be willing to discuss the sea-access issue. During the presidential campaign, Sebastian Pinera was reluctant to discuss the idea of an outlet to the coast for its neighbours. Chile's total dependence on external exports to fulfil its energy needs makes it vulnerable to outside pressures. Chile needs make a serious effort at examining the existing situation and work towards finding a viable solution with Bolivia. Thus, the Bolivian move in 2013 to take the issue to the International Court of Justice is not viewed by the Chileans as a serious challenge.

Globalisation has impeded upon international affairs and phrases such as negative peace, cold peace and conditional peace are being slowly giving way, under duress, to terms such as 'warm peace' (Mares 2001). Peace between Bolivia and Chile has been sustained for almost a century now despite the occasional rhetoric and diplomatic hitches. Both the sides have to realise the drawback in maintaining this hostility in the current environment. Changes have begun on a steady pace and given the changing geo-economic scenario, both the parties, Bolivia and Chile will have to find ways to transform their societal and normative values. Until then, the idea of regional energy security and the creation of a South American energy ring will remain elusive.

## Notes

1. In 1929, Under the Tacna–Arica compromise overseen by the American President Herbert Hoover, Chile kept Arica and Peru kept Tacna. Peru also received US$ 6 million in war indemnity and concessions. Also, Chile could not cede sovereignty of the former Peruvian territories without asking Peru.
2. Silala River begins in Bolivia and ends in Chile (St. John 2001).
3. 'Gas Wars' were called so as it was a manifestation of social discontentment and resentment over the exploitation of the country's vast gas resources. This resulted in a social confrontation in 2003 which resulted in a general conflict over the exploitation of gas reserves in Bolivia.
4. Although, Bolivia's significant natural gas reserves are located 2,300 km from Chile's central zone, Bolivia is a potential exporter to Chile. The consortium was planning to export Bolivian natural gas to the Western US—it could build a pipeline connecting reserves and Caleta Pattillos in Chile's northern region with a liquefaction plant.
5. The project would have exported gas from landlocked Bolivia's Margarita reserves to North America via Chile's northern port. However, Bolivians were gravely concerned that Chile, which had seized their copper-rich northern territory in the nineteenth century War of the Pacific, would utilise some of the natural gas for their own consumption.
6. Carlos Alberto Lopez was the former secretary of energy and hydrocarbons of Bolivia.
7. The 13 points of the bilateral agenda are as follows: the development of mutual trust; border integration; free transit; physical integration; economic cooperation; the maritime access issue; the Silala River issue and water resources; poverty alleviation; security and defense; cooperation in the fight against drug trafficking; education, science and technology; culture and others such as the energy issue.

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**Aparajita Gangopadhyay** is Associate Professor, Centre for Latin American Studies, Goa University, Goa 409206, India.