
Brazil Denies There's Any Electricity Shortage in Store

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The Brazilian government once again reiterated Brazil does not have the capacity to give up a percentage of the contracted Bolivian gas provision in order to help to improve the Argentine energy situation.

"The formula is very simple: there's a contract to sell gas to Brazil and Brazil can't drop that commitment," said Brazilian Foreign Affairs minister Celso Amorim in advance of next Saturday's presidential summit in Buenos Aires when the leaders of Brazil, Argentina and Bolivia are scheduled to address the gas supply issue.

However Amorim brushed aside any possibility that such a stance could create bilateral conflicts between Brazil and Argentina.

President Luiz Inácio Lula da Silva will make an official visit to Argentina next Friday, February 22, when he will meet Cristina Fernandez de Kirchner and on Saturday both will hold energy talks with Bolivian president Evo Morales.

The key issue is how to ensure a greater supply of Bolivian gas for Argentina in the coming winter when demand is expected to soar while Bolivia is not yet ready to increase production.

Brazil takes an average 30 million cubic meters per day of Bolivian gas and Argentina has a contract for 7.7 million cmd, although the demand currently stands at 3.3 million cubic meters per day.

Bolivia's current natural gas production is in the range of 40 million cubic meters and is expected to increase to 42 million in the coming twelve months as investments advance, but foreign demand by then could have reached 46 million cc according to private estimates.

Amorim said that as long as the Brazilian domestic supply is ensured, "we will try to aid Argentina in the framework of the integration spirit", but underlined that it's a priority for Brazil that Bolivia honors the agreed volumes.

Last week Bolivian vice president Alvaro Garcia Linera during a visit to Brazil said that the current provision of gas is guaranteed, however any increase in supply to Argentina will depend on a three way negotiation.

The success of such a negotiation apparently hinges on Brazil's willingness to cede but Amorim was plain clear, "we

have great difficulties in dropping what is in the contract terms", at least currently.

Observers have been warning for some time that Brazil faces electricity shortages as early as this year but rationing is among the government's worst nightmares.

The previous administration of Henrique Fernando Cardoso wasn't able to make its successor by the electorate in 2002 largely because that year's rationing - a result of low rainfall and poor management - branded it as "blackout government."

The Lula administration has insisted that rationing is not a option but industry thinks otherwise. Rowe Michels and colleagues at Bear Stearns in New York recently issued a report showing that "a perfect storm of four worst-case scenarios" could force the government to ration supplies as early as May this year.

Conspiring together are shortages of natural gas, especially from Bolivia, a faster-than-expected rate of growth in demand; unusually low rainfall since the rainy season failed to get underway in November; and delays in delivering new generating capacity.

In fact the report concludes rationing has already arrived in the form of high prices for those large industrial users who buy electricity on short-term contracts and who account for a quarter of electricity use in Brazil.

Prices hit the permitted ceiling last month, forcing some users such as aluminum smelters to shut down part of their capacity.

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