



# BOLIVIA INFORMATION FORUM

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## To the brink, and back again

### The measures

On Sunday December 26, Acting President Alvaro García Linera announced sweeping increases to the domestic prices of petrol and diesel. Decree 748 raised the price of petrol from Bs. 3.74 to Bs. 6.47 a litre, (approx. Bs. 7 to US\$1) an increase of 73%, whilst a litre of diesel was increased by 83% from Bs. 3.72 to Bs. 6.80.

In the past, faced with similar measures, people have been left to fend for themselves. However, the government proposed a series of compensatory measures, aimed at softening the blow on those who earn least, particularly those in the informal sector. In his speech, García Linera also announced measures promising to keep salaries ahead of inflation, others designed to keep family expenditure down by freezing the price of basic services (electricity, gas, water, telephone), the introduction of a shortened workday, and measures to reduce people's travel costs to and from work. An emergency jobs programme was to start in the New Year in the major towns, and rural producers were to benefit by the introduction of an agricultural insurance policy.

In his speech, García Linera drew attention to the economic achievements of the Morales government, not least as a consequence of the re-nationalisation of oil and gas in 2006. Since Morales came to office, Bolivia has enjoyed a period of consistent growth with low inflation. It has also seen export performance flourish. However, both the government's fiscal accounts and Bolivia's export performance depend a great deal on expanding output of oil and gas and replenishing the fall in proven reserves. In spite of promises of new investment in this sector, this has languished. So far as crude production is concerned – geared to the domestic market - the fall in output has been striking. Bolivia urgently needs to find new sources of supply for crude, and that depends on having a price structure that provides incentives, whether to YPF, the state oil company, or to private-sector contractors.

### Why the measures were seen to be necessary

In introducing its package, then, the government gave the following reasons for the measures:

- The price per barrel of oil has been frozen in Bolivia for several years at \$27, whilst the price on the international market is currently about \$90. The low price provides no incentive to the nationalised company YPF or private companies to pump up the oil, since costs too have risen. So, production is not increasing sufficiently to cover internal demand.
- To cover an increasing shortfall, Bolivia has been importing diesel ever since the late 1990s and selling it at a subsidised price. In 2006, this cost \$120 million. In 2010, however, the overall cost of diesel and petrol imports had risen to \$660 million, with the cost of subsidising the price of diesel and petrol rising to \$380 million.
- Petrol (and diesel) prices in neighbouring countries are much higher than in Bolivia, where they are Bs. 3.74 per litre. In Chile they are the equivalent of Bs. 9.36, in Brazil Bs. 10.50, and in Peru Bs. 7.28. Contraband is therefore rife. García Linera referred to this as an 'open, bleeding vein', the cost this year amounting to a further \$150 million.

The measures therefore were aimed at reducing the annual subsidy and providing incentives for increased production of petrol and diesel locally. The government planned to use the savings made to benefit those sectors most affected by the measures.

### Expected results

An increase in the price of petrol and diesel, particularly such a big hike, would have immediate knock-on effects not only on bus and public transport fares, but also, more worryingly, the cost of foodstuffs, most of which are transported by road.

Those most affected were likely to be:

- 1) transport owners, transport generally, including transport of foodstuffs (with costs being passed on to the public);
- 2) people in the informal sector, affected by rising prices, notably in places like El Alto and Santa Cruz;
- 3) agricultural producers, especially in the lowlands where they use tractors etc., as well as among miners working in cooperatives. Those working in formal employment would be partly protected by salary increases.

### First reactions

The initial reaction was one of shock, with people not fully understanding what was happening. Whilst it would seem that they understood the arguments (particularly the problem of contraband), the magnitude of the increases were hard for them to grasp. There was panic buying, with bread disappearing from shops and markets. Providers of public transport were quick to raise their prices by well over the increase in fuel prices. Bakers too doubled the price of bread rolls. Prices of basic foodstuffs took off, and people queued for hours to obtain rice, sugar and flour at the state-run company, EMAPA. Tempers quickly rose too.

The Central Obrera Boliviana (COB), an ally of the government, called for the immediate repeal of Decree 748.

### More compensatory measures

On December 29 and 30 President Evo Morales - who had been absent in Venezuela visiting flood victims when the measures were announced - announced further compensatory measures. There would be a salary increase for teachers, health workers, police and armed forces of 20%; other state workers would receive a one-off payment of a month's salary; the Juancito Pinto allowance to all primary school children would be raised by 50%; and special incentives would be given to people involved in the agricultural sector. Morales insisted that the fuel price adjustments were necessary.

### Protests

Thursday December 30 saw protest marches in many main towns: La Paz, El Alto, Santa Cruz, Cochabamba, Sucre, Potosí and Oruro in particular. In some cases, these were well disciplined marches, like in Oruro, where there was a strong presence of miners. In others, there were violent episodes, such as the burning of the toll offices at the start of the motorway into La Paz from El Alto. There were cat-and-mouse exchanges - stones and teargas - between demonstrators and the police in La Paz. The

protest marches showed the extent of popular rejection of the measures; turn out was big and people called not only for the repeal of the measures but in some cases for Evo's resignation.

During the week, Morales and members of his cabinet had consulted widely with social movements and others. He gained support from *campesino* organisations, the CSUTCB and the women's equivalent, the Bartolinas. Some level of agreement was reached with public transport owners regarding fare increases. However, indications from El Alto and organised sectors such as the miners, transport workers and street sellers were that protests would increase after the New Year holiday weekend. These would start on Monday, January 3.

### Stepping back

In his address to the nation on the evening of New Year's Eve, Morales announced that he was rescinding Decree 748, as well as the compensatory measures to soften its blow. He explained again why the government had taken the measure and why it is necessary to produce more petrol and diesel, and to get rid of the subsidies that end up benefiting those involved in contraband. He said that in the talks he had had with people and social movements, it was clear that people understood why the measure had been taken. But he also said that when originally voted in as President he had promised to 'govern, but obeying' those who had put him there, Bolivia's social movements in particular. He understood that the measure was more than people could take, particularly those from the informal sector.

### From here on

Analysts will surely chew over the significance of the week's activity, but for now three points only:

- Bolivia's social movements, some working closely with the government, have shown their continued strength and autonomy when their interests are affected. However, the issue brought out divisions between those more closely identified with the government and those more critical of it.
- The government has shown a willingness to listen to its supporters when seriously questioned, something that previous governments had not shown.
- The underlying distortions – where a litre of petrol costs less than a litre of water – remain, and the government will have to find different ways to correct these, in conjunction with the social movements not in opposition to them.