BOLIVIA INFORMATION FORUM

Bolivia Information Forum Bulletin

No. 18, March 2011

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The BIF Bulletin is published by:
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Polls show Evo's popularity at low ebb

According to the monthly Ipsos Apoyo poll, President Morales' popularity fell in February to 32%, less than half what it was at the start of his second term in January 2010, and down from 48% in December 2010. The poll was carried out in the four main cities, interviewing 1,027 people. As might be expected, support in El Alto was higher than elsewhere (51%), followed by La Paz (37%), Cochabamba (26%) and Santa Cruz (20%). Even though the poll is biased towards major urban areas and does not include rural areas - and the silent majority are rarely consulted - the results are clear. What are the reasons for this erosion of support?

The main and immediate cause was the *gasolinazo,* the attempt by the government substantially to increase petrol and diesel prices in the last week of December 2010. This brought with it increased prices for transport, basic foodstuffs and other goods and services. Morales had promised to govern, but by obeying the people. So in the face of strong popular opposition, the government withdrew the measure (see BIF Special Briefing January 2011).

As might be expected, support in El Alto was higher than elsewhere (51%), followed by La Paz (37%), Cochabamba (26%) and Santa Cruz (20%).

Prices, however, have failed to return to previous levels, with the consumer price index rising by 1.29% in January and a further 1.66% in February. Whilst the increased pace of inflation (the annual figure for 2010 was 7.18%, up from 0.26% in 2009) can partly be explained by the *gasolinazo,* other factors, such as seasonal price rises (prior to harvests), the impact of serious drought and flooding, and the flow of subsidised food in contraband to neighbouring countries have played their part. A run on sugar in particular led to queues and shortages.

Added to the effect of the *gasolinazo*, the government also faces high expectations among those who voted it back into office in December 2009 with 64% of the vote.

During its first term, the government brought some dramatic changes, not least the new constitution and the increase in taxes payable by oil and gas transnationals (partly channelled to fund social policies). At the same time, it faced the challenge of implacable opposition from a majority of the departmental prefects and traditional elites, particularly in the eastern lowlands. This seemed to divide the country in two, culminating in the so-called civic-prefectural coup attempt against the government of August-September 2008. Such tactics helped galvanise support for the government and its reform agenda.

While industrialisation projects are creating benefits, including some jobs, their full impact will take much longer to make themselves felt.

Now, having overcome the right-wing opposition, the government is under pressure to show results in improving people's basic standard of living. Until the *gasolinazo,* yearly salary increases and rises in the minimum wage had been larger than for several decades, and had kept ahead of inflation. Currently the government is in discussions with the Central Obrera Boliviana, the union confederation, to increase wages by 10%, to offset last year's inflation, and to raise the minimum wage by 20%.

The central plank of the government's economic strategy for the second term is what it calls 'industrialisation'. This means raising the amount of added-value staying in the country by processing raw materials exports locally. However, as industrialisation elsewhere (e.g. in Europe) has shown, this does not happen overnight. While industrialisation projects are creating benefits, including some jobs, their full impact will take much longer to make themselves felt. People want to see change today, not tomorrow.

Support for the government has been particularly in decline among the middle classes. Some feel that they have been effectively displaced from positions of power and authority since 2006. Others point to what they see as inefficiency and corruption in government. There is also a misplaced view that certain liberties are under attack, (such as freedom of the press). This became apparent in the debates that took place over the new Racism and Discrimination Law which the media saw as threatening its interests. Added to this is the view that the government is using newly-passed corruption legislation to harass political opponents.

Criticism also comes from parts of the left. This tends to centre on the government's failure to make a complete break with the neoliberal model and break with its focus on primary extractive industries as the basis for economic development. In spite of higher tax revenues and the recovery of Bolivian ownership of oil and gas wells, multinational companies are seen as dictating policy to the government. One of the reasons given for the *gasolinazo* was precisely that the highly subsidised price of petrol and diesel was providing no incentive to foreign companies to invest in Bolivia. Similarly, the government has not repealed the 21060 decree, which ushered in liberal policies in the late 1980s, except one part that relates to job stability.

The government derives its strength from its relations with social movements, but it has not managed to develop a strong party mechanism, providing for a more organic link. The relationship is one of permanent negotiation and compromise. Though there are leaders of the social movements in government posts and in the Plurinational Assembly, the social movements retain their autonomy of action. This was made abundantly clear by their mobilisation against the *gasolinazo*.

The government's standing has clearly taken a knock, but it retains a good deal of popularity, particularly among its rural base. Whether or not its support will continue to fall will depend on how it deals with current protests over wage rates. It will also hinge on whether it manages to get a grip on food prices and inflation, and to convince the social movements that they will play a larger role in decision making in future.

As we closed this issue, Ipsos Apoyo published its figures for March, showing an increase in Morales' popularity to 38%.

Achievements, strategies and challenges in the mining sector

2010 was an excellent year for the mining sector, due to the high prices for minerals and strong demand from Asian countries. It also saw moves towards increasing the added-value of production in Bolivia through local industrialisation.

Mineral prices have rebounded since the 2008 global financial crisis, when they suffered a temporary relapse. Prices are now at an all time high, with tin selling at about US$14 a fine pound, zinc at $1.05 per fine pound, silver at $35 and gold at $1,400 an ounce.

Whilst the volume of minerals exported has grown, their value has increased much faster. Mineral exports were worth US$2.4 billion last year, up from $645 million in 2005. In terms of volume, zinc exports account for first place, followed by lead, tin, copper and silver; in value terms, zinc is in first place, followed by silver, tin and lead. The mining sector therefore has moved away from concentration on one product (tin for most of the 20th century) and output has become more diversified.

The recovery in the mining economy is due primarily to greatly increased demand from countries like China and India.

The recovery in the mining economy is due primarily to greatly increased demand from countries like China and India. The industry virtually collapsed in 1985 when Bolivia was badly affected by the international tin crash. In 2010, the share of mining in GNP was eight times higher than in 2005. It accounted for 36% of total exports in 2010, second only to oil and gas.

The surge in demand and increase in prices has led to a big increase in employment. In 2010 there were slightly less than 80,000 people working in the mining industry, the great majority (83%) in cooperatives. This is almost as much as at the point just prior to the tin crash, when most public-sector mines were closed down. Then, the bulk of employment was in the state sector. Now, many *campesinos* are spending periods working in mining cooperatives to supplement their meagre income from agriculture.

The increase in the value of output has increased the sector's tax yield. Taxes in the mining sector are principally of two kinds: royalties paid to the department where the operation is based, and taxes on profits. These currently stand at 6% and 37.5% respectively. Taxes on profits have been increased by the Morales government from 25%. The total amount received in tax in 2010 was US$ 300 million. This compares with under $25 million in 2005. Part of this income to the state has been used to pay the yearly Juancito Pinto allowance for primary school children. Mining departments received $120 million in royalties in 2010. Potosí received most with $92 million, followed by Oruro with $19 million, La Paz $6 million, and Santa Cruz, $2 million.

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Industry structure

The industry has three main components.

The Morales government has sought to boost state involvement in mining production, previously almost non-existent after the closure of most mines in the 1980s. In Huanuni, the main tin producing mine, about 4,000 *cooperativistas* were taken on as part of the work force, after conflicts between mineworkers and the cooperatives in 2006. But this has not led to a fall in profitability. Even with this increase in the labour force, profits at Huanuni last year stood at $22 million after taxes. Vinto, the tin foundry in Oruro, re-nationalised under the Morales government, has increased its profits to $10 million. The state company in Corocoro has been producing and is starting to sell copper in metallic form for the first time. Additionally, the state is beginning to develop Bolivia's vast lithium deposits in the Uyuni salt lake, with advances in the area of producing lithium carbonate and potash (a fertilizer). A state company has also been established to oversee the purchase of gold. The state sector accounted for 10% of total exports in 2010 (with a value of $236 million).

Some of the most important mines are privately owned. This is the case of San Cristóbal, run by the Japanese firm Sumitomo, with large-scale production and modern techniques. San Cristóbal accounts for 33% of total mineral exports ($800 million), mining lead, silver and zinc. Also important are Manquiri, which exploits the silver tailings in the Cerro Rico mine of Potosí (with US capital), San Vicente in southern Potosí (US capital), producing zinc and copper, Sinchi Wayra – Glencore (formally the property of ex-president Sánchez de Lozada but now Swiss owned) and the iron ore deposits at Mutún, Puerto Suárez, on the border with Brazil (being developed by the Indian company Jindal). Between them, these companies are exporting raw materials to the tune of $1.55 billion per year, 64% of the 2010 total.

The third large sector in the industry consists of mining cooperatives and small-scale mines. They play a far less important part economically, accounting for 26% of exports but are very important in terms of jobs. Most cooperatives are in fact run by groups of associates - the owners - who employ workers according to need. They are really small private firms under another name. Though they generate employment, conditions in these mines are grim, lacking minimal health and safety conditions, and pay is comparatively poor. There are exceptions, such as the Cooperativa Multiactiva de Catavi, which brings together ex-workers of the Siglo XX tin mine, formally closed in 1985, to process the remaining tailings.

Industrialisation

As well as increasing the role of the state in production, the Morales government is now prioritising what it calls a process of industrialisation. By this it means increasing the value-added of exports, and not simply exporting minerals in their unprocessed form. A good example is zinc. Instead of exporting zinc - the single most important export item in terms of volume in 2010 - the proposal is to treat the zinc in Bolivia, building two hydrometallurgical plants (in Potosí and Oruro). So instead of receiving only part of the value of the zinc exported, from which the costs of shipment and processing are deducted, Bolivia should receive the full value of the processed mineral. Untreated deposits also contain other valuable mineral products, such as indium and gold, currently exported without the state receiving payment for them.

Other plans underway in the state sector include the much-vaunted Karachipampa plant in Potosí, to process lead and silver; a new processing plant to improve tin recovery in Huanuni; and to achieve the production of steel products at Mutún and lithium carbonate (basic component of lithium batteries) at Uyuni by 2014.

In 2010 there were first signs of metal exports increasing from 19.6% in 2009 to 22.6%, in comparison to mineral exports, that is, providing greater added value.

Redesigning the ground rules

The new constitution allows for different kinds of firms (private, cooperative, community and state) to operate, but the new mining law - currently under consideration - needs to be approved in the legislature to ensure greater clarity on the conditions under which each can operate. Takeovers of small mines by neighbouring communities have become common, and clear rules of the game need to be established. This is a contentious area. Given their size in terms of employment, the mining cooperatives are seeking to influence the new mining law in their favour.

Other challenges include:

- Defining consultation with indigenous communities. The new mining law will include prior consultation with indigenous (and other) people who live in the area concerned to gauge the impact of mining operations, before these get under way. It will probably be the state that will take on this process of consultation between the different parties. This principle is enshrined in the UN Declaration of Rights of Indigenous Peoples, by ILO Convention 169 on Indigenous Peoples and in the new Bolivian constitution.
- Striking a balance between the exploitation of raw materials – to be able eventually to feed back profits to the population as a whole - and protection of the *Pachamama* (or “Mother Earth”). Centuries of mineral extraction have led to high levels of contamination. Not only are new mines coming under close scrutiny, but past malpractice needs to be corrected. Whereas modern companies are obliged by their management to take environmental conditions on board, smaller concerns tend to turn a blind eye.
- How to revamp mining expertise. Since 1985, the mining professions have practically disappeared, exacerbating problems of basic management and technical capacity in the public sector. This will take time to redress.
- Addressing the demands and needs of the various different sectors in the industry is complex. Discussions have taken place around the new mining legislation, and further talks are slated to start soon.

'Sting' a blow to Bolivia's international reputation?

General René Sanabria (retired), ex-head of the Bolivian anti-narcotics police force (FELCN), was detained, together with another Bolivian, Marcelo Foronda, on February 24 in Panama by the local police chief and US Drug Enforcement Administration (DEA) officials. He was then taken to Miami, where a South Florida court had put out an order for his arrest for conspiring to import cocaine and actually doing so.

But the story begins some time before. Sanabria had been appointed head of the FELCN by President Morales in 2007 in line with his seniority in the police force. It was in 2008, with Sanabria working in this capacity that Morales threw the DEA out of Bolivia for their supposed involvement in attempts in September that year to destabilise the government. The Bolivian state has since worked without the DEA to tackle drug-trafficking. When he was detained in Panama, Sanabria formed part of a group within the Interior Ministry called the Centre of Intelligence and Information (CIGEIN).

It would seem that DEA officials were waiting for Sanabria and Foronda, the leader of the gang, to step outside Bolivia in order to arrest them.

Information coming mainly from Chile (El Mercurio in particular) shows how, based on intelligence provided by the DEA, two undercover agents of the OS-7 force of the Chilean *Carabineros* (police) met in August 2010 with Sanabria and Foronda in a 'luxury' hotel in Arica, Chile (with the meeting covertly filmed). The agreement they discussed involved a 144 kgs shipment of cocaine from Bolivia to Miami, via Arica and Panama. Sanabria's supposed role was to ensure that the shipment reached Arica without any hitches, for which apparently he was given a down payment of US $75,000. The shipment reached Arica last November, hidden amongst zinc mineral exports, and was then sent on, by boat, to Miami. It would seem that DEA officials were waiting for Sanabria and Foronda, the leader of the gang, to step outside Bolivia in order to arrest them.

The arrests in Miami coincided with the presentation of the US State Department's annual report to Congress on drug-trafficking worldwide. Bolivia and Venezuela were identified (along with Burma) as having 'manifestly failed' to keep to international agreements; the poor results in Bolivia's case were attributed largely to the expulsion of the DEA. The highly publicised detention of a major ex-counter-narcotics chief could not have been better timed to push the point home.

Reactions by the Bolivian government – which was unaware of the order for the detention of Sanabria – were swift, and three police officers were detained locally. Generally the reaction has been one of surprise, since Sanabria had a clean service record and no-one suspected his involvement in drug trafficking. Interior Minister Sacha Llorenti was called to the Plurinational Assembly to give an explanation of what had happened. For his part, Morales claimed that the detentions could be part of a State Department plot to portray the government as having links with drug traffickers; he also said he had no intention of asking the DEA to return.

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Figures published recently by the government show that between 2006 and 2010, the government doubled its anti-drug operations and captured 60% more cocaine than in the first five years of the decade, when the DEA was closely involved in anti-narcotics activities in the country.

The sting operation has done little to improve Bolivia's international reputation. Was it intended to embarrass the government, possibly forcing its hand regarding the DEA? Was it a move to discredit the government more widely? Or should we accept Sanabria's involvement at face value? Time maybe will tell.