



Bolivia Sending Mixed Messages on Nationalization

By Anthony Vaccaro

May 18, 2006

"This is just the start," Bolivian president Evo Morales told a crowd regarding the nationalization of the country's hydro-carbons industry on May 7.

"Tomorrow, or the day after, it will be mining, then the forestry sector, and eventually all of the natural resources for which our ancestors fought."

While those strong words seem to send a clear signal with regards to the direction of the recently elected populist leader, companies with assets in the region say their talks with government officials have left them with a different impression.

"They've talked about some fairly benign policy changes that will not materially affect the way we operate," says John Carlesso, president and chief executive of **Apogee Minerals** (APE-T), a company with all of its assets in Bolivia.

Carlesso says officials at the Bolivian ministry of mines have told him that a draft of the new mining code will be forwarded to Apogee within the coming weeks, and that while higher tax rates are anticipated, nationalization is not.

Speaking via satellite in Toronto in early February, the minister of mines, Walter Villaroel, sought to alleviate anxieties around nationalization.

"I was a miner. I've been in the industry for 20 years," Villaroel said at the time. "I understand that mining needs investment."

Carlesso says the conflicting messages coming from the government have more to do with playing politics than anything else. He contends the definition of "nationalization" becomes ambiguous in the world of Bolivian politics as Morales can use the term very broadly when speaking to certain crowds.

"He's trying to create the most leverage that he can right now," Carlesso says of Morales' recent speeches. He contends the president wants the leverage for dealing with countries with significant interests in Bolivia.

"We're being caught in the middle of it. And in the short term I'm fine with that," he says.

On May 17 Apogee announced the finalization of the 100% acquisition of the La Solucion silver, zinc and lead mine in Bolivia. Beyond the usual economics behind the acquisition, Carlesso says the deal is symbolic in as much as it underlines the company's confidence in the direction the government will ultimately take.

But **Pan American Silver's** (PAA-T) president and chief executive, Geoffrey Burns, thinks the re-writing of the code will go further than just increased taxation.

"I don't see nationalization happening per se," Burns says, "but we'll likely see efforts to increase the government's role in different projects."

Burns envisions more scenarios like the one Pan American currently has in the country.

The Vancouver-based silver producer with just one asset in Bolivia, has a joint venture with **EMUSA**, which gives the Bolivian-based company an option to earn a 50% interest in the San Vicente mine by investing US\$2.5 million.

Burns says Bolivia's need for foreign investment –it is the poorest country in South America – means that, as he puts it, a "draconian" nationalization policy, would only drive all foreign investment away.

Many believe the country cannot afford such a large scale flight of capital, as among other things, it would leave larger projects still in development, at a complete standstill.

Burns, along with Carlesso, remains optimistic that such a scenario can be avoided.

"There is a line that can be followed which can continue to work for the government and businesses," Burns says. "But political rhetoric will continue on nationalization because it does appeal to those that put Morales into power."

Not everyone is so sure.

Ivan Rebolledo, president of the Bolivian-American chamber of commerce, says the threat of nationalization is real.

"It's not going to happen today or tomorrow," Rebolledo says, "but there is a call for it and it is evident it will happen down the road."

Rebolledo notes that after a slight dip, the polls show Morales has been riding another wave of support as nationalization rhetoric and policy have been ramped up.

However, Rebolledo does think the Morales government will be kinder in its dealings with the mining industry than it has been with hydro-carbons.

He says unlike the hydro-carbons industry the mining industry has built some goodwill in the country over the last 15 years.

"They've been lucky," Rebolledo says of the industry. "They've been sheltered from the issues that hydro-carbons have had to deal with."

So while Bolivians still talk with anger about natural gas pipelines that passed through towns with no heating, relations between mining companies and communities have generally been more congenial.

Officially the Bolivian government plans to have its mining code revised within one year.