

11th INTERNATIONAL ANTI CORRUPTION CONFERENCE – IACC  
SEOUL – KOREA May 25 – 28 2003

**The Influence Peddlers: ENRON in Bolivia**

Since 1994 ENRON Global Services (EGS) associated to SHELL Overseas Holding Limited became “the strategic partners of Bolivian State” for the capitalization (privatization) of TRANSREDES the Hydrocarbon Transportation Unit of the Bolivian national oil company YPFB<sup>1</sup> –, each multinational corporations own 25% of shares and are the new owners of the entire Bolivian network of gas pipelines, oil pipelines and local poliducts<sup>2</sup>.

Since then the presence of ENRON and SHELL in Bolivia – the poorest country in South America – has been characterized by deplorable ethical conduct, predominated by illegal actions, corruption, inappropriate use of political influence, systematic violations of human rights, and environmental disasters that are unprecedented in the history of the country.

This paper first reviews the facts that demonstrate that multinational corporations are “oiling” a whole net of corruption operating in Bolivia, which includes the very World Bank privatization policies, direct and indirect bribery of local authorities and politicians to win contracts and concessions, abuse of influences on scientific institutions to backup unsustainable projects, and foundations build up for defrauding shareholders.

Corporate driven corruption relates to the weakness of local democratic institutions, the lack of transparency on World Bank privatization procedures, the inexistence of sanctions to corrupted corporations in almost every international financial institutions (multilateral development banks and export credit agencies) and the lack of ethics in political culture which subordinates public interest to private profits.

**Evidences on Corporate Driven Corruption**

We have tracked Enron’s corrupted behavior the last ten years between 1994 and 2003 and found out amazing empirical evidence resulting on research held by ex- employees of the Bolivian National Oil Company, Deputies the Special Investigation Commission of the Bolivian National Congress and the Collective of Applied Studies to Social Development (CEADES) an NGO based on Santa Cruz, Bolivia.

**a) Privatization process**, in Bolivia so called “capitalization” was promoted and financed by the World Bank, the Inter American Development Bank (IDB) and both export credit agencies OPIC<sup>3</sup> and KfW<sup>4</sup> from the US and Germany. Capitalization is an economic mechanism used to strengthen and expand the patrimony of companies through injections of new resources

<sup>1</sup> Yacimiento Petrolíferos Fiscales Bolivianos (YPFB), is the former bolivian national hydrocarbon company founded in 1937 after de Chaco War (also known as the Oil War) when Rockefeller’s Standard Oil Company was expelled from the country. In 1994 YPFB was split into five unities that were privatized separately to different multinational corporations. Enron and Shell privatized the transportation unit.

<sup>2</sup> Transredes’ main activities/operations are the transportation of natural gas, liquefied petroleum gas (LPG), crude oil, and diesel within Bolivia, as well as import and export of these products. Transredes’ transport operations are divided into two different systems or networks, liquid and gas. Transredes currently owns and operate approximately 3,000 kms of gas pipelines and 2,700 of liquid pipelines.

<sup>3</sup> Overseas Private Investment Corporation (OPIC) is a U.S. export credit agency that operates with public funds.

<sup>4</sup> Kreditanstalt für Wiederaufbau (KfW) is a German export credit agency that operates with public funds.

from sales of shares, new credits, or contributions from new partners; generally capitalization is used to obtain more money to extend operations, maintaining ownership of the company. In Bolivia, capitalization was a mechanism to facilitate the *privatization of state companies*, and was presented as an alternative to traditional privatization process that was resisted by the majority of the population. According to promoters, the essential difference between privatization and capitalization was that in capitalization fresh resources did not imply sale of the company to the private sector, but rather a contract of “joint venture” in a mixed company in which half of the ownership remained as patrimony of the State (public property) and in which financial contributions of new strategic partners did not go to public institutions for unknown purposes, but rather which would serve to strengthen the mixed company. In addition, the incorporation of strategic partners would ensure transparency and efficiency in the development of the capitalized companies.

But, in fact, the entire process of capitalization specially TRANSREDES S.A. (Enron and Shell), was illegitimate because it was damaging to the interests of the country; secret because there was not social control over the proceedings; antidemocratic because it was imposed upon the country in a manner lacking consultation and despite disagreement on the part of organizations from Bolivian civil society; and illegal because it violated the Bolivian Political Constitution of the State and other effective national laws, and did not even respect the very guidelines of the multilateral development agencies which promoted it.

Serious indications of corruption exist on capitalization – privatizing process:

- TRANSREDES S.A. capitalization began in 1994 under the World Bank leadership. The first step was hiring Crown Agents, an international consultant company who was in charge of a supposed “transparent selection” of Bolivia’s new strategic partners. In fact, this whole selection process was confidential and Bolivia’s civil society never knew who were the eligible companies. With total lack of transparency Crown Agents selected ENRON without a previous report about the list of applying companies, neither the qualification of the offers of other companies that supposedly had participated in the process of selection. More over, Crown Agents issued a report recommending ENRON one week after a Memo of Understanding had already been signed between YPFB (Bolivian government) and ENRON.
- This lack of transparency lead to secrecy and illegality of the final joint venture contract. Despite explicit procedures in bolivian law that norm who, how and where national interest contracts must be done, the initial contract with Enron (1994) was illegally signed by the very President of the country, Gonzalo Sanchez de Lozada, under the New York law, in a foreign country. This contract remained as a secret and unknown inside Bolivia for two years, until army members denounced it amid the national scandal in 1996.
- In year 2002, six years later YPFB capitalization was done, the bolivian government has recognized that during the selection process (1994–1997) the members of the YPFB Directory received from Enron USD 2,5 million, they allege this money was used for paying travel expenses for their directors while participating on previous

negotiation meetings of the joint venture contract between corporation and government.

- At the end of the capitalization process<sup>5</sup> (1994 – 2000) promoted by the World Bank, Bolivia earned international financial institutions more than USD 1,760 million and received an income total amount of USD 1,671 million, therefore the country losses were USD85 million. As a matter of fact, the Bolivian State only owns a minority 34% of TRANSREDES S.A. stakes, while the rest is owned ENRON, SHELL (50%) and anonymous private investors (16%). This demonstrates the privatization goal of capitalization. Amazingly, this USD 1,671 million that came out of capitalization was deposited in to a Trusteeship in Bahamas that is now managed by CITITRUST with no accountability procedures, namely a black box to Bolivians.

#### **b) Un-ethical Politicians and Scientists**

- Several Bolivian politicians' responsible of the capitalization received indirect benefits from corporations; some became corporation directors, like the brother of the capitalization minister Mr. Revollo who became the representative of SHELL in Bolivia, the minister himself is now in volunteer exile in the US because of the several legal actions of ex-YPFB workers against him. Others are now parts of the Board of Directors of new local subsidiary companies that corporations have established to operate own services in Bolivia. And a few are named members of Trustee Administration Committee of CITITRUST.
- Recently independent monitoring to Bolivia – Brazil Cuiabá gas line done by Indigenous Organizations and Ngo's revealed the outrageous discovery of a valve built secretly into the pipeline to provide gas for the Don Mario mine. The mine belongs to Orvana Minerals, a company whose primary shareholder is the very President Sanchez de Lozada. When the valve was discovered, it was also found that an additional pipeline was under construction for exclusive use in the mine. Neither the valve nor the new pipeline was ever considered in the original environmental impact studies. At present there is an ongoing Environmental Audit, which should confirm what type of contracts exist between Enron – Shell and former capitalization political responsible – that are still unknown to Bolivian public.
- In year 2000, while Enron was applying OPIC for financial support on the Cuiabá gas line construction project, to comply with the environment requirements of the credit agency, it established the Chiquitano Forest Conservation Foundation (FCBC)<sup>6</sup> which from its very beginning was accused of inappropriate use of influence after it was found that scientists from several conservation organizations, who initially supported a proposal to change the pipeline route to avoid irreversible damage to the pristine Chiquitano forest (then considered to be among the top 200 in the world in terms of conservation), later changed their position in exchange for USD 20 million for a failed

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<sup>5</sup> As a part of a "structural reform" imposed by the World Bank, capitalization process included privatization of railroad transport, energy, communication, hydrocarbons, and pension reform.

<sup>6</sup> FCBC participants are Enrón – Shell, Missouri Botanical Garden, Wildlife Conservation Society, Fundación Amigos de la Naturaleza and Noël Kempf Natural Museum.

conservation plan. Lack of transparency around fund negotiations led to divisions between the World Wildlife Fund (WWF) and these questionable oil companies. In 2001, it was revealed by international media sources that FCBC members committed bio-piracy by exporting without legal authorization, genetic samples of a “wild peanut” native to the Chiquitano forest<sup>7</sup>.

- In May 2002, an investigations commission from the Bolivian National Parliament found that Enron had created another “ghost foundation” that was used by company staff to buy shares in the Cuiabá pipeline, thereby superficially increasing its value in order to reap large profits, while defrauding legitimate shareholders<sup>8</sup>. The Overseas Private Investment Corporation, a U.S. export credit agency, withdrew its already approved financial support of USD 200 million for the Cuiabá project in the midst of Enron’s scandalous bankruptcy. To date, the company has been attributed with an estimated USD 2.5 billion in fraudulent losses.

### **c) Lack of sanctions in IFIs:**

During 2002, in the middle of the Enron’s fall, corporations applied to the Interamerican Development Bank (IDB) – a multilateral institution that works with public funds – for new financial support to a five-year project named *Transredes Capital Expenditures*. Bolivian and International NGO’s formally opposed and called the IDB Board of Directors do not back this project. They urged the executive directors of the Inter-American Development Bank to vote against financing any TRANSREDES project because of ongoing investigations of Enron, Bolivian legal reforms, and unresolved social environmental impacts of the Cuiabá and Bolivia-Brazil pipelines. Evidence of corruption was included in different report presented to IDB executive Directors with sufficient basis to prove that the Inter-American Development Bank would be negligent to finance any ENRON owned companies in Bolivia and elsewhere.

Since the US have a strong influence on the final decision in the Board, due to its 30% support to the whole IDB budget, lot of lobby work was made over the US Alternate Executive Director, who finally commit himself not to approve the loan, but on the “D” day he didn’t vote No neither disapprove the Enron’s appliance, he “just washed his hands” and left the final decision to the others members. This way the US didn’t approve new funds for Enron, but left the other southern countries representatives do give a prize.

With no sanction from the international financial institutions, but instead monetary incentives Enron is still operating in Bolivia and despite of all denounces it begins to make

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<sup>7</sup> See Future Harvest centers of the Consultative Group on International Agricultural Research. “PEANUTS: Scientists Say Pipeline Threatens South American Biodiversity” [http://www.unfoundation.org/unwire/util/display\\_stories.asp?objid=30983](http://www.unfoundation.org/unwire/util/display_stories.asp?objid=30983)

<sup>8</sup> According to US congressional investigators, Enron’s Bolivian investments were part of the company’s elaborate accounting shell game. Investors in the Cuiaba pipeline included LJM1, one of the fictional investment partnerships that eventually brought down Enron. According to a Feb. 16 article in the Washington Post, in order to present a rosy image to investors, Enron wanted to record profits from its Cuiaba project by using “mark-to-market calculations,” an accounting trick that allows projected revenue to be put on the books in a current year. “But Enron was not allowed to use such a calculation because its pipeline ultimately connected to an Enron power plant,” the Post reported. “To get around that, Enron sold a 13 percent stake in the plant for \$11.3 million to LJM1, that allowed Enron to book the revenue, and it did so in the last two quarters of 1999. The deal was all the more stunning because the pipeline had yet to deliver any gas and, therefore, had produced no revenue.” In August 2001, Enron bought back LJM1’s interest in the power plant for \$14.4 million, giving >the Enron execs in control of the LJM1 partnership a \$3.1 million profit.

new business. We must remember that just one (Enron Energy Services – EES) of its three operating divisions has fall in bankruptcy. Enron Global Services (EGS) that owns most of the oversea asset based business including TRANSREDES in Bolivia is still alive and now mutating into a new so-called “International Co.”

## CONCLUSIONS

This case demonstrates how corporate driven globalization works. The main goal of corporate corruption is to profit at the cost of impoverishment and exploitation of natural resources of poor countries. Closely related to international financial institutions and national politicians, corporate corruption controls much of political and economical power. Public interest has been subordinate to private profit and even as community resistance to privatization trends to grow, the corruption system reacts reinforcing itself.

Structural Reforms promoted an imposed by the World Bank to poor countries, oriented forward privatization and deregulation have weakened National States that are losing sovereignty and are no longer able to control and prosecute corporations, public interest is now subordinated to profitable private interest. The privatization process driven by corrupted corporations is having impoverishment consequences in all orders, which is opposed to the proper World Bank’s declared goals.

The weakness of National States also implies the weakness of representative democracy as a government system. Political corruption added to economical crisis in southern countries is leading to citizen distrust in democracy, this is dangerous moving to polarize political positions, and violence solutions are emerging several Latin American countries.

It’s risky to reduce democracy to an “every four year electoral ritual” when citizens vote but at the same time are taken apart from participation in public policies decision-making and have no mechanism to control over public policies. The lack of explicit procedures to achieve transparency and accountability in corporations and politicians accredit corruption, because it leaves crucial public affairs in fewer hands.

Finally, the inexistence of an effective international legal frame for multinational corporations and international financial institutions allows permanent breaking of national laws by corrupted organizations. If we recognize there exists an ongoing economical globalization process therefore we should admit there is the need of globalize legal frame to control and regulate this process. All multinational and governments should be binding to this international legal system.

We propose that acting measures to fight corruption should be taken in at least three levels:

- a) Structural changes must include a new international legal frame that is binding to corporations and National governments. International Financial Institutions must apply sanctions to corrupted corporations. At the national level, regulation systems on corporate activities must be strengthening. National laws should be done to

promote direct participation, and effectively implement information disclosure about contracts and conveys that involves international business or affect people's environments and human rights.

- b) Cultural changes must orientate forward to policies and practices based on ethical behavior. Incentives that prize good practices of transparency, accountability, citizen participation and social control over public policies. Citizen's Watch networking should be considered a clue of democracy.
- c) Public education must be reinforced so that it achieve to involve individuals and organized groups into citizens watch networks that monitor public policies to assure preservation of public interest against greedy and illegitimate profit of private practices. People must know about protective laws that can be used by them to enforce corrupted. Educational curricula must include a whole range of methodology and contents about democratic values and human rights from an integrated approach on civil y political and economical, social and cultural rights.

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