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COLOMBIA

Peace Dividend Comes With Hidden Fees

With the signing of a definitive cease-fire on Jun. 23 that establishes a system by which rebels from the left-wing Farc group — described by some as a relic of the Cold War — will lay down their weapons, Colombia has negotiated its way through the most difficult part of peace talks. The historic agreement brings an end to more than half a century of bloody civil war. However, it is still too early to talk of a "peace dividend' for Colombia's oil sector, especially with economic and legal considerations still looming large.

A lasting peace will certainly mean that conflict zones currently off-limits to wider oil exploration will now have the potential to be developed. For example, more fields could be brought into production in the Arauca Department, which borders Venezuela, and the Putumayo Department, which saddles Colombia's southern border with both Ecuador and Peru. According to oil regulator ANH, in 2015 those two departments held over 155 million barrels combined in proven oil reserves. However, while peace will surely be welcomed by companies operating in Colombia that for decades have paid war-zone level security fees, other issues may actually be higher up on their wish list.

At a recent event held in Bogota by the Inter-American Dialogue, a Washington-based think tank, investors seemed to indicate they were more concerned with "legal uncertainties" in the oil sector. For instance, companies complained of having their drilling licenses revoked after public uproar from environmental and community groups, even though the projects had been green-lighted by the government, with cash already flowing. Companies were also concerned about the cost of oil-field services and pipeline transport, both of which are still relatively high even though oil prices have remained stubbornly low.

"If Colombia doesn't solve these issues there won't be any exploration in those [Farc] areas, regardless of whether or not they have a peace accord," Lisa Viscidi, energy program director at the Inter-American Dialogue, told Energy Compass. Viscidi maintains it is unreasonable to believe that peace, in and of itself, will serve as a catalyst for exploration or increased production. She also points out that the oil sector is no public darling in Colombia, unlike in some other Latin American countries where the state-owned oil company is held up as a symbol of national pride. As a result, leadership often finds itself walking a tightrope between sanctioning projects that might provide badly needed tax revenues and bowing to "very strong" environmental interests.

Similarly, investors are also concerned about the scope of "prior consultation," as the government's pact with the Farc stands to make the process through which projects are vetted with local stakeholders even more cumbersome. For instance, Colombia's government presently affords specific protections to indigenous and ethnic minority groups, which grant them a say during prior consultation. However, according to Jose Zapata, an attorney who specializes in oil and gas transactions with the Bogota office of law firm Holland & Knight, language in the Farc agreement stands to essentially expand these protections to "all rural communities."

Zapata maintains that legal definition is "too wide" as it would oblige companies to consult with large swaths of the population in a given area, an economic burden firms most likely will not have the capacity to shoulder. He also points out that should a company fail to consult every single group in an area — even those who do not make themselves initially known — a court could easily suspend operations after work has already begun. With little legal recourse for firms, the revocation of permits could become commonplace, with far-reaching and long-lasting ramifications for Colombia's energy sector.

Pipelines Still in the Crosshairs

When the Farc cease-fire deal was unveiled, Colombian President Juan Manuel Santos reminded everyone that a deal with the Ejercito de Liberacion Nacional (ELN) — a smaller yet more radical rebel group — was still far away (EC Apr.8'16). The point is particularly salient for the oil sector as the ELN is the primary group responsible for pipeline bombings. It also highlights the need to avoid painting different groups with the same brush. The ELN, unlike the Farc, is ideologically opposed to natural resource extraction.

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After all, it was the ELN that first attacked the 485 mile-long Cano-Limon Covenas pipeline in 1986. They were also the first to engage in kidnappings of oil workers as an extortion tactic; the Farc merely followed suit.

As the government has initiated preliminary talks with the ELN, it should explicitly cover oil as a bargaining point at the negotiating table, which is something it did not do with the Farc. Indeed, Humberto de la Calle, Colombia's chief negotiator, had mentioned in interviews in the lead-up to the cease-fire deal that "hydrocarbon projects never even came into the discussion" with the Farc.

This week served as a reminder that Colombia still has its work cut out for it. On Jul. 4 the ELN attacked the up to 210,000 barrel per day Cano-Limon Covenas pipeline yet again, this time near the border with Venezuela, forcing state-owned Ecopetrol to halt the pumping of crude. It was the 17th such attack this year, according to the company, who late last year said it was hopeful for "optimal security conditions" in 2016. ■

Anthony Venezia, New York

Compass Points

- SIGNIFICANCE: Although Colombia has some of the most competitive contract terms globally for oil and gas projects, firmer legal protections would still help shore up investments. But the provisions of the Farc deal could complicate matters.
- CONNECTION: The government says it needs to maintain Colombia's reserves and production levels, even at low prices. However, with producers already reluctant to throw money at new exploration ventures, the prospect of more red tape certainly won't sweeten the deal.

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