

Oil and Peace in Colombia: Industry Challenges in the Post-War Period



Executive Summary

by Alfonso Cuéllar¹

It appears increasingly certain that the Colombian government will sign a peace agreement with guerrillas of the Revolutionary Armed Forces of Colombia (FARC) in 2016. The oil and gas industry is widely expected to be among the sectors to most benefit from the end of 50 years of armed conflict. The industry has been immersed in country's armed conflict since the mid-1980s, when guerrillas of the National Liberation Army (ELN), and subsequently the FARC, declared oil installations and personnel "legitimate" military targets. Kidnappings, extortion, and attacks against pipelines followed. The economic and environmental impact of these attacks is estimated to be in the billions of dollars.

With the advent of peace, it is widely expected that oil development will be able to flourish unimpeded and transform Colombia into a major player in the hydrocarbons industry. A new report commissioned by the Latin American Program has identified several challenges to this optimistic view. The report finds that:

- The rapid expansion of oil exploration between 2009 and 2014 did not lead to the discovery of any large new fields. Increased oil production was the result of secondary and tertiary recovery and not from the addition of new reserves. The prevailing environment of low oil prices has led to a significant slow-down in investment in exploration.
- Though the government has offered industry incentives and has attempted to streamline the process of obtaining environmental permits, problems remain, among them the uncertainty of the implementation of the constitutionally-mandated consultation process (*consulta previa*) with Afro-Colombian and indigenous communities. Differing interpretations as to whether communities have veto power have hindered oil exploration and development. President Juan Manuel Santos

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has promised to resolve this issue through new legislation, but industry skepticism remains.

- The Santos administration adopted reforms in 2011 governing how royalties were to be distributed within Colombia, reducing the share to communities in areas of extraction in order to spread the wealth more equitably throughout the country. But the reforms had unintended consequences for companies in the hydrocarbons sector. The reduction of revenue shared with local authorities—in some cases by more than 50 percent—has led to increased protests and work stoppages in various departments and municipalities.
- For decades, the presence of and the threat represented by the guerrillas profoundly affected how oil companies operated in different regions and influenced the modes of interaction with local communities. The threat also ingrained a “security-first” mentality. These habits will not change quickly once a peace agreement is signed. It will take time for industry personnel to venture beyond their secured compounds and mingle with the local population in long conflictive oil-producing zones in Arauca, Caquetá, and Putumayo.
- The end of guerrilla conflict should open up exploration in new areas and basins that previously had a permanent FARC presence (for example, in parts of Caquetá and Putumayo). However, if negotiations with the ELN do not prosper, security challenges will remain considerable in the majority of regions in which oil companies operate.
- One of the key objectives of peace, as articulated by the government, is to empower communities that have been abandoned by the state and subject to the influence of illegal armed groups. Many communities in oil producing regions are already quite active in expressing their grievances. This situation is unlikely to change; in fact, protests and work stoppages could actually increase as fear recedes.
- The challenge for the industry is not only to find new resources in the ground—a question, ultimately, of geology—but, equally important, to effectively manage the risks above ground.

To read the full report, visit www.wilsoncenter.org/publication/oil-and-peace-colombia-industry-challenges-the-post-war-period

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