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Will Colombia Become a Major Oil Producer Any Time Soon?

Inter-American Dialogue's Latin American Energy Advisor

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Q and A: Will Colombia Become a Major Oil Producer Any Time Soon?

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Colombia's government on June 22 received bids on 95 of 200 blocks being offered as part of a bid round, with companies pledging to invest more than \$1 billion in those areas. Was the bid round a success? What factors are driving Colombia's new oil sector investors? Will the country become a major oil producer in the near future? What potential risks—economic, political and social—does Colombia face in its drive to boost oil development?

**A: Tatiana Roa Avendaño, secretary of the board of directors at Colombian NGO
Censat Agua Viva:**

"Luckily for those of us who are profoundly worried about the social and environmental conflicts that could arise from expanding the boundaries of oil development in Colombia, the bids received in the recent 2010 round are for blocks concentrated in mature areas in the Valle Medio, Superior del Magdalena, and Llanos Oriental—that is, areas where oil activity has been historically concentrated. As was to be expected, oil companies didn't want to risk capital to explore new areas in a country that doesn't have large recorded hydrocarbon reserves. As was also expected, the largest quantity of blocks were granted to Ecopetrol and Hocol (which was recently bought by Ecopetrol). In all, the state oil company gained the rights to 12 blocks covering 2 million hectares. In three blocks, Ecopetrol will partner with other oil companies. In the case of the offshore blocks, Ecopetrol was the only company that offered bids: one in Tumaco and two in Los Cayos. Although President-elect Santos talks of an oil bonanza, we don't see one in the near future, at least not in the next four years. It could possibly happen after four or five years, assuming a large oil discovery. Meanwhile, the country will continue trying to increase production in the older fields, taking advantage of new technologies and higher oil prices. Nevertheless, we are still concerned about the interest that exists in both the current and incoming governments to expand the boundaries of oil development in Colombia. This is part of an international trend to continue searching for new sources of oil, which constitutes a great threat, not just for our country's greatest wealth—its biodiversity—but also for the indigenous people that live in these areas."

A: Johanna Castro, senior equity analyst at Corredores Asociados in Bogotá:
"Before June 22, when the round of bidding closed, only 20 percent of Colombia's land area (41 million hectares) was contracted for activities ranging from exploration to oil production. After the successful bidding round, this area was doubled, improving the chances that Colombia can significantly increase its reserves over the next five to ten years. Colombia has the fifth-largest

petroleum reserves in South America and is the continent's third-largest producer. Nevertheless, 80 percent of the country is yet to be explored for oil, such as the so-called Border Zone, which includes onshore and offshore areas in the Pacific Ocean and Caribbean Sea. So, taking into account that nearly 60 foreign companies participating in exploration and production contracts in Colombia invested almost \$2.63 billion last year (about 36 percent of the country's foreign direct investment), it is hoped that with rising crude prices, 2010 will be a year of great growth for Colombia's oil industry. A similar scenario is expected in Colombia's mining sector. While Colombia is not among the major players in production of gold, silver or copper, it has the world's second largest ferronickel mine (Cerro Matoso) and one of the world's largest open-pit coal mines (Cerrejón). During 2009, the Colombian Institute of Geology and Mining signed nearly 800 mining concessions (twice the 2008 number). Although it sounds cliché, Colombia's best-kept secrets are mining and the oil industry, and the development of those industries will depend largely on the country's growth in the medium term."

A: RoseAnne Franco, senior analyst for Latin America in the Markets and Country Strategies group at PFC Energy:

"The results of the 2010 Open Round exceeded expectations and further position Colombia as a major regional oil player. In the recent tender, the National Hydrocarbon Agency (ANH) offered a wide variation in size, prospectivity, and bid parameters that drew significant interest. However, the round's success also builds on years of favorable reforms and critical improvements in the operational environment. Significant strides in security spearheaded by President Alvaro Uribe laid down the foundation for the recent wave in oil investment, while competitive fiscal terms and a fair and defined regulatory environment invited companies in. And while neighboring countries have been re-asserting state presence in the oil and gas industry, Colombia has largely drawn the line at establishing a competent and fair regulator. Consequently, the country has managed to reverse course in crude output, with production averaging 670 mb/d in 2009 and the ANH expecting this to rise to 1 mmb/d by 2015. To be sure, there are constraints as the country works to expand its pipeline infrastructure. On the economic front, the government is fully aware of the currency pressure that an increase in oil exports could trigger and is discussing the establishment of an oil stabilization fund to help ease any peso revaluation. Clearly security will continue to be a concern for foreign companies in particular areas of the country, but with the government's effective approach to managing armed activity, Colombia will remain a country of opportunities in a region that recently has been less than receptive to foreign investment."

The Energy Advisor welcomes responses to this Q&A. Readers can write editor Gene Kuleta at kuleta@thedialogue.org with comments.