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How Will Renewed Energy Ties Affect Venezuela and Colombia?

Inter-American Dialogue's Latin American Energy Advisor

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Q and A: How Will Renewed Energy Ties Affect Venezuela and Colombia?

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Colombian President Juan Manuel Santos met with his Venezuelan counterpart Hugo Chávez in Caracas Nov. 2 to strengthen bilateral diplomatic and trade relations. The leaders signed energy agreements that include resumed gasoline shipments from PDVSA to Colombian border states. The leaders also resolved to restart evaluations to build two new pipelines. How significant are renewed ties between Venezuela and Colombia for each country's energy sector? What does each country stand to gain? Will the benefits of cooperation on energy matters help keep the countries' fragile bilateral relations on track?

A: Gustavo Coronel, former member of the board of directors of PDVSA:

"The recent meeting between Presidents Chávez and Santos has to be seen, essentially, as an attempt at returning to some degree of normalcy in the relations between the two countries. Colombia gains short-term benefits as the Venezuelan government has promised to pay some \$790 million in debts to Colombian exporters and Chávez has had to suspend his support of the FARC. At the meeting, Colombia's Foreign Minister Holguín did warn that the same projects are mentioned year after year but not executed. In the energy sector, the two countries agreed to reinstate projects that had been partially or wholly suspended for more than a year, including modest gasoline shipments from Venezuela to Colombia and electrical power transfers from Colombia to Venezuela along border states. They also agreed to continue shipment of Colombian natural gas to western Venezuela along a Guajira peninsula pipeline originally built to send Venezuelan gas to Colombia. I found no references to a concrete agreement to build new pipelines, although a pipeline to Panama, through Colombia, has long been the object of talks. The conversations included the possibility of Ecopetrol, the Colombian state oil company, doing work in the Orinoco heavy oil region, where many other companies are already present. I see this event as relatively unimportant in the context of the energy sectors of both countries. The Venezuelan hydrocarbons sector is deteriorating while the Colombian sector is flourishing, thanks in part to the contribution of top-level Venezuelan managers expelled from PDVSA by Chávez in 2003."

A: Rodrigo Villamizar, former minister of mines and energy of Colombia:

"For the first time President Juan Manuel Santos has something that his Venezuelan counterpart Hugo Chávez doesn't have: more readily available energy. To strengthen bilateral

diplomatic and trade relations, Colombia can ease some of the pain that Venezuelans have in the electricity sector while reopening the doors of trade which is so badly needed by Colombian agriculture and manufacturing companies—and all the goodies that may come with it, like keeping criticism about guerrilla intervention, U.S. military bases and the arms race at bay. The signed energy agreements, which include resumed gasoline shipments from PDVSA to Colombian border states and the construction of new gas pipelines, are not new. They have been on the table but lack of political will has been the least of the problems faced by both initiatives. It is plain scarcity (of both gasoline and natural gas) that has kept the projects on hold. Not that Venezuela doesn't have the resources, but the problem is how to get them off the ground and into markets with its obsolete and poorly run energy infrastructure. Colombia on the other hand lacks the finances to get the additional pipelines needed to benefit from gas supplied to the northern provinces. It has the electricity that Venezuela lacks but myopic policies have kept the interconnecting grid too restrictive and unreliable. The bottom line is that talk is long but deeds are short in relation to ties between Venezuela's and Colombia's energy sectors. If any country stands to gain in terms of energy (who would have thought it before the year 2000), it is Venezuela. The benefits of cooperation on energy matters will not help either country much overall, but if it can keep the countries' fragile bilateral relations back on track, it is more than welcome."

A: David Voght, managing director of IPD Latin America:

"The recent agreements signed between Colombia and Venezuela are strategic to the economic and political interests of both the Chávez and Santos administrations. After the United States, Venezuela is and will continue to be Colombia's most important trade partner. However, since 2008 bilateral commerce has fallen from \$6.1 billion to less than \$2 billion in 2010, representing a difficult scenario for Colombia's GDP growth and for inflation in Venezuela, where shortages of food, automobiles and textiles have become a political liability for Chávez. The U.S. government's continued waffling to approve the FTA with Colombia has encouraged Colombia to focus on relations in its own back yard, and in particular on Venezuelan trade. The agreements signed on Nov. 2 address immediate concerns like Venezuela's approval of foreign exchange for nearly \$1 billion owed to Colombian exporters and the advancement of critical fuel policy along the border. In the coming days, Colombia will have a delegation in Venezuela working exclusively on new bilateral trade terms. While commercial relations will be the immediate focus, discussions on further energy integration will create greater optionality on both sides of the border. Even in tough political times, Ecopetrol and PDVSA have maintained consistently good commercial relations, particularly with regard to the export of natural gas from Colombia to Venezuela. The countries have already successfully developed one pipeline. However, new cross-border infrastructure and Ecopetrol investment in Venezuela will be complex both due to PDVSA's restricted cash flow, and Ecopetrol's assiduous views on management of country risk."

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