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Inter-American Dialogue's Latin American Energy Advisor

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Q and A: Will Colombia and Venezuela Collaborate on Energy Issues?

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Venezuelan President Hugo Chávez and his Colombian counterpart, Juan Manuel Santos, met Nov. 28 in Caracas to sign several agreements in areas including energy, trade and agriculture. Among the energy-related accords were agreements to explore the construction of an oil pipeline from Venezuela's Orinoco belt to Colombia's Pacific coastline. Will the pipeline be built? How important is cooperation between the countries on energy-related matters? Will economic interests help keep the countries' previously tense relations at bay or will political differences again come to disrupt commercial ties?

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

"A declining Venezuelan president (according to the latest news) and his Colombian counterpart have—once again—promised to carry out several joint projects, including the construction of an oil pipeline from Venezuela's Orinoco Belt to Colombia's Pacific coastline. That is indeed a cause of great concern. The idea has been on the drawing board for years. I first discussed it with my Venezuelan counterpart, Minister of Energy Ali Rodríguez, and concluded that it was not technically feasible nor economically sound. Will the pipeline be built? No. For the simple reason that the only customer interested in buying the oil at Colombia's Pacific Port (namely China) will not pay the equivalent to almost twice the price of an equivalent barrel of oil. We all know how difficult it is to 'pipe' orimulsion (the stuff that comes out of the Orinoco 'faja'). It's like pretending to transport bananas through a pipeline. Orimulsion is an almost solid tar; in fact, it is closer to coal than it is to oil. Aside from the heroic efforts to get it out of the ground, you need to mix it with chemicals, lubricants and light oil and then heat it with steam to get it to a distance of a few kilometers. There are over 2,500 kilometers between the Venezuelan oil field and the port of Buenaventura (and three massive mountain ranges to cross as well). Cooperation between the countries on energy-related matters is crucial and beneficial, but nothing is more devastating to the good relations of two overzealous and moody countries than to embark on a Babylonian project."

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

"The relationship between Venezuela and Colombia is influenced by a number of volatility inducing factors. When contrary political ideologies collide with complex cross-border issues, tension is inevitable. After years of frosty relations between President Chávez and then-President

Uribe, Colombia's new president appears to be emphasizing economic ties and, at least temporarily, overlooking Chávez's alleged links with the FARC and other serious issues between the two nations. The energy-related accords signed last month represent the perpetuation of discussions that have not advanced since 2005. The business fundamentals for natural gas pipeline extensions from Venezuela to Panama and Ecuador and a heavy crude pipeline from Venezuela's Orinoco Belt to Colombia's Pacific coast are still not mature enough to warrant project development. While potential certainly exists, natural gas supply and demand dynamics, coupled with policy uncertainty in both nations, currently leave no room for exports of sufficient scale. An oil pipeline crossing both countries presents its own challenges. Different private- vs. state-oriented business philosophies will make a coordinated effort difficult. Logistics and technical challenges will be expensive for Venezuela where an array of fiscal, regulatory and operational obstacles are likely to defer production start-up. Colombia and Venezuela have signed the same energy accords time and time again. Recent history provides overwhelming proof that the approach of individual leaders plays a much more influential role in preventing diplomatic and commercial disruptions. Despite the odds, Chávez and Santos appear to be getting along; at least until the next slippery border issue disrupts the latest calm."

A: RoseAnne Franco, Latin America upstream research analyst at Wood Mackenzie:

"After a period of sour relations, the recent agreements between Caracas and Bogotá suggest a return to pragmatism and a deepening of energy relations. Among the measures, Ecopetrol is to join PDVSA in exploiting mature fields in Apure and Lake Maracaibo. The Colombian national oil company will leverage its growing expertise in boosting recovery rates and the participation will give Ecopetrol a toehold in resource-rich Venezuela. The two governments also committed to studying an oil pipeline from Venezuela's Orinoco Belt to Colombia's Pacific coast. To be sure, access to the Pacific is a strategic interest for South American oil producers as Asia continues to drive oil demand growth. Indeed, the Santos administration had already begun examining such a pipeline to evacuate its heavy oil deposits from the Eastern Llanos to the Pacific. As such, the larger unknown may be whether the transport economics support construction of a pipeline from Venezuela's Orinoco Belt to Colombia. Lastly, the accords commit to an extension of the existing Antonio Ricaurte gas pipeline, which links eastern Colombia to western Venezuela, out to Panama and Ecuador. This is the least likely as the long-term gas source for the pipeline remains uncertain. While gas is currently flowing from Colombia to Venezuela, the flow was scheduled to reverse in 2012. Indications are that this will be delayed as Venezuelan gas demand leaves little for gas export. While politics tend to ebb and flow in the region, economics and energy balances ensure that only the most pragmatic of the commitments comes to fruition."

A: Luis Giusti, senior advisor at the Center for Strategic & International Studies and former chairman and CEO of PDVSA:

"A relevant point within the scope of the recent bilateral summit of the presidents of Colombia and Venezuela was the agreement to jointly build a pipeline 'to transport the oil from the Orinoco Belt to the Colombian Pacific coast, from where it could be shipped to the Far East.' The Orinoco Belt is a huge accumulation of extra-heavy oil extending east-west 450 miles from Monagas state to Guárico state. The straight line distance from the exploitation center of the Belt to the nearest

Colombian border is 650 miles, and 650 more to the Pacific coast. Aside from the usual issues of right of pass, the pipeline would have to cross 3 mountain chains, because the Andes in Colombia are trifurcated. Also, the high viscosity of the oil would require heating or dilution, which significantly adds to the cost. Total cost could reach some \$12-15 billion. Colombia has been analyzing a Pacific oil terminal, something that makes great sense, the preferred spot being Buenaventura in Valle del Cauca. If, in fact, there is this joint effort to export Venezuelan oil to the Far East, the reasonable approach would be to build two terminals and a pipeline of some 90 miles along the Colombian border with Panamá, from the Caribbean Gulf of Urabá in northern Antioquia and/or Chocó, to the Pacific Gulf of Cupica or thereabouts, also in Chocó. This provided, of course, that proper sea depths were found on both ends. Oil could then be shipped from Venezuela to the Urabá terminal."

A: Carlos Bellorin, oil and gas analyst at IHS in London:

"Right now, the pipeline project is in an early preliminary design and feasibility study phase. Moreover, I think the agreement for conducting these studies is yet to be signed between the parties. It is very difficult to answer whether or not it will be built at this point. In my point of view, this kind of cooperation is very important. Venezuela is currently importing gas from Colombia and will be doing so for a couple or more years. The proposed extension to Panama and Ecuador of the 'Antonio Ricaurte' or Transguajiran pipeline for Venezuela is very important as well, since it can be a way to commercialise its gas output if the country is able to develop its massive non-associated gas reserves in the future. Also, in the long run and in the scenario that Colombia need gas imports in order to supply its domestic market, Venezuela can fulfill Colombia's needs. Electricity imports from Colombia to the power-starved east region of Venezuela are beneficial for both countries, for Colombia as a surplus producer and for Venezuela as a consumer. I think that 'common' economic interests are an important issue in order to mitigate and overcome political differences. Important infrastructure project such as the proposed pipeline from Venezuela to the Colombian Pacific is an example of a huge 'common economic interest.' The more projects that Venezuela and Colombia have together, the better their integration. A pragmatic approach, such as the one which is currently undertaken by both countries is in both countries best interests. Venezuela and Colombia will definitely have impasses and differences in the future, but having truly, well-balanced and interrelated economies will help to solve eventual disputes and more importantly act as a deterrent for eventual ones."

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