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# How Will Leadership Changes Affect Colombia's Oil Sector?

Inter-American Dialogue's Latin American Energy Advisor

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***Q and A: How Will Leadership Changes Affect Colombia's Oil Sector?***

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This month, Colombia gained a new energy minister, economist Mauricio Cardenas, but lost long time National Hydrocarbons Agency (ANH) head, Armando Zamora, amid allegations that oil royalties had been misused and scholarships had been unfairly given to relatives of top officials. Zamora has denied wrongdoing, and suggested social protests posed a bigger threat to the sector than corruption. Meanwhile, protests last week forced Canada's Pacific Rubiales, one of the largest oil producers in Colombia, to declare force majeure before coming to an agreement with demonstrators. What will the changes at the top of the energy ministry and ANH mean for Colombia's oil sector? What accounts for the rise in social protests and do they pose a significant threat to the industry? Does the country have an effective strategy to handle them?

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

"More than allegation that oil royalties had been misused, social protests in the oil producing zones (namely the areas where Pacific Rubiales operates) and coal miners' unrest pose a bigger threat to the Colombian economy. Not that corruption is unimportant; it has already caught the full attention from President Santos. But popular unrest has gradually displaced guerrilla and drug trafficking violence in Colombia's hinterlands. These facts hide some good and some bad news for Colombia. The bad news is that the country's rapid growth as a result of several factors (the commodities boom, mining and energy strong dynamics, 'pull' factors associated with the large inflow of private capital coming from foreign investors and Colombian expatriated capital assets and 'push' factors related mainly to the uncertain situation in Venezuela and its spillover effects to the petroleum and real estate industries) have increased the size of the economic 'body' but not the outfit. Structural reforms in the capital and labor markets will have to be placed on the top of Santos' agenda. The good news is that the president has put together if not a ministerial dream-team around him, then something close to it. Recent changes at the top of the energy ministry and the National Hydrocarbons Agency (ANH) mean that Colombia is undertaking its challenges seriously. It also has placed outstanding resources in key positions: Cardenas (Energy), Cardona (Infrastructure), Pinzón (Defense), Renjifo (chief of staff) and Gutiérrez (Ecopetrol) are just a few examples. The rise in social protests shouldn't be taken less seriously than the fight for corruption. Any wrong or populist signals in an area where Colombia derives the bulk of its foreign exchange today will scare the migratory birds of venture capital investment in green field projects and force them to fly away."

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

"Bogotá has institutionalized its oil industry so as to weather the recent changes at the helm of the National Hydrocarbons Agency (ANH). Oil reforms carried out in 2003 restructured the regulatory landscape by separating Ecopetrol from the regulator role and introducing the ANH, generating certainty and transparency for oil operators. In particular, the Colombian national oil company has been forced to play on a more level playing field. Coupled with enhanced fiscal terms attracting new entrants and important strides on the security front, Colombia's oil output is on target to average over 900,000 b/d for 2011 and to surpass the country's earlier production peak registered in 1999. Nevertheless, the Colombian oil industry's success is also generating rising expectations among locals that, if left unaddressed, could hinder the sector's trajectory. The uptick in oil output is fueling rising expectations among residents in the eastern Llanos for improved social welfare, more employment and better wages. These demands registered against some oil operators in the area and most recently among workers on the critical Bicentenario pipeline project suggest more widespread discontent. In neighboring countries, local dissatisfaction has severely slowed down the pace of development and if local oil producers and government officials are not more proactive in addressing these needs, more interference is likely. Colombia has defined the path to resurrect an oil industry and now has the opportunity to set the foundation for better community relations within it. The next phase of growth for Colombia's oil industry will depend on it."

**A: Roger Tissot, member of the Energy Advisor board and independent energy economist:**

"Dr. Zamora was given the very difficult task of managing the transformation of Colombia's oil sector from rapidly disappearing reserves, lack of investment and declining production into one of the most dynamic oil areas in the world. In 2003, when he took over the ANH, Colombia produced 564,000 barrels per day (b/d). Production has since jumped to approximately 906,000 b/d in 2011. Dr. Zamora had many challenges, including finding experienced personnel in a time when wage inflation made it very difficult to attract professionals to the public sector and 'rebrand' Colombia as an attractive investment destination, despite the fact that its image had been seriously damaged. I am not qualified to comment on any wrongdoing by Dr. Zamora, but the general consensus by the industry has been that he and the ANH were obsessed with transparency and fairness in what can be a very controversial issue: the allocation of areas to bidding companies. Having said that, the government is right to seek some redirection of leadership at both the ministry and the ANH. Dr. Zamora was perhaps the last high profile bureaucrat of the Uribe era who transitioned to the Santos government. What is important to notice is that the petroleum situation and people's expectations have changed. In 2003, Colombians were concerned about security, and the government was also preoccupied with the prospect of becoming a net oil importer with all the implications to fiscal and trade balances. The government's concern now is 'Dutch disease.' Local communities and union expectations have also changed, wanting to have a higher share of the oil bonanza. Some lawmakers are also questioning if the country should not impose higher royalties. Due to the nature of the industry in Colombia, formed mostly by small to medium foreign companies, one can suspect that the transition from an exploration phase to a producing one has not been easy for some. Companies with limited financial capabilities and/or insufficient experience addressing 'above

ground risks' will find it more and more difficult to operate in Colombia. Bigger and more experienced companies, on the other hand, will find that these challenges can be managed.”

**A: Enrique Gómez-Pinzón, partner at Holland & Knight LLP:**

"The appointment of Minister Cardenas is a very positive move, with a very competent technocrat replacing an old fashioned politician. The ANH has had an exemplary track record for eight years. Zamora apparently made a mistake regarding a scholarship fund, but the reason they went after him is of a much bigger caliber. The ANH decides on tenders for exploration, and apparently you don't make a lot of friends in the process. The ANH also has a minor say in the distribution of royalties between the central government and the regions, and a few of the latter did not appreciate the hand that Zamora dealt them. Who is to replace Zamora? Let's only hope it is a technocrat, like himself. Social protests are a serious issue, which could easily get out of hand. Workers in the oil sector make good money, and are well-aware that they work for the goose that lays the golden eggs. Vice President Garzón openly supporting protesters at Rubiales does not show good judgment. Hopefully Minister Cardenas can make the protesters move toward a common sense solution.”

*The Energy Advisor welcomes responses to this Q&A. Readers can write editor Gene Kuleta at [gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org) with comments.*