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Petroleum Union Concerned About Privatization

by LADB Staff
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The Colombian government has announced that it will be selling US$10 billion worth of state assets, in what could be the largest round of privatizations in Latin America since the 1990s. The stakes on the block include shares from the state-owned oil company Empresa Colombiana de Petroleos (Ecopetrol), which has elicited angry responses from unionists who completed a month-long strike against privatization earlier this year. The sale announcement also follows recent government reforms making it easier for foreign oil companies to do business in Colombia.

Spokespersons for multinational oil corporations have said that the security conditions for petroleum exploration and extraction have improved greatly under President Alvaro Uribe's aggressive war against rebel groups.

Union rejects stock sale, privatization

Colombia is poised to sell off as much as US$10 billion of stakes in state-owned companies in the next few years, evidently playing catch-up with the privatization trend that swept through Mexico, Argentina, Chile, and other countries in the late 1980s and early 1990s.

Alberto Carrasquilla, Colombia's finance minister, told London daily The Financial Times that President Uribe's administration was getting ready to sell assets ranging from electricity distributors to stakes in banks. Colombia's privatization drive is designed to raise much-needed additional funds for social and infrastructure programs during a period of mandated fiscal austerity. Under an agreement with the International Monetary Fund (IMF), Colombia has promised to limit its fiscal deficit to no more than 2.5% of GDP this year. "We have a relatively ambitious privatization plan in Colombia, perhaps the most ambitious in Latin America," Carrasquilla said. "Initial valuations exist in most cases, and we're now beginning to look at investment banks to manage the sales."

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First to be sold off will be an 8% stake in Isa, a regional power-transmission company. Together with Transelca, another distributor, the sales are expected to net about US$200 million this year. Stakes worth another US$300 million to US$400 million in companies such as Ecogas, a natural-gas distributor, and two banks, Bancafe and Interbanco, are slated to be sold to private investors in 2005. The sale of some shares in Ecopetrol, the state-owned oil corporation, is also under consideration, following a recent change to the company’s statutes. However, the full privatization of Ecopetrol which would be the largest sell-off by far has been ruled out by Uribe.

In April and May, the Union Sindical Obrera (USO) of Ecopetrol workers conducted a 36-day strike, which had its origins in the rejection of privatization of the company, according to USO vice president Hernando Hernandez. Hernandez said the announcement from Carrasquilla "puts the agreements between the USO and Ecopetrol in doubt." The two sides signed the agreements to end the strike, a strike where 248 workers, including Hernandez, were fired. The USO represents 4,000 of the 7,000 workers at Ecopetrol.
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Shortly after the story in The Financial Times came out, union leaders sought to meet with officials from Uribe's administration to clear up what the share sales would mean for them. Human rights and labor organizations regard Colombia as one of the most dangerous places in the world for labor organizers, a country where mass arrests, threats, and murder frequently assail labor movements. Colombian law circumscribes the government's ability to sell state property. Assets must first be offered to cooperatives and similar organizations, for example.

Nonetheless, even though the government expects the process will take at least five years, growing fiscal pressures could lead to added urgency. For one thing, the authorities need to find extra resources to maintain military programs. Various categories of nondiscretionary spending are also growing rapidly. With social security reserves depleted, the outlay on pensions is expected to increase by 38% next year. Debt interest about 20% of total spending and transfers to regional governments are rising. Colombia's public debt equals 53% of GDP.

Ecopetrol has been seeking to build investment alliances outside Colombia. Ecopetrol president Isaac Yanovich has said that "the idea is to associate ourselves with firms that work in Colombia so we can arrive in third countries like Venezuela, Ecuador, Brazil, and Argentina." He added that
an Argentine firm had made a business proposal. Yanovich said that the objective was to develop Ecopetrol into a bona fide multinational and thereby get access to new markets without much investment risk.

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ChevronTexaco, Exxon: war is good for business

Multinational oil corporations have responded positively to President Uribe's aggressive conduct of the war in Colombia, which he calls "democratic security" (see NotiSur, 2003-07-25). A spokesperson for ChevronTexaco, for example, has said that Uribe's combat against rebel groups in oil-producing regions has created greater possibilities for foreign investment. Additionally, Exxon Mobil, the world's largest petrogiant, has announced plans to return to the country for the first time in nine years.

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The president for Latin America for ChevronTexaco, Ali Resa Mochiri, said that Uribe's war strategy had improved the investment climate in Colombia and that his company hoped to invest another US$70 million there. Having been in Colombia for more than 100 years, the company operates more than 350 gas stations in Colombia and exploits gas resources there, according to Mochiri. He says that business opportunities in the country are great.

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At a symposium in Texas regarding Colombia's energy future, Mochiri said it was important to overcome the country's "negative image" that it has "for drugs and violence. Although that hasn't changed completely, it's gotten better." As for the threat from armed groups in Colombia, Mochiri said, "That doesn't worry us, that's what the security groups are for."

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ChevronTexaco Corporation, the US's second-largest oil company, headquartered in San Ramon, California, may have plenty of investment dollars to spread around for some time. The company saw a 33% increase in profits in the first quarter of 2004 as soaring gasoline prices and demand boosted refining earnings, while higher energy prices offset declining oil and gas production.

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Prospects for oil-company profits have further improved as oil prices soared to record highs in the first days of August, spurred in part by the Russian government's decision to freeze some assets of Yukos, the country's largest oil producer. Light crude was trading at a record high price of more than US$44 a barrel on Aug. 3, which may signal hard times for many economies, but will likely produce more strong profit reports for oil corporations like ChevronTexaco.

US-trained Colombian soldiers with support from US intelligence and private contractors have succeeded in significantly reducing the number of attacks on oil pipelines in the northcentral department of Arauca, which borders Venezuela. Occidental Petroleum Corporation has a pipeline there that pumps nearly 100,000 barrels of oil per day, worth about US$3 million a day on the world market.

The Colombian government gets about US$500 million a year for its national treasury through a revenue-sharing agreement with Occidental, about 5% of the country's annual budget. Municipal governments also draw significant portions of their budgets from shared oil revenues, though cities like Barrancabermeja have been fighting to get back payments from oil companies that they say have defaulted on debts to local governments.

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The Arauca pipeline has long been vulnerable to sabotage from rebel groups operating in the area, which also attack power-transmission lines when they are unable to attack the pipeline. After a high of 170 attacks in 2001, the pipeline was hit 36 times in 2002 and 34 times in 2003. Early this year, there had been just five attacks one of the lowest numbers in the pipeline's history.

The use of US Special Forces trainers to protect the oil operation is part of a US$99 million package the US Congress approved in 2002 for pipeline protection, further expanding the US role in Colombia beyond counternarcotics and counterterrorist operations. The money also paid for ten new military helicopters and other equipment. A number of government reforms have also made it easier for companies to conduct exploration and extraction of oil in Colombia. Foreign companies used to have to contract with Ecopetrol if they wanted to operate in Colombia; now the newly formed Agencia Nacional de Hidrocarburos (ANH) handles those contracts.

ANH director Armando Zamora has announced that the state will be less interventionist in the operations of oil corporations in Colombia. The government guarantees independence to investors without direct state participation in their contracts. The new contracts will allow investors six years for exploration and 24 years for exploitation, two more than previous contracts allowed. USO members struck in opposition to these reforms.
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Declining reserves could force Colombia to import oil

Despite the apparent revitalization of the oil industry in Colombia, the country faces the possibility of turning into a net importer in as little as three to five years. Ecopetrol sources and officials from the Ministry of Mines and Energy say the constant decline in production from Colombian oil fields threatens to turn the country into a crude importer by 2007 or 2008 if it does not succeed in exploration efforts in the oil fields of different regions of the nation.

An Ecopetrol report indicated that petroleum production in the country has undergone a 36.9% decline since 1999, when an average of 844,929 barrels were extracted daily, a figure that well exceeds the current average of 533,000 bpd. In 2000 the average reached 718,000 bpd, dropping to 614,400 bpd in 2001, 567,000 in 2002, and 532,000 in 2003.

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President Uribe told journalists, "We have an urgent need to make new finds because the situation with high gas prices is good if there are new discoveries but is bad if we begin to import." Petroleum exploration has increased the past two years in Colombia, adding seven new wells in 2002 and 28
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