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News Letter

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Opposition to New Oil Exploration Site Spreads; Bombing of Caño Limón–Covenas Pipeline Increases Sharply; But Interest from Private-Sector Oil Investors Is Quickening

Opposition to a crucial oil exploration venture is mounting as Occidental Petroleum nears completion of the \$40 million Gibraltar-1 well in the Samoré block. Geologists say the block, which is near the Venezuelan border, could contain more than 2 billion barrels in oil reserves, enough to reverse Colombia's rapidly declining oil production rate and double reserves.

However, the area is claimed by the U'Wa indigenous tribe, and is in territory where the ELN guerrillas—who already have essentially shut down production at Occidental's nearby Caño Limón field—are very strong.

Results of the well are due later this month, but if there is indeed a major discovery, a number of significant hurdles must be overcome before production can begin.

U'Wa opposition to the project remains as strong as it has for years; only the presence of hundreds of government troops and a combination of threats and land grants have kept the opposition at manageable levels.

In recent months, however, the ELN, local grassroots organizations, and even a local chamber of commerce have spoken out against the venture, arguing that the oil industry has brought the region few benefits and fueled corruption in local governments, which receive a share of government oil revenues.

"Oil has brought violence, displacement, insecurity, and environmental problems," said Mario Raúl Lima, president of the chamber of commerce in Saravena, a *municipio* that would become the leading oil center if the Gibraltar-1 well is successful. "They have been pulling oil out of here for 15 or 20 years and we have not even covered our basic needs," he charged.

The ELN has also adopted the cause of the U'Wa, claiming that the recent spate of pipeline bombings (see below) is "in solidarity with the U'Wa people."

Finally, should the Gibraltar-1 well be successful, it may well be extremely difficult to get the oil to the coast unless the ELN attacks on the pipeline stop.

Pipeline Attacks

A prolonged offensive against Occidental Petroleum by ELN guerrillas is costing the firm and its partners—state oil company Ecopetrol and Spain's Repsol—an estimated \$2.75 million per day in lost revenue. The attacks culminated in a mass kidnapping of nearly 100 Occidental employees in mid-April, most of whom were released quickly.

As of mid-April, said *Americas Insider*, the Caño Limón–Covenas pipeline, the only export route for the company's 120,000 bpd Caño Limón

Coming Events

May 30, 2001 — Alvaro Uribe Vélez, candidate for the Presidency of Colombia and former governor of Antioquia, will speak at a CAA reception and luncheon in the East and North Rooms of the Harvard Club, 27 West 44th St., New York City. His topic will be "A New Vision for Colombia." The event, the first in our "Presidential Candidates Series," is cosponsored by J. P. Morgan.

For further information about this or other CAA events, contact the Association Office at (212) 233-7776; Fax (212) 233-7779.

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Membership News

The Colombian American Association is pleased to welcome the following **Individual** member:

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field, had been dynamited 63 times, compared to 100 attacks in all of last year. The breaks in the line have been so numerous and accompanied by attacks on work crews and the bombing of drilling sites that the pipeline was essentially out of service between mid-February and mid-April. The line pumped for only 47 hours in March, forcing the company to cut production to a mere 9,000 bpd. Late in February, Occidental declared force majeure on Caño Limón crude exports; moreover, it has been forced to accept a discount of \$2–3 per barrel on the little that finds its way to market because the flow is so unreliable.

The ELN itself is under attack from the United Self-Defense Forces of Colombia (AUC), a paramilitary group opposed to the guerrillas that has grown rapidly over the past couple of years. Last month, the AUC launched an offensive into the area the government had designated as a demilitarized zone for the ELN, along the lines of the zone in the southeast put under control of the FARC. The AUC offensive was so successful that it now controls most of the area and has driven the ELN from it. The mass kidnapping followed the AUC offensive, apparently in a bid to increase pressure on the government.

The only real leverage the weakened ELN has, said *Americas Insider*, is its ability to attack Occidental's operations from the guerrilla group's most secure operating areas—along the Venezuelan border and close to Caño Limón. Further attacks thus seem highly likely. Since the pipeline is essentially indefensible, the pattern of the past few months will probably continue.

A possible solution is to export oil through Venezuela—there are two pipelines close to Caño Limón inside Venezuela. It is unclear whether Venezuela would allow Colombian exports on the lines; relations between the two countries have been deteriorating in the last two years. There are also many technical questions that would have to be resolved before Colombian oil could be shipped through Venezuela.

Oil Investment

The public and private sectors will invest \$160 million to explore 20 potential oil fields across Colombia this year, Ecopetrol said. The company said the boost in exploration comes as a result of a drive to reverse declining oil production, mostly the result of natural fall-off in output from mature fields.

The company told Reuters that national output fell to 579,130 bpd in March, down from 723,500 in the same month last year, in part the result of attacks on the Caño Limón pipeline. Analysts estimate that Colombia has 37 billion barrels in untapped reserves, virtually all in rebel-controlled areas.

Nevertheless, enthusiasm over potential discoveries remains high. In 2000, Colombia signed 32 exploration contracts with multinational and local companies, up from just one contract in 1999, due largely to a cut in taxes on the industry from changes in licensing policy. The most promising prospect is the Samoré block in the

northeast, which is run by Occidental and has potential reserves in excess of 1 billion barrels. Other likely prospects include Capochos and Iscana, also in the northeast, which have potential reserves of 900 million and 250 million barrels, respectively. Capochos is operated by Repsol-YPF and Iscana by Hocol.

The Nation

G3 Social Fund Created

Colombia, Venezuela, and Mexico pledged early last month to create a \$100 million social fund to protect the poor as Latin America dismantles its trade barriers, said the Associated Press.

"It's an extraordinary idea, to inject much more into the process of integration," President Chávez of Venezuela said after a Group of Three summit in Caracas. "What do we do with the poor? Keep excluding them from all agreements? No. There can be no integration accord that excludes them because it won't work."

President Pastrana, Chávez, and Mexico's Vicente Fox announced the fund after a weekend meeting aimed at reviving the six-year-old trade bloc.

Backed by the Inter-American Development Bank and the Andean Development Corporation, the fund will help less-developed nations, such as those in Central America, prepare for hemisphere-wide free trade. It will provide credits to small businesses and nascent entrepreneurs, Chávez said. He added that the G3 leaders want more generic medicines to help the millions who cannot afford branded prescription drugs.

The three oil-producing nations also agreed to work together to stabilize oil prices. While Venezuela is a member of OPEC, Mexico and Colombia are not. By coordinating regional oil policies, President Fox

said that he foresaw a streamlined energy production and delivery system connecting North and South America within several years.

The Group of Three was formed in 1995 to establish a free-trade zone but has struggled because of neglect and banking crises in Mexico and Venezuela. Still, trade among the countries has risen by 50% to \$3.2 billion.

War on Drugs

Flights Halted

Late last month, after the downing of a missionary flight in Peru, the U.S. State Department suspended its aerial drug-interception program in Colombia as well as in Peru. The suspension, said Philip Reeker of the State Department, is to allow time for it and other federal agencies to investigate the incident and review the U.S. strategy of joint aerial interdiction of suspected drug traffickers.

CIA officials suggested that several precautions may have been “short-circuited” in the incident, in which a Peruvian air force jet shot down the small aircraft, killing a missionary and her infant daughter. Former White House drug czar Barry McCaffrey hailed the suspension: “We can’t tolerate a situation in both Peru and Colombia where they don’t comply with their own laws and international laws” that prohibit shooting down civilian planes, he said.

EU Targeted Aid

The European Union announced late last month that it was prepared to direct aid to one of Colombia’s most complex and violent regions, hoping to prove that its approach to solving the country’s problems—based on fostering peace talks with rebels and resolving social inequities—will be more successful than the “hard-line” preference for sending aircraft to

Fundación Hogar-Integral

The Fundación Hogar-Integral provides a solution to parents and children displaced by violence in Colombia: 2,500 children receive a daily snack and 950 a full lunch. This population, however, continues to grow rapidly, surpassing local fundraising capabilities. Coverage for three schools with 800 children is required. More programs and services are needed.

There will be a **benefit reception** for the program on **Wednesday, June 6, 2001**, 7:00–9:00 p.m., at 14 East 76th Street, New York City. For tickets to the event, contact the Colombian Government Trade Bureau at (212) 223-1120; e-mail: proexport5@nyct.net. A donation of \$40 is requested.

eradicate drug crops by force. The “shop window” is to be the Magdalena Medio, a notorious epicenter of conflict where guerrillas, paramilitaries, and local crime leaders struggle over mineral and drug wealth, said the *Financial Times*.

In a subsequent meeting, the EU unveiled a E330 million package through its Support Group of the Peace Process in Colombia. The EU will contribute E105 million this year, and is actively working to include donors and the Inter-American Development Bank, in an effort to widen support for Colombia’s attempts to restore peace and marginalize the drug barons.

The EU dislikes Plan Colombia, with its heavy emphasis on drug-crop spraying and military operations. A European diplomat told the *Times* that Europe does not want to be “the cleaning lady coming in to sweep up” a mess created by the United States. The EU therefore wants to make the Magdalena Medio “its” region, to distinguish it from areas such as Putumayo in the south, targeted under Plan Colombia. Said David Parfait, ambassador of France to Colombia, “In Putumayo there is responsibility for the U.S. They are fumigating, therefore it is up to them to find the social programs to help. I don’t see why we would get involved.”

In announcing the package, Chris Patten, external affairs commissioner of the EU, set clear criteria for disbursement. He said that the EU wants peace to become a “state policy,” spanning civil and political organizations and unambiguously supported by the Colombian government. He also appealed to the ELN to return to talks with the government.

Another criterion is an offer of alternative means of livelihood to local communities now earning income through illegal crops or compensating those displaced by the fighting, so as to give people a stake in making peace.

Indeed, in contrast to Washington’s more aggressive policy of trying to defeat the illegal narcotics trade, the main element of the EU aid package is establishing “peace laboratories”—pilot projects in the Magdalena Medio, the main center of conflict. There, Patten explained, the EU will support local institutions and civilians engaged in promoting peace and push forward economic and social development. “We know these are high-risk operations,” he said. “They will need a long-term perspective. We shall have to count on the parties involved to provide the necessary security for the people who will be working in the field.”

In addition, the aid will be used to strengthen the local judicial system,

promote agricultural reform, and plan sound environmental policies. But it will also focus on violence and human rights violations, for which the EU will provide E43 million from the E105 million package.

The Economy

Coffee

As the slump in coffee prices forces farmers to tighten their belts, coffee producers' federations, hit by falling revenues, are also having to cut costs, said the *Financial Times*. Federacafé, for example, is slashing advertising expenditures as it embarks on a drastic package of cuts in response to low world coffee prices and a pessimistic outlook for recovery. Three hundred of the agency's staff of 1,800 will be laid off. A few years ago, Federacafé supported 4,000 jobs. The cuts will take it back to its size 20 years ago, "before the coffee bonanza," said Jorge Cárdenas, Federacafé's general manager.

The National Coffee Fund, which is run by Federacafé and offers financial and technical support to Colombia's 500,000 growers, will cut all but its core services. Running costs are to be reduced from 2.3 cents to 1 cent per pound of coffee exported, said Finance Minister Juan Manuel Santos, who is on the federation's policy committee. "Each peso that the federation cuts in costs is a peso that can be channeled to the growers through price support," he added.

Significantly, the Economist Intelligence Unit, which recently predicted that commodity prices would rebound strongly over the next two years, said that the one exception to its bullish forecast would be beverages, led by coffee. Prices for the sector will fall 13% this year and 5% in 2002 "as cocoa and tea prices stabilize."

Banana Exports

Talks were recently reported to have begun aimed at strengthening the Union of Banana Exporting Countries (UPEB) following the announcement that a deal had been struck between the United States and the European Union. The agreement will benefit mainly Chiquita, the U.S. banana seller, by allocating it more import licenses. Colombia, Panama, Honduras, Guatemala, Costa Rica, Venezuela, and Nicaragua, the members of the union (which does not include Ecuador), see it as a force for modernizing and diversifying the industry and giving them a greater share of the profits.

Avianca-Aces Merger

The planned merger of the nation's two largest airlines, Avianca and Aces, will take at least until June while the

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authorities study documentation, a government official said last month. In recent years, the two airlines and Sam, a smaller firm, have struggled to remain profitable in the face of increasing competition from international carriers, prompted by deregulation in the mid-1990s.

The new combined airline would have 64 aircraft and would be held in equal parts by the shareholders of Avianca and Aces. Once official approval has been secured, the new firm will invest as much as \$250 million over the next five years, said Reuters.

Avianca has a market share of 33% of all domestic passengers, followed by Aces with 29% and Sam with 6%. In cargo, Aces controls 23% of the market, Avianca has 12%, and Sam 1.5%. The three airlines have a 50% market share of Colombia's international passengers.

Economic Growth

According to the central bank, the national economy might fail to meet an IMF growth target of 3.8% for this year. Inflation, however, will likely stay below the 8% agreed upon with the Fund for 2001. A slowdown in the U.S. economy—Colombia's largest trading partner—could mean that the economy will grow 0.5% less than forecast. The economy has also suffered from the plethora of guerrilla attacks on the Caño Limón oil pipeline (see above).

Investor confidence remains at a low ebb, bank officials told Reuters, and capital flows are being squeezed by emerging-market uncertainty generated by the financial woes of Turkey and Argentina.

Although the bank believes that inflation will stay on target, it has detected an increase in inflationary risks, including a faster-than-expected depreciation of the peso, high fuel prices, and pressure on food prices caused by the scarcity of rain in February.