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THEDIALOGUE

FEATURED Q&A

What Would Peace Mean for Colombia's Energy Sector?

Colombian President Juan Manuel Santos has made the government's peace talks with the FARC rebels the centerpiece of his presidency. // File Photo: Colombian Government.

Q Colombia's government and the FARC rebels on Aug. 24 announced they had reached final agreement on historic peace accords following nearly four years of talks in Havana. Although Colombian voters must approve the deal in a nationwide referendum set for Oct. 2, the government says a "peace dividend" could add a percentage point or more to the country's gross domestic product. How would Colombia's peace process change the outlook for the country's energy sector and chances for production gains? Will foreign investors make big bets on Colombia's oil and gas opportunities, or, in a period of low oil prices, will they seek to invest in more predictable environments elsewhere in the world? Will the energy sector, long a target of pipeline sabotage and severe harassment of its employees, see a more favorable security situation as a result of the accords?

A **Walter Pesenti, managing director at Berkeley Research Group:** "The peace agreement between the Colombian government and the FARC was overdue. Colombia's economy is highly dependent on oil and gas funds, which represent about 20 percent of the country's fiscal revenues. Due to low oil prices, Colombia has considerably slowed investments in oil and gas over the last three years, which has reduced output by nearly 12 percent. The reincorporation of the FARC into Colombian society has a high cost and comes when the price of oil is low. The FARC's security risk will be mitigated soon, and that should be noticed and considered by investors. Colombia is dealing with challenging logistics and higher costs associated with heavy oil, which

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TODAY'S NEWS

POLITICAL

Lula Lashes Out at Accusers Following Charges

Former Brazilian President Luiz Inácio Lula da Silva denied wrongdoing a day after being accused of masterminding the corruption scandal at state-run oil company Petrobras. Lula said the charges are politically motivated.

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ECONOMIC

Railway Across Peru, Brazil Would Cost $60 Bn

The price tag of the railway, which would be Chinese-built, makes it appear unlikely that it would be constructed.

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POLITICAL

Guatemalan Judge Bars President's Son, Brother From Leaving Country

A son and brother of Guatemalan President Jimmy Morales are being investigated in a case of possible corruption involving a restaurant linked to a party that has supported the president.

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Morales // File Photo: Guatemalan Government.

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POLITICAL NEWS

Brazil's Lula: 'Conscience Is Clear' Following Charges

Former Brazilian President Luiz Inácio Lula da Silva on Thursday reacted to the criminal charges leveled against him the previous day by repeating his denial of wrongdoing and blasting his accusers, saying the charges are attempts to reverse gains made during 13 years of rule by his Workers' Party, The Wall Street Journal reported. "My conscience is clear," Lula told supporters during a gathering at a São Paulo hotel. On Wednesday, federal prosecutors filed charges against Lula, his wife and six others in connection with the massive corruption scandal at state-run oil company Petrobras. Public Prosecutor Deltan Dallagnol alleged the former president was the mastermind behind the scheme, which siphoned some $1.9 billion from the state oil company. Lula accused prosecutors of lying and pursuing him in order to quash his political ambitions, BBC News reported. "Prove anything against me and I will walk all the way to hand myself in and be arrested," he said. Lula said the country's elites never accepted him or the reforms carried out by his party. "What has raised all that hatred against the Workers' Party was the success of our government, the biggest policy of social inclusion in the history of this country," he said. Judge Sérgio Moro now must decide whether to accept the charges against Lula and the others accused along with him.

ECONOMIC NEWS

Railway Across Peru, Brazil Would Cost $60 Bn

China's proposed 3,000-mile-long railway that would connect Atlantic and Pacific ports in South America would cost $60 billion to construct, Peruvian Vice President and Transportation Minister Martín Vizcarra said Thursday, Reuters reported. The preliminary estimate by

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makes it more appealing for companies to invest in other regions of the world. One big risk that is still present involves the blockades of oil and gas installations by peasants and indigenous groups. Companies have complained that in recent years the blockades have been more damaging to production than the FARC rebels have been. Presently, over a month-long blockage by indigenous groups of a natural gas processing plant in the town of Gibraltar in northeast Colombia has caused an approximately 30 percent increase in gas prices for residents of nearby Bucaramanga. A year ago, groups blocked repair crews from fixing the Caño Limón pipeline for two months, costing the country millions in oil revenue. The news about the FARC is good for Colombia. However, indigenous group blockages, logistics and lifting costs will still affect oil and gas investment decisions."

John Padilla, managing director, and Sergio Torres, consultant, at IPD Latin America: "Terrorist attacks against oil infrastructure have plummeted as a result of periodic and unilateral cease-fires that the FARC has declared since peace talks began four years ago. The impact on production has been positive, but not enough to reverse an overall downward spiral. Oil prices have played their role, but other, more worrisome, issues have taken a greater toll: recent judicial and political rulings that have harmed contract sanctity, permitting delays and community issues. The results? Production fell to 928,000 barrels per day in the first half of this year after reaching 1 million barrels per day in 2013. Proven reserves have fallen 18 percent since 2013, and drilling has screeched to a halt—nine wells drilled this year as of July, and 25 last year vs. approximately 100

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NEWS BRIEFS

Judge Bars Son, Brother of Guatemalan President From Leaving Country

A judge in Guatemala has barred a son and brother of President Jimmy Morales from leaving the country in relation to a case of possible corruption, the Associated Press reported. Morales' son, José Manuel Morales Marroquín, and brother, Samuel Everardo Morales, are being investigated in connection with false invoices that were submitted to the government for reimbursement, allegedly favoring a restaurant linked to financial supporters of a political party allied with the president. Morales Marroquín has not commented publicly, and Everardo Morales has said the case will be resolved.

Bolivia Taps Chinese Firms to Build $1 Billion Hydroelectric Project

Bolivia awarded two Chinese firms, China Three Gorges Corp. and China International Water & Electric, a contract to construct a hydroelectric project that will generate between 500 and 600 megawatts of power starting in 2024. The project will have an initial $1 billion in financing from a credit from China's Eximbank. The two firms are tasked with engineering, constructing, assembling and other tasks for the Rositas hydroelectric project in the eastern part of the South American country.

Chile Leaves Benchmark Interest Rate Unchanged

Chile on Thursday left its key rate unchanged as inflation slowed and the economy contracted, Bloomberg News reported. The Chilean central bank held borrowing costs at 3.5 percent for a ninth month. Some analysts are now forecasting an overnight rate cut by the end of the year, as inflation fell to a 30-month low in August and the central bank cut its growth forecast for next year.

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Chinese officials took the Peruvian government by surprise during a delegation's visit to China, Vizcarra said. Earlier in the trip, Peruvian President Pedro Pablo Kuczynski said he discouraged the construction of the railway when

Peru's portion of the railway would cost $35 billion, and Brazil's would cost $25 billion.

he met with Beijing officials, saying it was too expensive and environmentally harmful. Peru would need to spend $35 billion for the portion spanning the country, and Brazil would need to pay $25 for its portion. "With that money, $35 billion, we could build a lot of projects to benefit Peruvians," Vizcarra said on Peruvian broadcaster RPP. China is Peru's biggest trade partner, and is a major destination for Latin American commodities.

BUSINESS NEWS

Operations at Barrick Mine in Argentina Halted After Spill

Toronto-based mining giant Barrick Gold said it was temporarily halting operations at its Veladero mine in Argentina, citing a new cyanide spill, the Associated Press reported Thursday. The Argentine government fined the mining company $9.3 million earlier this year for a cyanide spill last year in the western San Juan province. Barrick said Thursday it is carrying out inspections of the mine's heap leach area. The mining company said the spill occurred on Sept. 8 after a large block of ice rolled down the heap leach valley and damaged a pipe carrying process solution. Barrick said "a small quantity of solution left the leach pad," but that the spill did not affect its watercourses and that the company's employees, the community and the environment were not harmed.

CAPITOL HILL WATCH

A Look at U.S. Congressional Activity on Latin America

Rubio Seeks Suspension of Flights to Cuba

Senator Marco Rubio (R-Fla.) on Wednesday called for the United States to suspend flights to Cuba, a statement he made just hours after the U.S. Transportation Security Administration revealed there are no air marshals on non-charter flights between the two countries, ABC News reported. When questioned by legislative authorities, TSA officials explained that Cuba had not signed the air marshal agreement that U.S. officials sent in August. In related news, the House Homeland Security Committee advanced a measure that would halt U.S. flights to Cuba until the TSA completes a report assessing security protocols in place at Cuban airports, The Hill reported.

Rubio // File Photo: U.S. Congress.

House Subcommittee Advances Measure to Oppose Loans to Nicaragua

The House Subcommittee on the Western Hemisphere advanced legislation on Thursday to oppose loans to Nicaragua from international financial institutions "unless the Government of Nicaragua is taking effective steps to hold free, fair, and transparent elections…." During a hearing, Republican members of the committee criticized the Obama administration, saying it has failed to take action in response to what it called Nicaraguan President Daniel Ortega's recent consolidation of power. The same day, the subcommittee, which is part of the Foreign Affairs Committee, also approved a resolution that calls on the Venezuelan government to address its humanitarian crisis and hold a recall referendum this year.

U.S. House Approves Legislation to Halt Further Prisoner Transfers From Guantánamo

The U.S. House of Representatives on Thursday approved legislation to prevent further transfers of prisoners from the Guantánamo Bay detention center, The Hill reported. The vote was in response to President Barack Obama's long-running attempt to close the controversial prison, which mainly holds terrorism suspects. Proponents of the bill, which passed 244-174 mostly along party lines, claim the center is vital to U.S. security, pointing out that seven of 144 prisoners released during the Obama administration have been confirmed as resuming involvement in terrorism. Obama is expected to veto the bill.

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annually in previous years. Foreign investment in the sector has fallen by 45 percent since 2012. The government must resolve these issues for broad-based investment to return. Many of the regions directly affected by post-conflict strategies lie in close proximity to hydrocarbons and mining activity. Local communities will continue to demand jobs and aid, among other things, from the extractive industry. The government must help stimulate economic activity and improve conditions in local communities. But inflation in Colombia has exceeded 8 percent over the past 12 months, unemployment has officially reached 9.8 percent (and is much worse in many areas), and external debt is at an all-time high (more than 40 percent of GDP). Those dynamics will not woo new investment, peace accord or not. Ecopetrol plans to bid and award 17 smaller blocks on Nov. 25. The tender's results may be the best indicator of potential post-conflict sector investment in the near term."

Leopoldo Olavarría, partner and head of energy for the Latin America division, and Santiago González, attorney and local partner at the Bogotá office, at Norton Rose Fulbright LLP: "Colombia is relatively underexplored, due in part to its historically difficult on-the-ground security situation. It is expected that regions with great potential (e.g., Putumayo, Catatumbo and the Magdalena Basin) will see security improvements as a result of the peace process. This in turn should facilitate increases in exploratory activities such as seismic acquisition and the drilling of exploratory wells. If these exploratory campaigns bear fruit, Colombia should see medium- and long-term production gains. Recently, the country's oil and gas sector has experienced consolidation, as certain mid-size players with pre-existing positions in the country and solid balance sheets have seized the low oil price environment to make low-cost acquisitions, thus growing their reserves and production bases. These 'opportunistic' investors will certainly seek to promptly recover their investments by increasing production and locating markets for their production. Colombia should be able to attract further investments if, as a result of the expected structural tax reform, the government's take is lowered to compensate for the country's relatively high production and transportation costs. The tax reforms are a crucial element to ensure Colombia remains competitive. Additionally, it is certainly to be expected that the energy sector will see a more favorable security situation as a result of the accords. Since the FARC's unilateral ceasefire, attacks on oil and gas infrastructure and operations have diminished considerably. Nonetheless, improving security conditions on the ground is still a work in progress, as other illegal armed groups, such as the ELN, have attacked energy infrastructure, and this group is quite proactive in their engagement. A peace accord with the ELN and improved relations with communities will be key factors to ensuring a more favorable security situation."

> **"Improving security conditions on the ground is still a work in progress."**
>
> **— Leopoldo Olavarría & Santiago González**

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org.

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