

# Facilitating the growth of hydrocarbons in Colombia

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One of the most important factors in the successful development of the hydrocarbon sector has been the institutional reform implemented in 2003, which marked a break with the past and started what today is a real success story in Colombia's petroleum policy: the new role of Ecopetrol, focused on the operation of a chain of production, transport, refining and distribution activities; the promotion strategy and the flexible and transparent business model created by the National Hydrocarbon Agency (ANH).

Proof of the excellent results of their management and the investment confidence which the Colombian government has generated lies in the increase in the number of Exploration and Production Contracts and 'TECs', technical evaluation contracts, with the increase in the first of these being particularly outstanding. Whilst for 2002 seven exploration and production contracts were granted, for 2010 the total number is 230. Also, whilst the format of technical evaluation contracts did not exist eight years ago, to date 80 of these have been awarded.

For the forthcoming month of June the Ministry of Mines and Energy and the ANH together have prepared the 'Open Round Colombia', in which 225 blocks representing more than 52 million hectares are on offer; 83 companies have confirmed their interest in taking part.

As a result of the preparation of areas with the help of state investment resources, a highly competitive model and intensive promotion efforts, the targets for exploratory activity have been met and widely exceeded, with so far a total length equivalent to more than 74,000 kilometres of two-dimensional seismic information and the drilling of 347 exploratory A-3 wells in the course of the current four-year term.

As a result, in addition to intense activity in the development of heavy crude, the renewal of mature fields, the commissioning of fields which had not been developed, investments in technology and an increase in the output from existing fields, at present production in Colombia is 776,000 barrels a day. By the end of the year this is expected to reach 800,000 barrels a day and in the next five years to break through the million barrel barrier.

This increase in production has also been reflected in an increase in Colombia's oil reserves, which are currently more than 2,000 million barrels in confirmed reserves and more than 3,000 million across proven, probable and possible reserves.

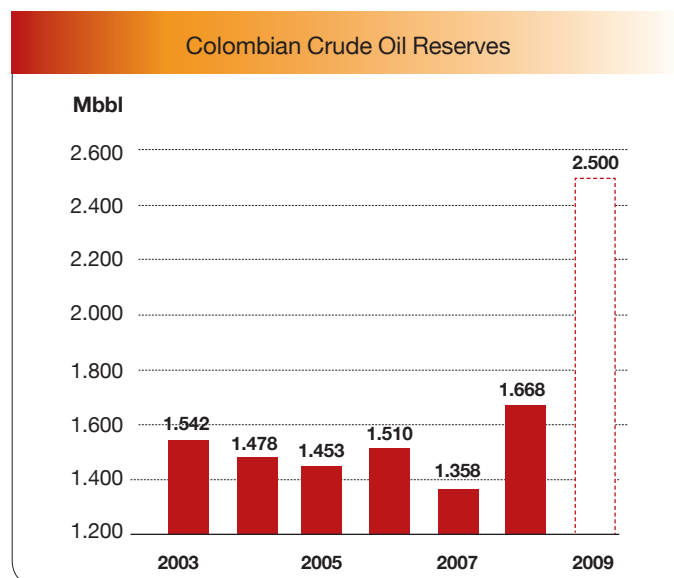
At this point it is worth mentioning that in the year 2002 Colombia's proven reserves were of the order of 1,631 million barrels and only guaranteed our self-sufficiency to the year 2009. Today, 8 years later, and with more than 1,400 million barrels consumed in that period, the loss of self-sufficiency in

petroleum, which was forecast for the year 2009 at the start of President Uribe's government, has already been deferred beyond the year 2020, which we can claim to have achieved for our country with the petroleum policy we have been promoting in the last few years.

Colombia, although it is not yet an oil country, is shaping up to be one of the most attractive countries in Latin America for prospecting for hydrocarbons because of its competitive contractual terms, the notable improvement in the physical security of operations and the quality of its human resources.

The challenges we are now facing are of a different kind, since the big obstacle of people's perceptions of the lack of security in operating in Colombia has been overcome. In future we must make sure that the entry of new industries into our regions is accomplished in accordance with all the rules for harmonious relationships with the communities and with the environment, both highly relevant topics which you have tackled on the agenda these last few days. The investments needed for projects already identified throughout the production chain in this sector amount to around US\$34,000 million between the years 2009 and 2015.

This figure includes investment in the exploration and development of fields already discovered, expansion and modernisation of the refineries in Cartagena and Barrancabermeja, and also the construction of new transport and storage systems for crude, gas and refined products. 50 per cent of these investments, 12.6 billion pesos, will be borne by Ecopetrol. This does not include the development of new discoveries or new transport and export solutions arising from





these, which are beginning to emerge and which may easily involve additional investments of more than US\$2,000 million. On the subject of biofuels we can confirm that the Colombian leadership is already internationally recognised.

When this government took office, the first steps were already being taken, using the example of the experience of countries like Brazil; today, Colombia is consolidating and enhancing its biofuel programme, in the belief that this represents an excellent option for improving the quality of the fuels used in Colombia, investing in clean energy and helping to expand the range of energies available; and also for promoting the generation of new jobs.

Our country has 3 million hectares suitable for the production of biofuels which would not represent a threat to our food supply nor to our native jungle and rainforests, but on the contrary an opportunity to make better use of the land, with a higher density of use per hectare and added value for our economic production.

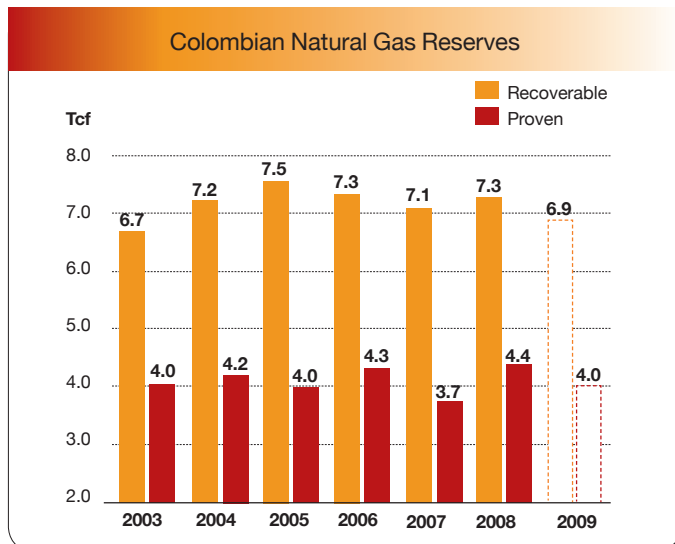
In addition, throughout almost the whole of our territory mixtures of diesel with 8 per cent and 5 per cent biodiesel are being used and we are working to increase this mixture to 10 per cent throughout the whole of Colombia in the second half of the year. In support of this objective, to date five production plants have been opened and in June another one will be commissioned, giving a production capacity of 486,000 tonnes per annum. These plants will require a total investment of US\$158 million and 108,000 hectares of land dedicated to growing the raw materials.

Being aware of the opportunities which these investments represent, the government is working to boost the domestic market and at the same time prepare us to make the most of our export markets. To this end it is essential to ensure access to the markets of North America and Europe and that is what we are working towards.

Other crucial topics are: eliminating the subsidies for liquid fuels, which allowed the government to invest those funds in meeting the needs of the most vulnerable people in Colombia and to make fiscal conditions in the country consistent; and the handling of domestic prices for both petrol and fuel oil. With regard to the creation of the Fuel Price Stabilisation Fund, that has proved a good move because it has helped to mitigate the impact on the Colombian people of the marked tendency of international oil prices to rise.

As we announced in this same context last year, in fulfilment of the government promise to improve the quality of fuels, from 1st January this year the sulphur content of diesel in Colombia has been reduced from 2,500 to 500 parts per million and Bogotá has even cleaner diesel, having switched from a 500 to 50 ppm sulphur content.

As regards gas I would like to say that there is no doubt



that achievements have been made thanks to some very favourable circumstances, such as the investments in the 1991 mass production plan for gas and to the reassurance which the discoveries of gas in Guajira in the seventies represented for Colombia. The regulations and the market model chosen were the right ones for that situation but the problems which dogged the model and the regulations came to the fore when the phenomenon of El Niño appeared in the middle of last year.

This work will culminate in the adoption of the policy by means of a CONPES\* document or a decree from the government. There is no question of adopting measures which affect a particular segment of the service chain. It is a matter of drawing up an administrative act which will reflect the Ministry's renewed commitment to and confidence in a sector which has great development potential.

Colombia is becoming increasingly attractive to foreign investors, its enormous wealth of natural and energy resources, its qualified workforce, strategic position, legal stability and business opportunities have brought it to the attention of the major world companies. Its energy policy complies with international requirements and with the needs of a constantly growing country which requires a supply of efficient and clean fuels to ensure its development and social and economic growth.

In the future the rhythm of growth which we have managed to achieve thanks to this government needs to be maintained so that our sector can continue to play a key role in the Colombian economy and in the position of Colombia on the strategic world map. □

\* National Council for Social and Economic Policy