

Colombian kidnapping heightens risk awareness Oil and gas companies weigh political risks against security issues

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CALGARY - The kidnapping this week of 23 Colombian oilfield workers contracted with Talisman Energy has heightened awareness about investor risk for oil and gas companies operating in developing basins.

Although one hostage escaped and 21 others were subsequently freed within a day by Colombian military personnel, the incident added to an already tense environment in the Canadian oilpatch which faced evacuating workers from war-torn Libya.

But investment likely will continue in Colombia's promising oil and natural gas basins, as it will in North Africa and elsewhere there is a risk premium, say analysts.

It's the size of the prize and the fiscal terms laid out by the country in question, said Alan Knowles, with Haywood Securities.

The analyst travels about twice a year to Colombia and notes the government there has clamped down on terrorist and armed activity in the past decade.

He assess political and country risks when looking at a company's investment in certain regions such as Colombia or Peru.

"In Colombia, you'd probably say the political risk is low because they've never reneged on contracts," he said. "But the country risk is a bit higher than other places.

Talisman and partner Ecopetrol commended the rapid reaction by Colombian authorities leading to the rescue of the 21 workers within a day.

"Both companies are cooperating with the local community and the Colombian authorities to support the safe release of the remaining SAE employee still being held against his will," Talisman said Tuesday in a news release.

Political science professor and terrorism expert Gavin Cameron agreed civil unrest such as that seen in North Africa and the Middle East poses more of an issue to corporations than kidnappings.

"In terms of actually making an entire country hostile to operations, I would think that political instability is still a bigger issue than terrorism, for Canadian oil and gas companies operating on a global level," Cameron, with the University of Calgary, said.

Before junior exploration company Gran Tierra Energy started operations in the Putamayo region of southern Columbia, the Calgary-based company weighed the pros and cons of investing in the South American country.

"When we entered there were some very attractive opportunities from a technical and geological point of view," chief operating officer Shane O'Leary said. "And we still see those types of investment opportunities."

As importantly, the government's fiscal terms were attractive, too, and came from a fairly stable base, he said.

O'Leary, along with other founding executives of Gran Tierra, also brought years of international experience with him when launching the company six years ago.

"Although there are still security issues out there, it's now possible to operate in these areas," he said. "And if you follow the right training and transportation and security protocols it is possible to have safe operations."

Experience is paramount to launching a successful operation in undeveloped countries, say experts.

That includes being able to create ties with governments, military and police forces in areas, suss out contacts for local security and have on-the-ground contacts with in-depth local knowledge of the environment,

"It's business, isn't it," said a security consultant in Calgary. "It all has to do with money."

Talisman Energy, in partnership with the country's state-run Ecopetrol, bought BP's Colombian assets in January for \$1.75 billion US.

The Calgary-based corporation joined a number of oil producers flocking to the country to take advantage of its relatively undeveloped resources.

Investor confidence in Colombia has soared since 2000 when concerted military offensive killed several top leaders of the Revolutionary Armed Forces of Colombia, known as FARC, and courted its followers into "reintegration" programs offering free education and the chance of a new life.

Foreign direct investment in Colombia grew by 37 per cent between 2009 and 2010 to \$9.48 billion US.