

How the international banks are looting Colombia's Ecopetrol

by Javier Almarino

The Colombian Petroleum Company (Ecopetrol), one of Ibero-America's largest, has been turned into the "goose that lays the golden eggs" for paying off the Colombian foreign debt. But in the process, the "goose" is being strangled to death. The government of Virgilio Barco has ordered that investment in Ecopetrol projects and maintenance be drastically cut so that the company's liquidity may be used instead for paying the debt. At the same time, the looting of the country's potentially vast oil reserves by the multinationals, combined with National Liberation Army (ELN) terrorism financed by these same multinationals, threatens to prevent Colombia's oil from ever being used as the underpinning for a serious effort to industrialize the country.

One immediate consequence of the Barco government's decision is that Ecopetrol has suspended its plans to build a crucial gas pipeline that would carry natural gas from the Guajira Peninsula, in the northeast of the country, to the capital of Bogotá for use in domestic consumption. Ecopetrol is also expected to suspend investments planned in a whole series of petrochemical projects: plants to produce polyethylene, ethylene oxide, styrene, rubber, vinyl chloride, etc. The government has announced that henceforth, investment in these projects "would depend exclusively on the private sector," that is, on the oil multinationals.

Ecopetrol, which had been on the verge of an enormous leap forward in its exploration and exploitation capabilities, has now been ordered to deploy the resources of its Oil Exploration Fund for paying the foreign debt held by various state companies. That fund was created under former Ecopetrol president Francisco Chona, who had hoped to guarantee the company, and country, a sovereign capability for oil exploration. Thanks to that fund, Ecopetrol was able on its own to dig some 20 oil wells in 1988; the oil discovered will be exploited by Ecopetrol. However, with loss of control over the fund, Ecopetrol is driven back into dependency on "association contracts" with the oil multinationals, which give them ownership rights to extract a whopping 40% of whatever oil they find on Colombian territory.

In 1988 the fund, which was maintained with 10% of the value of Ecopetrol's export earnings, had \$100 million. Today, the Oil Exploration Fund is left with a mere \$1 million, the rest having been delivered over to the Central Bank's Fund for Payment of Foreign Debt Service (FODEX).

The looting operation against Ecopetrol accelerated in

1984. It was in that year that then President Belisario Betancur made a crucial decision: to pay Colombia's foreign debt, come what may. The Colombian government played host to a meeting of the Ibero-American countries held in the city of Cartagena. At the eleventh hour, Betancur deleted from his speech several paragraphs which were to have explained the reasons why Colombia was going to voluntarily suspend payment of its international debts. The Cartagena Consensus, as the gathering came to be known, isolated Bolivia for having suspended its debt payments, and backed the idea of bilateral, case-by-case negotiations between each nation and its creditors. The rumors of a debtors' cartel were silenced. Instead, the Cartagena Consensus had created a "payers' cartel." One of the Consensus's first operations was to pull together a few dollars to lend to Argentina to prevent that country from falling into default and triggering a chain reaction.

The hand of the IMF

Once Betancur had completed his cowardly turn, he went on to name to the post of finance and credit minister the monetarist Roberto Junguito Bonnet. Junguito urged President Betancur in a memorandum that a formal agreement with the International Monetary Fund (IMF) be struck, since without a "green light" from the IMF, Colombia would get no new credits from the private banks.

Betancur elected instead to establish an "informal agreement" with the IMF, in which that supranational institution would monitor the Colombian economy on a quarterly basis. Nonetheless, without an official letter of intent, the IMF disbursed no money; Betancur still carried out his semi-secret agreement with the IMF, and Junguito prepared an "adjustment plan" to meet with the IMF's "informal" conditionalities. He presented the Colombian Congress with a bill which brutally reduced the budget, particularly the health and education budget. The bill gave the government the right to draw on funds from the National Learning Service (Servicio Nacional de Aprendizaje) and from the Colombian Institute of Family Welfare (Instituto Colombiano de Bienestar Familiar) to finance the debt service budget.

As with every IMF program, the Colombian government committed itself to reducing its "fiscal deficit." In 1985, the government created the Value-Added Tax (IVA, Impuesto de Valor Agregado), and ordered Ecopetrol to collect the

TABLE 1

The looting of Colombia's petroleum company

Ecopetrol payments (in thousands of Colombian pesos)*

1981—88

	1981	1982	1983	1984	1985	1986	1987	1988
Funds transfers (to government, others)	20,158,658	30,165,779	42,971,783	na	60,844,105	93,695,880	160,396,088	158,567,911
Sales taxes	0	0	0	0	46,877,000	59,712,000	75,792,500	94,841,000
Profit taxes	0	0	0	0	0	818,246	16,283,851	1,128,770
Subsidies	18,853,900	18,191,300	18,274,700	21,746,000	53,419,000	20,811,000	31,804,600	48,187,000
Royalties	na	na	na	na	na	14,022,536	38,390,355	48,905,166
Investment	22,358,000	20,689,900	22,389,000	28,233,700	107,694,000	107,269,000	87,763,100	133,726,000

Source: Ecopetrol annual reports.

*The exchange rate for pesos/U.S.\$1 is: 1982: 70 pesos; 1983: 88 pesos; 1984: 113 pesos; 1985: 169 pesos; 1986: 216 pesos; 1987: 250 pesos; 1988: 294 pesos; 1989: 379 pesos (as of June).

Not counting the forced "investments" Ecopetrol has had to make to the central bank's FODEX (Fund for Payment of Foreign Debt Service), Ecopetrol gave the government and various state entities the sum of 351.6 billion pesos in 1988, equivalent to a full 64% of its earnings. In addition to direct transfers of funds, that sum also included subsidies provided other state companies, royalties to the nation, and both profit and value-added taxes. The government used that money to balance its budget, meet foreign debt payments of its own, and as collateral for requesting new international loans.

The table shows that Ecopetrol's fund transfers in these categories have increased in recent years. In 1982, Ecopetrol first began its transfers to other state entities. In 1985, Ecopetrol began to collect the value-added tax for the state. In 1986, Ecopetrol began to pay profit taxes, as if it were any other private company. Also in 1986, Ecopetrol began to pay substantial royalties, when previously these sums had been almost insignificant. Not included in the table are the funds given to FODEX, which in Ecopetrol's accounting appear as investments in central bank bonds. This sum through September of 1989 comes to \$204 million, all of which was extracted from Ecopetrol's Exploration Fund.

IVA on the sale of its products. At the same time, the government rammed through congress a tax reform designed to cover its budget deficit; that reform went into effect in 1986. Before the tax reform, Ecopetrol's investments had been exempt from profit taxes. As of 1986, Ecopetrol began to pay taxes like any private company; the effect was to shrink Ecopetrol's maintenance and investment budget. The only thing not shrunk, of course, was the federal budget for debt repayment.

The debt payment fund

On May 29, 1986, the Betancur government signed a contract with the Banco de la República, according to which Colombia's central bank would administer a new fund called the Fund for Payment of Debt Service (FODEX), also known as the Foreign Monies Fund. FODEX was specifically created to meet debt payments of state companies, and especially of the electricity sector, which had fallen in arrears with international creditor banks. Timely payment was a "good behavior" requisite for release of the so-called "jumbo" credit of \$1 billion that Colombia had negotiated, as well as for any forthcoming credits.

The central bank created bonds called TREC (Bonds to Regulate the Coffee Surplus, or Títulos de Regulación del Excedente Cafetero), in which the Coffee Growers Federation (Fedecafé) was obliged to invest the surplus of the 1986

coffee bonanza. Later, the central bank created the TREN (Bonds to Regulate the National Surplus, or Títulos de Regulación del Excedente Nacional), in which all state companies with surpluses, like Ecopetrol and Telecom, were forced to invest their profits.

Although the TREN and the TREC were issued as redeemable bonds, with a 4% interest rate in dollars (approximately 8 points below the prime rate), to date FODEX has yet to return a single peso to Ecopetrol. In 1987, FODEX was expanded with new deposits from Ecopetrol and Telecom. FODEX paid the debt of the electrical energy companies, but these companies have paid nothing back to FODEX. As a result, FODEX has nothing with which to pay Ecopetrol, Telecom, or Fedecafé.

In 1989, FODEX will have to pay \$86.5 million to Fedecafé and \$316 million to Ecopetrol and Telecom. "Until now, they have not returned that money, so Ecopetrol has been forced to reinvest in the FODEX bonds," explained one official. In pragmatic terms, Ecopetrol views the "investment" in FODEX as money simply lost to its real investment program.

Enter Virgilio Barco . . . and Occidental

In August of 1986, Virgilio Barco entered the presidency. Barco is a former official of the World Bank. He is also heir to the famous Barco Concession which gave Shell Oil ex-

TABLE 2

Impact of terrorism on Ecopetrol operations

Year	1986	1987	1988	1989*
# attacks	23	10	50	21
Barrels of oil spilled	109,411	11,048	342,944	68,027
Cost of crude oil spilled (millions U.S.\$)	1.3	0.2	5.1	1.2
Cost of repairs (millions U.S.\$)	17.3	0.2	5.1	0.8
Barrels of oil not exported	552,000	na	17,300,000	6,700,000
Value of oil not exported (millions U.S.\$)	6.6	na	260	108

*Statistics through June 5, 1989

Source: *Carta Petrolera*, edition #23).

plotation rights in the Casabe oil fields between 1946 and 1975. The only thing that Colombia received from Shell in return for 30 years of looting rights were Shell's installations in the country!

Barco named Francisco Chona Contreras as president of Ecopetrol. Two years later, Barco fired Chona because he refused to decapitalize the national oil company. "I began to have problems with the government when I told the President that Ecopetrol was not a company of the government, but of the state," explained Chona.

Under an association contract, Occidental Petroleum Company discovered the Caño Limón petroleum reserve, with an estimated 1 billion barrels of oil. Thanks to this discovery, Occidental's stocks rose and the possibility of vast oil exports emerged. As Occidental's partner, Ecopetrol's coffers began to fill as well. Chona created a special team to pinpoint investments that the nation required to achieve energy independence: a pipeline connecting the entire country, a gas line to bring natural gas from the Guajira Peninsula, and another to carry gas from Villavicencio, a refinery in the Magdalena Medio which would give the country the ability to refine its own raw material, etc. The plan was dubbed "Ecopetrol Plan Year 2000."

But the Barco government approved a budget according to which "all Ecopetrol profits must pass to the National Treasury. Both investment and operating budgets must be approved by an entity known as the Fiscal Policy Council, made up of the Finance Minister, the head of the National Planning Department, a representative of the Monetary Council, and the president of the Central Bank," explained Chona. All plans presented by the Ecopetrol board of directors were rejected by the Fiscal Policy Council. Finance

Minister Luis Fernando Alarcón Mantilla was especially vehement in his opposition. "The reason is that he had no interest in the oil question, because his priority was the foreign debt," said Chona.

"When the finance minister, for example, demanded \$100 million from me for FODEX, I had to tell him that these disbursements could not be authorized because that would violate certain Ecopetrol statutes which were the law of the Republic," Chona told the daily *El Espectador* in an interview. "The only solution they found was to remove me from Ecopetrol." On Aug. 23, 1988, Chona was fired, along with half of the Ecopetrol board of directors. Two weeks later, the Monetary Council ordered that Ecopetrol's Oil Exploration Fund be transferred to FODEX. As of this writing, Ecopetrol has "invested" \$204 million in FODEX bonds, and the government is demanding another \$91 million this year. Said one official, "The Exploration Fund is not terminated, but it has not been re-capitalized. . . . At present, the Exploration Fund has \$1 million; that is, nothing."

The current Ecopetrol president, Andrés Restrepo Londoño, and one of the directors named, former Finance Minister Jaime García Parra, are both experts in the management of bankrupt companies. While Ecopetrol has long been the most profitable state company in the country, the unabashed looting of the company's resources to pay the debt, added to the targeted sabotage and destruction of its installations by the multinational-financed ELN terrorists (see below), is guaranteed to end Ecopetrol's viability in short order. At that point, sale of the company to the highest foreign bidder would be the order of the day, making a self-fulfilling prophecy out of President Barco's insistence that "the state is not a good administrator."

ELN, weapon of Oxy Pet and the multinationals

The self-described "nationalist" National Liberation Army (ELN), which claims to be fighting against "looting by the multinationals," is in fact a terrorist group paid by Occidental Petroleum Company and by other companies such as Germany's Mannesmann.

Armand Hammer, Occidental's international president, confirmed in statements given in July 1985 to the *Wall Street Journal*, that his company in Colombia had indeed hired ELN guerrillas. "We are giving jobs to the ELN," said Hammer. "We give them work as suppliers and we take responsibility for the local population. It has functioned until now, and they in turn protect us from the other guerrillas."

Later, an *EIR* journalist asked Hammer why he had hired terrorists who had kidnaped the brother of then President Belisario Betancur, Jaime Betancur Cuartas, a member of

the Council of State. Hammer's cynical response was: "That is not proven."

Occidental, a partner with Ecopetrol in the exploitation of the Cravo Norte oilfields, subcontracted with the German company Mannesmann for construction of the Caño Limón-Covenas pipeline. Occidental also managed to get Bechtel Petroleum, Inc. hired for construction of another section of the pipeline.

On July 16, 1985, Colombia's prestigious Society of Agriculturists (SAC) charged that Occidental, Mannesmann, and Bechtel had bought "guerrilla protection." These companies "all of a sudden have decided to buy protection from the guerrillas and specifically from the group which has never wanted to enter into peace negotiations with the government," said then-SAC President Carlos Ossa Escobar. The group "which never wanted to enter into peace negotiations" is the ELN.

Ossa Escobar further charged that the helicopters used in the pipeline construction had also served to carry provisions to the guerrillas. "We can neither understand nor accept such behavior from companies which say they are investing in Colombia because our country 'merits' their confidence. . . . One is obliged to ask oneself which are the institutions which defend these investors, and which is the Colombian state with which they have negotiated and are carrying out these multimillion-dollar projects," wrote Ossa in a letter to then Mines and Energy Minister Ivan Duque Escobar.

Gen. Augusto Moreno Guerrero, serving at the time as Armed Forces commander, confirmed the SAC's charges. On July 17, 1985, he declared: "We were the first to denounce what is going on with those companies." General Moreno revealed the existence of documents detailing the financing given by Occidental, Bechtel, and Mannesmann to the ELN. The documents were handed over to President Betancur. "We hope that with all the existing documents and evidence, the government will take the appropriate measures." Betancur never took the "appropriate measures."

The three cited companies had signed a deal with the ELN according to which the terrorists would receive \$200,000 a month in exchange for "protection." Mannesmann was in charge of delivering the money in the name of the other companies. Although Mannesmann officials have always denied the charges (contradicting Armand Hammer himself), the ELN in its July 1985 Bulletin No. 20, reported that so far they had received \$4 million from Mannesmann in "war taxes." The ELN attempted to weakly disguise the Mannesmann payments as ransom paid for several company officials that the ELN had supposedly kidnaped.

Before the accusations against Occidental and the others had surfaced, Mannesmann had refused to permit the presence of the Armed Forces anywhere near the company's camps. In a letter sent to the Colombian Army, Mannesmann executive director Dieter Lehmann demanded that troops stay

clear of the camps, and that "the existing order regarding military actions" in the region be immediately revoked. When challenged about his letter, Lehmann said that since army protection was "inadequate," the company had decided to use "other instruments" to carry its work forward.

Mannesmann's legal representative Rodrigo Noguera Calderón requested an investigation on the part of the Attorney General's office to prove or disprove the charges against the company. To this day, the Attorney General's report—if one exists—has never been revealed to the public. Following the scandal, Mannesmann's international president arrived in Colombia and held several meetings with government officials. On Aug. 20, 1985, he announced that company relations with the Army were "normalized" and that it was necessary to "forget yesterday." The scandal now buried, the government and the oil companies made a pact never to revive the issue.

Thanks to the generosity of the oil multinationals, the ELN, which had been on the verge of economic and military bankruptcy, has now dramatically revived. It has purchased new weapons, new uniforms, and hired new mercenaries.

From the first moment Ecopetrol began to operate the Caño Limón-Covenas pipeline, the ELN has carried out 104 assaults on oil installations. The most serious occurred June 16, 1989 when the ELN dynamited the weighing station at the Covenas port terminal. Oil losses were estimated at 531,430 barrels, valued at \$7.8 million. Repairs to the installations cost another \$23.4 million. Loss of export income amounted to \$374 million. The oil spills have caused serious damage to land, rivers, and crops, and yet international environmentalist groups have not uttered a peep in protest. The terrorist attacks have also caused border problems with Venezuela, which considers itself violated by the oil spills contaminating its rivers.

The greatest burden of the cost from this terrorism has fallen on Ecopetrol. "The multinationals only lose when some of their oil happens to be flowing through the pipeline at the time of the attack, but that is minimal," said an Ecopetrol official. Asked about the multinational payments to the ELN, that same official said: "That was the worst that could have happened. What if Ecopetrol had given money to the ELN? They would already have blown up the refineries, because once you give them something, they will always want more."

Today, the international banks are demanding that Mexico privatize *Petróleos Mexicanos* (Pemex) and pay the debt with stocks of that state company. The same banks are demanding that Brazil deliver Petrobrás as payment on the debt for equity swaps. The bankers who enforce the conditionalities of the so-called "adjustment programs" insist that privatization of "inefficient" state companies is a necessary adjustment.

The ELN is clearly determined to prove Ecopetrol's "inefficiency." That, in a nutshell, is the story behind Armand Hammer's "jobs program" for terrorists.