

and c) a Royalties Fund which receives 20% of overall crude oil production and will serve to finance regional development projects;

- The promotion of hydrocarbon exploration and exploitation through association contracts with private companies. The government is currently studying changes to the terms of the association contracts, to make them more competitive in the international market;
- Privatization of petroleum product distribution under regulations developed by CREG, including the sale of Ecopetrol assets in the distribution sector;
- Introduction of BOMT agreements for private company involvement, especially pipeline development projects (e.g. Cusiana - Coveñas); Ecopetrol will still maintain control over crude oil transportation;

Operating Contracts:

a) Concessions

A concession consisted of a right granted to a company to explore and exploit a certain area and in return the state received a royalty between 5% and 14% of the production plus taxes. Although there are some contracts still in operation under this system, (all will expire before the year 2000), it was suspended for new contracts after 1974 when the government issued Decree 2310.

b) Association Contracts:

Decree 2310 of 1974 gave Ecopetrol the exclusive right to explore and produce all hydrocarbons in Colombia; this can be done directly by Ecopetrol or through association contracts, operation services, or any other arrangement different from a concession. These contracts can be signed with Colombian and/or foreign parties, private and/or public investors.

Characteristics of the Association Contract System:

1. **Parties:** The parties are always Ecopetrol and the "Associate", which consists of one or more private companies.
2. **Contract Area:** The contract area is normally established by mutual agreement between Ecopetrol and the Associate, and taken from the official Ecopetrol land map.