

V. SECTORAL BACKGROUND AND LEGISLATION

Sectoral History

Oil exploration began in Colombia in 1905 under a concession system by which the government granted exploration and development rights on promising areas to individuals and oil companies and the nation in return received royalties ranging from 3% to 14% of production.

Two major concession contracts were granted in that early period: The Barco concession in the north-eastern part of the country along the Venezuelan border and the De Mares concession in the middle Magdalena valley, lately sold to the Tropical Oil Company, a subsidiary of Standard Oil Co. After a very successful production period, the contract expired in 1951 and the area with its production infrastructure reverted to the Colombian government.

Ecopetrol was then established to assume management and operation of the De Mares concession and to initiate exploration and development programs of its own and, after 1974 also in association with private local and/or foreign operators.

Although Colombia never joined the big league of oil producers, it remained self-sufficient until 1976 when, in absence of new discoveries and increased consumption, it became a net importer.

The discovery of Caño Limon (located in the province of Arauca, on the Venezuelan border) in 1983, prompted the start of a new era in Colombia's oil and gas history. The development of this important field through the Occidental Petroleum-Ecopetrol association contract, permitted Colombia to return to its position of crude oil exporter; this status will be sustained beyond the year 2000 with the development of the Piedemonte discoveries (Cusiana-Cupiagua fields).

Legal / regulatory issues:

The adoption of the 1991 Constitution with its measures to open up the Colombian economy, introduced an era of modernization in the country. For the hydrocarbon sector, this has meant an increase in private sector participation and a gradual dismantling of the public monopoly. In pursuing these objectives, the government has adopted the following measures:

- The creation of three new organizations under the Ministry of Energy and Mines:
 - a) the Comision de Regulacion Energetica (CREG), a regulatory body overseeing the energy sector development;
 - b) the Unidad de Informacion Minero Energetica (UIME), which will maintain official statistics and information on the energy sector;