

A BRIEF SECTORAL HISTORY

Oil exploration began in Colombia in 1905 under a concession system by which the government granted exploration and development rights for promising areas to individuals and oil companies. The nation in returned received royalties ranging from 3.08 to 14.5% of production.

Two major concession contracts were granted in that early period: the Barco concession in the northeastern part of the country along the Venezuelan border, and the De Mares concession in the Middle Magdalena River Valley.

In 1916 the De Mares concession was sold with government approval to the Tropical Oil Company, a subsidiary of the Standard Oil Company of New Jersey. The new operator initiated a very successful production period that extended until 1951 when the contract expired and the area with its production facilities reverted to the Colombian government.

The Empresa Colombiana de Petr leos (ECOPETROL) was established by the Colombian government on January 9, 1951 as a state-owned corporation to assume management and operation of the De Mares concession and to initiate exploration and development programs of its own.

Although Colombia never joined the big league of oil producers it remained self-sufficient until 1976 when it became a net importer due to increasing consumption and an absence of new discoveries to add to its reserves.

Colombia returned to the ranks of crude oil exporters in 1985 thanks to the "elephant" discovery by Occidental Petroleum in association with ECOPETROL in the Cravo Norte field near Arauca on the Venezuelan border. The recent discovery by British Petroleum of the Cusiana-Cupiagua fields in the foothills of the Andes, with estimated reserves of 2 billion barrels will permit to export crude oil beyond the year 2,000.

Colombia dissatisfaction with the concession system led to its replacement in 1974 with association contracts. Under the system ECOPETROL contracts exploration, drilling and production activities with foreign operators in specialized zones. Association contracts are described in greater detail in another section of this report.

In 1987 ECOPETROL introduced a new form of association contract for certain areas called the shared risk contract. Under this type of contract ECOPETROL shares the exploration risk by contributing a portion of the required investment, and in return receives a proportionally larger share of any resulting production. The usual division is 72% (including royalties) for ECOPETROL and 28% for the operator.