Colombia's offshore energy hopes deflate amid poor discoveries, stricter regulations

By Marianna Parraga and Nelson Bocanegra

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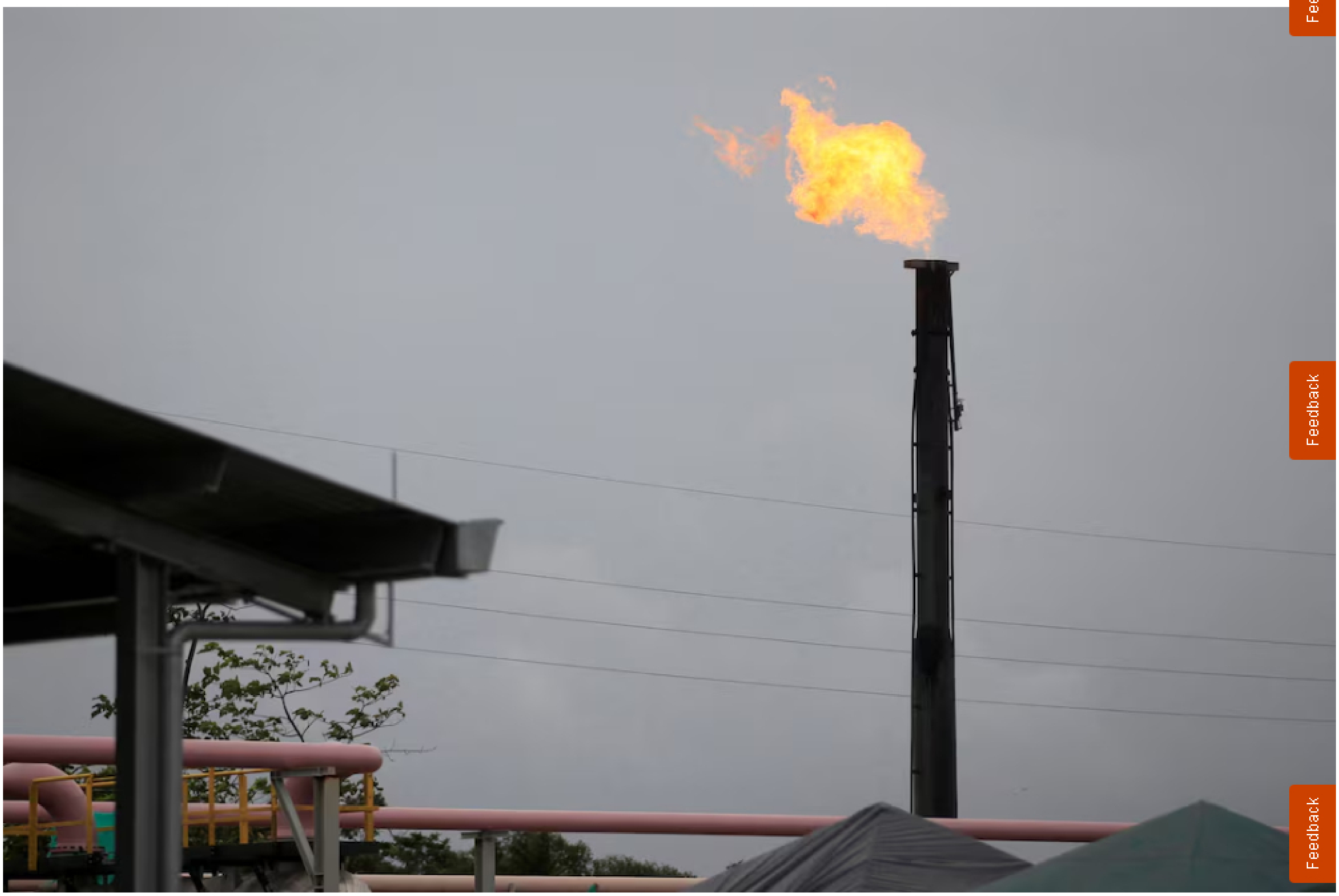

A burn-off flare is seen at Ecopetrol's Castilla oil rig platform, in Castilla La Nueva, Colombia June 26, 2018.REUTERS/Luisa Gonzalez/File Photo Purchase Licensing Rights

Summary Companies

- Shell recently left the country, Chevron shrank operations
- Foreign capital loss to exacerbate trade imbalances as need for imports surges
- Petro defends fracking ban, stricter rules for conventional oil, gas
- Some oil companies now expanding interest in offshore Peru

HOUSTON/BOGOTA, Aug 8 (Reuters) - Hopes among foreign energy companies that Colombia's coast could serve as a key source of oil and gas for the future are being dashed as many exploration projects lag expectations, with unwelcomed regulation further deflating optimism.

The disappointing finds and regulatory roadblocks are pushing some energy firms to abandon the Andean nation for neighboring countries like Peru, where incentives for exploring and producing have become clearer.

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The loss of foreign capital in Colombia's energy industry is expected to exacerbate trade imbalances coming from a larger need for imports, especially of natural gas, while domestic output falls.

Despite the country's increasing reliance on foreign energy, the government of leftist President Gustavo Petro has defended a ban on fracking and imposed stricter rules for exploration and production of conventional oil and gas, creating delays and limiting opportunities for private investors in the industry.

Exploration along Colombia's Caribbean coast has mostly ended in disappointment as major producers like Shell (SHEL.L) have left the country and others, including Chevron (CVX.N), have shrunk operations.

Earlier this year, Chevron's remaining offshore block in Colombia was removed from the regulator's list of active areas at the company's request.

The U.S. firm, which had previously sold stakes in two other offshore gas fields in the Andean country, has now reduced its presence there to fuel retail, company sources said. Chevron told Reuters it still has "a sizeable downstream presence in the country," including six terminals and over 500 gas stations.

Shell said in April the Colombia projects no longer fit with its strategic ambitions, adding that it would continue supplying liquefied natural gas and other fuels to the nation.

Other companies that have exited onshore and offshore ventures in Colombia in recent years include U.S. Exxon Mobil (XOM.N) and ConocoPhillips (COP.N), and Spain's Repsol (REP.MC).

Experts and company sources said the exits and drawdowns are due to a combination of poor exploration results and adverse policies.

"It's a clear reality that there have not been big findings in Colombia for some time, and that means that many companies must move to other places to grow," said Andres Armijos, head of Latin America Research at U.S. energy consultancy Welligence.

The government disagrees.

The exits are "more because of the diversification of their portfolios than distrust in the country," the head of Colombia's energy regulator, Orlando Velandia, told Reuters.

Some companies that previously had made Colombia the focus of their Andean region exploration, including TotalEnergies (TTEF.PA), Chevron and Occidental Petroleum (OXY.N), are now expanding their interest in Peru, the firms and regulator Perupetro have said, as terms and prospects there improve.

Meanwhile, majors like Exxon and Shell are investing billions of dollars in Caribbean and South American nations including Trinidad and Tobago, Guyana and Suriname, where finds dwarf most Colombian offshore prospects and there is a push to produce for export.

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Even those Colombian projects showing promise are often tangled by infrastructure or permitting hurdles.

"We are running out of gas reserves due to insufficient exploration, while the gas that has been found requires pipelines that remain tangled over a hundred needed permits," said Luis Carlos Sarmiento, chairman of the board of gas-assets owner Grupo Aval (GAA.CN), on the sidelines of a conference in Bogota.

The country's largest gas discovery lies at the Sirius offshore project, where Brazil's Petrobras and Colombia's state-controlled Ecopetrol (ECO.CN) are doing additional drilling after finding some 6 trillion cubic feet, enough to extend the lifespan of Colombia's gas reserves for over a decade.

But despite support from Petro and Brazil's President Luiz Inacio Lula da Silva, the consortium's efforts have been costly and time-consuming.

The project's partners must complete over 100 public consultations with onshore communities and wait for two environmental licenses, according to the regulator and data from the Colombian Petroleum Association (ACP).

Ecopetrol said a second phase of consultations is about to start, which could lead to the environmental license, before building a submarine pipeline and onshore gas processing plants.

"Ecopetrol's schedule, which says first gas from Sirius will come between 2029 and 2030, is too optimistic. We don't think it will happen in that time frame," said Felipe Calderon, Welligence's Andean region expert, referring to the long chain of regulatory requirements.

A smaller offshore gas discovery by Shell at the Gorgon field failed to persuade the firm to remain in the country. And even Occidental's plans to drill the Komodo ultra-deepwater well, which could become the world's deepest, could be derailed amid delays to get the drilling permits.

Occidental, which already sold some onshore assets in Colombia to the Carlyle Group (CG.O), is waiting for an appeal filed in January over its drilling permit, whose terms threaten the project's viability, it has argued.

The firm declined to comment on Komodo and said it continues to evaluate seismic data to make a decision in offshore Peru.

Ecopetrol, for its part, has not provided updated plans to develop a gas discovery at its Orca project, also in the Caribbean, since it finished drilling last year, following the pattern with other offshore prospects that were ultimately shelved.

"The project is in evaluation," Ecopetrol told Reuters, adding it is still defining next steps.

Even for many crude operators in oil-producing Colombia, over regulation and insufficient foreign investment are a challenge, executives said.

Oil output across Colombia fell 4.8% year-on-year to 749,800 barrels per day in May, far from the 1 million bpd produced a decade ago, while gas output declined 18.9% in a year to 800 million cubic feet per day, according to government data.

"Our oilfields are declining, especially our mature fields, and current exploration contracts only cover 14 wells per year through 2030. That is insufficient," said Frank Pearl, head of the ACP.

Some 1,500 blockades to oil operations last year due to protests by communities led to 3,000 jobs permanently lost and 4 million barrels of deferred oil output, according to the ACP.

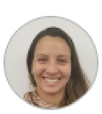
An eventual permanent need for crude imports to feed Colombia's refineries, which would lead to an energy trade deficit of billions of dollars per year, is one of the major expected consequences in coming years, Pearl added.

Petro has not allowed any new rounds for exploration and production contracts, instead pushing renewables and power generation. Some political opponents are already offering an industry revival if they win a presidential election in 2026.

"I do not want to export coal. Nor do I want to explore gas, and the last oil reserves will run out, because that kills Colombia and kills humanity," Petro said at a conference last month.

Reporting by Marianna Parraga in Houston and Nelson Bocanegra in Bogota, additional reporting by Julia Symmes Cobb and Sheila Dang Editing by Marguerita Choy

Suggested Topics: Energy | Grid & Infrastructure | Exploration & Production | Refining | Coal



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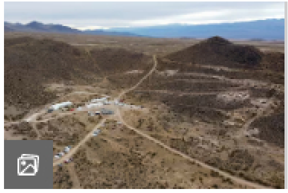

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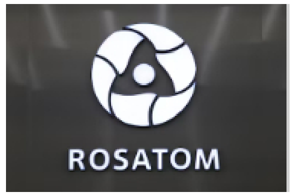

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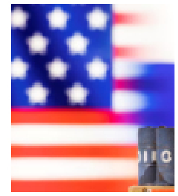

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