

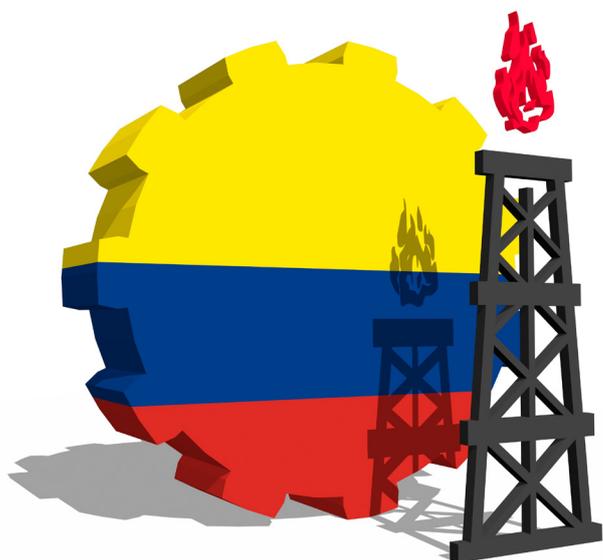
## >> **Colombia: The needed dialogue in the oil and gas sector relations\***

\*(The views and opinions expressed through this article do not reflect the point of view of the companies referred to in the text)

**Bogotá >> 10 >> 2014**

**I**n our eagerness to continue gaining a thorough understanding of the situation on which the companies are operating, in LLORENTE & CUENCA we have decided to identify areas of common ground in order to share our knowledge on our areas of expertise as well as the high local and national impact actors' specialty fields. We have also identified a unique opportunity to strengthen the established relations in support of development by linking the best practices in corporate communications along with the management of our company's reputation with successful cases of people responsible for taking care of the stakeholders, who are key for the development of their business.

In this regard, we have managed to create a space to develop this activity based on the community relations within the extractive sector. Three important actors of this field responded to these needs: Ecopetrol, the biggest Colombian national oil company, Equión Energía, one of the five largest oil producers in the country and one of the three main natural gas producers which operates in the eastern plains region, and Promigás, a company dedicated to fuel and natural gas transport and distribution. Tecniamsa, a company with local presence, also worked with us. This company is in charge of the industrial hazardous waste management, mainly oil residues.



The directors of LLORENTE & CUENCA Colombia, Álvaro Cadavid and Fernando Barrero, together with Alejandro Romero and María Esteve, CEO in Latin America and General Director in Colombia respectively, promoted an exchange of the views the participants have, thanks to their experience, about the way in which the relation with the community and its consequences for the management of projects develops in the country. The main conclusions drawn therefrom are addressed below.

### **WHO DO YOU SPEAK WITH IN THESE COMMUNITIES?**

Nowadays, the Colombian oil and gas sector has to face the energy self-sufficiency announced by the United States, which is the destination of 70% of the total Colombian oil exports. Yet, according to the discussion panelists and ratified by a survey conducted by the company Arthur D. Little, which describes the country as the most attractive for investors of this sector, the main challenge this sector has to overcome is mainly related to the community and environmental licensing.

Although Colombians have great admiration and feel very proud of a company such as Ecopetrol, oil is not a product that represents the Colombian national identity as, for instance, coffee does. ¿What is the cause behind this? It is simply due to a prevailing lack of confidence towards the activities conducted in the environment by this sector, which generates a stigmatization based on misinformation and confrontation instead of a joint elaboration of a local development plan that facilitates project implementations and satisfies community demands. The World Bank supports this view and claims that "countries, communities and companies have to overcome difficulties related to opportunities and risks arising from the measures taken with the purpose of ensuring a responsible approach to the exploitation of mineral resources".

In Colombia, the main challenges the oil and gas sector has to face comes, paradoxically, from the power delegated by the Government to communities. Even though this power has a positive effect on the country's social development, it also creates a number of contradictions that can undermine the development of industry in an environment that calls for competitiveness.

A prior consultation is both a legal instrument and a fundamental right of indigenous and ethnic communities, as indicated by the Constitutional Court: "The involvement of indigenous communities in making decisions that might affect them concerning the exploitation of natural resources has a

particularity. This participation, made through a consultation mechanism, becomes a fundamental right since it is based on an instrument which is a basic means of preserving the ethnic, social, economic and cultural integrity of the indigenous communities and, thus, a means of ensuring their subsistence as a social group."

In addition to the implementation of this practice in Colombia, the economic and social situation of the country have become the main motivation of communities to launch social movements with the aim of protesting against an alleged lack of attention from the Government. There is general consensus on the power of communities to enable or block the eventual progress on the local projects. This power includes some challenges for the interested parties, including the aptitude of some of the stakeholders who take part in the meetings.

The perception about a prior consultation is that it is a legitimate and necessary mechanism that must exist and in respect of which there is willingness to act. Nevertheless, the target public of this prior consultation is very restricted and, in fact, other actors take the lead on behalf of the community, not necessarily the ethnic and indigenous groups living within the project's area of influence. In some cases, this fact happened to such an extent that the project was cancelled due to the action of "imported" stakeholders in the area of influence, who prioritized the individual interest, and not necessarily the community's interest, over the general interest in local and regional development.

What is the message of development that the companies should send to communities about the exploitation of natural resources? The first requirement is to try to make them understand that industries should not replace the State in the field of the requests sent by valid and non-valid stakeholders to the companies in the framework of the prior consultation. However, this does not imply that areas of common ground, which enrich the culture and the social development of people, cannot be created. It simply means that the presence and obligations of the State are not taken over by an industrial actor.

Raising awareness on the scope of the prior consultation is a step that should be taken not only by companies willing to develop an investment project, but also by the community itself. This involves an assessment on who are the valid stakeholders, what activities should be consulted and the understanding that this instrument constitutes just a phase of the project and therefore it is not permanent. This does not mean that communication between the actors must be permanent, transparent and fluent.

Sometimes, the State's control capability regarding the territories where projects are developed is negligible. This is the reason for which territory controllers are subcontracted in accordance with the recommendations of the monitoring bodies. Since they are local actors, their particular interests are prioritized and thus their main role changes from ensuring a safe development of the project and the compliance with the law requirements to creating constraints that sometimes bear no relation to the compliance with the rules that regulate the exploitation of natural resources and that exacerbate a blackmail culture.

The Canadian experience in establishing relations with the community is an important point of reference for Colombia. The main challenge that companies must face is showing the communities the opportunities that these projects can offer

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in order to improve their quality of life without affecting their traditional relationship towards nature. This challenge has to be tackled with the diligence of the State when its positive impact on the community development and the country's competitiveness offers no doubt.

Gleen Nolan, an Aboriginal Canadian and now Vice-President of Indigenous Affairs and President of the Prospectors and Developers Association of Canada, PDAC, has revealed on several occasions how the mining industry enhanced his and his family's living standards. He also emphasizes that this project with the local communities "is a respect,

regularity and intense communication exercise between the parties." When this exercise is positive and yields successful results, communities become a partner of the project.

The evolution of Aboriginal and community outreach in Canada has shown very positive results, according to the Mining Association of Canada, which also shows that the identification of communities of interest has increased from 53% in 2006 to 95% in 2012. A company reaches the highest possible level regarding communities' identification when they are invited to make regular contributions in relation to their identification (which is a very useful contribution for the validation of stakeholders) with the purpose of ensuring that a wide spectrum of interests is being addressed.

Likewise, the companies' protocols to implement these relations have contributed to an increase of the dialogue effectiveness up to 88% in 2012. Dialogue is considered very effective when formal agreements or mechanisms with communities are working adequately and when they can ensure that communities can effectively take part in the ongoing issues and to influence the decisions that might affect them or capture their interest. Such perceptions can help Colombia move towards a type of relation based on transparency and stakeholder's validity which enables the effective construction and promotes joint interest in development.

#### DECISION-MAKING ON THE PREMISE OF THE DEVELOPMENT FOR MAJORITIES

Environmental licenses represent another major difficulty that arises from the development of the projects. In this regard, important dichotomies, which the State has not addressed, have flourished: on one hand, the State itself runs the tenders for the development of some projects and who requests the appropriate guarantees to the applicants during the bidding process. Once the project has been awarded, the delay in the issuance of the environmental license amounts up to 7 months, based on the guarantees known and approved during the awarding process.

On the other hand, a political will is necessary to establish a country with sustainable development, which seems unlikely given the current situation. Companies would advocate for a centralized approach: a single stakeholder who can endorse the feasibility and compliance of the projects. Yet this goes, once again, against the local interests that the actors introduced in the region might have.

In this context, the companies' experience and evolution have discovered two important points. The first one is the need of not only confirming the technical feasibility to carry out the project in a specific area, but also analyzing the externalities of the area. For this purpose, not only the indigenous

communities or ethnic groups have to be taken into account, but also, other lobby groups that have the power of stopping the development of the project. The second point is learning how to discuss with minorities while taking into account the benefits it will yield for the majority. The reason for this is that finding valid stakeholders prior to the consultation is a completely different issue than having the willingness to explain what will happen, what the purpose of the project is, what advantages it would have for them or the reason for which it does not harm neither the area nor the culture of the community living in the project's area of influence.

“Transparency in the communication established by the company with the community plays a crucial part”

a scenario where the company is not a visitor but a neighbor.

Transparency in the communication established by the company with the community plays a crucial role. And this transparency refers not only to the information provided about the project but also to the response to their claims. Internally, another step to strengthen this relationship is to acknowledge that companies tend to defend themselves against community claims, while a better response would consist on listening to them and understanding their requirements. This would also help them consolidate the relationship and to generate trust, credibility and a positive

view, which many oil and gas companies are currently lacking.

In order to achieve the second point, it can be affirmed that it is key to be there, to know what is happening and how life has been traditionally. The messages received from the city about sustainable actions sound great to the urban citizens. However, the regional situation is different and therefore a deep knowledge of the area will provide both the understanding of the benefits the project will have in the region and strengthen the relationship with the community in

The energy self-sufficiency announced by the United States can be faced with a market diversification but the manner in which the incoming Government is going to reinforce the stakeholder control in order to move towards prior consultations and licensing procedures to ensure the foreign investment required by the sector is the question that needs to be answered.

## MODERATORS



>> **Alejandro Romero** is a partner of LLORENTE & CUENCA and CEO for Latin America. Since 1997, he leads the process of expansion of the company within Latin America. The first operations were undertaken in Peru, Argentina, Colombia, Panamá, Ecuador and Mexico. Alejandro has also been in charge of the processes of communication of three of the ten most important operations of M&A in the region: the sale of Bell-South's communication assets to Grupo Telefónica, the purchase of Grupo Empresarial Bavaria by SABMiller and the sale of Grupo Financiero Uno to Citibank. Thanks to him, the company's operation in Mexico has ranked among the three most important companies of the country in only five years' time, according to the annual ranking of Merca 2.0 magazine.



>> **María Esteve** is the Director General of LLORENTE & CUENCA in Colombia. Social communicator in the Pontifical Javerian University, she has considerable experience in the areas of Crisis Communication and Public Affairs, as a result of her career that has spanned many communication companies as well as private companies. She joined LLORENTE & CUENCA in July 2013 after being Head of Corporate Communications in CorpBanca, where she worked for two years. She started her career in Dattis Consultores, where she stayed for 10 years and became a Consultant Partner dealing with clients such as Ecopetrol, BBVA, Telefónica and Gómez-Pinzón, among others.



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