



ARTICLE

Colombia Enters Uncharted Waters

How Will the Left Affect the Country's Business Environment?

On June 19, 2022, the Colombian population elected Gustavo Petro (“Petro”) and Francia Márquez (“Márquez”) as the country’s next president and vice president.

More than 22.5 million people voted in these historic elections, the highest voter turnouts in Colombian history.¹ Petro won with 50.5% of the votes, beating his political opponent, Rodolfo Hernández, by more than 3%, or 700,000 votes.²

Petro’s victory marks a new era for Colombian politics as he will be the first leftist president to assume office.

³ His victory was received with excitement by the poorest half of the Colombian population, who are eager for a change in the political status quo.⁴

While the upcoming Petro-Márquez administration has given a glimpse of hope for many of those who previously felt excluded, Petro’s victory worries the local and foreign business communities, amongst others. During his campaign, Petro promised radical changes to the country’s economic policies and to key economic industries, in particular in the extractive sector.⁵ Specifically, he has publicly compared oil and carbons to cocaine, stating that they are “three poisons” affecting Colombia.⁶

¹ <https://www.elcolombiano.com/colombia/gustavo-petro-el-presidente-mas-votado-de-la-historia-de-colombia-KK17842549>

² <https://www.reuters.com/article/us-colombia-election-idAFKBN200031>

³ Ibid

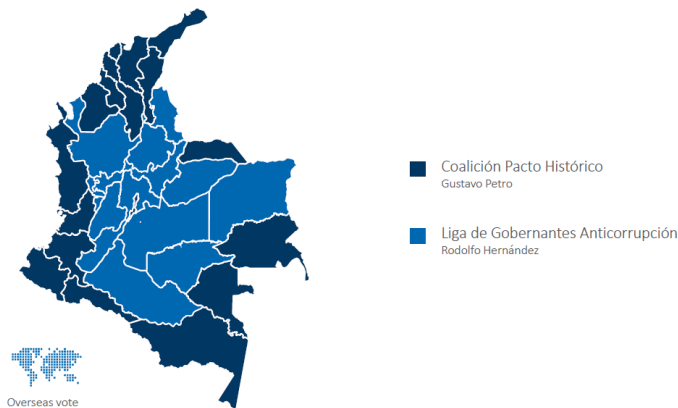
⁴ <https://www.ft.com/content/33d30a93-0f48-41ee-9847-4503c79ca7d9>

⁵ <https://www.portafolio.co/elecciones-2022/petro-y-su-larga-polemica-frente-el-petroleo-566003>

⁶ <https://www.semana.com/nacion/articulo/son-tres-venenos-petro-comparo-el-carbon-y-el-petroleo-con-la-cocaina/202232/>

However, campaigning is not governing, and several of the promises made by Petro during his campaign are not necessarily policies he will be able to implement while holding the highest office in the land. He will have to face the realities of governing a country where hydrocarbons and mining are fundamental to its economic wellbeing.⁷ As such, it is unlikely that the more radical changes touted will be implemented over the next four years in Colombia’s business environment, especially considering that the revenue from these sectors is intrinsically linked to some of the key social programs being promoted by the new government.

Figure 1: Presidential Election Results by Region



Taking into account that on August 7, 2022, Colombia will have a new government that could impact Colombia’s business environment, it is vital to analyze the upcoming panorama for the energy, mining, and infrastructure sectors.

The Energy Sector

The oil and gas (“O&G”) sector has been one of the most discussed in Petro’s presidential campaigns. In particular, Petro has stated that he will suspend exploration efforts in Colombia. In his government plan,

he has stated that he will “stop pilot fracking projects and the development of offshore fields” and that “no new licenses will be granted for hydrocarbon exploration.”⁸ Two days after his election, Colombia’s mixed-owned oil and gas company, Ecopetrol’s shares, fell sharply on the New York Stock Exchange, by 11.86 %.⁹ Following his election, he has tried to tone down his rhetoric to appease the O&G sector. He has stated that the energy transition will be gradual and that he will respect existing licenses. Despite these promises, he has also highlighted that his government will not award new O&G exploration contracts.¹⁰ As such, his proposal to halt explorations demonstrates his long-term agenda of transforming Colombia’s export portfolio away from oil and towards fostering alternative energies and productive industries.¹¹

Even though Petro has made such radical claims regarding O&G, we consider that it is unlikely that he would actually be able to push such reforms, especially since hydrocarbons are key for Colombia’s economy, representing 3.3% of the Gross Domestic Product (“GDP”)¹² and 77% of the total royalties collected by the government in 2021. In terms of money, hydrocarbons are worth COP\$6.4 trillion (approximately USD\$1.7 billion).¹³ This means that when in office, Petro will have to face the reality that hydrocarbons are an important source of income for the Colombian government in order for him to pursue his proposals to increase public spending for social programs.¹⁴ In addition, in case he attempts to change any existing contract, he will place Colombia in a position where the country could be vulnerable to international lawsuits from companies already operating in the country. As the president of Colombia, paying billions of dollars for infractions is not of his interest, specially in a country who is still recovering from the negative economic effects of the COVID-19 pandemic.¹⁵

⁷ <https://www.larepublica.co/economia/el-sector-de-la-mineria-hidrocarburos-y-energia-es-clave-para-el-desarrollo-del-pais-3329204>
⁸ <https://www.elcolombiano.com/politica/elecciones-2022/gustavo-petro-y-francia-marquez-del-pacto-historico-programa-presidencial-polemico-elecciones-2022-colombia-JD17059918>. Translated by Authors.
⁹ https://caracol.com.co/programa/2022/06/22/6am_hoy_por_hoy/1655902753_763674.html
¹⁰ <https://www.rcnradio.com/politica/la-transicion-sera-gradual-petro-da-mensaje-de-tranquilidad-a-accionistas-de-ecopetrol>
¹¹ <https://www.bloomberglia.com/2021/11/21/petro-propone-cerrar-la-llave-a-exploracion-petrolera-en-colombia-que-implica/>
¹² <https://www.portafolio.co/economia/sin-petroleo-colombiana-se-contraria-3-3-558804>
¹³ <https://www.valoranalitik.com/2022/01/12/colombia-supero-meta-de-recaudo-de-regalias-2021/#:~:text=Del%20total%20recaudado%20de%20regal%C3%ADas,aportado%20por%20el%20sector%20minero>
¹⁴ <https://www.elcolombiano.com/negocios/democratizar-o-expropiar-analisis-de-las-propuestas-economicas-de-gustavo-petro-DJ16869930>
¹⁵ <https://www.bloomberglia.com/2022/06/17/del-amor-al-odio-colombia-y-petroleras-dependeran-de-politicas-para-el-sector/>

Petro's proposals generate concern among traditional energy operators; however, they also potentially provide opportunities for renewable energy projects. Petro has promised to promote alternative energy options to meet the country's energy demand.¹⁶ According to Colombia's Energy and Planning Unit (*Unidad de Planeación Minero Energética* – "UPME"), Colombia's demand for energy from 2021 to 2035 is expected to increase at an annual growth rate of between 2.28% and 2.68%,¹⁷ indicating that Petro would have to push his energy transition agenda to meet the country's demands. Considering that one of the priorities in his agenda is to lead the alternative energy industry in Colombia, this is a sector with important business opportunities in the next four years.

The Mining Sector

In addition to O&G, mining is another industry that has been highlighted in the new president's economic agenda. In particular, Petro has expressed his opposition towards coal mining. As mentioned above, coal is one of the products that he called as one of the "three poisons" affecting Colombia. In an interview with the Economist, Petro stated that one his first reforms "*would precisely be to remove subsidies from hydrocarbons, specifically coal*".¹⁸ Petro has stated several times that he intends to suspend open-pit mining in Colombia.¹⁹ He has also indicated that his government will review all mining concessions. Should concessions be identified that have harmed the environment or not been through prior consultation processes, these concessions will be renegotiated.²⁰

These statements against foreign mining companies are what has generated the greatest concern in the international business community. Yet, we believe this

type of rhetoric is mostly used by Petro to energize his electoral base. In reality, when in office, Petro will have to deal with the fact that the mining industry contributes 1.3% of the country's GDP and its royalties represented USD 596 million in 2021.²¹ Moreover, the mining sector generates approximately 179,000 direct jobs and 1 million indirect jobs in Colombia.²² According to Colombia's Association of Mining (Asociación Nacional de Minería), Colombia would have to increase its agricultural sector six times to match the economic contribution of mining.²³ Any radical reform to the sector is unlikely considering the industry's importance in the country's economy. And just like O&G contracts, any violations or infractions could be subject to international lawsuits.

Infrastructure

Petro has stated that he would reform Colombia's current infrastructure system.²⁴ Petro's proposals could adversely impact private sector concessionaries as we believe he would strengthen public concessionaries. Petro's election victory may also reduce the availability of capital and financing for privately funded infrastructure investments. He has a negative view of private banks and the financial sector, which may cause investment funds and banks to leave the country or limit lending and lines of credit.²⁵ He has also stated that he would prioritize road infrastructure, especially tertiary roads that constitute more than 60% of the national network, educational infrastructure, health, drinking water and basic sanitation, and the development of an electrical infrastructure linked to clean energy.²⁶ He also wants to achieve this agenda by specifically prioritizing the interests of rural communities.²⁷

¹⁶ <https://elpais.com/america-colombia/elecciones-presidenciales/2022-06-20/las-propuestas-economicas-de-gustavo-petro-transicion-energetica-y-reforma-tributaria.html>

¹⁷ https://www1.upme.gov.co/DemandayEficiencia/Documents/Presentacion_Proyeccion_Demanda2021.pdf

¹⁸ <https://www.economist.com/the-americas/2022/05/28/how-gustavo-petro-would-change-colombia-if-he-wins-the-presidential-election>

¹⁹ <https://www.elcolombiano.com/politica/elecciones-2022/gustavo-petro-y-francia-marquez-del-pacto-historico-programa-presidencial-polemico-elecciones-2022-colombia-JD17059918>

²⁰ <https://www.semana.com/nacion/articulo/toda-la-titulacion-minera-va-a-entrar-en-revision-gustavo-petro/202242/>

²¹ https://mineriaencolombia.anm.gov.co/sites/default/files/docupromocion/Colombia%20Mining%20Diversity%20-%20March%2C%202022_compressed.pdf

²² https://mineriaencolombia.anm.gov.co/sites/default/files/docupromocion/Colombia%20Mining%20Diversity%20-%20March%2C%202022_compressed.pdf

²³ <https://www.ambito.com/mundo/gustavo-petro/elecciones-colombia-inquieta-petroleras-y-mineras-el-triunfo-n5458041>

²⁴ <https://www.larepublica.co/economia/estas-son-las-propuestas-de-los-candidatos-presidenciales-para-la-infraestructura-3267040>

²⁵ <https://www.semana.com/nacion/articulo/los-bancos-no-pueden-ser-un-sistema-para-chupar-la-economia-real-gustavo-petro/202154/>

²⁶ <https://www.portafolio.co/economia/infraestructura/propuestas-de-candidatos-presidenciales-en-infraestructura-y-transporte-515706>

²⁷ <https://www.portafolio.co/economia/infraestructura/propuestas-de-candidatos-presidenciales-en-infraestructura-y-transporte-515706>



Petro has also proposed to integrate the management of mobility and transport in cities more robustly and to promote a plan to strengthen mobility management by making use of the Intelligent Transportation Systems (“ITS”). In addition, he has proposed to recover the sustainable navigability of rivers throughout the nation and has plans to increase airport capacity.²⁸

Petro has also spoken about ambitious ideas such as building interregional, high-speed trains, specifically promoting the construction of an elevated, electric train to connect the cities of Buenaventura and Barranquilla.²⁹ However, infrastructure experts, including Juan Martin Caicedo, the president of the Colombian Chamber of Infrastructure, have stated that this proposal is unrealistic as it impossible to pursue it from a technical, environmental, or even a financial perspective.³⁰

Despite the proposals, Petro will face challenges to implement his infrastructure reforms. Since he does not have a majority in Congress, he will have to maneuver and change his positions to gain the support from traditional parties. As such, we believe that major changes in infrastructure over the next four years are unlikely.

Conclusion

Petro’s victory has raised concerns among key sectors of the economy. As he will lead the first leftist government in Colombia, it is not surprising that that this change to the status quo has generated widespread uncertainty in the private sector about the impact that his administration will have in the country’s business environment. As we previously stated, his rhetoric during the campaign and his radical proposals were meant to energize his electoral base. Once in office, Petro will need to moderate his proposals in order to be able to govern in the next four years considering he does not have a majority in Congress. In addition, in the upcoming weeks it will be key to monitor who will participate in his cabinet and whom he will appoint to lead key government agencies, as this will provide the business community with a much clearer panorama on what to expect in Colombia’s upcoming presidential administration.

The views expressed herein are those of the author(s) and not necessarily the views of FTI Consulting, Inc., its management, its subsidiaries, its affiliates, or its other professionals.

²⁸ <https://www.eltiempo.com/elecciones-2022/presidencia/gustavo-petro-estas-son-las-propuestas-del-proximo-presidente-de-colombia-681440>

²⁹ <https://www.elheraldo.co/colombia/tren-entre-buenaventura-y-barranquilla-que-propone-gustavo-petro-viable-893864>

³⁰ Ibid.

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