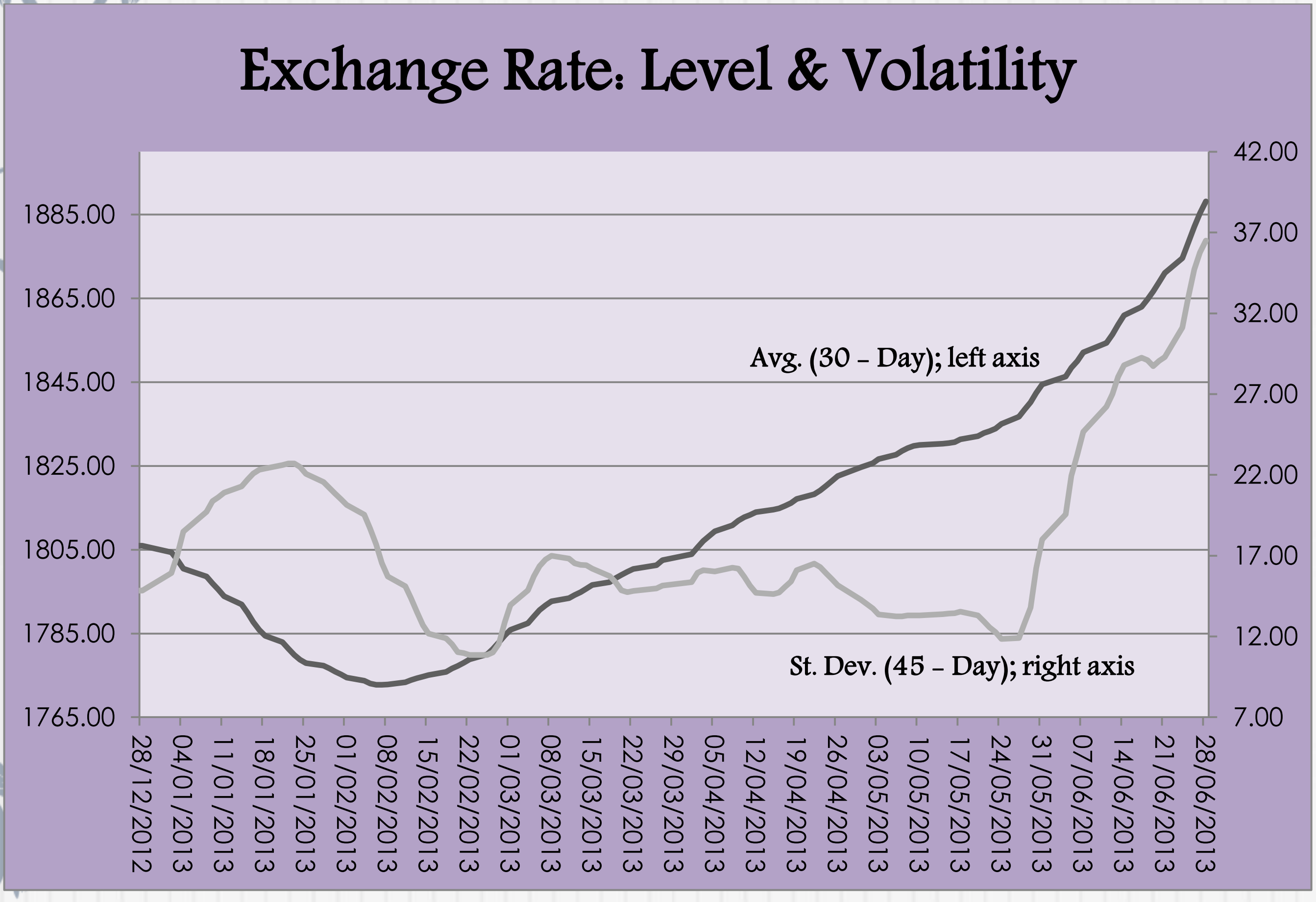
NEWS 01
January – March 2013
ESCUELA DE ECONOMÍA

QUAESTOR
Universidad Sergio Arboleda

BUSINESS ENVIRONMENT WATCHDOGS

DATA

Peso – Dollar Exchange Rate (ER)



Note that during the first quarter of 2013 the ER went through a trend reversal cycle:

i) ER (30 – day avg.) January 2 = $1,804.41
ii) ER (30 – day avg.) February 7 = $1,772.74
iii) ER (30 – day avg.) April 8 = $1,810.85

The driving force of such dynamics was the Feb – Mar 3% (53 Colombian Pesos – COP – per $US) depreciation:

i) ER $_{\text{January 31}}$ = $1,773.24
ii) ER $_{\text{April 8}}$ = $1,826.88

For sure, the Feb – Mar depreciation was a natural market response to the Central Bank's (CB) loose policy stance (in response to output slow down, see below).

In fact, the CB has cut its interest rate in 100 basis points (bps) during 2013:

i) 25 bps on Jan 28.
ii) 25 bps on Feb 22.
iii) 50 bps on Mar 22 (and the rate is currently standing at 3.25%).

Plus, the CB has adopted a more active international reserve accumulation policy: $US 30 million daily (or $US 3 billion between Feb and May), as opposed to the $US 20 million per day it had been purchasing before.

Of course, ER dynamics have also been influenced by exogenous factors:

i) FED signaling less Quantitative Easing (QE) due to output data revealing a bit of economic recovery in the U.S. (though not as much as expected according to April 5's job creation report).
ii) Uncertainty in Europe (Italy, Spain, Greece, and Cyprus) has triggered risk aversion, thus inducing short term capitals to flee from emerging markets and into safe havens (like US T Bills).

In any case, note that there's no evidence yet of an inflection point in the 30 – day ER average so as to predict comfortably that the current level is a max and that it will converge back to the $1,800 threshold.

Of course, the Feb – Mar COP depreciation might still be transitory. Unless… **output slowdown (inducing a consistently loose monetary policy stance from the CB), adverse shocks to business environment in the Colombian economy (see below) become permanent, and**

external shocks to the ER continue to kick in (less QE, more uncertainty in Europe, etc.).

Hence, at this point **we suggest caution before adopting a final stance on the future trend of the ER (which could be depreciation – like).**

If so, don't forget that **any systematic and steady depreciation of a currency is not a good symptom of confidence in the economy´s environment.** On the contrary, it reflects a reduction in the demand for (or confidence in) its currency.

Not to mention that **depreciation melts down the real (dollar) value of any foreign investor's net worth** (that´s why we never understood the Minister of Finance's yearning for a $1,950 ER).

On the other hand, note that ER volatility skyrocketed during January, plummeted during February and picked up again during March:

i) St Dev. (45 – day avg.) $_{\text{January 2}}$ = $16
ii) St Dev. (45 – day avg.) $_{\text{January 23}}$ = $23
iii) St Dev. (45 – day avg.) $_{\text{February 25}}$ = $11
iv) St Dev. (45 – day avg.) $_{\text{April 8}}$ = $16

For sure, ER volatility is still fluctuating significantly above its 10 – 11 peso minimums. This means that hedges against ER fluctuations are not at its cheapest price.

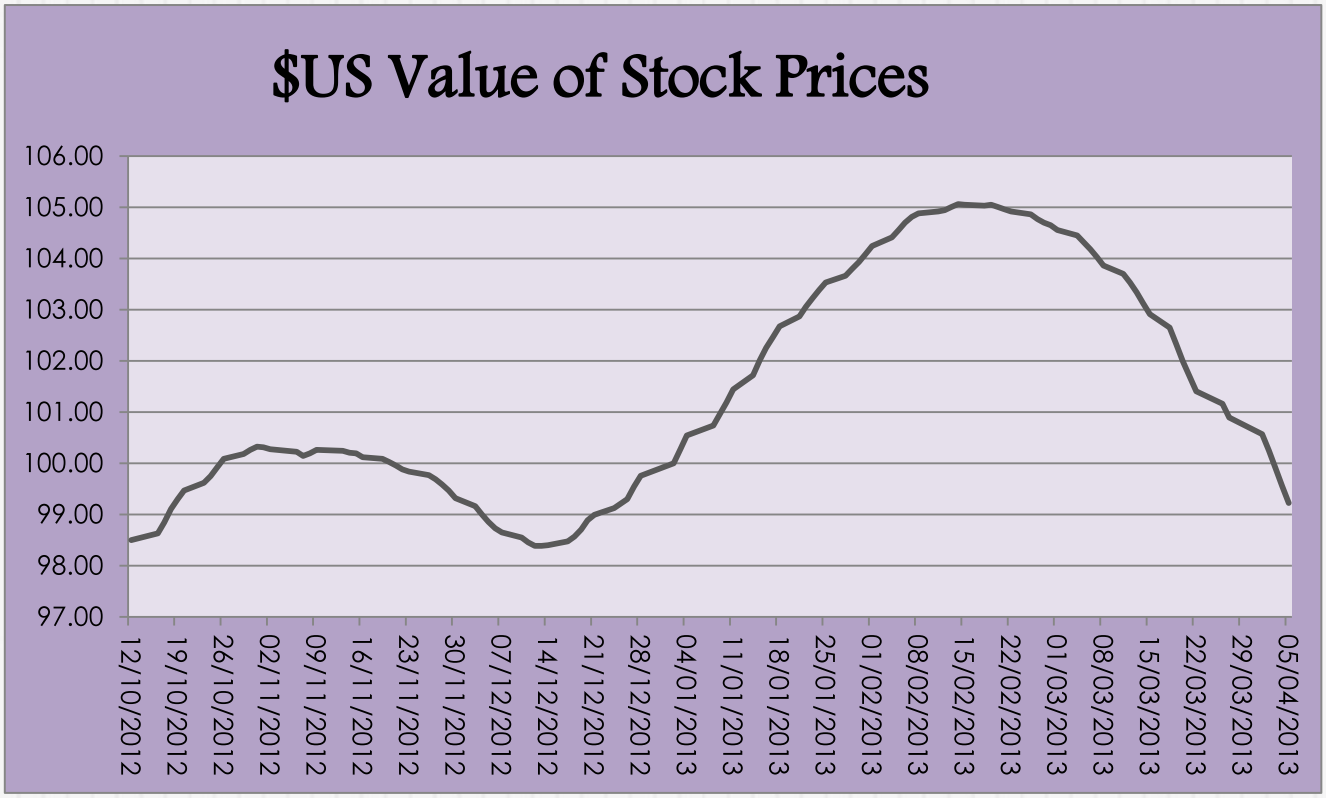
However, volatility is not at its highest level either. The max levels have been:

i) $23 during the first quarter of 2013 (Jan).
ii) $27 during the second half of 2012.
iii) $61 (!!!) during the first half of 2012.

In sum, **it could be a good time for tradable sector companies to purchase hedges against ER fluctuations.**

Remember: the higher the volatility, the more expensive the hedging. Don´t wait for volatility to pick up again as happened during last year's first quarter.

QUAESTOR's $US Value of Domestic Stock Price Index



The Colombian stock market went through a **boom – bust cycle during the first quarter of 2013.**

30 – Day avg. gains (as measured by our index) peaked at 5% on Feb 15, but vanished completely after that.

Indeed, the **Jan to mid – Feb bullish market turned around completely into a bearish market during the second half of the first quarter,** and prices (in dollar terms) are now below 2012 levels.

Furthermore, the main index (IGBC) has dipped under the 14,000 psychological threshold.

Moreover, if price movements aren't averaged out, market conditions are even more dismal: **$US 100 invested in on Jan 02 have become $US 90 on Apr 05.**

The driving force of this stock market dynamics was the severe price plunge that took place between mid – Feb and first week of April (9.5% nominal drop in the index).

Such a plunge, coupled with the 3% Feb – Mar COP depreciation, wiped out the original Jan to mid – Feb stock market dollar value gains.

Our diagnosis:

1. Traded volumes have been 20% below those of 2012.

2. Dismal corporate results: only 57% of those companies listed in the IGBC reported profit growth.

3. Disappointing data from oil and gas sector (O&G) companies: less than expected reserves, production and profits. O&G companies represent 23% of the COLCAP Index (capitalization weighted average index of companies with high liquidity levels).

4. GEA group announced more stocks to be issued for Cementos Argos and Bancolombia (price reduction due to expected increase in supply).

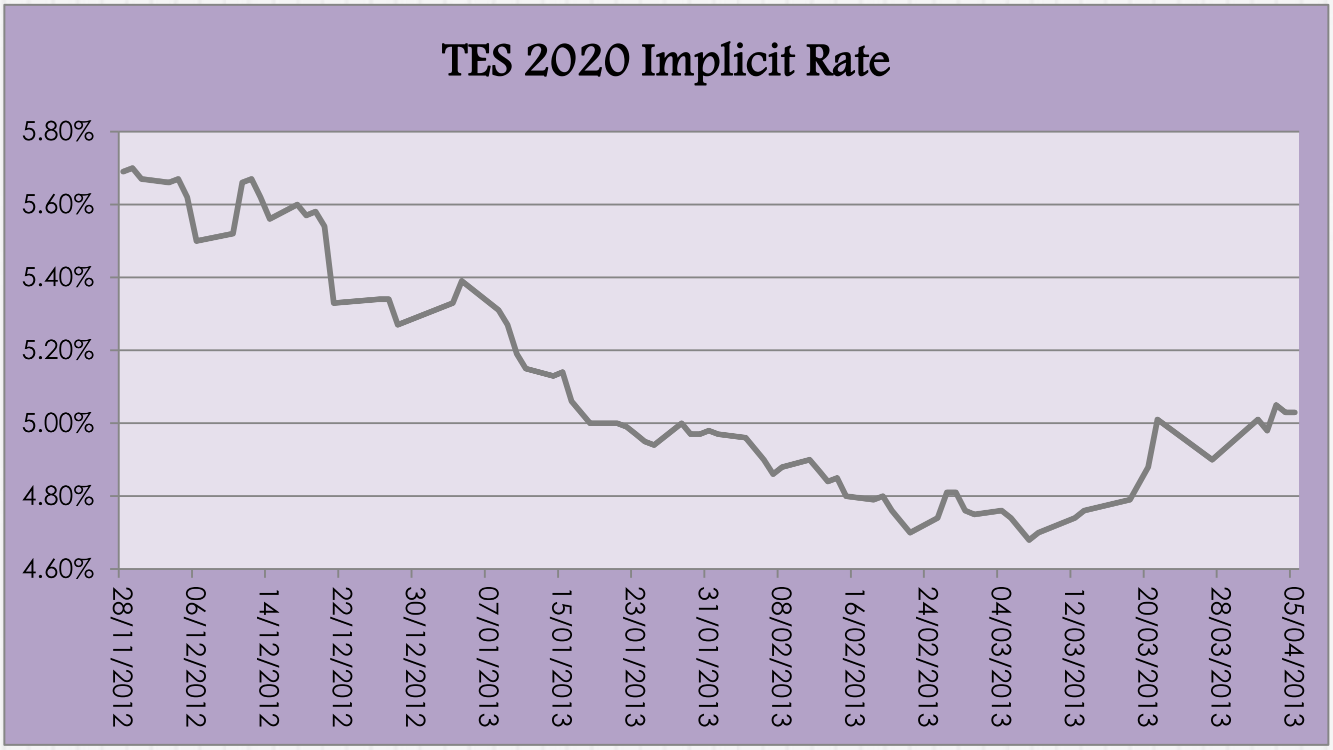
5. Recent deterioration of business environment in Colombia (see below).

6. Consistently loose monetary policy (attributable to domestic output slowdown) depreciating the COP (see above).

7. Uncertainty in Europe + mild recovery in the U.S. has induced higher relative risk premiums in emerging markets (so capitals flee more to safe havens).

All in all, we believe **the market will remain bearish in the medium – run.**

Treasury Bills (TES) Implicit Interest Rates



Implicit interest rates on the July 2020 TES bond (11% coupon, issued on July 24 2005, expire on July 24 2020) exhibited **a downward sloping trend until the first week of March:**

i) TES Rate $_{\text{January 3}}$ = 5.39%
ii) TES Rate $_{\text{March 7}}$ = 4.68%

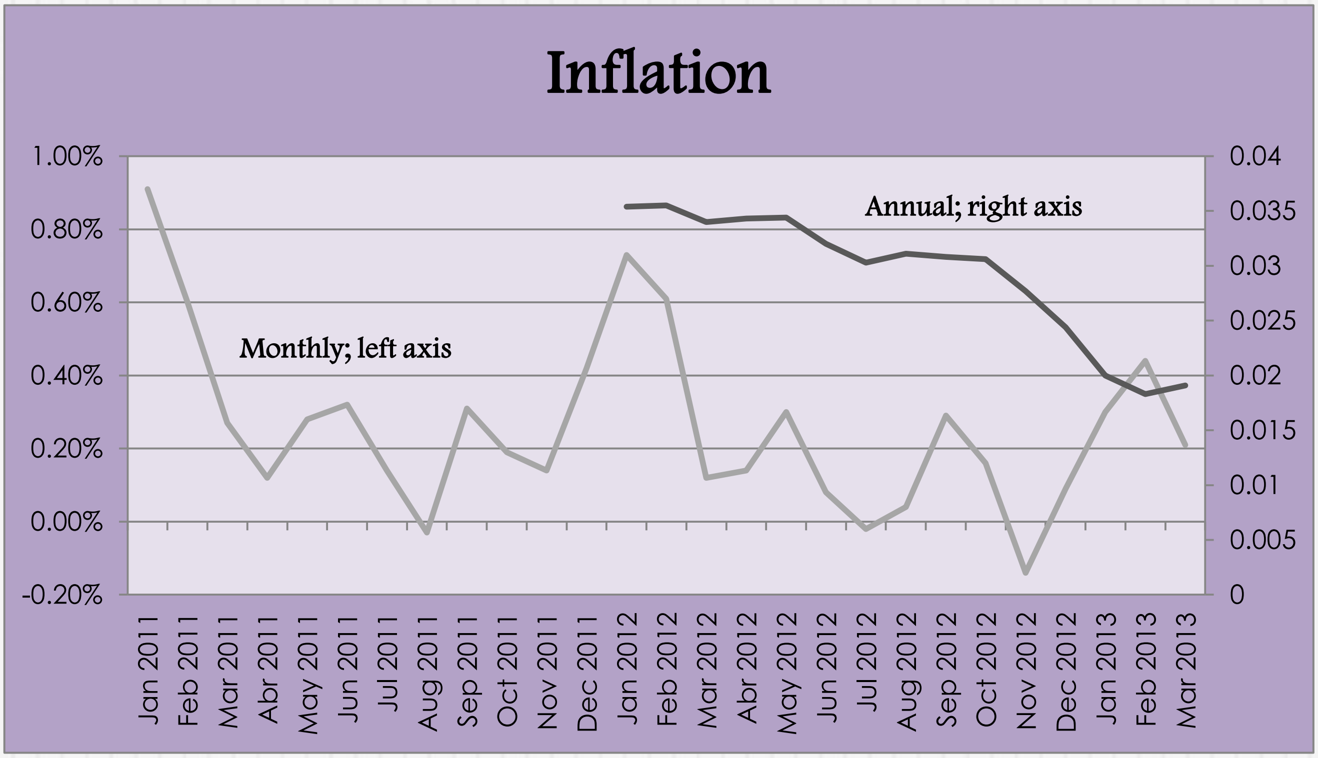
That's a 71 bps drop.

However, the rate is again above 5% (5.03% on April 5).

Thus, **Treasury bond prices have fallen and, as in the stock market, at this pace the Jan – Feb value gains will be wiped out soon.**

Inflation Rate

On Friday April 5 DANE (National Statistics Agency) published inflation data for March 2013: 0.21% (vs. 0.12% on Mar 2012).



Hence:

i) Cumulated inflation (Jan – Mar) stands at 0.95% (compared to 1.47% during Jan – Mar 2012).

ii) Annual inflation (Apr/2012 – Mar 2013) is at 1.91% (compared to 3.40% during Apr/2011 – Mar 2012).

Fortunately, consumer price data reflects full stability in price behavior and portrays sufficient macro/monetary stability for investment purposes.

However, **inflation data might also be revealing domestic economic deceleration and aggregate demand weakening.**

OUTPUT PERFORMANCE

Recent relevant data:

i) **<u>Friday February 22 (DANE)</u>**: During Dec 2012 output, sales and hired workers in the manufacturing sector contracted at 3%, 2% and 0.7% respectively (with respect to Dec 2011). 29 subsectors (out of 48) exhibited production drops between Jan/2012 and Dec/2012. Because of this, output in the aggregate manufacturing sector didn´t grow at all during 2012.

ii) **<u>Monday February 25 (DANE)</u>**: Energy consumption in the manufacturing sector grew at a dismal 0.8% rate during Jan 2013 (with respect to Jan 2012).

iii) **<u>Tuesday February 26 (DANE)</u>**: 17.8% fall in the area with construction licenses during 2012. The sharpest drop was registered in areas destined for schooling (– 27.4%) and housing (– 20.5%).

iv) **<u>Wednesday February 27 (DANE)</u>**: 7.4% contraction in cement production during Jan 2013 (in relation to Jan 2012). Dispatches to Bogotá plummeted19.9%.

v) **<u>Thursday February 28 (DANE)</u>**: Unemployment during Jan 2013 stood at 12.1% nationwide (vs. 12.4% on Jan 2012).

vi) **<u>Wednesday March 6 (DANE)</u>**: 1.1% reduction in total exports during Jan 2013 compared to Jan 2012: $US 4,734.7 million on Jan 2013 vs. $US 4,785.6 on Jan 2012. The contraction is due to a 9.4% export drop in the Ag/Foodstuffs sector, as well as to a 5.5% fall in exports in the fuel and extractive industries.

vii) **<u>Tuesday March 12 (Fedesarrollo)</u>**: Consumer Confidence Index dropped 11.9 percentage points during Feb, and is now at 14.9% According to the think tank, the last time the index dipped below the 15% threshold was during May 2011 (and in relation to the month of Feb it was during Feb 2010).

viii) **<u>Thursday March 14 (DANE)</u>**: Vehicle sales grew a dismal 0.6% during 2012.

ix) **<u>Thursday March 14 (DANE)</u>**: Trade deficit in the Colombian economy during Jan 2013 was $US 213.3 million. This number contrasts sharply with the $US 623.4 million surplus registered during Jan 2012.

x) **<u>Monday March 18 (DANE)</u>**: 19% growth rate for imports during Jan 2013 ($US 5.2 billion). Imports of agricultural products and foodstuffs skyrocketed (41.2%). Manufacturing imports also grew at a higher than expected rate (16%). 29% of all imports originate in the U.S. (16% in China, 8% in Mexico, 5% in France and 5% in Brazil).

xi) **Thursday March 21 (DANE)**: GDP growth rate for 2012 was 4%. The corresponding quarterly growth rates were: 5.3%, 5.0%, 2.7% and 3.1%.

Sectors with the highest annual growth rates were:

- Mining (5.9%).
- Financial (5.5%).

Sectors with the lowest GDP growth rates were:

- Manufacturing (–0.7%).
- Agriculture (2.6%).

- Other sectors:
- Construction (3.6%).
- Electricity, gas and water (3.5%).
- Transportation, storage and communication services (4.0%).
- Retail, repair, restaurant and hotel services (4.1%).
- Social, community and personal services (4.9%).

In manufacturing, subsectors with the sharpest drops were: tobacco products (–11.5%), spinning/weaving products (–7.7%), machinery and electrical appliances (–6.5%), rubber and plastic products (–5.8%), oil refining (–5.1%).

In agriculture, DANE didn´t disaggregate performance by subsectors.

The 3.6% growth rate in the construction sector was the result of a dismal 2.2% growth rate in public works and a 5.5% growth rate in private housing/buildings. This reveals a very poor executive capacity in national and local governments.

Demand wise there seemed to be some sort of growth balance: final consumption (4.4%), investment (5.7%) and exports (5.3%). A higher than expected 8% import growth rate was also reported.

Even though DANE didn't disaggregate the 4.4% consumption growth rate in private and public spending, the latter probably exhibited a lower growth rate (given the very low 2.2% growth rate in public works).

Finally, the overall GDP growth rate was 20 to 30 bps higher than what the market expected. However, if it weren't for a last minute (upward) revision of the third quarter´s growth rate, the yearly rate would have been below 4% (and more in line with the 3.7% - 3.8% rate that the market expected).

Many questions regarding DANE's technical neutrality are being asked in the market.

xii) **Friday March 22 (DANE)**: 1.7% output drop in manufacturing during Jan 2013 (in relation to Jan 2012, when it had registered a 1.3% drop). Sales and occupied personnel also contracted in 2.5% and 1.3%, respectively. Furthermore, 28 (out of 48) manufacturing subsectors exhibited output reductions during the first month of the year. Those with the sharpest drops were: apparel (–18.1%), nonmetal minerals (–7.3%), spinning/weaving (–28.7%), iron & steel (–11.3%).

xiii) **Monday March 22 (Acolgen)**: Energy consumption grew at a 3.2% rate during Feb 2013 (vs. 2.6% during Feb 2012 and 4.5% during Jan 2013). Non – regulated energy demand grew 2.6%, while regulated energy consumption (residential and small business) grew 3.5%. XM, a different info source, reported a 5.6% growth rate in energy demand during Feb 2013.

xiv) **Sunday March 31 (DANE)**: Unemployment during Feb 2013 stood at 11.8% nationwide (vs. 11.9% on Feb 2012).

xv) **Friday April 5 (BanRep)**: GDP growth during the first quarter of 2013 was forecasted at a lower rate than the one observed during the last quarter of 2012 (3.1%). If so, the growth drop will be above 200 basis points (recall that during the first quarter of 2012 GDP grew at a 5.3% rate).

Evidently, **tradable sector output has stagnated** (and even contracted in several subsectors).

First symptoms of **external (trade) imbalances are also popping up.**

Additionally, **consumer confidence has deteriorated significantly.**

Finally, **the national unemployment rate has been stuck during the last few months above the 10% threshold.**

Unfortunately, the government is showing a **very little capacity of implementing an effective counter cyclical fiscal policy and, thus, offsetting any further deceleration of the economy.**

On April 15 the government will reveal a policy package aimed at reviving tradable sector output (especially manufacturing). It will include: tariff reduction for industrial inputs, fee reduction in gas services for the manufacturing sector, anticipation of the 2012 tax reform benefits for manufacturing, among others.

UNDER OUR WATCH

Monday January 14: President Santos announced via twitter that "*Los Ciruelos*" Hotel Project in the Tayrona National Park (State of Magdalena, Caribbean Coast), comprising a US$ 7 million investment, will not be permitted under his administration. Santos **ignored legal and property rights entitled to the stakeholders of this project** through a proper environmental license.

Wednesday January 23: President Santos signed a decree imposing a 4 $US per kilogram specific tariff on shoe and apparel imports from China. According to government officials, this is simply a 6 – month transitory measure (yet extendable) to offset uneven and disloyal competition coming from China, while permanent anti – dumping tools are put in place. After the announcement, other sectors (iron, steel, notebooks, leather, etc.) demanded similar protectionist measures against Chinese competition. In layman terms: **the government gave in to the textile, apparel and rag trade lobby.**

Thursday January 24: Government officials announced tax breaks to those companies that hire sexually and physically abused women. The tax break is equivalent to 200% of the corresponding payroll. Beyond the obvious justice that every citizen expects for such a group of people, ¿who can certify their a condition with absolute transparency? This is a **distortive loophole.**

Thursday January 24: Hodecol (Decameron Colombia) and other tourism sector companies (like Sensation Catamarans) announced cutbacks in operations in San Andrés and Providencia (Caribbean islands). This is a result of the natural distortion created by a government subsidy granted to air fares to Providencia in state owned Satena Airline. The subsidy was implemented to make up for a ruling by the International Court of Justice in The Hague granting Nicaragua a big chunk of sea waters (in the vicinity of San Andrés and Providencia) that had previously belonged to Colombia. Here´s a **killer side effect of an applauded, yet populist and distortive, policy.**

Friday February 1: OECD's Chief Economist Pier Carlo Padoan presented a study of the Colombian economy. Many analysts said the report was a **cold shower** on the government's longing and yearning for membership of OECD (34 countries that generate 80% of the world's GDP).

Monday February 4: The IMF's annual report on the Colombian economy (under Article IV), approved of Colombia's macroeconomic policy in terms of protecting production against negative external shocks, preserving GDP growth dynamics and keeping low inflation levels. The Fund also highlighted the soundness of the domestic financial sector (sufficiently capitalized and profitable). It also praised some elements of last year's tax reform and the government's pension reform initiative.

However, the Fund encouraged policymakers towards deeper fiscal reform (hinting at **higher taxes on raw materials** aimed at opening up fiscal possibilities for public infrastructure improvements). Furthermore, the Fund insisted on measures for unemployment reduction, productivity growth, rising saving levels and export diversification.

Additionally, the Fund warned that the economy is **still vulnerable to**:
i) Growth deceleration of trading partners.
ii) Possible oil price slump.
iii) Higher risk aversion in international financial markets.

Colombia maintains a $US6 billion Flexible Credit Line with the IMF. It's a more than enough buffer against any possible emergency or adverse shock on the economy. Fortunately, public officials have reasserted that, under present conditions, there's no need whatsoever of using the Fund's credit line.

Monday February 4: ANLA (Environmental License National Agency) rejected 8 environmental licenses for coal extraction in the state of Cesar. The licenses had been requested by corporations like Drummond, Prodeco and Goldman Sachs, and would have doubled coal production in Colombia. According to ANLA Director, the main reason underlying the rejection of these licenses is that the projects didn't meet atmospheric emission standards. This is a **setback for FDI and environmentally responsible extraction in the coal sector.**

Wednesday February 6: The Colombian Petroleum/Oil Association (ACP) warned that FDI in Colombia's oil sector will decline sharply if several reforms aimed at **increasing taxes and royalties on oil production** make it through Congress. According to ACP's Director, if such reforms are implemented the **state take could increase to 90%**, making business in the oil sector completely unfeasible.

He also warned that, even though oil production will grow during 2013, investment in the O&G sector will fall in comparison to 2012 (Pacific Rubiales probably being the exception). Indeed, this year no new off – shore exploration is expected due to investor perception of lack of legal stability. Additionally, **security risks are becoming an increasing obstacle to new investment in O&G**.

Thursday February 7: ANLA officials announced the suspension of Drummond's license for loading coal in its Santa Marta and Ciénaga port. The Agency also announced a fine to the company.

The sanction came after a 2,000 ton coal spill accident from one of Drummond's flatboats into the seawaters of the Santa Marta and Ciénaga coast. The incident occurred on January 13 and wasn't reported to environmental authorities (as was the company's obligation). In any case, the company is currently investing $US 450 million in a 2.4 km dock that will enable direct loading, thus ceasing the flatboat system and avoiding future environmental incidents of this sort.

Note that Drummond is a global leader in coal and coke production (American and Japanese capital). It ships 80k daily tons of coal from Colombia to Europe. The mines (La Loma, El Descanso) are located in the nearby state of Cesar. At current coal prices the license suspension represents a $US 6.4 million daily loss.

The General Attorney's Office also announced a full – fledged penal investigation of the spill. Keep in mind that under Colombia's penal code incidents of this sort are categorized as environmental crimes. Expect indictments, accusations (and not many acquittals).

Unfortunately, **this incident has enhanced animosity, contempt and fire from public opinion leaders against FDI in mining.**

In fact, by Friday February 15 the General Attorney´s Office had begun collecting evidence and obtaining depositions in the midst of the penal process against Drummond.

Even though on March 1 ANLA approved Drummond's contingency plan and called off the (21 day long) sanction, the company will be fined with a monetary penalty (the sum will be revealed by ANLA in May; expect it to be high and exemplary).

As if all this weren´t enough, on Monday April 1 ANM (National Mining Agency) imposed on Drummond a $US 2 million payment due to a pending tariff settlement between the company and FENOCO (railway company that carries coal from different mines in the northern region of the country to port).

Without doubt, the **publicized decisiveness of the government and the General Attorney against Drummond is both cause and effect of an emotional (and irrational) self – feeding frenzy in certain sector of Colombian public opinion against FDI in mining.**

Friday February 7: Union leaders broke up wage negotiations with Cerrejón company representatives and announced the initiation of a general strike. This occurred after 22 years of peace between labor and management in the company. Cerrejón belongs to BHP Billiton (Anglo – Australian capital), Anglo – American (Anglo – South African capital) and Xstrata (Swiss capital).

Even though on Monday March 11 the company and its labor union reached an agreement to put an end to the strike, the production halt cost the company approximately $US 80 million (2.5 million coal tons were not exported).

In any case, this episode (in combination with the Drummond incident) has put at risk Colombia´s **coal production goal for 2013 (98 million tons), while enhancing the rejection of certain segments of public opinion towards FDI in mining.**

Monday February 11: Minister of Environment announced that despite the suspension of 8 environmental licenses to multinational coal companies by ANLA, additional control is required over them. Yet, in the same interview he accepted that:

1. The Ministry's mission exceeds its own technical capacity.
2. There's a lack of coordination between the Ministry and independent regional environmental authorities (CARs).

No wonder there is **animosity and contempt from certain segments of public against FDI in mining** (enhanced by the unfortunate Drummond coal spill accident and the management – labor tension in Cerrejón).

As we see, it tends to be fueled not only by the General Attorney's Office, but also by **an unfit national environmental authority (as recognized by the Minister himself), that keeps on rallying public opinion against foreign coal mining companies.**

Monday February 11: A judge suspended during 6 months mining rights entitled to companies like Anglo Gold Ashanti (South African capital) in the state of Chocó (western region of the country, Pacific coast). The judge's decision is founded on property rights being claimed by native and indigenous groups over the land where the titles were granted by the ANM to these corporations.

Note that it's the first time that a judge suspends foreign investors' mining (property) rights invoking the Bill of Victims approved by Congress in 2011. One of the chapters of such a bill (the one invoked by the judge) is devoted to victims' land rights in Colombia.

No one disagrees with a victim's right to claim his/her legitimate right to any piece of land or property violently snatched from him/her in the past. But **this judge's decision was the first step towards expropriation of foreign investors' legitimate (and well – intended or obtained in good faith) property rights in Colombia, using the Bill of Victims as an excuse.**

Tuesday February 12: A court in the state of Magdalena suspended and conditioned the environmental license that authorized the development of the "*Los Ciruelos*" Hotel Project in the Tayrona National Park until indigenous communities are consulted.

In the same ruling the court also suspended ecotourism in another area of the park that had been granted to Unión Temporal Concesión Tayrona since 2005 (pending consultation with indigenous communities and delimitation of sacred sites). Tourist visits to their *Ecohabs Hotel* were suspended. The representative of Unión Temporal Concesión Tayrona announced that, if necessary, they are willing to abandon their investment in the park.

In this case, **legal and property rights are being openly ignored due to ideological/political reactions.** In fact, this ruling came after President Santos announced one month before (January 14) that the "*Los Ciruelos*" Hotel Project (despite having a proper environmental license) would not be permitted under his administration due to new environmental considerations and indigenous rights (as if he could do that). Hence, it seems that when the central government fuels public feelings against investment in (politically or ideologically) sensitive sectors, **judicial authorities feel free to validate them, thus expelling environmentally responsible investors and attracting illegal activities.**

Tuesday February 12: A court in Cartagena expropriated a piece of land (15 hectares) from its 2001 buyer in the municipality of Morroa (state of Sucre). The court ruled in favor of its previous owner (a peasant that sold it as he wanted to flee the area due to the terror and violence of those days – 2001 –). According to the ruling, the low price paid for the land was a fraudulent or deceitful action committed by the buyer, who took advantage of the precarious conditions (poverty, fear, terror) of the seller back in those times.

Furthermore, according to the court, even though the seller acted with free will during the transaction (and there was no threat or violent act committed by the buyer upon the seller), the buyer never proved in court that he had acted in good faith. Recall that the Law of Victims enacted by Congress in 2011 inverted the burden of proof in this type of cases. The Cartagena court has interpreted this article of the Bill (and has set the precedent) in the sense that any current landowner has to prove and provide evidence that he/she not only bought his/her property acting in simple good faith, but also with the due diligence to make sure that he/she was acting according to the law, and not taking advantage of land price declines due to violence and terror. ¿Can you believe that?

Moreover, the seller (peasant) does not have to refund the price he received when he sold the land. He gets to keep it as part of the compensation for being a victim.

With this Cartagena court ruling we have seen **another exhibition of full disrespect for land property rights under the invocation of the Bill of Victims (it came just one day after a judge suspended mining rights entitled in Chocó to Anglo Gold Ashanti, also using the Bill of Victims as an excuse). This is fatal for business environment and investor confidence in the Ag and Mining sectors in the Colombian economy.** The scariest part of the ruling is that the court felt free to prohibit and punish price formation according to free will and supply – demand equilibrium.

There's an upside though: we suggest you sue the person that bought any piece of land from you. Argue in court that he/she took advantage of your fear (of violence) and, because of that, you had to accept a very bad price. ¿What is a bad price? Doesn't matter. Equilibrium (supply – demand) in markets is not relevant anymore. Thanks to this Cartagena court you have a good chance of getting your land back, without having to refund the money you were paid for it.

Thursday February 14: ANM (National Mining Agency) announced that the official coal production goal for 2012 (93 million tons) was not met (actual production only was 89 million tons).

Even though the Agency's officials attributed this underperformance to the drop in coal prices and to the mid – year strike in Fenoco, it seems that **deterioration of business environment, legal stability and investor confidence in the mining sector also played a role (and could kick in even harder during 2013).**

Monday February 18: The CB revealed FDI data:

1. $US 16,679 million during 2012 (the government expects $US 14k million during 2013).
2. $US 1,313 million during January of 2013 (18.2% decline with respect to January of 2012).
3. $US 1,030 million during January of 2013 for mining and oil (11.7% reduction in comparison to January of 2012).

Two takeaways. **First, FDI is slowing down. Second, FDI is still highly dependent on mining/oil, a sector enduring a severe deterioration in business environment and investor confidence.**

Thursday February 21: The Minister of Mines requested to the Constitutional Court an extension of the due date for Mine Code consultations with indigenous groups. Recall that the Mine Code was declared unconstitutional by the court because of lack of such consultations. **If the extension is not granted, legal instability will deepen in the mining industry.**

February/March Social Unrest: Multiple expressions of social unrest erupted all over the country.

i) **Coffee farmers**: Carried out a national strike that lasted 12 days (February 25 – March 8), asking for subsidies and bail – outs, on the basis of the drastic drop in domestic prices (COP appreciation + fall in world price).

The strike resulted in major road blocks and violent confrontations with the Police in 7 or 8 regions of the country (especially in the states of Cauca, Huila, Caquetá and Antioquia). Some capital cities (like Popayan) came to the verge of a humanitarian crisis (due to scarcity of food, gas and medical supplies).

Without question, the strike was handled clumsily by the government. At the end it gave in to the farmer´s demands and granted a US$ 450 million bail – out and subsidy program.

ii) **Truck drivers**: After a three – day national strike (that aggravated coffee farmers' road blocks) the government yielded to diesel price reduction demands: a US$ 13 cent per gallon drop in March and April.

iii) **Cocoa farmers**: Their strike in the state of Santander got them a $US 700 per ton subsidy (50% central government – 50% state government).

iv) **Business owners in Cucuta (capital city of the state of Norte de Santander – frontier with Venezuela –)**: Protests and unrest began to boil up in Cucuta when business and commercial activity plummeted after the Venezuelan currency was devalued (40%). Additionally, bilateral agreements between Venezuela and Colombia, aimed at enhancing trade and the economy in the border, have not been implemented (Chavez's death probably augmented fears that such implementation will never take place). ¡Unemployment in Cucuta stands at 17.8%!

The President himself (and several Ministers and government officials) had to travel over there, meet with community and business leaders (town – hall like) and, naturally, endure open hostility towards the administration.

In any case, the President announced a $US 2.5 billion policy package that will supposedly boost Cucuta's economy: roads, homes, schools, safety net expansion, open sky policy, Cucuta's aqueduct, etc.

After the President left, local (political and small business) representatives manifested deep skepticism towards the effectiveness of the President's announcements (even if properly and diligently executed). Expect more unrest.

v) **Steel workers**: On Monday March 11 500 of them blocked the highway connecting Bogota and Sogamoso (major steel producing city in the central highland state of Boyacá). They asked for deeper controls against steel smuggling and imports.

vi) **Rice farmers**: Announced a strike that was to begin on March 19 due to price drops, imports and smuggling from Venezuela. The strike was to take place in the states of Norte de Santander, Cesar, Arauca, Casanare, Meta, Huila and Tolima (the first three being frontier states with Venezuela). 8,000 farmers were expected to join in. However, on Thursday March 14 the Minister of Agriculture negotiated price bands with rice farmers and extinguished the March 19 strike.

No doubt the negotiation was successful in terms of avoiding an additional setback for the Minister. But, at what cost? Note that price bands are isomorphic to price fixation and, thereby, always induce a black market due to scarcity (if the price – or band – is fixed below natural equilibrium) or to oversupply (if the price – or band – is set above natural equilibrium). The latter is the case and the following questions emerge:

How are the price bands going to be enforced?

How will farmers (enjoying the price band) be chosen by the mills?

Who is going to compensate mills for the higher than equilibrium price paid to a few fortunate farmers?

Who is going to buy the black market oversupply?

Who is going to compensate mills for black market competition at lower than band prices?

Who is going to regulate rents obtained by black market players (buying below the price band and selling at higher consumer prices)?

Price bands are a costly, exotic and unorthodox response to please the rice sector. They not only add up to the previous collection of costly policies that the government adopted in order to calm down unrest in the Ag sector, but also constitute a **very bad signal in terms of investor confidence to any company willing to participate in the Ag sector in Colombia.**

vii) **Dairy farmers**: Some of their leaders have announced the possibility of initiating a national strike against imports attributable to Free Trade Agreements (FTA) that Colombia has negotiated with several countries (the major fear of dairy producers comes from the FTA with the European Union).

Strikes are common in Colombia (and basically in every truly democratic country of the world). However, the problem arises when **a government (with downward sloping popularity indexes and incapable of enduring the unrest) handles clumsily every confrontation, thus**

yielding to earmarks and distortive policies (stimulating, by the way, further strikes and jeopardizing the country's fiscal stance).

Unfortunately, this is **not the first wave of social unrest handled by the government by earmarking fiscal income** (recall that last year's judicial national strike ended in a $US 750 million wage leveling package granted by the government – and, ironically, inconformity in judicial employees persists –).

Monday March 11: Cortolima (regional environmental authority) suspended Anglo Gold Ashanti's exploring and drilling activities in the settlement of Doima – municipality of Piedras (central state of Tolima). The decision was preceded by local protests during Feb (including road blocks to the company's equipment). Local citizens fear harm against hydric resources in the area where the company must operate.

The suspension was based upon the company's non – compliance of minimal standards when requesting the corresponding environmental permits. Additionally, Cortolima argued that the area where the company was operating is legally destined to agriculture, forestry and peasant housing (not mining activities). Finally, the authority also established that the area is extremely fragile and that Anglo Gold's activities could endanger its water and soil resources.

On Thursday March 15 the Mayor of Ibagué (capital city of the state of Tolima) publicly requested Anglo Gold to resign its 157 mining titles in the areas surrounding the city. The Mayor argued that 25 of those titles are located in the city's water sources (especially the Combeima River).

Anglo Gold Ashanti is a global leader in gold mining, and operates in 13 countries (including the U.S., Australia, Argentina, Brazil and South Africa). On Friday March 15 the company issued a press release saying that it has complied with all legal standards when developing its activities in the state of Tolima.

Nobody denies the importance of protecting environmental resources in the country. However, Cortolima's decision (and the Mayor's intervention) could be a politically motivated (and politically profitable) first step against the company´s gold mining activities in Colombia (especially against the controversial Colosa project in the municipality of Cajamarca, also in the state of Tolima).

Because of the politics and protests surrounding the company´s activities in the state of Tolima, **the environmental authority's decision against Anglo Gold Ashanti creates a bitter aftertaste in terms of investor confidence.** This episode, isolated as it is, could also be a side effect of **enhanced national animosity and contempt against mining activities in Colombia during the last few months.**

Thursday March 14: The Ministry of Mines announced that, **during Feb, oil production dropped below the 1 million bpd threshold.** Indeed, Feb oil production exhibited a 1.42% contraction in relation to Jan (when production averaged 1.012.000.000 barrels per day). **The Ministry conceded that the drop is the result of the escalation of terrorist attacks against oil pipelines and infrastructure during this year** (especially against the Caño – Limón Coveñas Pipeline).

Fortunately, On April 8 the Ministry reported that during March production was back again over de 1 million bpd threshold (and 66k bpd higher than production on Mar 2012).

Thursday March 14: Consejo de Estado (Supreme Court in administrative or public – private matters) issued a ruling against the current owners – investors of the Cartagena building and land piece where Hilton Hotel operates. The ruling demands that:

i) The hotel´s beach area be recognized and formalized by authorities as public space (given that, originally, it was low sea water area and was turned into beach with seawalls during the late 1970's).
ii) In compensation for having used the area for so many years, current investors (in the building and the land piece, not Hilton) must buy a piece of land close by (similar in area to the piece

being restored as public space), develop a public park, and pay for its maintenance during 30 years(!).

However, some of the current investors acquired participation in the building and the land in the early 1990's (for example Corficolombiana – Hoteles Estelar from the Sarmiento Angulo Group with 50% of shareholding). But note that they are being penalized for seawall installation dating back to the late 1970's, when investors were completely different and shareholding was controlled by public entities or corporations.

In other words, **current private investors are being sanctioned for public decisions made more than 30 years ago.** Assuming the restoration of Hilton´s beach area as undisputable public space is fair and legal, **the court's penalty and compensation requirement on current investors is completely unfair, exotic and erodes business environment in the tourism sector.**

Monday April 1: INCODER (National Rural Development Institute) expropriated 1,200 hectares of land in La Gloria (state of Cesar). The land piece had several palm plantations belonging to foreign and domestic investors. According to INCODER, property rights of the area belong to the Nation and will be entitled to landless peasants. Moreover, according to the institute's ruling the companies will not be considered occupants in good faith and, therefore, are not entitled to any compensation whatsoever for the loss of their palm plantations. This is **one of the biggest setbacks for investor confidence in the Colombian Ag sector.**

Physical Security:

i) **Friday January 18**: Terrorist group ELN kidnapped one Canadian and two Peruvian nationals (together with three Colombians) in "*Casa de Barro*" gold mine – municipality of Norosí (south of the State of Bolívar). The mine belongs to Geo Explorer (gold exploration company with Colombian and Canadian capital). The

Peruvians and Colombians were liberated on February 12. The Canadian remains captive.

ii) **Sunday January 20**: FARC terrorist group blew up the Transandino Oil Pipeline in the municipality of Orito (State of Putumayo, frontier with Ecuador), really close to Ecopetrol's Central Station. The pipeline, 306 kms long between the oil fields of Orito and the municipality of Tumaco (State of Nariño, Pacific coast), has a 48k bpd capacity. According to Ecopetrol, the attack caused an oil spill, a fire and the obvious pumping halt.

iii) **Monday January 21**: FARC terrorists destroyed four tranches or segments of a small oil pipeline that serves different oil fields in the State of Putumayo.

iv) **Tuesday January 22**: FARC terrorists launched a bomb to the train that carries coal from the Cerrejón mine (State of La Guajira, frontier with Venezuela) to port (Puerto Bolívar, Colombian Caribbean Coast).

v) **Wednesday January 23**: FARC terrorists attacked the Caño Limón – Coveñas Oil Pipeline in the municipality of Arauquita (State of Arauca, frontier with Venezuela). There was no oil spill, but pumping had to be suspended. This pipeline, 780 kms long between the Caño Limón oil field in Arauquita and the municipality of Coveñas (State of Sucre, Atlantic coast), belongs to Ecopetrol and Occidental Petroleum Company (American capital) and has a 220 bpd capacity.

vi) **Friday January 25**: A FARC cell blew up a gas pipeline in the state of La Guajira. Gas service had to be suspended in near – by municipalities.

vii) **Friday January 25**: Two policemen and an engineer working for a sugar mill were kidnapped by FARC in the municipality of Pradera (State of Valle, Cauca River valley). The engineer was released some hours later, but the two policemen (who were investigating extortion to sugar factories in the area) were kept in hands of FARC terrorists until February 15.

viii) **Wednesday January 30**: FARC terrorists kidnapped three engineers working for oil company Gran Tierra Energy (Canadian capital) in the municipality of Piamonte (state of Cauca). One day later, the three engineers were set free.

ix) **Thursday January 31**: FARC terrorists killed 4 soldiers in the municipality of Policarpa (state of Nariño). Two other soldiers were seriously wounded in the same attack.

x) **Friday February 1**: FARC terrorists blew up a public elementary school that served 60 poor children in Balsillas, municipality of San Vicente del Caguán (state of Caquetá).

xi) **Friday February 1**: FARC terrorists assassinated three policemen in the municipality of Maicao (state of La Guajira).

xii) **Friday February 1**: Army commanders offered substantial monetary rewards for information leading to the capture or death of FARC leaders in the state of Chocó (Pacific coast). This is due to numerous threats of retaliation from FARC against anyone daring to drive on the roads connecting the central part of the country with the state of Chocó.

xiii) **Saturday February 2**: FARC admitted having kidnapped not only two policemen in the municipality of Pradera – state of Valle (the ones kidnapped on January 25 and released on February 15, see above), but also one soldier in the state of Nariño.

In a press release the terrorist group justified the kidnappings claiming they were legitimate acts of war. The cynical statement came a few hours after authorities found the car in which the two policemen were taken away (the car, not surprisingly, was full of explosives and put there as a deadly bait against soldiers participating in the search for the policemen).

The soldier was liberated on February 16.

xiv) **Monday February 4**: Two contractors (technicians) working for Ecopetrol in Sucumbíos, municipality of Orito (state of Putumayo), were kidnapped by FARC.

xv) **Monday February 4**: The police Station in the municipality of Nátaga (state of Huila) was attacked by FARC terrorists (¡they drove into town on 6 trucks!). One policeman was shot dead. Several civilians were wounded.

xvi) **Monday February 4**: FARC terrorists killed two policemen in an ambush over the main road connecting Medellin and Urabá (western coastal region in the state of Antioquia). It occurred in the municipality of Giraldo. Two other policemen were severely wounded.

xvii) **Monday February 4**: A grenade wounded 4 soldiers who were attending the assassination of an adult civilian (and injuries to a girl) – all attributable to FARC – in the municipality of Ituango (state of Antioquia).

xviii) **Monday February 4**: Terrorist group ELN announced that it had kidnapped two German citizens in the conflictive Catatumbo region (state of Norte de Santander, frontier with Venezuela). The German government refused to negotiate with the terrorist group. They were liberated on March 8.

xix) **Tuesday February 5**: FARC terrorists blew up a car bomb in the municipality of Caloto (state of Cauca). As a result, one soldier and one civilian were killed, while two soldiers were injured.

xx) **Thursday February 7**: FARC terrorists attacked the municipality of Toribío (state of Cauca).

xxi) **Thursday February 7**: In Neiva (state of Huila) FARC terrorists blew up a motorcycle – bomb, destroying 30 houses and injuring a 3 year old girl.

xxii) **Monday February 11**: A 10 year old girl and a policeman were killed by FARC terrorists in the municipality of Miraflores (state of Guaviare). Their modus operandi this time: terrorists initiated a fire and, after local residents arrived at the site to help extinguish it, they threw a grenade and fired upon the people. 15 other civilians were severely wounded.

xxiii) **Monday February 11**: At 9:25 pm FARC terrorists belonging to "*Frente 49*" blew up the Transandino Oil Pipeline in the municipality of Orito (state of Putumayo). It caused not only a big oil spill, but also a fire in the Los Ángeles settlement of the municipality. Several families had to be evacuated from their homes.

xxiv) **Tuesday February 12**: At 8:30 am FARC members of the same terrorist unit ("*Frente 49*") blew up 4 trucks that belonged to Cass, a company in charge of paving a road in the Valle del Guamez region (state of Putumayo).

xxv) **Tuesday February 12**: The Metropolitan Bogotá Police Department confirmed that terrorist group FARC was once again extorting businesses and companies in the city. Something like this had not happened in the capital of Colombia for many years.

xxvi) **Tuesday February 12**: FARC terrorists massacred 5 members of a (different) criminal group devoted to extortion and looting in the municipality of El Bagre (state of Antioquia, northeastern mining – gold – region).

xxvii) **Wednesday February 13**: FARC terrorists belonging to its "*Bloque Sur*" assassinated seven soldiers belonging to the Army's Sixth Division (and wounded 5 more) in San Antonio de Milán (state of Caquetá).

xxviii) **Friday February 15**: FARC terrorists ambushed and assassinated three Army members (one captain, one corporal and one soldier) in Sumapaz (¡outskirts of Bogotá!). Three more soldiers were wounded.

xxix) **Friday February 15**: FARC terrorists belonging to "*Frente 34*" fired four 82 mm grenades towards a military base in the municipality of Urrao (state of Antioquia). Two soldiers and one civilian woman were wounded.

xxx) **Friday February 15**: Two soldiers belonging to the Army's 17th Brigade died due to a FARC minefield between the municipalities of Dabeiba and Mutatá (state of Antioquia).

xxxi) **Saturday February 16**: President Santos travelled to the state of Arauca (frontier with Venezuela), where a FARC – induced strike was taking place (and creating food shortages).

xxxii) **Saturday February 16**: At dawn FARC terrorists blew up a Police Station in the municipality of Puerto Asís (state of Putumayo) wounding one captain and two policemen. 30 homes were damaged. As a result, the Governor of Putumayo demanded from President Santos special and urgent measures to stop further FARC terrorist acts in that state.

xxxiii) **Sunday February 17**: FARC terrorists belonging to "*Frente 36*" dynamited and destroyed an energy/electricity (transmission) tower in the municipality of Yarumal (state of Antioquia). The tower belonged to EPM (public electrical power company). Several towns in the region, as well as the Hidroituango Project (a dam being built in the Cauca River), had to endure a severe black – out.

xxxiv) **Sunday February 17**: FARC terrorists belonging to "*Frente 36*" used trucks and other vehicles (apparently full of explosives), and burned a bus, to block all roads leading to the municipality of Ituango (state of Antioquia).

xxxv) **Sunday February 17**: FARC terrorists blew up the Caño Limón – Coveñas Oil Pipeline in the municipality of Teorama (State of Norte de Santander, frontier with Venezuela). There was an oil spill that reached the Catatumbo River.

xxxvi) **Sunday February 17**: A grenade exploded in downtown Yopal (capital of the petroleum producing state of Casanare). It was a retaliation against vehicle sale that didn't pay what extortionists were demanding. Fortunately, this terrorist act didn't result in dead or wounded people.

xxxvii) **Monday February 18**: Terrorist groups FARC and ELN (through a press release) jointly declared as military objectives all hydroelectric, mining, timber and bio – fuel projects in the state of Antioquia.

xxxviii) **Tuesday February 19**: At 8:30 am one civilian woman died and three others were severely injured in the municipality of Briceño (state of Antioquia) after a land mine (installed by FARC terrorists the night before) blew up.

xxxix) **Wednesday February 20**: FARC terrorists ambushed with explosives an Army patrol in the municipality of San Vicente del Caguán – state of Caquetá – (several hours before the arrival of the President). One civilian died.

xl) **Wednesday February 20**: Peasants from the Bagadó settlement (state of Chocó) had to flee after violent FARC intimidation and attacks against the Police Station. The peasants and their families arrived to the municipality of Pueblo Rico (state of Risaralda).

xli) **Wednesday February 20**: The municipality of Argelia (state of Cauca) was attacked (grenades and assault rifles) by several FARC terrorists belonging to "*Frente 60*". Three soldiers and one policeman were wounded.

xlii) **Thursday February 21**: FARC terrorists blocked during three days a road in the municipality of Tuluá (state of Valle del Cauca, Pacific coast and Cauca River valley), using two vehicles with explosives.

The terrorists also imposed a 6:00 pm curfew in the surrounding area.

xliii) **<u>Thursday February 21</u>**: FARC terrorists belonging to "*Frente* 6" blew up the main water conduit of the aqueduct in the municipality of Corinto (state of Cauca).

xliv) **<u>Saturday February 23</u>**: At 3:00 am FARC terrorists attacked Army and Police units in the municipality of Anorí (state of Antioquia). No dead or wounded Army or Police personnel.

xlv) **<u>Saturday February 23</u>**: FARC terrorists intercepted and burned a civilian bus in the municipality of Sabanalarga (state of Antioquia).

xlvi) **<u>Sunday February 24</u>**: FARC terrorists used explosives to blow up 3 Cerrejón trucks. The terrorist attack took place inside the company's coal production facilities.

xlvii) **<u>Monday February 25</u>**: Military personnel neutralized a car – bomb carrying 8 firing cylinders (of the type used in terrorist attacks) in the municipality of Corinto (state of Cauca), after FARC's "*Frente* 6" left it abandoned in the middle of combats with the Army's "*Fuerza de Tarea Apolo*".

xlviii) **<u>Monday February 25</u>**: At 12:45 pm FARC terrorists attacked with explosives a restaurant in the municipality of San Miguel (state of Putumayo). One civilian was killed. 14 other persons (6 children, 5 civilian adults and 3 policemen) were injured.

xlix) **<u>Wednesday February 27</u>**: FARC terrorists blew up the Caño Limón – Coveñas Oil Pipeline in the municipality of El Carmen (State of Norte de Santander). The oil spill reached the Carmen River, tributary of the Simaña and Magdalena Rivers.

l) **<u>Saturday March 2</u>**: FARC terrorists attacked and blew up six oil transporting trucks in the municipality of Puerto Asís (state of Putumayo).

li) **<u>Saturday March 2</u>**: At 10:30 am FARC terrorists belonging to "*Frente 34*" attacked the Police Station in the settlement of Tutunendo (30 minutes away from Quibdó, the capital city of the state of Chocó). Exploding cylinders hit the station and the settlement.

lii) **<u>Saturday March 2</u>**: In the Catatumbo oil producing region (state of Norte de Santander) FARC terrorists (dressed as civilians) burned one truck belonging to a contractor that provided services to Ecopetrol.

liii) **Monday March 4**: FARC terrorist belonging to "*Frente 18*" attacked (using explosives and short guns) an Army patrol in the municipality of Ituango (state of Antioquia). Two soldiers and two civilians were injured.

liv) **Tuesday March 5**: At 2:00 am FARC terrorist detonated a car – bomb at Ecopetrol's headquarters in the municipality of Tumaco (state of Nariño). A few minutes later two cylinder – bombs exploded against the town's Navy base. As a result water and energy supply had to be suspended.

lv) **Wednesday March 6**: ELN terrorists blew up the Caño Limón – Coveñas Oil Pipeline by km 90 (settlement of La Pava, municipality of Saravena, state of Arauca). The fire and oil spill affected several farms.

lvi) **Thursday March 7**: Hooded men massacred three peasants in the municipality of Yondó (state of Antioquia).

lvii) **Saturday March 9**: FARC terrorists detonated a car (full of explosives) in the road that connects the municipalities of Convención and Ocaña (state of Norte de Santander).

lviii) **Saturday March 9**: FARC terrorists blew up an energy tower in the municipality of Tarazá (state of Antioquia).

lix) **Sunday March 10**: Two soldiers were killed and two children were severely wounded after FARC terrorists (belonging to "*Frente 18*") activated a land mine in the municipality of San Andrés de Cuerquia (state of Antioquia). The land mine was activated using a cell phone.

lx) **Monday March 11**: At 11:30 am FARC terrorists activated an explosive at the entrance of a supermarket, 50 meters away from the Police Station in the municipality of Timbío (state of Cauca). 15 persons were injured (12 of them being civilians) and 20 buildings were affected after the blast.

lxi) **Tuesday March 12**: At 6:20 pm FARC terrorists ambushed a Police patrol in the municipality of Salado Blanco (state of Huila). Two policemen were killed and one more was wounded.

lxii) **Wednesday March 13**: At 1:00 pm FARC terrorists (belonging to "*Frente 36*") activated an explosive artifact in a rural school in the municipality of Toledo (state of Antioquia). Two soldiers were injured and 50 children were stunned.

lxiii) **Thursday March 14**: ELN terrorists blew up, once again, the Caño Limón – Coveñas Oil Pipeline. This time it was in the municipality of La Gloria (State of Cesar). The oil spill created a severe environmental damage.

lxiv) **Thursday March 14**: FARC terrorists (belonging to "*Frente 59*") dynamited in the state of La Guajira the train that transports the coal from the Cerrejón mine to Puerto Bolívar. The explosion, at km 14, derailed 17 wagons and caused severe damages to the railroad. Coal exports were transitorily suspended.

lxv) **Thursday March 14**: FARC terrorists activated an explosive artifact in the municipality of Planadas (state of Tolima). One civilian was killed.

lxvi) **Friday March 15**: FARC terrorists attacked the municipality of Argelia (state of Cauca). They detonated an explosive in the middle of town, really close to a school. 32 civilians (9 minors) were injured. This was the fifth terrorist attack against this municipality during 2013.

lxvii) **Friday March 15**: FARC terrorists detonated an explosive in Cali (capital city of the state of Valle). 7 civilians were injured. Several buildings and vehicles were also affected.

lxviii) **Friday March 15**: When an Army patrol was passing by, FARC terrorists (belonging to "*Frente 36*") used a cell phone to activate a minefield in a region between the municipalities of Anorí and Campamento (state of Antioquia). 9 soldiers were injured.

lxix) **Monday March 18**: FARC terrorists blew up, once again, the Transandino Oil Pipeline. This time it happened in the municipality of Barbacoas (state of Nariño). The attack caused a severe environmental damage and an oil spill in the Ñiambí River. Oil pumping was suspended until Ecopetrol repaired the physical damages to the pipeline.

lxx) **Monday March 18**: FARC terrorists raided the Cerrejón mine in an attempt to blow up some of the company's heavy machinery and equipment. The Army repelled the attack. In the retreat the terrorists fired their guns against two trucks. One of the drivers and one soldier were injured.

lxxi) **Tuesday March 19**: ELN terrorists installed explosives (and their flag) in a major bridge in the middle of Medellín (capital city of the state of Antioquia). At 6:30 am the Police deactivated the artifact which only had 100 grams of the explosive. Nevertheless, it's the first time in many years that an episode of this sort occurs in the middle of a major Colombian city.

lxxii) **Wednesday March 20**: FARC terrorists launched an explosive against a Police patrol in the road that communicates Bogotá and Neiva (capital city of the state of Huila). Fortunately the artifact didn't explode and was properly deactivated by Police anti explosive personnel.

lxxiii) **Saturday March 23**: FARC terrorists (belonging to "*Frente 41*") installed an illegal toll in the road connecting the municipalities of Codazzi and Casacará (state of Cesar). The terrorists fired their assault rifles indiscriminately on several cars that were forced to stop. One minor (17 years old) and one adult (36 years old) were killed. Six other civilians were injured.

lxxiv) **Saturday March 23**: One soldier was injured during combats between the Army and FARC terrorists in the settlement of Calamar (state of Caquetá).

lxxv) **Sunday March 24**: FARC terrorists (belonging to the "*Jacobo Arenas*" column) attacked an Army patrol in the municipality of El Tambo (state of Cauca). The Army lieutenant was killed.

lxxvi) **Thursday March 28**: One person (30 year old) was kidnapped in the road between the municipalities of Pitalito (state of Huila) and Mocoa (state of Putumayo). It was the first kidnapping of the year in this southern region of the country.

lxxvii) **Thursday March 28**: One five year old child was severely wounded by an explosive artifact installed by FARC terrorists in the municipality of Orito (and aimed at the Transandino Oil Pipeline).

lxxviii) **Saturday March 30** FARC terrorists attacked with assault rifles Army troops in the municipality of Turbo (state of Antioquia, Urabá region). One soldier was killed.

lxxix) **Saturday March 30** Community members in the state of Cesar denounced that FARC's "*Frente 41*" was reactivated. It seems to be operating through skirmishes of small squads (5 or 6 members) that install extortion tolls (and set vehicles on fire) in the road that connects the municipalities of Curumaní and La Paz.

lxxx) **Sunday March 31**: At 11:45 am FARC terrorists set fire to an oil truck (belonging to Transkilili) in the Mocoa – Puerto Asís Road (state of Putumayo).

lxxxi) **Monday April 1**: FARC terrorists attacked the workers' camp in the construction site of La Libertad road, connecting the municipalities of Inzá (state of Cauca) and La Plata (state of Huila).

lxxxii) **Tuesday April 2**: The U.S. government confirmed that FARC has purchased land to air missiles (capable of blowing down aircrafts).

lxxxiii) **Thursday April 4**: FARC terrorists (belonging to "*Frente 6*") attacked with explosive the settlement of Guatemala in the municipality of Miranda (state of Cauca). One of the explosives hit a family home. Thus, one civilian was killed and three others (including two children) were injured.

lxxxiv) **Friday April 5**: FARC terrorists (belonging to "*Frente 6*") attacked Army units in the municipality of Corinto (state of Cauca). Four army members (one corporal and three soldiers) were killed, while eight of them were injured.

lxxxv) **Saturday April 6**: 200 FARC terrorists (belonging to "*Frente 15*") attacked the Police Station and a military base in the San Antonio de Getuchá settlement (municipality of Milán, state of Caquetá). One corporal and two soldiers were assassinated. Five persons were injured (including two civilians – one of them a minor –). The power station was also destroyed, thus causing an electrical black out in the settlement.

Dismal statistics 1: We have reported 85 terrorist acts during the first quarter of 2013 (the average is almost equivalent to 1 terrorist act per day).

Dismal statistics 2: 5 employees of the oil industry and 11 employees of the mining sector have been kidnapped in Colombia during 2013.

Dismal statistics 3: Terrorist attacks against oil pipelines and energy towers skyrocketed during 2012 (341 vs. 120 in 2011). Higher numbers will come out this year

Dismal statistics 4: In terms of attacks against oil pipelines, January of 2013 has been the most violent of all Januaries during a 6 year period (14 attacks vs., for example, 4 attacks in January 2012).

Dismal statistics 5: There have been 10 attacks to the Caño Limón – Coveñas oil pipeline during 2013 (3 in Arauca, 6 in Norte de Santander, 1 in Cesar).
Dismal statistics 6: Extortion has skyrocketed all over the country: 1,542 cases were reported to authorities up to November of last year (the real number is probably three to four times higher due to fear of reporting).

OUR ASSESSMENT:

Physical security and personal safety have deteriorated significantly, especially in frontier states, and in regions of interest to the O&G, Coal, Gold and Electrical Energy sectors. Escalation of terrorist acts in Colombia is **not fortuitous**. It's the result of:

i) FARC's evident strategy of enhancing people's perception of its military capacity during peace talks with the government. FARC is trying to strengthen its stance (and hike up its price value) amid negotiations with President Santos.
ii) ELN's attempt to induce the government into peace talks.

Keep an eye on peace talks in Cuba between the Santos administration and FARC. Apparently, **both sides are close to a deal on the topic of rural development. Nothing good can come out of it for foreign or domestic investment.** In fact, the deal includes:

i) Increasing land taxes in order to induce a more efficient use of land. That will not do it. On the contrary, it will reduce the feasibility of investment in rural areas.
ii) Enhancing the (already worrisome and dangerous) legal structure for land expropriation in order to nourish a land bank for poor peasants. That's a nice intention. Unfortunately, peasants with land but lacking credit, technology, economies of scale and insurance (against exchange rate, climate, phitosanitary and international price risks) usually go bankrupt and abandon (once again) their land to find a job in the city. At the end of the day this policy ends up killing many job creating investment possibilities and sending peasants back to the cities.