



NEWS 06

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ESCUELA
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QUAESTOR
Universidad Sergio Arboleda

BUSINESS ENVIRONMENT WATCHDOGS

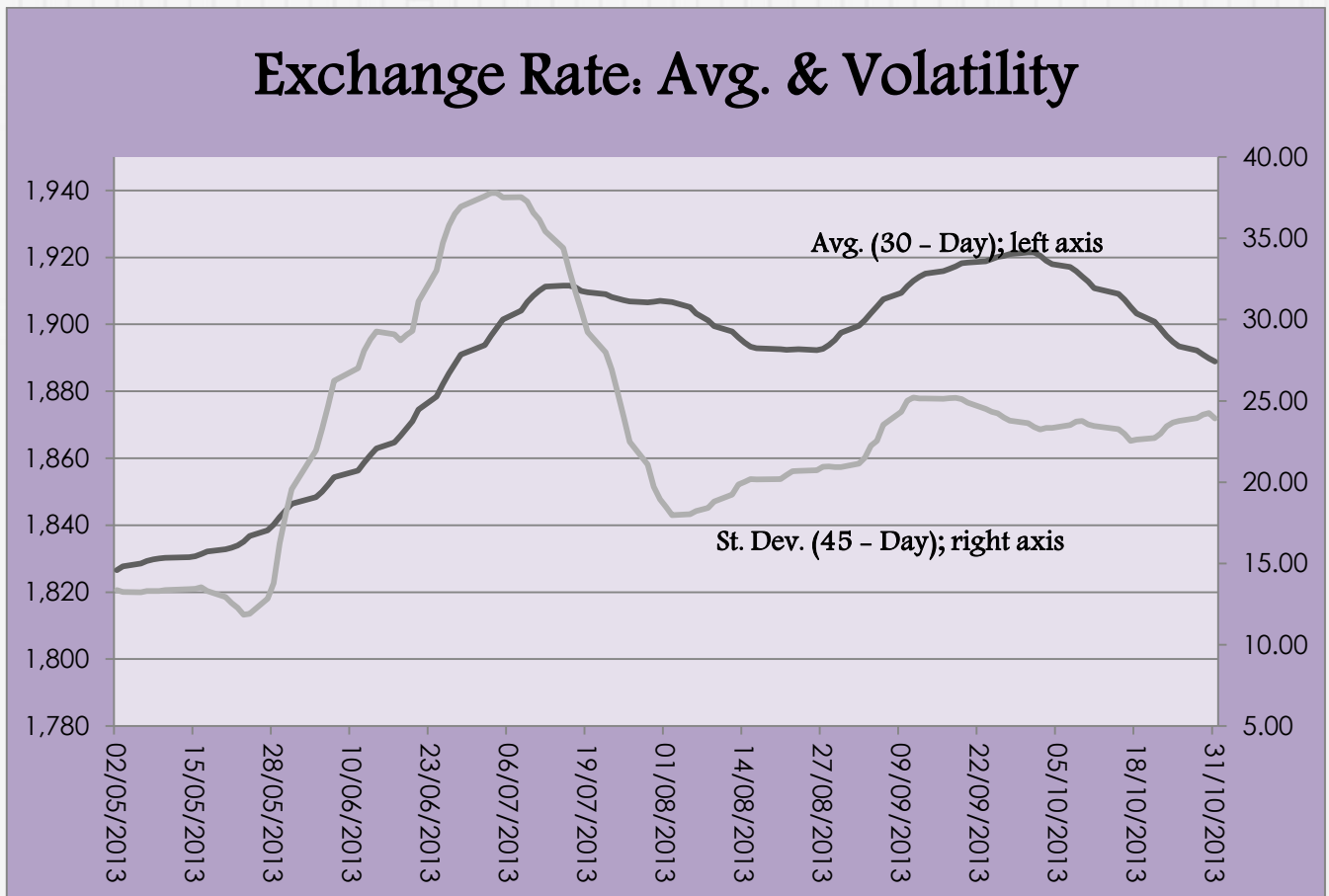
DATA

Peso – Dollar Exchange Rate (ER)

COP – \$US Exchange Rate



With the September – October 3% strengthening (appreciation) of the Colombian Peso (COP), **its medium – run trend finally depicts trend reversal (or at least stable) dynamics.**



Indeed, the systematic weakening of the COP during the Jan – Aug time lapse has stopped and, at least in the short run, there seems to be stability (or even a trend reversal) in exchange rate (ER) dynamics.

This means the confidence plunge¹, as portrayed by this year's FDI drop (see below) or the recent materialization of a “sudden stop” risk², as well as the ongoing stagnation of tradable output, as reflected by a significant export drop (see below), have been fully discounted into currency prices.

¹ Uncertainty attributable to peace talks with FARC, increasing social unrest, the government's popularity plummeting and lack of political leadership, as well as major setbacks to business environment in Mining, Oil & Gas (O&G), Agriculture (Ag) and Tourism have eroded investor confidence regarding property rights and legal stability in Colombia.

² On September 20 Colombia ranked fifth in the Capital – Freeze Index (The Economist). Simply put, the Colombian economy is the fifth one with higher risk of going through a sudden stop of capital inflows among emerging markets.

However, and given that ER dynamics during Jan – Aug weren't the result of domestic macro policy³, but a clear depiction of exogenous factors, **any unexpected shock will induce the ER market, once again, into depreciation dynamics.**

One such shock could take place if the **Federal Reserve Board decides on reigning in its monetary expansion program (Quantitative Easing – QE –) sooner than expected (Spring 2014).**

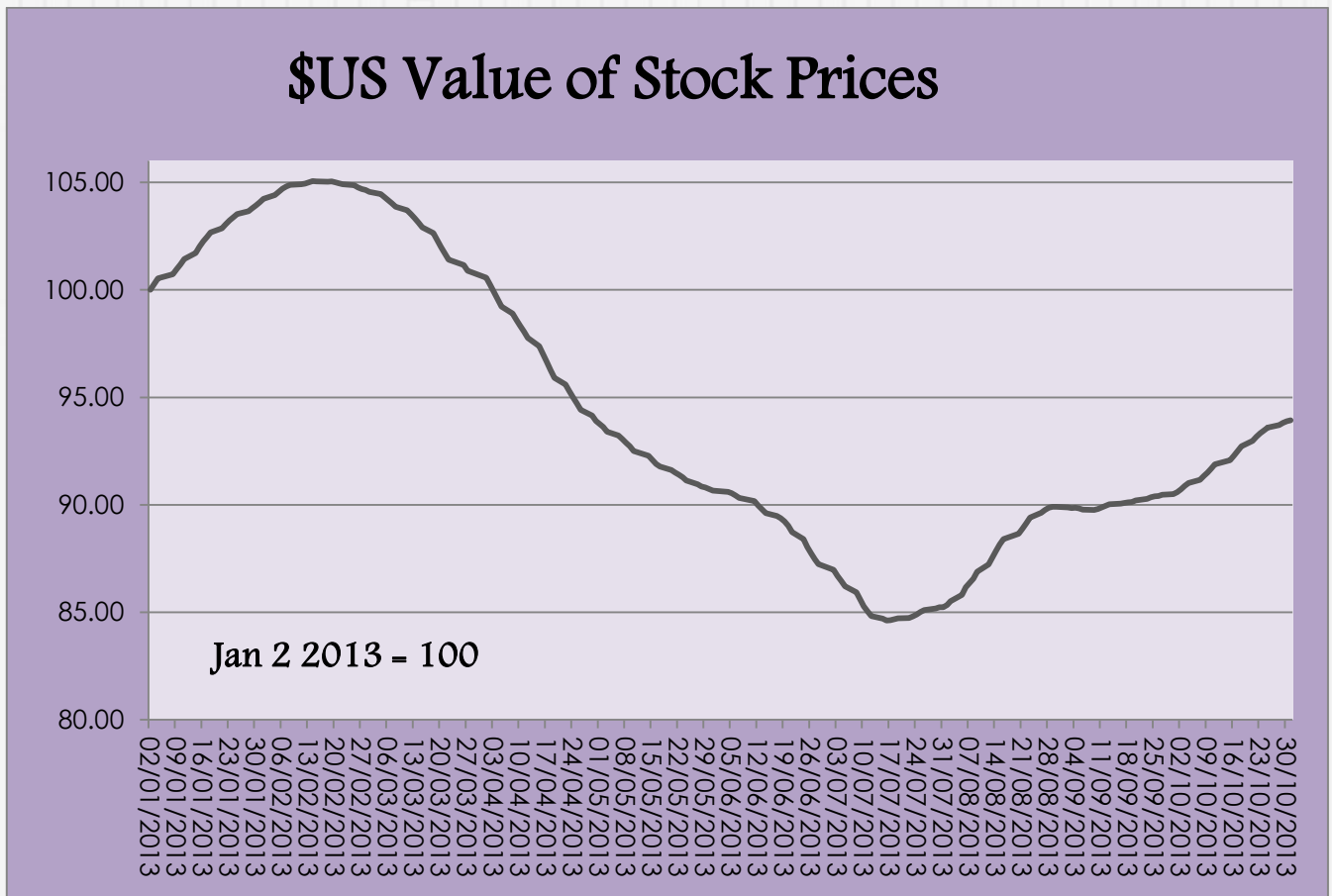
Another shock could emerge if, amid peace talks in La Habana plus the brutal plummeting of the President's popularity, negotiators receive orders to **yield into FARC's wild requests in order to accelerate a deal before the upcoming elections.** Needless to say, FARC seeks to eliminate conditions for foreign investment, and to erode property rights especially in the Agricultural (Ag) sector.

Now, ER volatility has converged back to its 6 – month average, well below the mid – year peak.

QUAESTOR's \$US Value of Domestic Stock Price Index

As in the ER market, **bullish dynamics in the stock market confirm a trend reversal after the Feb – Jul price plunge.**

³ In terms of monetary policy, note that the Central Bank (CB) 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. Afterwards (board meetings of Apr 26, May 31, Jun 28, Jul 26, Aug 30, Sep 27 and Oct 25), the rate stood untouched at 3.25%. The CB also implemented an active international reserve (IR) accumulation policy after its Jan 31 board meeting: \$US 3 billion between Feb and May. However, after its May 31 and Sep 27 board meetings the CB reigned in its IR accumulation policy: i) \$US 2.5 billion during the Jun – Sep time period, and ii) \$US 1.0 billion during the Oct – Dec time lapse. On the other hand, the countercyclical fiscal policy revealed by the government (PIPE – see our Quarter II report –) undoubtedly deploys clever instruments aimed at fostering economic growth, boosting domestic demand and enhancing tradable sector competitiveness. Yet, if successful (and diligently executed) this will appreciate (*and not depreciate*) the COP.



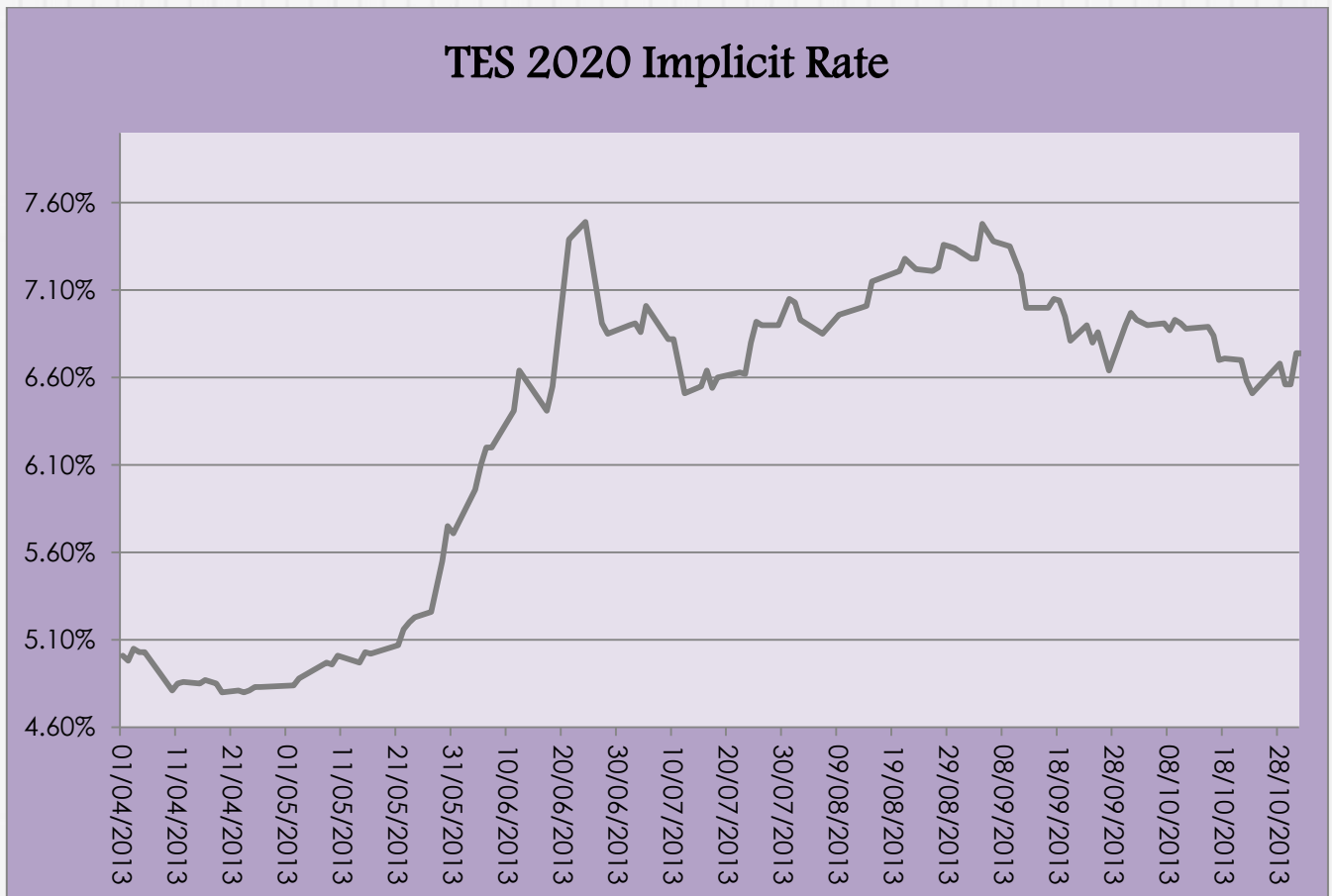
In fact, after the Feb – Jul losses (2.840 points or – 18.7% between the Feb 5 peak and the July 10 trough) the stock market has recovered 1.700 points (14%) in COP or nominal terms.

Moreover, the recent **trend reversal of the ER market (see above) might induce sooner a stronger recovery of the real/dollar value of stocks in the Colombian market.**

Nevertheless, losses are still significant with respect to the previous boom:

- i) \$US 100 invested on Jan 02 have become \$US 90 on October 31.
- ii) \$US 100 invested during the markets' peak (Feb 5) have turned into \$US 88 on October 31.

Treasury Bills (TES) Implicit Interest Rates



It's still too soon for a sound forecast, but data in the **TES market also reveals stabilization dynamics (or even a possible trend reversal) after the post – May price plunge.**

Despite the fact that the implicit interest rate of the July 2020 TES bond⁴ is still 178 bps above its pre – June average, during September and October the rate decreased 44 and 16 basis points (bps), respectively.

Similarly, the July 2024 bond⁵ implicit rate dropped 29 and 19 bps during September and October, respectively.

⁴ 11% coupon, issued on July 24 2005, expires on July 24 2020.

In any case, more observations are required before issuing a final diagnosis of the price dynamics in this market.

For instance, recall that the 2014 budget, according to the Fiscal Rule, must be coherent with a 1% deficit in the Non – Financial Public Sector⁶, and with a 2.3% fiscal deficit in the Central Government⁷.

However, after the violent social unrest all around the country and the possibility that these protests pick up again (see below) the President, pressed by his popularity plunge, could **yield into additional fiscal expenditure** (probably distortive subsidies and policies) earmarked at the Ag, Health, and Education sector⁸.

Additionally, during 2013 the **Colombian economy will probably undershoot the growth goal with which the government estimated the 2013 budget** and, therefore, receive less tax revenues in 2014 than initially expected.

All this will **impact the fiscal stance of the Colombian economy and, thereby, prices in the TES market.**

Inflation Rate

On Saturday October 5 DANE revealed inflation during September 2013: 0.29%. This means:

- i) Cumulated inflation (Jan – Sep) stands at 2.16% (compared to 2.32% during Jan – Sep 2012).

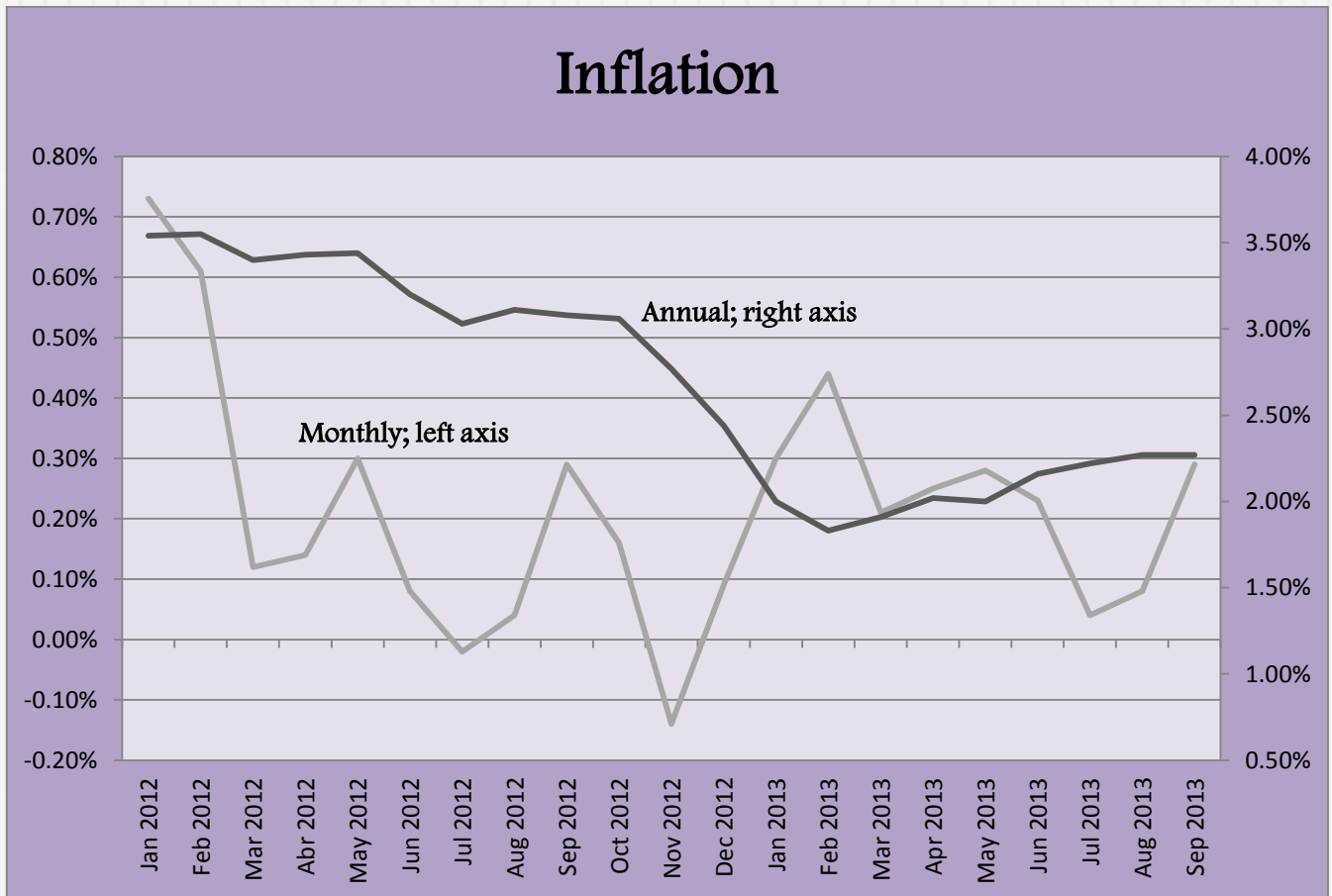
⁵ 10% coupon, issued on July 24 2008, expires on July 24 2024.

⁶ This is equivalent to a 1.8% primary surplus.

⁷ This means a 0.3% primary surplus.

⁸ He already did so with US\$ 1.7 billion of additional spending and subsidies for the Ag sector after the August protests.

- ii) Annual inflation (Oct/2012 – Sep/2013) is at 2.27% (compared to 3.08% during Oct/2011 – Sep/2012).



Even though **consumer price data exhibits full macro/monetary stability for investment purposes, it is also signaling aggregate demand weakening.**

OUTPUT PERFORMANCE

Recent relevant data:

- i) **Tuesday October 8 (DANE):** Total exports increased 8.9% (yoy) during August: \$US 4,571 million (Aug 2013) vs. \$US 4,978 million (Aug 2012). However, these dynamics are attributable to the yoy

skyrocketing of oil exports (26%). In contrast, there was a yoy plunge in other exports: Manufacturing (- 17.4%), Ag, foodstuffs and drinks (- 4.6%), gold (- 63.4%).

Hence, cumulated exports exhibit a 2.8% drop with respect to 2012: \$US 38,918 million (Jan – Aug 2013) vs. \$US40,024 million (Jan – Aug 2012). This contraction is due to a 5.8% drop in cumulated exports of the O&G and Mining sector: \$US 21,171 million (Jan – Aug 2013) vs. \$US 26,778 million (Jan – Aug 2012). This, in turn, has to do with a plummeting of coal exports (- 23.9%).

Additionally, Jan – Aug exports to the U.S decreased 12.5% in relation to 2012 (due to a 13.3% contraction in fuel and mineral oil exports). The plunge in cumulated exports to the U.S. explains 168% of the 2.8% drop in exports during the Jan – Aug period.

Finally, 12 – Month exports reveal a 1.4% reduction.

- ii) **Tuesday October 8 (IMF)**: The annual economic growth forecast of the Colombian economy was revised downward by the Fund: 3.7% (vs. a previous 4.2%).
- iii) **Thursday October 10 (XM – ISA)**: During September energy demand grew yoy a dismal 1.0% (vs. 4.7% during Sep 2012). Hence, year to date (Jan – Sep 2013) energy demand is growing at a 2.9% rate (vs. 3.8% during Jan – Sep 2012). Similarly, 12 – Month energy demand (Oct 2012 – Sep 2013) has grown at a 3.1% rate (significantly below the 3.6% growth rate during the lapse Oct 2011 – Sep 2012).

Furthermore, during September non – regulated energy demand decreased yoy 0.4% (and year to date grew only 2.3%). Additionally, take note that energy demand in the Manufacturing and Mining sectors is dropping (yoy) severely: - 1.2% and - 4.9%, respectively.

- iv) **Friday October 11 (Fedesarrollo)**: The Consumer Confidence Index stood at 14.6% during September, thus improving 0.8 percentage points with respect to August, but still way below the September 2012 level (25.0%).

According to the think tank, consumer confidence behaved heterogeneously all over the country:

- Bogotá: 14.7% (receding 2.3 percentage points in relation to August 2013 and 15.5 percentage points in relation to September 2012).
- Medellín: 3.8% (increasing 3.8 percentage points in relation to August 2013, but dropping 9.2 percentage points in relation to September 2012).
- Cali: 25.4% (augmenting 8.2 percentage points in relation to August 2013 and 5.0 percentage points in relation to September 2012).
- Barranquilla: 26.9% (gaining 5.5 percentage points in relation to August 2013, yet decreasing 5.0 percentage points in relation to September 2012).

Now, in terms of socio – economic segments the behavior of consumer confidence was also mixed:

- High: 20.8% (advancing 4.8 percentage points in relation to August 2013 and 6.9 percentage points in relation to September 2012).
- Middle: 14.8% (improving 4.1 percentage points in relation to August 2013, but losing 13.8 percentage points in relation to September 2012).

- Low: 13.5% (decreasing 2.2 percentage points in relation to August 2013 and 9.7 percentage points in relation to September 2012).
- v) **Sunday October 13 (FENALCO)**: During September 24% of retail sales merchants observed a reduction in their yoy sales (vs. 30% during August). On the other hand, 39% of them observed an increase in their yoy sales (vs. 37% during August).
- vi) **Tuesday October 15 (Banco de la República)**: Cumulated (Jan – Sep) Foreign Direct Investment (FDI) decreased 0.94%: \$US 12,677 million (2013) vs. \$US 12,797 million (2012). Similarly, 12 – month FDI receded 1.27%: \$US 16,564 million (Oct 2012 – Sep 2013) vs. \$US 16,777 million (Oct 2011 – Sep 2012).
- vii) **Wednesday October 16 (MME)**: Oil output increased 4.1% during September yoy [995.000 bpd (Sep 2013) vs. 956.000 bpd (Sep 2012)]. However, it decreased 3.5% with respect to August 2013 (1.031.000 bpd), and the datum is, once again, below the 1 million bpd target.
- viii) **Wednesday October 16 (ANDI)**: Between January and August manufacturing output contracted 1.2%, while sales grew a meager 0.3% (with 1.0% sales growth rate in the domestic market). Additionally, 9 (out of 15) manufacturing subsectors exhibited output drops during the same period (with severe plunges in textiles and vehicle parts: – 22.8% and – 21.0% respectively). For its part, 8 of the 15 manufacturing subsectors portrayed sales drops (including a protuberant plummet of vehicle part sales: – 21.5%).

The report also indicates that during August installed capacity utilization stood at 76.3% (slightly below the historic average of 76.4%).

Finally, perception of business environment continued to deteriorate during August of this year: only 49.3% of manufacturers considered business environment to be good (vs. 52.9% during July and 63.7% one year ago), while only 38.5% expect it to improve (vs. 36.7% during July).

- ix) **Thursday October 17 (DANE)**: Construction licensed area increased 18.8% yoy during August: 2.141.280 m² (August 2013) vs. 1.802.859 m² (August 2012). This is the result of mixed dynamics in licensed area for housing and non – housing projects. Indeed, licensed area for housing projects increased yoy 33.1%, but plunged 23.2% for non – housing projects. It's important to note that licensed area for subsidized housing skyrocketed yoy 62.3%, while licensed area for non – subsidized housing advanced 18.2%.

Year to date (Jan – Aug) there's an 18.6% increase in licensed area: 16.194.512 m² (Jan – August 2013) vs. 13.651.005 m² (Jan – August 2012). In this case the behavior is homogeneous and corresponds to an 18.4% and 19.3% increase in licensed area for housing and non – housing projects, respectively.

Correspondingly, 12 – month licensed area grew 9.5%: 23.758.391 m² (Sep 2012 – Aug 2013) vs. 21.706.858 m² (Sep 2011 – Aug 2012). This is the result of a 10.1% and 7.3% increase in licensed area for both types of projects (housing and non – housing, respectively).

- x) **Friday October 18 (DANE)**: Manufacturing output contracted 3.9% (yoy, in real terms) during August. Furthermore, 33 subsectors (out of 48) exhibited output drops. The sharpest plunges occurred in the following subsectors: vehicles (– 28.9%), precious non – ferrous metals (– 28.5%), iron and steel (– 18.8%), milling (– 8.3%), plastic products (– 7.8%), and non – metal minerals (– 5.3%). Not surprisingly yoy sales in the aggregate manufacturing sector

plummeted 7.1% (!!!), while occupied personnel receded yoy 3.1%.

Year to date (Jan – Aug) real manufacturing output contracted 2.8%. Particularly, 36 (of the 48) subsectors exhibited production drops. The sharpest drops occurred in: vehicles (–18.0%), iron and steel (– 10. 5%), apparel (– 9.6%), paper and cardboard products (– 7.7%), non – metal minerals (– 4.9%), and plastic products (– 4.6%). Therefore, year to date manufacturing jobs and sales receded 2.1% and 2.8%, respectively.

12 – Month (Sep 2012 – Aug 2013) manufacturing output decreased 2.4% in real terms. During this time lapse occupied personnel and sales in the sector declined 1.4% and 2.4%, respectively.

- xi) **Friday October 18 (DANE)**: 6.9% yoy real increase in retail sales during August (vs. 0.7% during Aug 2012). If vehicle sales are excluded, the August 2013 retail sales yoy real growth rate increases to 8.6% (vs. 2.2% during Aug 2012). Additionally, jobs in the retail sales sector exhibited a 3.7% yoy increase during August 2013 (vs. 5.3% during Aug 2012).

Year to date (Jan – July) real retail sales grew 3.7% – and 4.8% if vehicle sales are excluded – (vs. 3.0% and 4.6% during Aug 2012). Additionally, year to date jobs in the retail sector augmented 4.2% (vs. 6.5% during Aug 2012).

Now, 12 – Month (Sep 2012 – Aug 2013) retail sales grew in real terms 3.5% – and 4.3% excluding vehicle sales – (vs. 4.1% and 5.4% during Aug 2012). During this time lapse occupied personnel in the sector increased 4.3% (vs. 6.7% during Aug 2012).

- xii) **Tuesday October 22 (DANE)**: 5.0% yoy fall in imports during August 2013: \$US 4,975 million (August 2013) vs. \$US 5,239 million (August

2012). During the Jan – Aug period imports receded 1.6%: \$US 38,933 million (Jan – Aug 2013) vs. \$US 39,559 million (Jan – Aug 2012).

On the other hand, the Colombian economy exhibited a \$US 1,833 million trade surplus during the first eight months of 2013. The highest surpluses were with the U.S. (\$US 2,850 million), Panamá (\$US 2,106 million) and the Netherlands (\$US 1,299 million). The highest deficits were with China (\$US 3,079 million) and Mexico (\$US 2,892 million).

- xiii) **Tuesday October 22 (Fedesarrollo)**: During September 2013 the Manufacturing Confidence Index improved marginally (0.3 percentage points) yoy: 0.4% (Sep 2013) vs. 0.1% (Sep 2012). Nevertheless, it's still significantly below the Index's levels during September 2011 (6.3%) and September 2010 (2.8%). On the other hand, the Index increased 2.2 percentage points in relation to August 2013 (– 1.8%).

Three different factors underlie the construction of the index: current sales perception, inventory levels perception and output expectations (for the next quarter). While current sales perception and output expectations improved with respect to last year (Sep), the perception regarding inventory levels deteriorated significantly.

- xiv) **Tuesday October 22 (Fedesarrollo)**: During September 2013 the Retail Sales Sector Confidence Index decreased marginally (0.2 percentage points) yoy: 16.7% (Sep 2013) vs. 16.9% (Sep 2012). Even though the datum is, once again, the lowest one for this month (Sep) since 2010 (25.9% and 29.1% during Sep 2011 and Sep 2010, respectively), it did improve 4.7 percentage points in relation to August 2013 (12.0%).

The index is constructed upon three variables: perception of current business (economic) conditions, perception of inventory levels and expectations of business conditions (for the next semester). While the first two factors deteriorated in relation to September 2012, the latter (expectations of business conditions for the next semester) improved significantly, thus attenuating the yoy fall in the aggregate index.

- xv) **Thursday October 31 (DANE)**: During September 2013 overall unemployment reached 9.0% (vs. 9.9% during September 2012). In the 13 major cities unemployment during September 2013 was 9.9% (vs. 10.7% during September 2012).

The sectors that are adding jobs to the economy are: i) Retail sales, restaurants and hotels, ii) Community, social and personal services, iii) Real state, and iv) Construction. Those sectors destroying jobs are: i) Ag, ii) Manufacturing and iii) Transportation, storage and communications.

DATA SUMMARY

Dynamics in Colombian asset markets reveal a trend reversal (at least stabilization) after the violent price plunge of the previous months.

Undoubtedly, this asset price recovery will **strengthen domestic demand (through the natural wealth effect).**

In any case, the **Colombian economy is still weak.** Not surprisingly, **the IMF revised downward (50 bps) its growth forecast for the Colombian economy: 3.7% vs. 4.2%.**

To begin with, **FDI is still underperforming in relation to 2012 levels.**

On the demand side, **consumer confidence remains stagnant (and way below 2012 levels), imports continue falling, and expectations of retail**

sellers maintain pessimistic levels; yet, growth in retail sales is picking up.

Even though **consumer price data exhibits full macro/monetary stability for investment purposes, it is probably signaling aggregate demand weakening.**

On the supply side, **manufacturing output continues to plummet, expectations of manufacturers remain gloomy, exports in some mining sectors (like coal and gold) have contracted significantly, oil production is once again under the 1 million bpd target, and non – regulated energy demand maintains weak dynamics (especially in the Manufacturing and Mining sectors).**

In any case, the **construction sector is on the path of strong recovery, attributable to the thrust of subsidized housing projects.**

UNDER OUR WATCH

Mining I: On Tuesday October 8 a native **indigenous community (Zenú) blocked all access to BHP Billiton's⁹ Cerro Matoso¹⁰ mine.** They were protesting because of their extreme level of poverty (and alleged diseases due to the mine's activities). It's about time that the central government takes care of these requests. At the end of the day it's a governmental (and not the mine's) responsibility.

In fact, BHP Billiton (and any other foreign) company pays taxes and royalties with which the government should alleviate poverty conditions in the region. Now, in terms of the alleged diseases, the Ministry of Health should rapidly carry out rigorous research to determine the underlying causes. If there's any responsibility attributable to the mine's activities, the company must be held accountable. However, the lack

⁹ Australian and British capital.

¹⁰ BHP Billiton's production of iron, nickel and ferronickel in the state of Córdoba.

of scientific evidence in this topic naturally gives way into **these type of violent protests that erode business environment in the Mining sector.**

Ag I: On Saturday October 19 the Government initiated a program to buy potatoes in the state of Boyacá and Cundinamarca. The idea is to deliver the product to victims of climatic disasters in several regions (Chocó, Cauca and San Andrés). This is one of the policies to which the Minister of Agriculture and Interior yielded in order to alleviate social unrest in the Ag sector, and put a halt to the violent August protests.

Yet, this is **one of the most distortive, obscure and business environment eroding policies one can imagine.**

To begin with, the pricing mechanism used in this first purchase is unclear. ¿Was there a public bid? Probably not given the fact that this policy was installed in order to undo low market prices in Boyacá and Cundinamarca. Hence, ¿was the price set according to a bureaucrat's criteria? Even worse, ¿was the price fixed by the sellers (and which sellers)? Needless to say, there will be **distortions in market prices.**

Other questions magnify the **shadow of doubt** over the mechanism. For instance, ¿will there be a proper transportation, storage and freezing system used to preserve this perishable product? If so, ¿who will pay for it: tax payers, consumers, charity programs that benefit from free potatoes? And, ¿which contractor will supply such a system? ¿How was it chosen? If no storage and freezing system is to be used, ¿will taxpayers pay for losses of perishable potatoes and at what cost?

Moreover, ¿why not purchase other Ag products where prices have decreased? Or, ¿who determines the price threshold upon which these purchases are to be activated? ¿Why did the purchase only take place in Boyacá and Cundinamarca, and not in other potato producing regions (Nariño, Antioquia, Norte de Santander, etc.)?

Additionally, the program might end up **hurting and not helping farmers.** Indeed, if the government ends up oversupplying certain potato

markets, there will be a price drop hurtful to potato producers themselves.

Last, but not least, this policy creates a **perverse incentive** in all Ag subsectors. Specifically, it will induce farmers all over the country to request (or violently demand) from the Ministry of Agriculture purchases of their product at above market prices.

This not so new, yet resurrected, policy is the **pathway into corruption and price distortions** in the Ag sector, as happened in the past with the extinct IDEMA (an official institution that bought and sold Ag products at support prices and that was closed down more than 15 years ago).

In sum, this is policy regresses into the past and **erodes investor confidence in the Ag sector.**

Construction I: After the tragic collapse of a building in Medellín (with 11 fatal victims), the Vice President urged housing construction companies into strengthening their ethics. This happened on Friday October 18 after he visited the place of the tragedy.

Of course, the collapse of the building is a very serious incident that must be investigated fully, so that those responsible are held accountable. But that doesn't mean that all construction companies in Colombia lack ethics when developing and selling housing projects.

All in all, this populist outbreak coming from the Vice President not only **hurt the housing construction industry** in Colombia, but also **diminished overall business environment.** ¿Who is safe (or at least comfortable) when doing business in a country where the Vice President not only usurps the function of regulatory authorities, but also judges and qualifies the ethical standards of an industry from what he observed in an isolated case?

Mining II: The **General Comptroller (GC)** informed that Drummond¹¹ owes the Nation \$US 50 million of unpaid royalties from the last 10 years because of a flaw in the system used to calculate such royalties.

No one questions the GC's job of protecting the treasury. However, **questioning the system used during the last 10 years to calculate royalties (when no other authority – including the GC – did)**, is not only a brutal threat to rule stability, but also a **protuberant regression for business environment in the Mining sector.**

Social Unrest: During October several sectors (especially health system members, students and farmers) threatened, once again, with protests. Let's hope this time the government has learned the lesson and handles the situation without clumsiness and lack of leadership.

This means **portraying no contempt towards protestors (or underestimating their requests), but also not yielding into populist and business environment eroding policies** (like protectionist safeguards, purchase programs from the Ministry of Agriculture, or who knows what fiscally unsustainable policy for the health system).

Physical Security: FARC initiated a terrorist onrush denominated "**Black October**".

- i) **Wednesday October 2:** FARC terrorists blew up three energy towers in the state of Nariño. This affected the electric power supply in the municipalities of Tumaco, Magüí, Roberto Payán and Barbacoas.
- ii) **Thursday October 3:** FARC terrorists blew up the Transandino Oil Pipeline¹² in the municipality of Ricaurte (state of Nariño). The attack caused a severe fire.

¹¹ 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 state of Cesar.

¹² This pipeline, 306 kms long between the oil fields of Orito (state of Putumayo) and the municipality of Tumaco (state of Nariño, Pacific coast), belongs to Ecopetrol and has a 48k bpd capacity.

- iii) **Friday October 4:** FARC terrorists assassinated two policemen while inspecting a restaurant in the municipality of Solano (state of Caquetá). The Police commander of Solano (who was also with the patrol) and the restaurant's owner (a civilian female) were severely wounded.

- iv) **Saturday October 5:** ELN terrorists blew up the Caño Limón – Coveñas Oil Pipeline¹³ at two different points in the municipality of Toledo (state of Norte de Santander). The attack caused a big environmental damage as the oil spill contaminated several water sources, affecting more than 100 families in the settlements of Limoncito and Santa Inés.

- v) **Sunday October 6:** ELN terrorists blew up the Caño Limón – Coveñas Oil Pipeline in the settlement of Carrizal (municipality of Convención, state of Norte de Santander). Ecopetrol had to close down the water intakes of the aqueducts serving the municipalities of Arauca and Arauquita (state of Arauca, frontier with Venezuela). Damage control operations were also implemented by the company in several water sources of the region.

- vi) **Monday October 7:** Army personnel deactivated and destroyed nine high – power explosives found in a deposit in the settlement of Aurora (municipality of Santander de Quilichao, state of Cauca). It belonged to FARC's "*Columna Móvil Jacobo Arenas*".

- vii) **Monday October 7:** FARC terrorists shot down a civilian helicopter in the state of Putumayo. The chopper was delivering supplies to

¹³ This pipeline, 780 kms long between the Caño Limón oil field in Arauquita (state of Arauca) 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.

personnel working for Ecopetrol at the Transandino Oil Pipeline in the municipality of Orito.

- viii) **Monday October 7:** FARC terrorists blocked with several vehicles the road connecting the municipalities of Ituango and San Andrés de Cuerquia (state of Antioquia). Two buses and one truck were burned. In combats with the terrorists one policeman and one civilian were wounded. The terrorists also detonated a grenade in the town square of Ituango.
- ix) **Monday October 7:** FARC terrorists blew up two energy towers, one in the municipality of Angostura (state of Antioquia) and another one in the settlement of Matanzas (municipality of Toledo, also state of Antioquia).
- x) **Monday October 7:** Between 7 pm and 8 pm a terrorist explosion affected the gas and oil station of Ecopetrol in the municipality of Cantagallo (south of the state of Bolívar). Pumping at 30 wells and gas supply to several nearby municipalities had to be suspended.
- xi) **Monday October 7:** Between 7 pm and 8 pm (and almost simultaneously with the one described above) two explosions impacted Ecopetrol's propane – duct in the municipality of Barrancabermeja (state of Santander).
- xii) **Tuesday October 8:** At 7:30 pm FARC terrorists (belonging to “*Frente 36*”) used a bus full of explosives to block the road connecting the city of Medellín and the municipality of Anorí (state of Antioquia). When Army personnel were deactivating the vehicle it blew up and injured 8 people (military and civilians).
- xiii) **Wednesday October 9:** At dawn, and in the rural area of the municipality of Maicao (state of La Guajira, frontier with

Venezuela), FARC terrorists (belonging to “Frente 59”) blew up the Gasoducto Binacional Antonio Ricaurte¹⁴,

- xiv) **Wednesday October 9**: FARC terrorists blew up two other energy towers in the municipality of Tumaco and planted land mines in the surrounding areas. All in all, 10 electricity transmission towers were destroyed by FARC during October in Tumaco. The blackout lasted 20 days.
- xv) **Wednesday October 9**: In the road connecting the capital city of Cúcuta and the municipality of Ocaña (state of Norte de Santander), armed men forced the passengers of a civilian car to step out, loaded the vehicle with explosives and then detonated it. Due to the explosion, the vehicle flow along this road had to be suspended by the Police.
- xvi) **Wednesday October 9**: FARC terrorists blew up the San Miguel – Orito oil pipeline¹⁵ in the settlement of Osiris (municipality of Orito). The incident caused an oil spill, a fire and a blackout in the surrounding area.
- xvii) **Wednesday October 9**: FARC terrorists (belonging to “Frente 33”) attacked with explosives the Police station in the settlement of Las Mercedes (municipality of Sardinata, state of Norte de Santander). Once civilian (female, teacher) was severely wounded while at class in the adjacent public school.

¹⁴ Transoceanic pipeline that carries gas from Manaure (Campo Ballenas – La Guajira) to Lago de Maracaibo (state of Zulia – Venezuela). It's 224.4 kms long (88.5 kms in Colombian territory) and has a 500 million ft³ per day capacity. Ecopetrol, Chevron and Petróleos de Venezuela (PDVSA) are partners in this pipeline.

¹⁵ This pipeline belongs to Ecopetrol and carries oil from the fields in Putumayo.

- xviii) **Thursday October 10:** FARC terrorists (belonging to “*Columna Móvil Jacobo Arenas*”) blew up four energy towers in the municipality of El Patía (state of Cauca).
- xix) **Thursday October 10:** FARC terrorists blew up the control room and part of the structure of the electric power plant in the municipality of Caloto, as well as an energy tower in the municipality of Bolívar (both in the state of Cauca).
- xx) **Thursday October 10:** FARC terrorists (belonging to “*Frente 10*”) assassinated four soldiers (Mobile Brigade No. 5) in the municipality of Arauquita (state of Arauca).
- xxi) **Thursday October 10:** FARC terrorists (belonging to “*Frente 29*”) kidnapped one Policeman during a road block in the settlement of Puerto Nuevo (municipality of Leiva, state of Nariño, frontier with the state of Cauca). He was released 10 days later.
- xxii) **Sunday October 13:** At 4 am FARC terrorists (belonging to “*Frente 59*”) blew up the Cerrejón railroad¹⁶ (at km 93) used by the company to carry coal from the mine in Albania (state of La Guajira) to Puerto Bolívar. 43 wagons were derailed.
- xxiii) **Sunday October 13:** FARC terrorists dynamited 3 electricity transmission towers in the rural area of the municipality of Dibulla (state of La Guajira).
- xxiv) **Sunday October 13:** FARC terrorists blew up another energy transmission tower in the settlement of Camarones (Riohacha, capital city of La Guajira).

¹⁶ Cerrejón belongs to BHP Billiton (Anglo – Australian capital), Anglo – American (Anglo – South African capital) and Xstrata (Swiss capital).

- xxv) **Monday October 14:** At dawn FARC terrorists (belonging to “*Columna Móvil Jacobo Arenas*”) detonated a car bomb in the Pan-American Road (connecting the cities of Cali and Popayán) and close to the municipality of Santander de Quilichao (state of Cauca). Nine civilians were injured and ten homes were destroyed.
- xxvi) **Monday October 14:** FARC terrorists blew up, once more, the Caño Limón – Coveñas Oil Pipeline. This time it occurred in the settlement of El Seis (municipality of Tibú, state of Norte de Santander). As usual, the attack caused an oil spill in the Tibucito River. The water intake of the aqueduct serving Tibú had to be closed down.
- xxvii) **Monday October 14:** Authorities reported that FARC terrorists prohibited vehicles from transiting into the state of Chocó. Bus companies suspended their transportation services.
- xxviii) **Tuesday October 15:** Terrorists (probably FARC) attacked with explosives the electrical power station in the municipality of Paujil (state of Caquetá). As a result there were black outs in the municipalities of Montañita, Cartagena del Chairá, Milán and Paujil (all in Caquetá).
- xxix) **Tuesday October 15:** It was reported that FARC terrorists held captive during 48 hours, in the rural area of San José del Guaviare (state of Guaviare), a coordinator of President Uribe’s political movement (while collecting signatures to endorse Uribe’s candidacy to the Senate).
- xxx) **Wednesday October 16:** FARC terrorists (belonging to “*Frente 18*”) fired their assault rifles at a civilian bus in the road that connects the city of Medellín (state of Antioquia) with the northern

Caribbean coast. It occurred after the bus driver refused to stop at a road block installed by the terrorists close to the municipality of Valdivia (state of Antioquia). One person died while four other were wounded. Vehicle traffic was also suspended because the terrorists loaded a truck with explosives.

- xxxii) **Wednesday October 16:** FARC terrorists blocked the road that connects the municipality of Tame and the city of Arauca (both in the state of Arauca).
- xxxiii) **Wednesday October 16:** At night, FARC terrorists (belonging to “*Frente Martha Helena Barón*”), in a joint operation with ELN terrorists (belonging to “*Comisión Omaira Montoya*”), attacked with explosives and grenades the Police station in the municipality of Fortul (state of Arauca).
- xxxiiii) **Friday October 18:** 3 employees of Oxy working at the Caño – Limón Coveñas oil pipeline were kidnapped, and held captive during several hours, by terrorists. The incident occurred between the municipality of Tame and the city of Arauca, along the road known as “Ruta de los Libertadores”.
- xxxv) **Friday October 18:** ELN terrorists attacked with explosives a Police patrol close to the international bridge “José Antonio Páez” in the frontier with Venezuela (state of Arauca). Two policemen were injured.
- xxxvi) **Sunday October 20:** A fierce engagement took place in the rural area of the municipality of Puerto Guzmán (state of Putumayo) between the Army (Mobile Brigade No. 13th) and FARC terrorists (belonging to “*Frente 32*”). A non – commissioned officer died, while an officer and two soldiers were wounded. Several terrorists were also killed and injured.

- xxxvi) **Tuesday October 22**: Terrorists (FARC or ELN) attacked an oil well (“*Yarumal 44*”) and dynamited an electrical power station in the municipality of Arauquita. They also attacked and dented the Caño Limón – Coveñas pipeline.
- xxxvii) **Tuesday October 22**: FARC terrorists blew up the Caño Limón – Coveñas pipeline at km 91 (settlement of Alto La Pava, municipality of Saravena, state of Arauca). There was no oil spill because of the pumping halt after the previous attacks to the pipeline in the Catatumbo region.
- xxxviii) **Tuesday October 22**: FARC terrorists used explosives to attack a military base in the municipality of Fortul. No casualties.
- xxxix) **Tuesday October 22**: At 8 pm FARC terrorists blew up, once again, the Cerrejón railroad (at km 15, municipality of Albania, state of La Guajira). This time 7 wagons were derailed.
- xl) **Friday October 25**: In the municipality of San Pedro (state of Valle) Army troops deactivated 18 kgs of explosives that FARC terrorists (belonging to “*Columna Móvil Alirio Torres*”) had installed in an electric transmission tower to knock it down.
- xli) **Saturday October 26**: 140 FARC terrorists (belonging to “*Columna Móvil Alfonso Castellanos*”) engaged in combats with Army troops in the rural area of the settlement of La Canoa (municipality of Tame). 4 soldiers were wounded.
- xlii) **Tuesday October 29**: Army troops deactivated explosives installed by FARC terrorists (belonging to “*Columna Móvil Teófilo Forero*” and “*Frente 17*”) in 5 different places in the state of Huila.

- xliv) **Thursday October 31**: FARC terrorists (belonging to “*Frente 29*”) destroyed and incinerated in the municipality of Valdivia equipment that was being used in the construction of the Hidroituango Dam.
- xliv) **Thursday October 31**: In an engagement between Army troops (“*Fuerza de Tarea Pegaso*”) and FARC terrorists (belonging to “*Frente 29*”) in the municipality of Samaniego (state of Nariño) one soldier died and another one was wounded.
- xlvi) **Dismal Statistics I**: During “*Black October*” FARC terrorists perpetrated, on average, more than 1 daily attack against electrical and O&G infrastructure in Colombia.
- xlvi) **Dismal Statistics II**: On October 2 the President of Colfecar (Freight Transporters Association) revealed that, even though road piracy decreased in Colombia during the first semester of this year, vehicle burning increased significantly (64 burned vehicles during Jan – Jun 2012 vs. 122 during Jan – Jun 2013).

Our assessment:

At this point **security (life and freedom) conditions in a considerable portion of the country have deteriorated significantly.**

This is a **big setback for business environment in the overall economy, but especially worrisome in the O&G, Electrical, Mining and Ag sectors.** Moreover, **investment conditions in frontier states (Arauca, La Guajira, Norte de Santander, Putumayo and Nariño) are null.**

The same situation occurs in **regions that were traditional strongholds of FARC (ex: Cauca, Caquetá and north of Antioquia)** and that, once again, seem to be besieged by the terrorist group.

Undoubtedly, this is the result of a **very weak and acquiescent governmental stance against terrorism**, combined with **perverse incentives attributable to peace talks with FARC** (ex: not demanding a cease fire from FARC or negotiating impunity with the terrorist high command).

Note that FARC cynically slapped the Colombian people with the so called **“Black October”** operation. This is yet another cruel example of how FARC attempts to magnify people's perception of their military strength during peace talks with the Santos Administration.

Furthermore, the increase of ELN's terrorist acts, murders and kidnappings has also been was a successful strategy to induce the government into similar peace negotiations.