IFP REGIONAL COOPERATION ON ENVIRONMENT, ECONOMY AND NATURAL RESOURCE MANAGEMENT CLUSTER

THE ANDEAN REGION OF SOUTH AMERICA

CONFLICT, ECONOMY, INTERNATIONAL COOPERATION AND NON-RENEWABLE NATURAL RESOURCES

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CONFLICT, ECONOMY, INTERNATIONAL COOPERATION AND NON-RENEWABLE NATURAL RESOURCES
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## ACRONYMS

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<tr>
<th>Acronym</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>ALBA</td>
<td>Bolivarian Alternative of the Americas</td>
</tr>
<tr>
<td>BBVA</td>
<td>Banco Bilbao Vizcaya Argentari</td>
</tr>
<tr>
<td>CAF</td>
<td>Corporación Andina de Fomento</td>
</tr>
<tr>
<td>CAN</td>
<td>Andean Community of Nations</td>
</tr>
<tr>
<td>ECLAC</td>
<td>UN Economic Commission for Latin America and the Caribbean</td>
</tr>
<tr>
<td>EITI</td>
<td>Extractive Industry Transparency Initiative</td>
</tr>
<tr>
<td>FDA</td>
<td>Amazon Defense Front</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>IADB</td>
<td>Inter-American Development Bank</td>
</tr>
<tr>
<td>ILO</td>
<td>International Labour Organisation</td>
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<td>INDEPAZ</td>
<td>Instituto de Estudios para el Desarrollo y la Paz</td>
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<tr>
<td>NGOs</td>
<td>Non-governmental organisations</td>
</tr>
<tr>
<td>PDVSA</td>
<td>Petróleos de Venezuela</td>
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<td>PLASA</td>
<td>Platform for Socio-environmental Accords</td>
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<tr>
<td>PPP</td>
<td>Purchasing power parity</td>
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<tr>
<td>UNDP</td>
<td>United Nations Development Programme</td>
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<tr>
<td>YPFB</td>
<td>Yacimientos Petrolíferos Fiscales de Bolivia</td>
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</tbody>
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EXECUTIVE SUMMARY

This paper seeks to deepen the understanding of the intersection between the management of non-renewable natural resources and diverse forms of conflict in three countries of the Andean region: Colombia, Ecuador and Peru. Each of the three countries is covered in a separate section addressing: a) the political context; b) the status of non-renewable natural resource exploitation and management; c) non-renewable natural resources and conflict; d) institutions and frameworks for dealing with conflict related to non-renewable natural resources, with particular emphasis on voluntary mechanisms involving the private sector; e) the nature of bilateral EU cooperation with each country to see if it is addressing conflicts related to non-renewable natural resources or their root causes; and f) a series of recommendations as to how the EU can improve its assistance to the Andean Community of Nations (Comunidad Andina de Naciones, or CAN) and its member states in these areas.

The European Commission and Europe Aid have initiated a process of addressing the interlinkages between natural resources and conflict globally. In the EU’s initial approach to linking these natural resources and conflict it was found that in its policies conflict prevention has been de-prioritised vis-à-vis crisis management and issues of post-conflict reconstruction. There were also no systematic conflict-sensitive programming approaches in place. The four global challenges identified by the EU – climate change, migration and refugees, energy security and depletion of fish stocks – still fail to get to the heart of the asymmetrical relationships and governance deficit faced by many local communities where non-renewable natural resources are exploited.1 Although this may seem like a localised problem particular to certain areas, it reflects the major social tension and social conflicts the Andean societies are grappling with, namely the clash of development with the preservation of nature, local economies and human rights protection.

The European Commission provides a range of support to CAN, in addition to the support provided to its individual member states. At present, this cooperation is articulated in a strategy document that covers the years 2007 to 2013, involves about €50 million and focuses on three areas:2

1. Strengthening economic integration among CAN countries, to enable a stronger position in the world economy;
2. Enhancing social and economic cohesion within CAN; and
3. Assisting CAN member countries in the fight against illicit drugs, in line with the principle of shared responsibility.

SUMMARY OF RECOMMENDATIONS

Given the findings of this report on the dynamics between exploitation of non-renewable natural resources and conflict in the Andean countries of Colombia, Ecuador and Peru, as well as EU support to CAN, the following recommendations are made:

• The European Commission and European oil and mining companies need to convene and initiate a process of discussing issues of common interest, as well as problems in relation to the Andean region such as: governance and stability; corporate social responsibility, and conflict reduction and prevention. Joint problems require joint solutions: addressing the issues through a multi-stakeholder approach involving the EU, Andean governments, companies, civil society and others is vital to success.

• Given the growing importance of French, Spanish, UK and other European companies in the Andean extractive sector, more of these companies and their governments should be encouraged to sign onto and uphold the Voluntary Principles on Security and Human Rights. Where this is not possible, European companies need to be encouraged to adopt conflict-sensitive business practices designed for the extractive sector.

• The EU and European companies and investors in Peru need to renew and strengthen commitments to the Extractive Industry Transparency Initiative (EITI) in that country, and explore its applicability to other countries in the Andean region.

• The EU needs to support more initiatives such as the Fondo de Respuesta and integrate them with broader economic development and governance programming. These hands-on initiatives have the potential to reduce conflict through constructive engagement for more sustainable development practices. At the same time, it is advisable that these initiatives include capacity-building components that seek to address the asymmetries many communities face related to political influence and scientific and technological knowledge.

• European Commission missions and EU Member States embassies should use their outreach and convening power with home companies to disseminate and urge uptake of good company practices (the Red Flags initiative, for instance, gives companies examples on what companies should not do).

• The EU should explore how it can join and/or contribute to other multi-stakeholder mechanisms (EITI, Voluntary Principles and others) and render institutional support as necessary.

3 The Voluntary Principles on Security and Human Rights are a code of conduct agreed on by oil and mining companies from the US, UK, Netherlands and Norway, and accompanied by those governments and a group of NGOs. They compel companies to carry out human rights risk assessments of their security arrangements in conflict-affected countries and carry out proper vetting and preventive measures in relation to the state and private security forces they engage with. For more details, see: http://www.voluntaryprinciples.org/.


5 Red Flags is a collaborative project by International Alert and the FAFO Institute for Applied Social Science. A Red Flag is a warning of heightened risk. The Red Flags project and web site provide basic information about the potential for litigation, based on actual legal actions involving businesses or business people and international crimes. Drawing on publicly available information concerning past or present case law, these Red Flags are intended as warnings to companies of liability risk. For more details, see: http://www.redflags.info.
INTRODUCTION

BACKGROUND

During the 1990s it appeared that the primary obstacles to peace and sustainable development in the Andean region of South America and much of Latin America were Colombian armed conflict and drugs trafficking. While these issues remain central, a range of other issues and divisions have come to the fore, including the consolidation of more left-leaning governments in Bolivia, Ecuador and Venezuela, each focusing political efforts on pro-poor and/or pro-indigenous constitutional reforms through constituent assemblies; the decision of the governments of Colombia and Peru to seek permanent free trade agreements with the US; and increasing tensions between Colombia and its neighbours over the humanitarian spillover effects of its conflict, as well as the best way to deal with illegal armed groups that use porous borders for refuge. Other important factors to take into account are the relative decline in US government influence in the region, as it focuses its attention on Afghanistan, Iraq and the broader Middle East, along with the increased influence of the government of Venezuela, as it uses its increasing petroleum wealth to support like-minded governments and opposition movements throughout Latin America and the Caribbean.

Additional factors related to conflict, peace and stability in the Andean region include:

- The fragility in governance in Bolivia and Ecuador due to convergent interests between majority indigenous populations and regional elites over issues such as education, exploitation of natural resources and land reform, evidenced by the inability of most recent governments to complete their full terms;

- The further blurring of lines between organised crime and illegal armed groups in Colombia, in particular after the partial demobilisation of right-wing paramilitary groups, has polarised both society as well as the international community regarding the best way to promote peace;

- Even though the current Government of Peru has opted for a pro-US, pro-market approach to economic development, a sizeable minority in the country is vehemently opposed to these policies; and

- The Government of Venezuela has undertaken a major arms build-up, ranging from small arms to larger conventional weapons, through agreements with Belarus, China and Russia.
Generally speaking, when discussing the Andean region, the following five countries are mentioned: Bolivia, Colombia, Ecuador, Peru and Venezuela. CAN consisted of these five countries until recently, when Venezuela withdrew over differences with Colombia, the US and Venezuela's agenda of creating the Bolivarian Alternative for the Americas (Alternativa Bolivariana para las Américas, or ALBA)\(^6\) which, as of this writing, brought together Bolivia, Ecuador, Honduras, Nicaragua, Venezuela and several Caribbean nations. It is important to note that the five Andean countries all have important Amazonian sub-regions bordering each other and Brazil, contributing to the region's biological, natural resource, geographical and ethnic diversity. In some instances, Argentina and Chile are connected to the Andean region because of the reach of the Andes mountains, but only Chile is an associate member of CAN. The other major institution within the region is the Corporación Andina de Fomento (CAF), which serves as a regional development bank.

The exploitation and role of non-renewable natural resources – oil, gas and minerals such as copper, gold, coal etc. – in national development has been central to political, social and armed conflicts in the region. The contamination of indigenous groups’ lands and water sources in Ecuador, the ousting of several Bolivian presidents due to popular protest over the corrupt privatisation of the national hydrocarbons company, the diversion of royalties and theft from pipelines that help fund illegal armed groups in Colombia, or the use of oil revenues to promote a Bolivarian transformation in Latin America, are all evidence of the complex role oil, gas and mineral resources play in both promoting development and fuelling social and frequently violent conflicts in this region.

NON-RENEWABLE NATURAL RESOURCES IN THE ANDEAN REGION

As already mentioned, the countries of the Andean region are important producers of oil, gas, diesel and other minerals. Venezuela is the world's sixth-largest producer of crude oil and an important producer of natural gas.\(^7\) While Bolivia is a small producer of petroleum (it produces mostly for domestic consumption), it is the second-largest producer of natural gas in Latin America after Venezuela. Ecuador is the fifth-largest oil producer in Latin America and oil represents 66 percent of its exports.\(^8\) Colombia is the fifth-largest producer of oil and the sixth-largest

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\(^6\) ALBA was originally proposed by the Venezuelan government of Hugo Chávez, as an alternative to the US-sponsored Free Trade Area of the Americas (FTAA).


producer of natural gas. Petroleum is proportionally less important for Peru’s economy, though recent discoveries of large natural gas fields promise to alter its role in the economy in the future.9

At present, there are two prevailing approaches to developing hydrocarbon resources in the countries of the region, though both approaches involve a mix of public and private resources and operations. On the one hand, Colombia’s state-owned Ecopetrol and Peru’s PetroPerú have been pursuing strategies that increasingly favour a stronger role for private and multinational participation in the exploration and development of petroleum resources as a way to increase investment. The sale of a minority stake in Ecopetrol in 2008, first solely to Colombian citizens and later through the New York Stock Exchange, is evidence of this. On the other hand, Bolivia, Ecuador and Venezuela have been pursuing a policy that reconsolidates state-owned companies’ – Petróleos de Venezuela (PDVSA), PetroEcuador and Yacimientos Petrolíferos Fiscales de Bolivia (YPFB) – control over hydrocarbons as a way to guarantee that more of the wealth generated by their exploitation is invested in national priorities. While in some cases this has led to the expulsion or buying out of multinational companies, in most cases multinational companies continue to operate under new or renegotiated conditions.

While large European and North American multinational companies continue to play important roles in exploiting oil and gas in the Andean region – British Petroleum, British Gas, Repsol YPF, Total, Oxy, Shell, Chevron and Statoil – other companies from China, India, Russia and notably Brazil’s largely state-owned PetroBras, are playing increasingly prominent roles in the oil and gas industry. Additionally, state-owned companies such as Colombia’s Ecopetrol and Venezuela’s PDVSA are transforming into multinational companies in their own right through joint ventures in Latin America and investments in “third countries”.

Between 1990 and 1997, the world observed 90 percent growth in mining activities, while Latin America experienced more than 400 percent growth. Between 2004 and 2008, coal represented more than 12 percent of Colombia’s total exports, with iron and nickel approaching 5 percent.10 Gold, emeralds and other minerals are also playing an increasingly important role in Colombia’s economy, as well as other countries in the region like Ecuador, which is just developing its mining industry, or Bolivia, which is reconstituting its mining industry after decades of decline. Peru, on the other hand, has gradually become the world’s second-largest producer of silver; the third in zinc, copper and tin; fourth in lead; and fifth in gold.11

THE EU, INTERNATIONAL COOPERATION, NATURAL RESOURCES AND CONFLICT IN THE ANDEAN REGION

Communities most affected by the growth in the exploitation of hydrocarbons and mineral resources are often the most marginalised and vulnerable, since much of the natural resource wealth is located in remote rural areas populated by indigenous peoples or those of African descent. These underdeveloped communities, with weak local governance structures and capacities, often in places with no or little formal national state presence, have to deal with the political, economic and social pressures that accompany the arrival of large-scale investment projects. In these contexts, members of local communities are compelled to decide whether they should oppose new economic development and business projects outright, or seek to benefit directly from resources to be generated by them. Such situations undermine the already weak human rights situation of marginalised groups and frequently lead to outbreaks of violent conflict. The social, economic and cultural rights of these groups are further neglected as both state and company priorities shift to crisis management, rather than addressing the root causes of these conflicts, such as the denial of basic human rights.

The European Commission provides a range of support to CAN, in addition to the support provided to its individual member states. At present, this cooperation is articulated in a strategy document that covers the years 2007 to 2013, involves about €50 million and focuses on three areas:12

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9 Ibid. Executive Summary.
1. Strengthening economic integration among the CAN countries to provide a stronger position in the world economy;

2. Enhancing social and economic cohesion within CAN; and

3. Assisting the CAN's member countries in the fight against illicit drugs, in line with the principle of shared responsibility.

A significant part of the economic integration involves strengthening CAN and its member states on an individual level to negotiate free trade agreements with the EU, US and other regional blocs. At present, Peru has successfully entered into a free trade agreement with the US, while Colombia is in the process of doing so, though with significant obstacles. Bolivia and Ecuador have opted to join ALBA with Venezuela.

The EU-CAN strategy primarily seeks to address environmental issues such as water pollution and illegal forestry practices. However, in relation to social cohesion, the strategy seeks to 'reinforce positive synergies between social cohesion and environmental protection by integrating sustainable natural resource management into projects aimed at poverty reduction'. While no specific EU-CAN programmes focus on the non-renewable natural resource sector as such, several cross-cutting themes emphasised in the strategy are highly relevant. Among these are human rights, gender equality, indigenous peoples’ rights, children's rights, culture, good governance, conflict prevention/crisis management and the environment, including disaster risk reduction.

The European Commission and Europe Aid have initiated a process of addressing the interlinkages between natural resources and conflict globally. In the EU's initial approach to linking natural resources and conflict, it was found that in its policies conflict prevention has been de-prioritised vis-à-vis crisis management and issues of post-conflict reconstruction. At the same time, conflict-sensitive programming approaches were not in place in any systematic way. The four global challenges identified by the EU – climate change, migration and refugees, energy security and depletion of fish stocks – still fail to get to the heart of the asymmetrical relationships and governance deficit faced by many local communities where non-renewable natural resources are exploited.

Although this may seem like a localised problem particular to certain areas, it reflects the major social tension and the social conflicts the Andean societies are grappling with, namely the clash of development with the preservation of nature and human rights protection.

While the EU report does identify some of the mechanisms designed to promote regulation of natural resource exploitation among multinational business in the diamond and forestry sectors, it does not cover in any detail the effectiveness of voluntary mechanisms in place for regulating companies and resolving conflicts in the oil and mining sectors, such as the Voluntary Principles on Security and Human Rights, the EITI and locally developed Fondo de Respuesta in Ecuador and other Latin American countries, all described in more detail later in this report.

CAN itself has a range of initiatives and institutions relevant to the thematic areas covered in this paper:

- Andean Environmental Agenda: dealing with issues of climate change, biodiversity, water resources and disaster prevention;

- Border Development: binational border service centres for a range of issues, including commerce and immigration;

- Consultative Council of Indigenous Peoples: inclusion of indigenous concerns in regional integration agenda;

- International Cooperation: promoting Andean civil society collaboration for regional integration; and

- Democracy: promoting security and an Andean peace zone.

One challenge for CAN is in vying for visibility and space among other multilateral organisations such as the UN and Inter-American Development Bank (IADB). Two other factors also affect the ability of CAN to forge a functioning sub-regional approach to economic development and governance. First, the withdrawal of Venezuela, the sub-region's largest economy, has forced a major institutional re-evaluation. Second, the bilateral tensions between Colombia and Ecuador, ongoing but improving bilateral tension between Ecuador and Peru, combined with the persistent instability of Bolivia, make the forging of the requisite personal and institutional relationships for CAN a formidable challenge to overcome.

THE STRUCTURE OF THIS REPORT
This paper seeks to deepen the understanding of the intersection between the management of non-renewable natural resources and diverse forms of conflict in the three countries of the Andean region: Colombia, Ecuador and Peru. Each of the three countries is covered in a separate section addressing: a) the political context; b) the status of non-renewable natural resource exploitation and management; c) non-renewable natural resources and conflict; d) institutions and frameworks for dealing with conflict related to non-renewable natural resources, with particular emphasis on voluntary mechanisms involving the private sector; e) the nature of bilateral EU cooperation with each country to see if it is addressing conflicts related to non-renewable natural resources or their root causes; and f) a series of recommendations as to how the EU can improve its assistance to CAN and its member states in these areas.
COLOMBIA

CONTEXT

Regardless of important gains made in public security in Colombia, the terms of paramilitary demobilisation and the armed forces' emphasis on counter-insurgency have been strongly criticised by local and international NGOs, the Colombian left, progressives from Europe and the US, as well as UN agencies. Beneath the controversy, fundamental disagreements exist both in Colombia and internationally on the nature of the conflict and whether land distribution, poverty, inequality and class-based discrimination might lie at the heart of current problems, or whether it is the influence of the drugs trade and related illegal activities that are the main culprits. The government of Alvaro Uribe's alliance with the US, in contrast to the rest of South America's turn to the left, has also created increased opposition.

Perhaps the greatest gap is between those in Colombia that believe that the current phase of Colombian history is predominantly post-conflict - where democracy and development, with doses of justice, are the primary tools of reconciliation - and those that believe that the Government of Colombia needs to look beyond a simplistic anti-terrorist framework and engage with the conflict and the actors involved - seeking a broad-based reconciliation with the victims and victimisers, including addressing property restitution.

According to the 2007 UN Human Development Index, Colombia is at the top of the middle-income country list in terms of human development indicators, with an average life expectancy of 72.3 years, an adult literacy rate of 92.8 percent and Gross Domestic Product (GDP) (by purchasing power parity, or PPP) per capita of US$7,304 – though the UN Economic Commission for Latin America and the Caribbean calculates GDP per capita at US$2,674 at constant market prices. However, these figures mask the unequal distribution of income and property in the country. In 2005, 14 percent of the national population was calculated to live below the poverty line, though this figure increases to 27 percent for the rural population. And while income distribution as measured by the Gini coefficient has improved from 0.60 to 0.55 (with 0 corresponding to absolute equality and 1 corresponding to absolute inequality) in recent years, Colombia remains the country with the second-lowest level of income distribution in Latin America, after Brazil.

In contrast to neighbouring countries in the Andean region, Colombia continues to pursue a free market-oriented economic development policy. According to the pro-free market US-based think tank, the Heritage Foundation, Colombia is the 67th most free economy in the world, slightly behind Peru in 55th place, but well ahead of Ecuador, Bolivia and Venezuela, which are in the 106, 123 and 148 spots, respectively. Colombia's index score was based on a positive view of its business, financial and investment freedom, but negatively in terms of labour freedom and property rights.

Despite being stigmatised by the uninformed as a combination of a banana republic and a narco-economy, in Latin American terms, the economy is relatively diversified in its export products and geographic distribution of

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14 This section is based on the contribution of IfP-commissioned research. See: C. Gónzalez (2008). La Industria del Petróleo Frente a los Conflictos y Derechos Humanos en Colombia. Bogotá: Instituto de Estudios para el Desarrollo y la Paz.
economic and industrial activity, with significant concentrations of industry in the cities of Bogotá, Medellín, Cali, Baranquilla and other provincial capitals. Table 1 denotes Colombia’s ten most important export products.

**TABLE 1: COLOMBIA’S LEADING EXPORT PRODUCTS 2005 AS % OF TOTAL EXPORTS**

<table>
<thead>
<tr>
<th>Product</th>
<th>% of Total Exports</th>
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<tbody>
<tr>
<td>Crude Petroleum</td>
<td>19.0</td>
</tr>
<tr>
<td>Coal</td>
<td>11.5</td>
</tr>
<tr>
<td>Petroleum Products</td>
<td>7.1</td>
</tr>
<tr>
<td>Coffee</td>
<td>7.0</td>
</tr>
<tr>
<td>Flowers</td>
<td>4.3</td>
</tr>
<tr>
<td>Ferro-alloys</td>
<td>3.5</td>
</tr>
<tr>
<td>Polymers</td>
<td>3.2</td>
</tr>
<tr>
<td>Gold</td>
<td>3.0</td>
</tr>
<tr>
<td>Bananas</td>
<td>2.4</td>
</tr>
<tr>
<td>Passenger vehicles</td>
<td>2.0</td>
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</tbody>
</table>


In recent years there has been a notable decline in exports of textiles, shoes and other consumer goods, as competition from China and other Asian countries has become fiercer. The country has experienced a real estate boom in recent years, fueled by a variety of factors, including economic growth, remittances from Colombians living abroad and of course the trade in illicit narcotics. This has run in parallel to the international commodity boom which Colombia has benefited from, thanks to its deposits of petroleum, coal, gold and other non-renewable natural resources. However, with the slowing of the US and global economies, this positive cycle might have reached its limits.

According to some sources, Colombia will soon be forced to become a net importer of petroleum unless new reserves are found, as it presently has a low reserve-to-production ratio. Colombian law currently mandates a 10 percent ethanol blend in gasoline and a 5 percent blend of bio-diesel in diesel, and by 2012 these mandates increase to 20 and 10 percent respectively. This generates tremendous opportunities for the Colombian economy, as well as enormous challenges, as some evidence already demonstrates that cultivation of African palm represents some of the worst elements of both the banana and the fossil fuel industrial economies.

**NON-RENEWABLE NATURAL RESOURCES IN COLOMBIA**

Even though Colombia is considered a modest producer of hydrocarbons in global terms, since the 1980s the discovery of oil fields in the departments of Casanare and Arauca near the Venezuelan border, operated by British Petroleum and Occidental Petroleum respectively, has led Colombia to be a net exporter. Oil as a percentage of GDP has grown from 2 percent to 4.5 percent and was the country’s most important export in 2007. Even though the discovery of new oil wells has decreased in recent years, the production of natural gas in Colombia has been on the increase. The favourable trend in world oil prices has countered the long-term downward trend in national production and made new technologies to recover oil from older wells more feasible.

These realities have led the Government of Colombia, through legislative reforms and the Ministry of Mines and Energy, to create incentives for foreign and national investment in exploration and drilling. These same incentives have been provided for mining and manufacturing activities. The primary objectives of the current national development policy in relation to hydrocarbons are:

- Consolidate the institutional and regulatory framework of the hydrocarbon sector;
- Continue promoting exploration and drilling;

Further capitalise the state petroleum company Ecopetrol;

Gradually eliminate petroleum subsidies in the domestic market;

Increase efficiency of national refineries;

Strengthen and consolidate the national gasoline market in border areas where contraband thrives;

Make all gasoline sold nationally 10 percent ethanol; and

Make all diesel sold nationally 5 percent bio-diesel.

The following multinationals have dominated the industry in Colombia since the 1980s: Occidental (US), British Petroleum (UK), ChevronTexaco (US), Royal Dutch Shell (UK/Netherlands), Exxon Mobil (US), PetroBras (Brazil), Repsol (Spain), Total Fina ELF (France), Nexen (Canada), Petrobank (Canada), Solana (Canada), Hupecol (US/Colombia), Transcanada (Canada), Meta Petroleum (Brazil, US, UK), Hocol (France), Petrominerales (Canada/Colombia), PetroColombia (Colombia), Emerald Energy (UK). However, in recent years, dozens of other companies have begun to explore and drill in Colombia, including companies from China and India. Additionally, Ecopetrol has started to explore investments in third countries. It is also important to note that Repsol is owned in large part by Spanish banks and companies such as BBVA, La Caixa and the energy firm Iberdrola.

OIL AND CONFLICT IN COLOMBIA

Hydrocarbons have been at the centre of conflict in Colombia for many years, to the point that the left-wing guerillas' present position is that the country’s oil resources must remain 100 percent owned by the Government of Colombia and their profits used for social development projects. This section looks at the following conflict issues related to oil: royalties, indigenous groups, and security and human rights.

Seventy percent of all royalties generated by oil production and exports are redirected to the departments of Casanare, Arauca and Meta, with the rest going to a national royalty fund. These remain some of the poorest departments in the country, despite their oil wealth, pointing to poor use of royalties for investment in social and economic development. Common reasons for these failures are attributed to corrupt local governments and resource capture by armed groups and mafias through co-optation of local leaders and extortion. Local authorities - sometimes with the support of petroleum companies - have sought to establish oversight committees, known as veedurías, to supervise the use of royalties at the local level. Unfortunately, participants in these committees are subject to threats and intimidation, and several leaders have been assassinated, sending a message to others who might be interested in furthering such work.

An increasing number of exploration projects are being implemented in Colombian territory held collectively under the constitution by indigenous and Afro-Colombian groups. In this context, tensions exist between communities fighting to preserve their cultural and territorial integrity against government and private interests seeking to exploit hydrocarbons, in some cases arguing that intermediate ground can be found to mitigate damages, generate economic opportunities for indigenous groups and contribute to national economic development. The International Labour Organisation’s (ILO) Indigenous and Tribal Peoples Convention Number 169 and its incorporation into national legislation guides the process of prior consultation, whereby the government and companies are required to consult indigenous communities prior to extracting natural resources on their lands. However, in practice, these consultations are frequently perfunctory – as opposed to exhaustive – requiring indigenous communities to make decisions without the time, space or technical knowledge required to do so in an informed manner.

21 The International Labour Organisation’s (ILO) Indigenous and Tribal Peoples Convention (No.169) aims to protect the basic rights of these two groups, as well as improve living and working conditions, while enabling them to continue to exist as distinct peoples. For the text of this Convention, see: http://www.ilo.org/ilolex/cgi-lex/convde.pl?C169.

22 In perfunctory consultations, a company invites stakeholders mainly to inform them, towards the end of a decision-making process. In exhaustive consultations, the company have through discussions from the initiation of the process, informing participants, seeking their views and so on.
Under the government of Alvaro Uribe, and supported by policies put in place by local mayors in the country’s major cities, homicide and kidnapping have dropped in recent years, restoring investor confidence that has not escaped the hydrocarbons sector. Historical conflict analysis indicates that both kidnapping and homicides are above the national average in the three Colombian departments with the highest concentration of oil production. Nonetheless, the Colombian army’s consolidation of territorial power in much of the country has reduced the frequency of attacks by armed groups on oil production infrastructure in recent years. Whether armed groups are attracted to oil-rich regions because of the resources they generate, or whether oil production is generally concentrated in rural departments with weak state presence, is a circular argument that will not be solved in this paper, but should be taken note of.

Oil companies are not innocent bystanders to the country’s armed conflict. In the past, some oil companies have paid illegal armed groups bribes in order to operate without attack and thus in some cases helping revive armed movements through finance. The consolidation of national security practices by the government has prevented these payments in recent years, though the armed movements have been able to continue extorting contractors and pilfer gas and materials from production chains. In recent years, oil and mining companies have been able to avoid dealing directly with illegal armed groups through contracting private security providers for protection within their installations and signing agreements with the military and police for protection. This latter arrangement was put in place through the US-funded Plan Colombia, which supported the creation of military brigades to provide protection to oil production. Individual oil companies provide complementary payments to augment these resources when they sign agreements to protect specific companies and installations. These arrangements are not without controversy, due to historical relationships between right-wing paramilitary groups and members of the armed forces. However, reports by NGOs such as Tribunal Permanente de los Pueblos that accuse oil companies of human rights violations, are more useful in making moral and political judgments about companies investing in areas where human rights abuses are systemic, rather than legal arguments about their complicity in such.

VOLUNTARY PRINCIPLES ON SECURITY AND HUMAN RIGHTS IN COLOMBIA

The Voluntary Principles for Security and Human Rights were unveiled in December 2000 by the US State Department and the Foreign and Commonwealth Office of the UK, after a year-long global process involving government officials, oil and mining companies, and NGOs; the Dutch and Norwegian governments joined at a later date. The Principles provide guidance to companies operating in zones of conflict or fragile states, so that they can ensure that security forces – public or private – protecting the companies' facilities and premises operate in a way that protects the company's assets while respecting human rights and fundamental freedoms. Such an initiative was necessary because of widespread international concern over the way security forces operated while protecting oil and mining installations in many parts of the world. The Principles were adopted with the contexts of Colombia, Indonesia and Nigeria directly in mind. Companies such as British Petroleum, Occidental Petroleum and the coal mining company Cerrejón (owned by Anglo-American, BHP and Xstrata) are in the process of internally implementing the Voluntary Principles in Colombia.

The concrete contributions of the Voluntary Principles to improve the practices of petroleum companies and their impact on communities where they operate are still rather elusive. However, their dissemination within the sector has had a normative impact, encouraging companies such as Ecopetrol with no formal commitment to the Principles to include its text in all new agreements with private security and state armed forces. Additionally, the Voluntary Principles are now recognised and highlighted in the Colombian Ministry of Defence’s own human rights policy.

Some critics argue that the Principles have no accountability for companies that do not abide by them globally or in Colombia, while many company officials counter that the Principles are voluntary for companies, and

26 See: www.voluntaryprinciples.org for a detailed history, as well as the text of the Principles.
27 Particular initial focus concerned Colombia, Indonesia and Nigeria.
28 Interviews with Ecopetrol staff, 24th June 2008, Bogotá, Colombia.
require time and long-term thinking in order to change company practice. This is characteristic of many ongoing discussions between NGOs and the private sector on voluntary mechanisms globally.

**EU COOPERATION AND CONFLICT IN COLOMBIA**

EU cooperation in Colombia has been targeted at the development of Colombia’s regions and the mitigation of the impact of armed conflict on local communities. The relationship with communities impacted by oil production is an indirect one, in that some of the regions where the EU has invested resources in peace and development programmes (called the Peace Laboratories) happen to be communities highly dependent on the employment and resources generated by oil production. These EU-supported Peace Labs, modeled partially after the prior World Bank Peace and Development programmes, are designed to promote locally initiated development projects combined with human rights and social cohesion components, in contrast to other approaches which combine direct intervention by state security forces with eradication of illicit crops. It should also be noted that Ecopetrol was a contributor of financial resources for both the Peace and Development programmes and the Peace Labs. To a large degree, the Peace Labs represent the European alternative to the US-supported Plan Colombia. Among the Peace Labs objectives are:

- Consolidating actions for peace;
- Promoting multi-dimensional local development;
- Supporting the socio-economic reintegration of the victims of armed conflict and their communities; and
- Long-term promotion of public service delivery.

Three important issues not covered in the EU strategy document for Colombia deserve further discussion. First, the relationship between extractive industry and local development in conflict-affected regions is not identified. Second, the issues of corruption and human rights are only directed towards the state and do not explicitly mention the extractive sector as a potential target for advocacy and change. Third, there is no discussion of both the advantages and challenges presented by the Peace Labs’ support for the production of African palm both for vegetable oil and biodiesel, and the implications these projects have on continued competition for land between agro-industrial interests and peasant subsistence farming linked to food security.

Bilateral aid from European countries is at least four times as large as aid to Colombia from the EU. Four EU Member States – Germany, the Netherlands, Spain and Sweden – provided more than 37 percent of all bilateral aid to Colombia in 2006, and with the US and Japan, 87 percent of all bilateral aid (see Table 2).

**TABLE 2: BILATERAL AID TO COLOMBIA 2006 (IN US DOLLARS)**

<table>
<thead>
<tr>
<th>Country</th>
<th>Total aid</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>134,487,000</td>
<td>48</td>
</tr>
<tr>
<td>Spain</td>
<td>38,280,509</td>
<td>14</td>
</tr>
<tr>
<td>Netherlands</td>
<td>27,293,224</td>
<td>10</td>
</tr>
<tr>
<td>Germany</td>
<td>20,000,000</td>
<td>7</td>
</tr>
<tr>
<td>Sweden</td>
<td>15,000,000</td>
<td>5</td>
</tr>
<tr>
<td>Japan</td>
<td>11,000,000</td>
<td>4</td>
</tr>
<tr>
<td>Subtotal</td>
<td>46,060,733</td>
<td>88</td>
</tr>
<tr>
<td>Total bilateral aid</td>
<td>281,773,733</td>
<td>100</td>
</tr>
</tbody>
</table>


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ECUADOR

CONTEXT

While Ecuador is considered a relatively peaceful country within the region, one cannot forget the border war with Peru in 1995, the spillover of Colombia’s armed conflict into the three northern provinces of Esmeraldas, Carchí and Sucumbios, not to mention the general effect of the thousands of Colombian refugees on the Ecuadorian government and services provided. Over the course of the last decade, the country has experienced serious governance problems due to regional differences between elites from the capital and those from Guayaquil – the coastal industrial centre – in addition to strong indigenous political movements. Such dysfunctional governability has left the previous three presidents unable to complete their full four-year terms. The current president Rafael Correa has set out a populist agenda to recover control of natural resources, reject free trade with the US, not renew a US military base established to support Andean regional narcotics control efforts and re-write the country’s constitution. The current government of Ecuador remains committed to CAN, but is also open to integration into Venezuela’s ALBA framework.

The Ecuadorean economy is based on oil production, manufacturing for the domestic market and agriculture. In addition to being one of the world’s most important banana exporters, Ecuador is also an important exporter of shrimp and flowers. Due to economic instability, Ecuador adopted the US dollar and eliminated its own currency in 2000. Oil continues to represent about 60 percent of the country’s total exports.32

NON-RENEWABLE NATURAL RESOURCES IN ECUADOR

Although Ecuador’s biodiversity is very unique, and the country has numerous climate zones and a great potential for agriculture, its economic development is largely anchored in non-renewable natural resources exploitation. Non-renewable natural resource hydrocarbon and mineral exploitation and management in Ecuador is largely covered and regulated by two different aspects of the law: environmental protection, and mining and energy. Importantly, most of Ecuador’s oil is found in the Amazon rainforest, an ecosystem of global importance.

Ecuador produces around 500,000 barrels of crude oil per day – roughly 51 percent by PetroEcuador, the state oil company, and the rest by foreign companies, such as Brazil’s Petrobras, Spain’s Repsol and China’s Andes Petroleum etc.33 The current government is making clear efforts to re-establish control of this sector and generate more favourable terms for royalties and taxes that will finance government activities and social investment. Multinational companies that do not accommodate this strategy are finding themselves increasingly left out of the Ecuadorean market.

In addition, Ecuador’s abundance of gold, silver, copper, limestone, precious stones and other minerals have attracted a large number of companies in recent years, leading to the authorisation of more than 4,000 mining concessions. Over 1,000 of these concessions have been suspended in 2008, due to noncompliance with a mining mandate set out by the national constituent assembly in the lead up to the approval of a new national constitution.34

31 This section is based primarily upon S. Meneses (2008). Investigación sobre el manejo de recursos naturales, cooperación internacional y conflictos socio-ambientales en el Ecuador. Quito: PLASA.
The current Ecuadorean government is clearly turning the tables on multinational companies in terms of making sure that profits, particularly windfall profits during times of rising commodity prices, remain in the country. What is not clear is whether or not this will discourage foreign investment over the long term or be sustainable during likely downward cycles.

**OIL AND CONFLICT IN ECUADOR**

Socio-environmental conflicts in Ecuador have traditionally been a result of clashing interests between at least two actors over the use, depletion, control and management of natural resources. The 1970s saw petroleum boom-related development in Ecuador, accompanied by infrastructure development (in particular roads) in remote areas, but also by displacement of indigenous populations, in particular from the provinces of Loja and Manabi.

Conflicts between communities affected by large-scale development projects (in this case oil and mining) are common. These have been known to escalate into small-scale violence and road blockages, either as a means of resistance by the community or between various actors that fight over control of the territory. These are often, but not exclusively, indigenous communities in close proximity to company operations, who are most affected by these activities, but who simultaneously benefit the least from the income generated by the exploitation of these resources. Confrontations have been known to happen in the north, mainly Imbambura and El Pangui provinces, but also in the south in the province of La Zamora.

Most recently, President Correa threatened to expel foreign oil companies if they did not raise their output. This further exacerbated existing conflicts between companies and communities, since the former are pressured to increase production, which is usually accompanied by expanding operations and/or speeding up processes accompanying the operations; while communities do not possess sufficient capacities to make informed decisions in such a short time.

The conflicts surrounding natural resources exploitation and management can be summed up into the following points:

- Environmental and social impacts of the projects on communities. Given that much of the exploration and exploitation takes place in rural, forest-covered areas, where communities depend on their environment for their survival, any negative impact on the environment will have a significant social impact on communities;

- Lack of consultations and lack of adherence to agreements on behalf of companies;

- Asymmetrical power relations. On one hand, large, mainly foreign companies with resources, on the other, communities with little resources, knowledge, access to information, capacity etc.; and

- Lack of state capacity and presence. Many of the communities are in voluntary isolation, deep in the rainforest, with little or no state presence in any of the surrounding areas. Once companies enter the areas and start engaging the communities, much of the negotiations and relationships developed between company and community are based on the company interpreting the community’s needs and developing a project catering to these needs. In the long run, such an approach replaces the state’s function, further undermining its ability to reach out to such communities.

One of the most high profile conflicts related to oil in Ecuador is the case of Texaco (now Chevron, after a corporate merger between the two companies). When the US oil giant Texaco pulled out of drilling operations in the lush jungle of northeastern Ecuador more than a decade ago, it left behind an enormous expanse of land and water polluted by wastewater and oil. The waste, dumped in several hundred pits, poisoned the rivers and streams on which indigenous communities and non-indigenous farmers depended for drinking, bathing and washing.\(^{35}\) The remoteness of the oil field and the weak political participation of the local people made obtaining any justice difficult.

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Over the years, Ecuador's indigenous peoples have developed a strong sense of their identity and fought to defend their rights. The indigenous and colonist communities affected by the damage worked with the Amazon Defense Front (Frente de Defensa de la Amazonia, or FDA) to create a representative organisation that would help them maintain unity, and prevent the company from arranging inadequate settlements with individual communities.

The Assembly of Delegates of Communities Affected by Texaco was established in February 2001. It consists of representatives of four indigenous nationalities affected by the disaster (the Siona, Secoya, Cofán and Huaorani), as well as about 20 representatives of non-indigenous peasant communities. Each of the non-indigenous delegates represents three or four communities. The president of the FDA is also a member of the Assembly's Executive Council. The communities affected by the disaster are very poor and transportation is both difficult and expensive for them. Oxfam America has been supporting the Assembly and has helped the FDA carry out an evaluation and strategic planning to make its work more effective.

Chevron has been unable to move the court case out of Ecuadorian national jurisdiction, a request it makes in seeking an independent judgment. At the same time, the company has attempted to force PetroEcuador to pay a portion of the clean-up costs because of its historical role at the sites, but this request was rejected by a US appellate court.\(^\text{36}\)

It is fairly clear that the current government of Ecuador is planning to use the bulk of the resources generated by non-renewable natural resources for financing government and social investment in the coming years. What remains to be seen is whether or not this approach is going to reduce the number and severity of social and environmental conflicts around oil and mining in the future.

A 'LATIN AMERICAN' APPROACH: THE FONDO DE RESPUESTA IN ECUADOR

In 2003, the Fundación Futuro Latinoamericano, as the executive secretariat of the Ecuadorian Platform for Socio-Environmental Accords (Plataforma de Acuerdos Socio Ambientales, or PLASA),\(^\text{37}\) launched a mechanism known as the Fondo de Respuesta or Response Fund. This fund was designed to provide an early and effective response to the growing number of social and environmental conflicts emerging out of oil and mining activities in Ecuador. The funds two primary objectives were to:\(^\text{38}\)

1. Facilitate immediate and urgent interventions, in order to respond to social and environmental conflicts; and

2. Serve as a financial and technical counterpart for longer-term measures designed to create conditions for good governance, social cohesion and sustainable development.

In 2005, the United Nations Development Programme (UNDP) and CAF provided the financial resources to PLASA needed to fund the Fondo de Respuesta. The experience generated positive impacts in terms of reducing levels of tension and violence, demanding greater accountability from local authorities and, in particular, obtaining greater access to public information for communities and, in turn, reducing disinformation. The preliminary success of the project led to increased funding from the Inter-American Development Bank to cover eight Latin American countries.\(^\text{39}\)

It is important to note that the Ministry of the Environment also made the decision to allocate resources to the Fondo in 2006, with a focus on conflicts in the country's protected areas. Perhaps the most compelling aspect of this project is that it does not require huge amounts of resources to intervene in local conflicts. Unfortunately, the sheer number of conflicts emerging around Ecuador’s oil and mining sectors is growing, reducing the future potential effectiveness of this initiative.

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\(^{37}\) PLASA, a research partner in this report, is a platform where organisations working on social and environmental conflicts convene to exchange ideas and develop strategies for collective action. To learn more, visit http://www.plasa-ecuador.net.


EU COOPERATION IN ECUADOR

The European Commission has allocated €75 million in funding for the period 2007-2011 (with another €62 million for 2011-13) for:

• Increasing social interventions, particularly in education (54 percent);

• Creating sustainable economic opportunities and improving regional integration (46 percent);

• Bilateral cooperation in various fields, such as academic exchange, investment etc. The most notable and relevant instrument was the Synergy Programme, managed by the Directorate General for Energy and Transport of the European Commission. Its aim was to enhance sustainable development and improve energy efficiency in non-EU countries. Recently, it has also incorporated another component to promote the implementation of the Kyoto Protocol. The programme seems to have been discontinued in 2002; and

• Decentralised cooperation through NGOs and other bodies.

In general, European Commission support to Ecuador is not focused on addressing social and environmental conflicts in the extractive sector, and there is no information available to indicate that there is dialogue concerning these matters with European companies active in the country.
PERU

CONTEXT

With regard to Peru, it is important to remember the political violence between the government and Maoist insurgents that affected the country from 1980 to 1992, resulting in more than 70,000 deaths, 12,000 missing or “disappeared” and close to 750,000 displaced persons. While the entire country suffered the consequences of the war, nearly three-quarters of the conflict’s victims were Quechua. Both the Peruvian armed forces and the guerillas were documented as having committed widespread atrocities. The conflict also took place in the context of economic crisis and hyperinflation.

The government of President Alberto Fujimori throughout the 1990s was successful in defeating insurgent activities and controlling inflation. The political capital earned enabled the sale of many state-owned enterprises and a return to some economic normality, albeit at the cost of high levels of corruption and abuse of power that led to the end of this regime and the overall weakening of institutions that is still being dealt with today.

Despite the resurgence of commodity prices and macro-economic stability in the 2000s, the gap between rich and poor is still a fundamental challenge facing the country and large sectors of society question the private sector-led economic model in place. Such polarisation has fed into the political system, creating a significant “anti-system” movement and voting bloc, heavily concentrated in the Andes and among indigenous poor living in and around the nation’s capital.

While the current Peruvian government has adopted a pro-Western and private sector-led economic model, its slim margin of victory in presidential and legislative elections masks the strong divisions within the country regarding socio-economic policies, including natural resource exploitation.

NON-RENEWABLE NATURAL RESOURCES IN PERU

From 2002 to 2007, the Peruvian economy grew annually at an average rate of 6 percent – largely thanks to the commodities boom – which is now beginning to either drop or plateau, due to a slowing global economy. From 2000 to 2007, exports grew from US$6.95 billion annually to US$27.9 billion, representing a proportional shift in GDP from 16 percent to 28 percent. During this period, mineral exports grew from US$3.2 billion to US$17.32 billion, representing 62 percent of total exports. This growth has generated great expectations among local leaders where natural resources are abundant, as they anticipate increased royalties and social investment of companies will create new economic opportunities and increased employment. However, the local populations frequently do not have the skilled and semi-skilled workforce required for mining activities. These expectations have not been met in the boom times and it is likely they will not be met as the commodities markets adjust to the emerging global downturn in commodities prices.

While Peru has modest petroleum and natural gas production, it is primarily a mining country. It is an important producer and exporter of copper, gold, zinc, silver, lead, tin, iron and molybdenum. There are three key sectors

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40 This section is based on the contribution of IfP-commissioned research. See: I. Mendoza (2008). *Recursos naturales, conflictos sociales y cooperación internacional en Perú.* Lima: Socios Perú: Centro de Colaboración Cívica.


within mining: the large mining companies include about 15–20 multinational companies that produce around 5,000 metric tons daily of minerals; the mid-size mining companies, numbering around 35–40 companies – often referred to as “juniors” – that produce between 300 and 500 metric tons per day; and artisanal mining that, while small in volume, involves thousands of miners and their families that frequently work in precarious conditions, both in terms of economic and physical security. Mining in Peru employs approximately 217,000 workers, a number that has not grown substantially during the latest boom cycle, since the sector uses an increasing level of high technology in operations.

The sector is overseen and governed by a complex and diverse set of government actors, as indicated in Table 3.

<table>
<thead>
<tr>
<th>Ministry</th>
<th>Agency</th>
<th>Functions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>National Institute for Agrarian Research and Extension (INIEA)</td>
<td>Coordinates issues of security in bio-technology</td>
</tr>
<tr>
<td></td>
<td>National Natural Resources Institute (IRENA)</td>
<td>Designs, monitors and controls interventions related to water resources, forests and protection of flora and fauna</td>
</tr>
<tr>
<td></td>
<td>National Program for Water Basin Management and Soil Conservation (PRONAMACHS)</td>
<td>Integrated management of water sources and sustainable rural development of Andes</td>
</tr>
<tr>
<td></td>
<td>National Agrarian Public Health Service (SENASA)</td>
<td>National system governing organic products, grains, control of agricultural inputs and monitoring of toxic waste</td>
</tr>
<tr>
<td></td>
<td>National Protected Areas Service (SINAPI)</td>
<td>Coordination of national protected areas</td>
</tr>
<tr>
<td>Defence</td>
<td>Port Authority</td>
<td>Prevents contamination in coastal zones</td>
</tr>
<tr>
<td></td>
<td>Coast Guard National Directorate (DICAPI)</td>
<td>Prevents and reduces contamination of rivers, lakes and ocean</td>
</tr>
<tr>
<td></td>
<td>National Meteorological Service (SENAMHI)</td>
<td>National weather agency</td>
</tr>
<tr>
<td>Presidential Council of Ministers (PCM)</td>
<td>PCM</td>
<td>Approves standards for air quality</td>
</tr>
<tr>
<td></td>
<td>National Environmental Council (CONAM)</td>
<td>Designs, approves and monitors enforcement of national environmental laws</td>
</tr>
<tr>
<td></td>
<td>Research Institute for the Peruvian Amazon (INIEA)</td>
<td>Researches, takes inventory of, evaluates and controls the natural resources of the Amazon region</td>
</tr>
<tr>
<td>Production</td>
<td>Ministry of Production</td>
<td>Monitors air quality, emissions, toxic waste and use of natural resources</td>
</tr>
<tr>
<td></td>
<td>Peruvian Ocean Institute (IMARPE)</td>
<td>Provides scientific data for use of water resources</td>
</tr>
<tr>
<td>Education</td>
<td>Ministry of Education</td>
<td>Environmental education</td>
</tr>
<tr>
<td>Energy and Mines</td>
<td>Ministry of Energy and Mines</td>
<td>Monitors air quality, emissions, water waste and controls mining, hydrocarbons and electricity activities</td>
</tr>
<tr>
<td>Health</td>
<td>Directorate General for Environmental Health</td>
<td>Regulates environment for public health</td>
</tr>
<tr>
<td>Transportation and Communication</td>
<td>Ministry of Transportation and Communications</td>
<td>Proposes limits to vehicle emissions and solid waste</td>
</tr>
<tr>
<td>Housing and Construction</td>
<td>Ministry of Housing</td>
<td>Manages water infrastructure for human use and waste management</td>
</tr>
<tr>
<td>Interior</td>
<td>Ministry of Interior</td>
<td>Denounces violations of national laws</td>
</tr>
<tr>
<td></td>
<td>OSINERGEMIN</td>
<td>Designs and oversees environmental laws for the mining sector</td>
</tr>
</tbody>
</table>

MINING AND CONFLICT IN PERU

One of the broad points of political debate and legislative conflict in Peru is the issue of private sector versus state control of mineral resources. As of the 1990s, liberal reforms have virtually eliminated direct state participation on new mining activity. This was one key point of conflict between current president Alan Garcia and his left-wing opponent Ollanta Humala during the last presidential election. The key mining regions in Peru can be found in the poor and heavily indigenous departments of Ancash, Arequipa, Cajamarca and Puno.

As mentioned above, the lack of new employment opportunities in mineral rich regions, even during boom years, is a source of resentment among peasant and indigenous communities. These economic and social development issues – particularly in the Peruvian Andes – combined with environmental management factors, have led the Office of the Human Rights Ombudsman (Defensoría del Pueblo) to maintain a register of socio-environmental conflicts heavily focused on mining activities. Table 4 illustrates six important conflicts related to mining activity in Peru.

### Table 4: Principle Mining-related conflicts in Peru in recent years

<table>
<thead>
<tr>
<th>Mine/Company</th>
<th>Year</th>
<th>Mineral</th>
<th>Place</th>
<th>Population</th>
<th>Phase</th>
<th>Causes</th>
<th>Resolution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tambogrande Manhattan Minerals (US)</td>
<td>2002</td>
<td>Gold</td>
<td>Piura</td>
<td>Small and medium farmers</td>
<td>Exploration</td>
<td>Contamination and resettlement of population</td>
<td>Withdrawal of company</td>
</tr>
<tr>
<td>Yanacocha Newmont (US), Buenaventura</td>
<td>1992, 1999,</td>
<td>Gold</td>
<td>Cajamarca</td>
<td>Peasants and small farmers as well as urban population</td>
<td>Exploration and exploitation</td>
<td>Land purchases, mercury spill and loss of water resources</td>
<td>Compensation, negotiation and discontinuation of project</td>
</tr>
<tr>
<td>Yanacocha Newmont (US), Buenaventura</td>
<td>2004</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tintaya BHP Billiton (UK, Australia)</td>
<td>2005</td>
<td>Copper</td>
<td>Cusco</td>
<td>Peasant communities</td>
<td>Exploration</td>
<td>Land purchases and contamination</td>
<td>Negotiations</td>
</tr>
<tr>
<td>Antamina BHP Billiton (UK, Australia)</td>
<td>1998</td>
<td>Copper</td>
<td>Ancash</td>
<td>Fishing communities and urban population</td>
<td>Construction and exploration</td>
<td>Resettlement of population and construction of port</td>
<td>Negotiations</td>
</tr>
<tr>
<td>Las Bambas Xstrata (UK, Switzerland)</td>
<td>2005</td>
<td>Copper</td>
<td>Apurímac</td>
<td>Peasant communities</td>
<td>Exploration</td>
<td>Trust fund mismanagement and resettlement</td>
<td>Negotiations</td>
</tr>
<tr>
<td>Majaz Monterrico Minerals (UK) later bought by Chinalco (China)</td>
<td>2005</td>
<td>Copper</td>
<td>Piura</td>
<td>Peasant communities</td>
<td>Exploration</td>
<td>Natural resource contamination</td>
<td>No resolution</td>
</tr>
</tbody>
</table>

Among the cases presented, there are some common characteristics worth taking into account. Nearly all of the communities involved are heavily rural and indigenous, with traditions of defending local interests against the state. Some of these communities include armed defence patrols called the Rondas Campesinas that were formed by the military during the country’s conflict and still maintain a quasi-legal status. Conflicts in coastal zones express slight variations in conflict dynamics due to urban settlements.

Local conflicts were caused primarily by three key factors. First, resettlement of the population in order to make way for new mining and the ability to determine just compensation for land acquired by companies. Second, the contamination of soil and water resources destroyed medium-sized and subsistence fishing and agriculture. Third, the lack of fulfillment of economic investment and compensation packages promised to communities by the companies. All of these factors are compounded by a history of poor treatment of communities by mining operations and the inability to meet their expectations during boom times.

Conflict resolution and mitigation practices have tended to be poorly developed in Peru, as internal differences within companies and the weak legitimacy of local and national authorities in many mining zones have sent mixed messages to local populations. Many conflicts analysed commenced during the exploration phase, where
lack of trust, poor transparency and disinformation cloud the ability of actors to understand what project impacts and benefits will be during the production or exploitation phase. As with many other contexts, companies’ first reaction is to deploy security forces and communication campaigns when things become complicated. Communities become vulnerable to external influence from national and international NGOs seeking to win battles against multinational companies.

Nonetheless, mining has also had a positive impact on the regions of Peru in terms of royalty and tax transfers, making possible investments in infrastructure in neglected regions. In particular, urban and semi-urban communities near mining activities have benefited. Rural communities appear to have benefited less perpetuating tensions, which sometimes result in conflict.43

**EXTRACTIVE INDUSTRY TRANSPARENCY INITIATIVE IN PERU**

The EITI in Peru is a voluntary multi-stakeholder initiative bringing together companies, government, investors and civil society to improve transparency and accountability in the extractive sector, with the purpose of reducing poverty, conflict and corruption frequently associated with the concept of the resource curse, where countries rich in resources remain poor because they depend solely on natural resource exploitation and do not diversify economic development.44 Peru joined the EITI process in 2005. Table 5 illustrates the participants in the Peruvian EITI process.

**TABLE 5: PARTICIPANTS IN EITI PERU**

<table>
<thead>
<tr>
<th>Government</th>
<th>Companies</th>
<th>Civil society</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry of Energy and Mines</td>
<td>Antamina (BHP Billiton)</td>
<td>Ciudadanos al Día (NGO)</td>
</tr>
<tr>
<td>Ministry of Economy and Finance</td>
<td>Anglo-American</td>
<td>Propuesta Ciudadana (NGO consortium including Oxfam)</td>
</tr>
<tr>
<td>National Tax Administration</td>
<td>Southern Peru Copper Corp.</td>
<td>Centro Bartolomé de las Casas (NGO)</td>
</tr>
<tr>
<td></td>
<td>Hunt Oil</td>
<td>Catholic University of Peru</td>
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<td></td>
<td>Pluspetrol</td>
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<tr>
<td></td>
<td>PetroPeru (state-owned)</td>
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<tr>
<td></td>
<td>National Society of Mining and Petroleum</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(private sector association)</td>
<td></td>
</tr>
</tbody>
</table>

In April 2005, the participants developed a plan of action to include improving transparency, comparing company revenues to royalty payments and oversight of the calculation of payments to be made to regional governments. The region of Cajamarca was chosen as one of the first pilot projects to focus technical support from the International Finance Corporation on. This plan of action was approved in 2006 and coordinated by the Ministry of Energy and Mines. The World Bank has contributed US$300,000 towards implementation activities.45 After a slow start, the EITI Secretariat has encouraged the Peruvian government to renew efforts and involve officials at a higher level.

At present, Peru has met the EITI pre-validation criteria and now has two years to become fully compliant. However, there are bottlenecks preventing further progress related to the government’s legal inability to divulge the amount of taxes paid by individual companies and some of these companies’ unwillingness to do so voluntarily. Another issue of contention is that, while companies are willing to support efforts to better oversee regional and municipal governments’ use of financial resources generated by mining, they are less willing to do so when it comes to national government.

44 Extractive Industries Transparency Initiative (2008). *Implementing the extractive industries transparency initiative: Early lessons from the field*. Oslo: EITI. Note: Peru is currently the only Latin American country to formally participate in the EITI.
45 Ibid.

www.initiativeforpeacebuilding.eu
EU cooperation and conflict in Peru

Between 2002 and 2006, the European Commission established three priority areas generally consistent with regional support to CAN: support for the rule of law and institutional reform; socio-economic development; and regional integration. Seven important projects were approved during this time period:

1. Support for the Truth and Reconciliation Commission;
2. Strengthening the Peruvian International Cooperation Agency;
3. Support to the regional governments of Ayacucho and Huancavelica;
4. Improving the Piura-Guayaquil highway;
5. Justice system reform;
6. Technical assistance for international commerce; and

For the current 2007–2013 strategy, the following issues have been added not as projects, but as elements to be incorporated throughout: human rights, democracy, children’s rights, indigenous rights, conflict prevention, sustainable environmental practices, and HIV and AIDS.

EU support is targeted at and channeled through four key institutions:

- The Ministry of Economy and Finance, in relation to public expenditure;
- The Peruvian International Cooperation Agency, in its ability to better steward international aid;
- The Defensoria del Pueblo and the national identification registry, to promote citizen participation and the exercise of the rights of citizenship through property identity documents for the poor and children;47 and
- The Presidential Council of Ministers, in order to strengthen state responses to conflict prevention and mitigation. The Council is an executive branch entity responsible for coordinating all of the government ministries, as well as the implementation of specific programmes, such as those carried out by its Conflict Prevention Unit.

With regard to the environment and natural resources, the European Commission in Peru works with NGOs and other quasi governmental entities with an emphasis on climate change, desertification and governance mechanisms for natural resources. In essence, the European Commission strategy in Peru addresses both natural resources and conflict, and indirectly those that may arise around mining activities.

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46 This section is based primarily on European Commission (2007). Documento de estrategia país 2007-2013 Peru. Brussels: EU.
47 Ibid.
CONCLUSIONS AND RECOMMENDATIONS TO THE EU

CONCLUSIONS

Throughout the Andean region, there has been an exponential growth of extractive industry investment and agro-industrial projects implemented by large multinational and national companies. Communities most affected by these operations are often the most marginalised and vulnerable, because much of the natural resource wealth is located in remote rural areas populated by indigenous populations, as well as populations of African descent. These underdeveloped communities, with weak local governance structures and capacities, often in places with no or little formal national state presence, have to deal with the political, economic and social pressures that accompany the arrival of large-scale investment projects. In these contexts, members of local communities are compelled to decide whether they should oppose new economic development and business projects outright, or seek to benefit directly from resources to be generated by them. Such situations undermine the already weak human rights situation of marginalised groups and frequently lead to outbreaks of violent conflict. The social, economic and cultural rights of these groups are further neglected, as both state and company priorities shift to crisis management, rather than addressing the root causes of these conflicts, such as the denial of basic human rights.

Paradoxically, the overwhelming majority of these large footprint projects and industries operate in the poorest areas, and despite the generation of taxes, royalties and social investment by companies, these areas usually remain poor. Frequently, companies' desire to expedite project development and win over communities leads to poorly thought out social investment projects that tend to undermine state functions in health, education and infrastructure, and create a culture of dependency on the company. When resources are depleted, or market conditions no longer justify their exploitation, it is the surrounding communities that suffer. These processes tend to polarise communities among those in favour of projects and those against, further undermining social cohesion required in times of crisis, leaving entire populations vulnerable to illicit economic actors and armed groups. Also, private security companies hired by companies and governmental agencies to protect project sites have been found to be involved in human rights violations in multiple circumstances with limited accountability.48

In situations such as the current Colombian context, perverse conflict dynamics are at play. On the one hand, many lands used for large agro-industrial and mining projects have been taken illegally by armed actors, and later recovered by the government and third parties. All the while its original owners are struggling to reclaim what is theirs, through the slow and under-funded National Commission for Reparation and Reconciliation. At the same time, there continues to be further usurpation and displacement of peasant and indigenous communities, perpetuating a cycle of impunity, compounded by poor territorial demarcation and the fact that many of Colombia’s poor do not have land title documentation. Communities in Ecuador and Peru face similar circumstances, albeit with less direct violence.

It is unclear what the impact of the current downward cycle in commodities prices – after a prolonged boom – will have on conflicts related to the extractive sector in the Andean region, as it is equally unclear how long this new cycle will last. Nonetheless, it presents clear challenges for all governments of the region, independent of whether the current approach is private sector or government-led. It is also not clear whether government-led

48 For examples, see: http://www.redflags.info.
strategies lead to better longer-term stewardship of the environment in areas of natural resources extraction or not.

Mechanisms such as the Voluntary Principles, EITI and the innovative Fondo de Respuesta are interesting initiatives that indicate that it is possible to reduce extractive sector-related conflicts through corporate social responsibility, multi-stakeholder initiatives and concrete hands-on initiatives. However, the former two still appear to have little public dissemination and have only reached the stage of companies understanding how to integrate such mechanisms into company policies and operations, with the actual impact on conflict still to be assessed. The Fondo de Respuesta appears to have concrete impacts at the local level, but by itself is insufficient to address the magnitude of current and potential conflicts related to the exploitation of non-renewable natural resources.

The Voluntary Principles apply in particular to contexts where companies face challenges in respecting human rights and international humanitarian law, while balancing their security concerns. As such, the Principles also apply in country contexts where conflict prevention is of primary concern, since human rights violations are at the heart of violent conflict. In addition, if companies implement the Principles, this can contribute to building a relationship with communities, laying a foundation for the “social license” essential for preventing future conflicts surrounding exploration and exploitation projects. The Principles target the companies as the primary actors, since their aim is to influence company conduct on the ground. Public and private security companies are secondary actors, while local communities, civil society, governments and others are stakeholders. The Principles are not, however, meant to engage them or affect their behaviour directly.

The EITI, as described above in the Peruvian section, is essentially a governance tool. Its applicability is limited, since it can become effective only if accompanied by good governance and a strong civil society able to monitor the transparency of revenues. Although the initiative aims to improve governance through improving transparency, the list of candidate countries to EITI includes some countries that continue to perpetuate bad governance and which have not shown any signs of improving, despite possible improvement in revenue transparency (such as Azerbaijan, Nigeria etc.).

The EITI in the Andean region can become an effective tool if its implementers are true to its aim and simultaneously take steps to improve revenue management, with a particular focus on the “trickle down” effect. This requires an open and honest dialogue between all stakeholders, companies, governments and civil society alike as to what kind of economy the three countries want.

The Fondo de Respuesta is perhaps the most applicable initiative as a short-term, immediate remedy, since it is a small-scale funding mechanism designed to empower local actors to mitigate and prevent conflicts, though it must also be accompanied by measures improving governance and company conduct alike, otherwise it runs the danger of frustrating communities even further.

Regional cooperation from the EU to CAN appears more focused on building the bases for trade relations between the two blocs, rather than addressing the manifestations and root causes of conflict. A laudable exception, but localised initiative exists in Colombia, where the EU’s support for peace and development programming through the regional Peace Labs is geographically relevant to natural resource exploitation, conflict dynamics and addressing the root causes of conflict. In Peru, EU support to the Presidential Council of Ministers and Defensoría del Pueblo appears the most focused on addressing social and environmental conflicts arising from mining activities, while bilateral cooperation with Ecuador only appears to address these matters indirectly.

CAN programming does not have the visibility in the Andean countries that other international donors do. In this sense, it is difficult to characterise their impact and practical relevance. The various neighbourly disputes among Andean countries and the broader global forces – be they multinational extractive companies, US and European-led governments, or emerging actors like China, Russia or Venezuela – really put institutions such as CAN to the test and force them to reassess their own approaches to dealing with many issues, including the role of non-renewable natural resource exploitation in promoting sustainable economic development and peaceful governance.

The Andean Region is increasingly divided between states and internally among political and ethnic lines in approaches to non-renewable natural resource development. Several see the state as the best steward of
these resources, while others seek to allow for more private investment. The commodities boom has allowed governments in power to promote their own approach, with little room for dialogue. Companies have tended to follow, with a couple of exceptions, as long as projects remained profitable. Now that commodities prices are adjusting downward at least temporarily, it is not clear whether this will be more conducive to reducing conflict, or become a driver of conflict as local governments and communities are forced to compete for less resources.

RECOMMENDATIONS

1. The European Commission and European oil and mining companies need to convene and initiate a process of discussing issues of common interest, as well as problems in relation to the Andean region, such as: governance and stability; corporate social responsibility; and conflict reduction and prevention. Joint problems require joint solutions: addressing the issues through a multi-stakeholder approach involving the EU, Andean governments, CAN, companies, civil society etc., is vital to success.

2. Given the growing importance of French, Spanish, UK and other European companies in the Andean extractive sector, more of these companies and their governments should be encouraged to sign onto the Voluntary Principles on Security and Human Rights. Where this is not possible, European companies need to be encouraged to adopt conflict-sensitive business practices designed for the extractive sector.

3. The EU and European companies and investors in Peru need to renew and strengthen commitments to EITI in that country and explore its applicability to other countries in the Andean region.

4. The EU, regional and sub-regional institutions such as CAN need to support more initiatives such as the Fondo de Respuesta, and integrate them with broader economic development and governance programming. These hands-on initiatives have the potential to reduce conflict through constructive engagement for more sustainable development practices. At the same time, it is advisable that they include capacity-building components that seek to address the asymmetries many communities face related to political influence and scientific and technological knowledge.

5. European Commission missions and Member State embassies should use their outreach and convening power with home companies to disseminate and urge uptake of good company practices, as well as compliance with applicable international humanitarian and criminal law, which can hold liability risks for companies.

6. Join other multi-stakeholder mechanisms in their support for existing mechanisms (EITI, Voluntary Principles and others) and render institutional support as necessary.

7. Undertake a study on the benefits and challenges of these compliance mechanisms, whether voluntary or binding, and develop a cross-department support unit for European companies, Member States and civil society alike, addressing issues of the extractive industry and governance.

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49 For more information, see the section of International Alert’s website Conflict-Sensitive Business Practice Guidance to the Extractive Industry, at http://www.international-alert.org/peace_and_economy/index.php?i=1.
50 See: Footnote 5.