

## **IFC Investment in PetroNova Colombia**

August 30, 2012

U.S. Position

The United States carefully reviewed this proposed investment in PetroNova for its implications for the Colombian economy and environment, the sponsor's access to finance, and the current state of hydrocarbon markets in the region. The United States believes the development impact from this investment is not of the highest caliber. Moreover, the United States is not convinced about whether the proper level of due diligence has been performed with respect to the environmental impact assessment.

The United States wishes to acknowledge that the Colombian economy and society have made great strides in recent years. Colombia has benefited greatly from the improved security environment and closer trade ties with larger economies. Important for this proposal, the United States recognizes that opening the Colombian hydrocarbons market to private sector investment was a huge step forward for the economy and required substantial political capital. For these reasons, the United States believes Colombia is moving in all the correct directions.

That being said, the United States believes that the IFC can be more ambitious in the design of its proposals. Colombia has the fifth largest proven oil reserve base in South America. Colombia's oil and mining sectors are already attracting significant private investment, even in some of the riskiest parts of the country, despite an uptick in pipeline attacks by the paramilitaries/guerrillas in recent months. Although it is true that the IFC's investment applies the IFC Performance Standards to this project, the United States has difficulty agreeing that from a development perspective this is the best use of IFC's limited resources.

The United States disagrees with the environmental impact categorization as level "B", or limited impact. This project has large potential impacts on biodiversity, protected reserves and critical habitats, as well as large potential social impacts. Moreover, it is likely that full scale production development will occur as a result of this exploration project; as such, the United States believes a cumulative impact assessment should be undertaken to assess reasonably foreseeable potential expansion as a result of that likely scale up. Given these considerations, the United States believes the environmental impact should have been categorized as "A".

Consistent with the legislative mandate pertaining to disclosure of projects that are likely to result in significant impacts on the environment, and because the United States disagrees with IFC management about the strength of the development impact of this project, the United States wishes to be recorded as abstaining on the proposed investment in PetroNova Inc.