

Social dynamics surrounding oil exploitation in Colombia: a case study of BP's activities in Casanare

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Abstract

This interdisciplinary research aims to expose the responsibility of oil corporations operating in conflict-prone countries on the dynamics of the conflict itself and for human rights violations. In particular, the paper assesses the role of the oil industry in the conflict dynamics in Colombia. Based on two separate trips to and interviews in Colombia, the paper argues that oil activities have significantly contributed to exacerbate violence in the oil producing areas and that most oil corporations have inadequately responded to the social risks of operating in war-torn regions. The paper stresses the need for more field-based analysis on the role of the international private sector in Colombia and the effectiveness of corporate responses to mitigate or minimise destabilising effects of business activity. The research analysis is based on a case study of the department of Casanare which highlights the complexity of these issues in relation to the experiences of BPXC.

Key words: oil, armed conflict, corporate social responsibility, Colombia.

Resumen

Esta investigación interdisciplinaria tiene por objetivo exponer la responsabilidad de las compañías petroleras que operan en países con tendencia al conflicto sobre la dinámica del conflicto en sí mismo y las violaciones de los derechos humanos. La investigación evalúa, en particular, el papel de la industria petrolífera en la dinámica del conflicto en Colombia. Basándose en dos viajes por separado a Colombia y las entrevistas realizadas allí, este trabajo defiende que las actividades petrolíferas han contribuido significativamente a exacerbar la violencia en las zonas productoras de petróleo y que la mayoría de las compañías petroleras han respondido de forma inapropiada a los riesgos sociales resultantes de operar en las regiones destruidas por la guerra. El estudio hace hincapié en la necesidad de un análisis de campo más profundo sobre el papel que juega el sector privado internacional en Colombia y la efectividad de las respuestas corporativas para mitigar o minimizar los efectos desestabilizadores de la actividad comercial. El análisis de la investigación se basa en el estudio del caso del departamento de Casanare que subraya la complejidad de estos temas en relación con las experiencias de BPXC.

Palabras clave: petróleo, conflicto armado, responsabilidad social corporativa, Colombia.

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Introduction

Why is the oil industry worldwide confronting unique contemporary challenges, crises and opportunities? On the one hand, oil accounts for a wide percentage of the world's primary energy consumption and dominates prevailing requisites of modern life in industrialised and developing countries alike. Yet, on the other hand, every stage of the oil industry activity is deplorably fraught with extensive social and environmental consequences at local, national and global levels. Extractive industries frequently engage in large and long-lasting investments in unstable countries and the impact of oil activities on the surrounding communities is often associated with corporate complicity in human rights abuses.

The focus of this paper relates to the impact of the oil industry on the conflict dynamics in Colombia. The long-lasting Colombian war experienced unprecedented intensification since the advent of abundant natural resources in the 1990s. What is the role of economic incentives (rent-seeking) and grievances (justice-seeking) in shaping the onset, duration, and character of the Colombian armed conflict? More specifically, how and to what extent has the oil boom had an impact on the conflict dynamics in Colombia? Finally, how do oil companies operating in conflict-prone areas help mitigate the negative impact of their presence on surrounding communities and ensure that their activities do not contribute to human rights abuses?

In answering these research questions, the structure of this paper follows a threefold reasoning and is based on a case study of the department of Casanare which highlights the complexity of these issues in relation to the experiences of British Petroleum Exploration Colombia Limited (BPXC), a wholly-owned subsidiary of British Petroleum Amoco (BP). The first chapter provides an overview of key policy debates and research findings on the political economy of war. The second chapter offers a detailed analysis of the relationship between the oil industry and the main actors of the intrastate conflict in Colombia and the last chapter aims to assess how transnational oil corporations - BPXC in particular - have responded to the security challenges of operating in a conflict-ridden country. The concluding section offers final thoughts and recommendations for future research and policy action.

Written across the disciplines of international political economy, war economy, international public law, international relations, political science, social policy and practice, this research represents wide-ranging understandings of «oil» and «conflict». This approach conducts theoretical and empirical analyses on the different forms, dimensions, and causes of conflict. It is based on two separate trips to the field. The first, to *El Bagre* in May 2007, while I was working for a London-based firm representing farmers whose lives had been devastated by the construction of the OCENSA oil pipeline headed by BPXC. The second, to *Bogotá* in May 2008. It was not possible for me to travel to Casanare and rural areas but I had the fruitful opportunity to meet with key actors of this sensitive research area.

1. Oil as a Tool of Conflict Exacerbation

This chapter is intended to demonstrate the theoretical and practical relationship existing between natural resources and internal armed conflict, focusing on the functions played by oil resources on the conflict dynamics in Colombia.

1.1. *Theoretical Linkages between Economic Factors and Warfare: the Political Economy of War*

Since the late 1990s, the economic dimension of contemporary intrastate conflicts has acquired growing attention within scholar and policy circles. Economic factors have been explored under the auspices of the political economy school of conflict, becoming the nucleus of the controversial «greed and grievance dichotomy».

A. The Greed and Grievance Dichotomy

The economists Paul Collier and Anke Hoeffler investigated the causes of civil war and assessed a range of variables to determine which were most salient to the risk of violent conflict. Relying on econometric analysis, they compared greed and grievance as two contrasting motivations for rebellion and found «little evidence for grievances as a determinant of conflict»¹. Neither ethnic and religious divisions, nor inequality, nor

¹ See Collier, P. & Hoeffler, A., *Greed and Grievance in Civil War*, CSAE Working Paper, WPS 2002-01, Washington D.C.: The World Bank, 2002.

political repression increase the risk of conflict. Rather, the critical factor to transform a political dispute into an armed conflict is the ability of insurgent groups to sustain themselves financially. And their viability depends mostly on the ability of rebel groups to gain control over natural resources. Accordingly, conflicts are predominantly caused by opportunities for primary predation, or greed.

In the two scholars' opinion, economic agendas are central to understanding why civil wars start and get going. They argue that natural resource dependence measured in terms of primary commodity exports as part of gross domestic product (GDP) is correlated with higher risks of conflict. Resource-rich countries are more prone to armed conflict than others. A likely explanation, they sustain, is that natural resources provide the motivation or opportunity for rebels to finance their military campaigns through resource predation.

The greed theory has created an energetic debate and several political economists have given their input to develop it in further detail.

Collier and Hoeffler's work was exclusively centred on the predatory behaviour of rebels and impedes examination of the effects of corruption and greed from state and non-state actors. To correct for this bias, researchers have borrowed from the greed theory, but they expanded its focus to include the violence of elites and governments. They emphasised that the efforts by the international community to implement peace agreements would be more successful if greater attention was paid to the variety of functions that violence may perform in war-torn societies². They explored how economic considerations «often shape the calculations and behaviour of the parties to a conflict, giving rise to a particular *war economy* and a distinctive dynamic of conflict» in which the traditional objective of war (to defeat the

enemy militarily) is replaced by «economically driven interests in continued fighting»³. Civil wars previously defined as political rebellions need to be understood in terms of interests of rebels who benefit from economic activity as well as sabotage peace-making efforts⁴. Far from being irrational, violence often serves short-term political and economic functions and create opportunities for profit that are not available during peace⁵.

Furthermore, civil wars are not static over time. A growing proportion of civil wars appear to have started with political motivations and have subsequently mutated (often very rapidly) into conflicts where immediate economic agendas are paramount and may significantly lengthen hostilities⁶. When several groups benefit economically from conflict, they may have a vested economic interest in initiating and sustaining it and may not be particularly concerned with restoring peace.

These developments demonstrate that the difficulty of bringing violence to an end is directly proportionate to the degree of integration of war economies within war-torn societies.

B. Critics

While the greed theory explains how conflicts are financed and why well-financed conflicts create serious impediments to their resolution, it is less satisfactory as an explanation of the complex causation of contemporary armed conflicts.

Statistical methods are usually useful to identify key variables amidst a set of cases. However, at best they bring about broad correlations that embrace only part of the existing picture. To shed the light on whether and how economic factors influence the course of conflicts requires more empirical examination and comparative investigation on the relative applicability of these and other sources of armed conflict in specific cases⁷.

² Berdal, M. & Keen, D., «Violence and Economic Agendas in Civil Wars: Some Policy Implications», pp. 795-818 in *Millennium: Journal of International Studies*, Vol. 26, No. 3, 1997, p. 803.

³ Berdal, M. & Malone, D. M. (2000): *Greed and Grievance – Economic Agendas in Civil Wars*, Boulder, Colorado: Lynne Rienner Publishers, p. 2. For more information on the relationship between the oil industry and armed conflict, see Swanson, P., *Fueling Conflict: The Oil Industry and Armed Conflict, Economies of Conflict: Private Sector Activity in Armed Conflict*, Oslo: Programme for International Co-operation and Conflict Resolution, Fafo-report 378, 2002.

⁴ Aranson, C. J. (2005): *Rethinking the Economics of War: The Intersection of Need, Creed, and Greed*, Washington, DC: Woodrow Wilson Center Press, p. 8.

⁵ Collier, P., «Doing Well out of War: An Economic Perspective», pp. 91-111 in Berdal, M. & Malone, D. M., (eds.), *op. cit.*, p. 101.

⁶ Berdal, M. & Malone, D. M., *op. cit.*, pp. 24-25.

⁷ Ballentine, K. & Sherman, J. (eds.) (2003): *The Political Economy of Armed Conflict: Beyond Greed and Grievance*, Boulder, Colorado: Lynne Rienner Publishers, p. 5.

The task of identifying the sources of conflict often copes with the difficulty of separating «economic» factors from «political» factors⁸. Usually, both are sources of conflict, but their interrelationship and relative importance change not only between conflicts but also over their duration. Thus, armed conflict may not be about greed *or* grievance but about greed *and* grievance. Economic motivations and opportunities may be highly correlated with the onset or perpetuation of war but this does not mean that conflicts are exclusively about greed.

Karen Ballentine, also raised important questions about the restrictive approach of the greed theory. She suggests that the high risk of conflict assigned to natural resource-dependent countries is not a direct relationship, but rather one that is mediated by poor governance and the state's failure to manage natural resource exploitation effectively and equitably⁹. Therefore, the greed theory needs to be complemented by an analysis on the changing character of the role of the state in the context of oil dependence which generates extensive grievances that feed into explanations based on both greed and grievance.

Another shortcoming affecting the greed theory is determined by its failure to distinguish between rebels: rebel leaders, their core cadres, and other followers and supporters. «Treating rebel groups as unitary actors fails to capture the ways that economic opportunities and incentives may interact with a range of other motivations to shape the behaviour of differently situated rebel actors and their commitment to the insurgency»¹⁰. It is therefore important to identify those rebels, or rent-seekers who are first and foremost attracted by the prospect of material gain from those who are fighting for other reasons, such as «ideological zeal, ethnic loyalty, or aspiration to power», as well as those who take part in war economies out of necessity, but coerced by the use or threat of force.

C. Intrinsic Ties between Oil and War

The comprehensive analysis of Michael Ross¹¹, Chairman of the International Development Studies program at the University of California in Los Angeles, on the varying roles of natural resources in civil war deserves particular attention when investigating the functions played by oil into the conflict dynamics in Colombia. Relying on empirical evidence from fifteen recent conflicts, Ross examines how the lootability, the obstructability, and the legality of natural resources (oil, drugs and diamonds) are likely to influence key conflict dynamics. In identifying oil resources as unlootable, obstructable and legal resources he draws a set of conclusions imparted hereinafter.

The extraction of unlootable resources (which means that they are not easily extracted and transported by individuals or small teams of unskilled workers¹²) relies heavily on skilled labour and capital. Therefore, oil exploitation is likely to produce revenues for skilled workers, for those who provide capital, and for central governments. The inequitable distribution of these revenues by corrupt or oppressive governments, as well as the destabilising environmental and societal impacts of extractive operations may generate popular grievances in resource-rich areas and multiply the points of conflict.

Furthermore, unlootable resources are likely to benefit primarily to the government, given that the government is more able to credibly provide the security guarantees required to attract and maintain the requisite skilled labour and capital. It is worth mentioning here that in Colombia oil produces revenues for both sides (government and illegal armed groups) because long oil pipelines make the resource obstructable, and therefore susceptible to hold-ups.

Moreover, unlootable resources provide military funds to the side that controls it through a centralised process. These resources are often managed by large firms or state-owned companies, which generate revenues for the government; these in

⁸ Malone, D. M. & Sherman, J., «Economic Factors in Civil Wars: Policy Considerations» in Aranson, C.J. & Zartman, I. W. (eds.) (2005): *Non-State Actors and Human Rights*, UK: Oxford University Press, p. 252.

⁹ Ballentine, K. & Nitzschke, H., *The Political Economy of Civil War and Conflict Transformation*, Berlin: Berghof Research Center for Constructive Conflict management, 2005, p. 21.

¹⁰ *Ibid.*, p. 8.

¹¹ Ross, M., «Oil, Drugs, and Diamonds: The Varying Roles of Natural Resources in Civil War», pp. 47-70 in Ballentine, K. & Sherman, J., (eds.), *op. cit.*, pp. 47-70.

¹² *Ibid.*, p. 47.

turn are allocated to and reinforce military forces through some type of budgetary mechanism. This often results in lengthening conflict.

Finally, Ross highlights that the obstructability of a resource is correlated with increased conflict duration and intensity. First, this is due to the fact that obstructable resources are vulnerable to sabotage and hold-ups. They are likely to provide finances to insurgents and disrupt the government's revenues, while at the same time prolonging conflict. Second, the government may anticipate that aggrieved local communities will certainly be tended to loot its resources and decide to protect extractive infrastructures by using terror and repression. This attitude usually results in a large number of resource-related casualties and further intensifies hostilities.

1.2. Political Economy of War in Colombia

Before assessing the role of oil in the political economy of war and its impact on the conflict dynamics in Colombia, it is useful to provide a brief historical background of the country.

A. Origins and Evolution of War in Colombia

The origins of today's Colombian conflict date back to a period of upheaval, known as «*La Violencia*» (1948-1958), that witnessed a patrician civil war between the Liberal and the Conservative parties. «*La Violencia*» is usually referred to as a period of bloodshed where more than 200,000 people were killed and where each act of violence sowed the seeds for a reprisal.

A constitutionally sanctioned power sharing arrangement between the two political parties, known as the National Front (1958-1974), helped calm the violence intensity but it became the exclusive property of the traditional oligarchy and eliminated political competition, a central feature of democracy. All political movements that remained outside the scope of the two parties were often repressed by force. In the 1960s, political exclu-

sion led several populist nationalist groups to take up arms with the aim of overthrowing what they called an illegitimate political system. About a dozen different guerrilla groups emerged in Colombia, each adhering to a specific ideology and developing its own political and military strategy.

Many of the smaller armed groups gave up their struggles after negotiating peace agreements with the Government in the 1980s, but the two main guerrilla groups, the *Fuerzas Armadas Revolucionarias de Colombia* (FARC) and the *Ejército de Liberación Nacional* (ELN), are still active today. Although the ELN is more ideological than the FARC, they have similar programs. They both say they represent the rural poor against Colombia's wealthy classes and oppose the influence of the United States in Colombia, the privatisation of natural resources, multinational corporations, and rightist violence¹³. Over time, their political agenda appeared to be increasingly superseded by the groups' growing involvement in the narco-trafficking industry. Nowadays, they comprise respectively around 18,000 and 3,500 fighters and control all together over 30% of the territory.

During the 1970s, the Colombian government authorised self-defence groups coming into existence as private militias for rich landowners, ranchers and drug lords, to protect themselves against the guerrillas who were demanding «protection taxes» and rustling cattle. During the following decade, lucrative drug trafficking and business kidnapping made these paramilitary forces increasingly independent. In 1995, the various regional private militias were united under the umbrella of the *Autodefensas Unidas de Colombia* (AUC) which became the most powerful paramilitary group of Colombia.

The illegal armed groups target the civilian population relying on horrific massacres, extra-judicial executions, kidnapping, extortion, forced displacement, torture and other terrorist tactics intended to suppress any potential source of «subversion» or enemy support. These barbarous practices have provoked a humanitarian catastrophe¹⁴.

¹³ See Hanson, S. (2008): *FARC, ELN: Colombia's Left-Wing Guerrillas*, Washington: Council on Foreign Relations.

¹⁴ Coordinación Colombia-Europa-Estados Unidos (2006), *Ejecuciones Extrajudiciales: El Caso del oriente antioqueño*, Bogotá: Observa-

torio de derechos humanos y derecho humanitario de la Coordinación Colombia-Europa-Estados Unidos.

On the economic side, following the wave of trade and investment law liberalisation, foreign direct investment (FDI) has been increasing since 1992. Much of this increase took place in the energy sector. Oil production rose from 430 thousand barrels a day in 1991, to a peak of 838 thousand in 1999, and declined to 561 thousand in April 2008. In 2000 oil accounted for 35% of the country's export earnings. The petroleum industry has become a massive source of revenues for the Colombian government who receives around 85% of oil revenues through investments, royalty payments and taxation. Consequently, oil has been predominantly regarded as a key factor for the country's macro-economic stability.

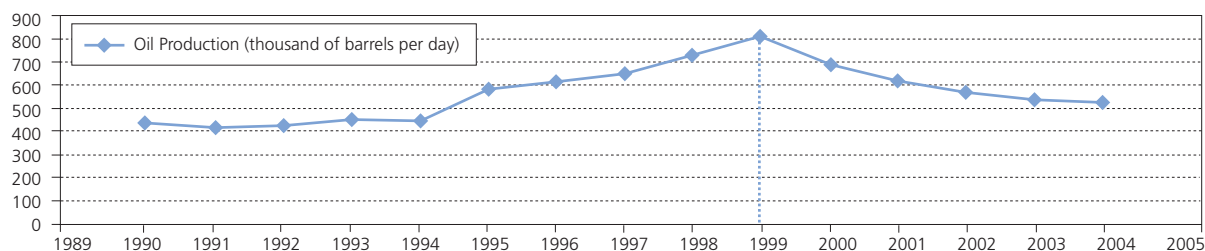
Unfortunately, the boom experienced by the oil industry in Colombia did not echo back in other sectors of the economy. The 1999 economic recession coincided with worsening levels

of violence. In 2001, the conflict reached the intensity level of «war» with over 1000 battle related deaths. Since then, and excepting the year 2003, the conflict has intensified in most oil-rich regions —though official statistics indicate an overall diminution of violence at the national level— and private militias have increasingly been involved in political violence. The effects of such economic decline spread out in the long term and left the country in dramatic human development conditions.

B. The Colombian Conflict: a Mixture of Greed and Grievance Explanations

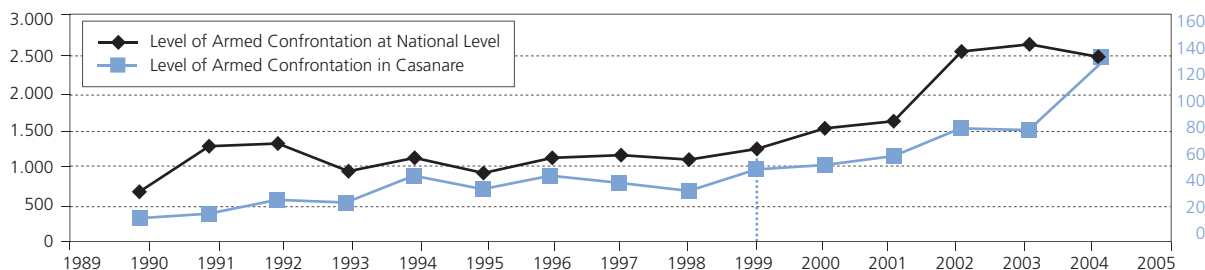
As illustrated in the next two figures the Colombian case shows a direct correlation between the escalation of conflict in the 80s-90s and the discovery of abundant natural sources such as coca plantings and oil.

Figure 1
Colombia Crude Oil Production



Adapted from Burgess, L., *Investing in Colombia's Oil Sector: The North Andean Country that's Inviting Foreign Investment*, Capital Gains Report, 2007.

Figure 2
Graphic Comparison of the Intensity of Armed Confrontation at the Departmental and National Level



Adapted from Vicepresidencia de la República, 2006, *Panorama Actual de Casanare*, Bogotá: Observatorio del Programa Presidencial de Derechos Humanos y DIH, No. 26, p. 14.

It is not an easy task to determine how much weight should be assigned to the economic variables compared to pre-existing socio-cultural and political factors. What is sure however is that the Colombia case offers a good opportunity to distinguish between the role played by causal factors and facilitating factors on the character of conflict. The origins of the country's civil war are found in the Cold War era in a struggle for state power that was deeply dominated by competing ideological discourses on the way to constitute political power and to distribute economic wealth¹⁵. The changes in global and regional economies and the transformation of both guerrilla and paramilitary groups into «formidable money-making machines» have both reinforced historically rooted economic, social and political grievances of marginalised classes and escalated the level of political violence¹⁶. This being so, the Colombian conflict continues for the most part to be politically and ideologically driven at its core¹⁷.

Economic factors such as drugs and oil have been particularly important variables sustaining and expanding conflict. Illegal forces benefited from the progressive growth of the highly profitable drug industry, which enabled them to strengthen military capacities through buying weapons and paying warriors as well as training services. Coca leaf and poppy notoriously make up to 45 % of the left-wing insurgent FARC's income and 70 % of the far-right AUC's income¹⁸. The lucrative revenues from extractive activities, such as oil exploitation, created further incentives for guerrilla groups' self-enrichment and determined their choices for territorial expansion.

In conclusion, oil production does not appear to be the source of fighting but it has undoubtedly shaped the subsequent course and character of conflict. In terms of conflict resolution policy-making, today's biggest challenge is to find a right balance of policy responses in these complex economic, political, and security dynamics. Foreign investors must take a lead to promote responsible practices that help minimise or mitigate

conflict risks. The interconnection between the oil industry and the major actors involved in the Colombian internal conflict is explored in the next chapter.

2. Oil Fuelling Conflict in Colombia

The understanding of the complex relationship between oil investment and massive human rights violations in Colombia requires a deep analysis of the intimate legal, institutional, and political relations between the state and the oil industry within which these violations are taking place. In 1991, BPXC found one of the largest discoveries of crude oil reserves in Latin America in two decades in Casanare, a disarticulated frontier territory with Venezuela that has always been characterised by weak state presence, the persistence of economic and social underdevelopment, and a history of recurrent violence and conflict. The oil activities undertaken in the Department resulted in BPXC becoming a dominant political and economic force in the region, which was forced to deal with the complex network of state and non-state actors present in the region (figure 3).

2.1. Oil and Government

The Colombian Government receives approximately 85% of the oil wealth (figure 4). In general, excessive dependence on these large and relatively easy revenues tends to affect government legitimacy in several ways. In light of the resource curse theory, it gives the Government a false sense of economic security that undermines efforts to mobilise resources in other sectors of the economy and increase the vulnerability of the country to conflict. Several authors confirmed that, on average, countries with abundant natural resources experience a lower rate of economic growth compared to countries with fewer resources¹⁹.

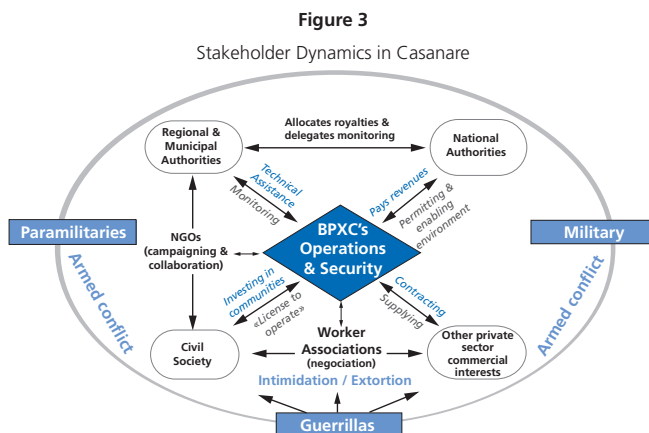
¹⁵ Ballentine, K., «Beyond Greed and Grievance: Reconsidering the Economic Dynamics of Armed Conflict», pp. 259-283 in Ballentine, K. & Sherman, J., *op. cit.*, p. 261.

¹⁶ Ballentine, K. & Sherman, J., *op. cit.*, p. 11.

¹⁷ Guáqueta, A., «The Colombian Conflict: Political and Economic Dimensions», pp. 73-106 in Ballentine, K. & Sherman, J., *op. cit.*, p. 74.

¹⁸ Guáqueta, A., *op. cit.*, p. 90.

¹⁹ See, for example, Karl, T. L. (1977): *The Paradox of Plenty: Oil booms and Petro-States*, Berkeley: University of California Press; Tornell, A. & Lane, P., «The Voracity Effect», pp. 22-46 in *American Economic Review*, Vol. 89, No. 1, 1999 and Sachs, J. & Warner, A., *Natural Resource Abundance and Economic Growth*, Harvard Institute for International Development, Discussion Paper No. 517, 1999.



Adapted from Davy, A. et al., *BPXC's Operations in Casanare, Colombia: Factoring social concerns into development decision-making*, Washington, D.C.: World Bank, Social Development Papers, No. 31, 1999, p. 14.

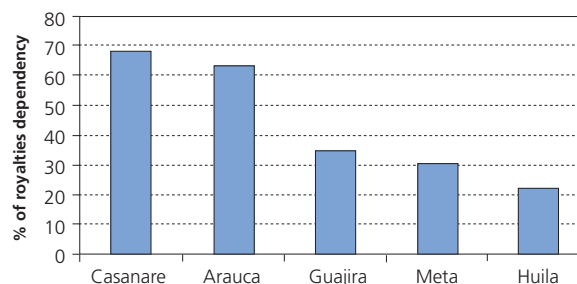
In Colombia, this occurs because dependence on petroleum leads to disproportionate fiscal reliance on petrodollars at the expense of statecraft.

In parallel, a large increase in natural resources revenue raises the exchange rate, making other sectors of the economy (such as manufacturing and agriculture) less competitive²⁰. The relative ease of receiving large oil revenues makes it more difficult to collect small revenues in other sectors and compromise the sustainability of permanent expenses that will not be able to maintain once oil royalties decline. Oil booms may therefore create both the illusion of prosperity and the destabilisation of regimes.

Furthermore, the ways by which the government usually receives oil wealth can be used altogether to obscure the direction and volume of oil revenue flows and create incentives for corruption and fraud, including the privatisation of public office by state functionaries, the looting of oil revenues, the kickbacks for various contracting work, the illegal commissions, and the illicit oil-for-arms deals²¹. In Colombia, hiding behind the «national security interest» clause enshrined in the company's exploitation

²⁰ Transparency International, *Promoting Revenue Transparency: Report on Revenue Transparency of Oil and Gas Companies*, Berlin: Transparency International, 2008, p. 12.

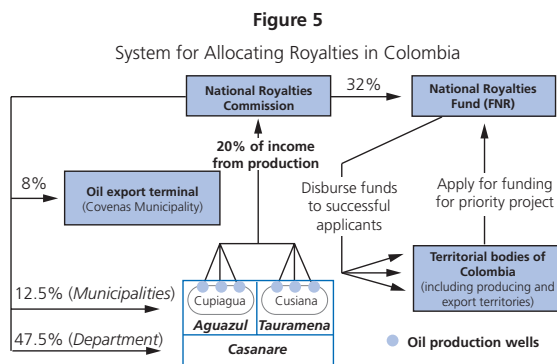
Figure 4
Departmental and Municipal Budgetary Dependence on Oil Royalties from 1994 to 2005 (oil royalties/total income)



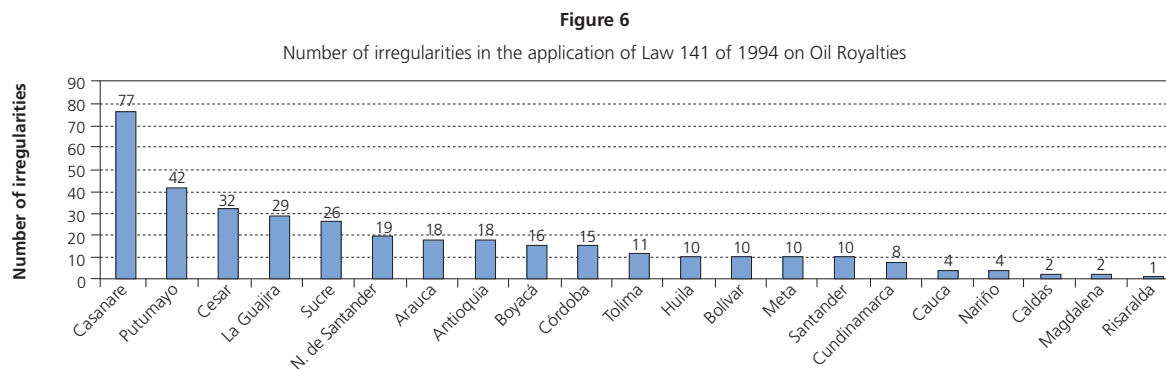
Sources : *Ecopetrol & International Finance Corporation (IFC), Regalías en Colombia: Balance y recomendaciones al marco legal*, No. 1., 2008.

licence agreements, BPXC managers keep refusing to publicly disclose the nature of all payments made to the Government. Since security contracts are totally kept secret, it is not surprising

²¹ Watts, M. J., «Righteous Oil?: Human rights, the oil complex and corporate social responsibility», pp. 373-407 in *Annual Review of Environment and Resources*, Vol. 30, 2005, pp. 383-389.



Adapted from Davy, A. et al., op.cit., p. 23.



Sources: Ecopetrol & IFC, *Propuestas para mejorar la gestión de las regalías en Colombia*, No. 2., 2008.

that much extractive oil revenues disappear into off-budgetary accounts and that the official governmental budget remains a mere shadow of the true fiscal situation²².

Royalties are conceived as an economic consideration allocated to the host state for the exploitation of non renewable natural resources on its territory and whose production extinguishes over time. In Colombia, royalties account for 20% of oil produc-

tion at well sites, of which approximately 68% are redirected to the oil producing departments and municipalities, while around 32% flow to the National Hydrocarbons Agency.

The contribution of BPXC's royalties to the departmental and municipal budgets in Casanare has been significant, with over 2.7 billion dollars between 1993 and 2007. According to the 2002 Fedesarrollo's study of the impact of oil on public fi-

²² Moore, M., «Revenues, State Formation, and the Quality of Governance in Developing Countries», pp. 297-319 in *International Political Science Review*, Vol. 25, No. 3, 2004, p. 307.

nances in the region, the municipalities of Casanare could have easily achieved 100% coverage of health, education and basic sanitation by investing only the resources of the years 1998 and 1999²³. There are two main reasons explaining why this objective is far from being achieved, even today: corruption and a general misuse of oil revenues by weak local institutions as provided by the Law 141 of 1994 on Oil Royalties.

In addition, when perceived as a strategic commodity, oil may generate concerns about security of supply. This has often motivated strong military intervention in the governance of oil-producing areas²⁴. In the Colombian context, BPXC's personal and facilities have openly become a prime target for guerrillas' attack and the State has become increasingly concerned about any cut in the flow of oil. Since the early 1990s, it has significantly strengthened its military and police presence in Casanare, which resulted in new tensions between the local communities and the oil company.

Finally, most international oil companies that operate in war-torn countries have studiously adopted a «neutral» stance on the nature of host-country regimes, claiming that private sector actors should abstain from all intervention into politics and should not influence behaviour of sovereign nations. In Colombia, the adoption of a strict neutrality rule does not stand since the oil company provides most of the department's income. This is why oil investment is usually associated with support to the host country regime.

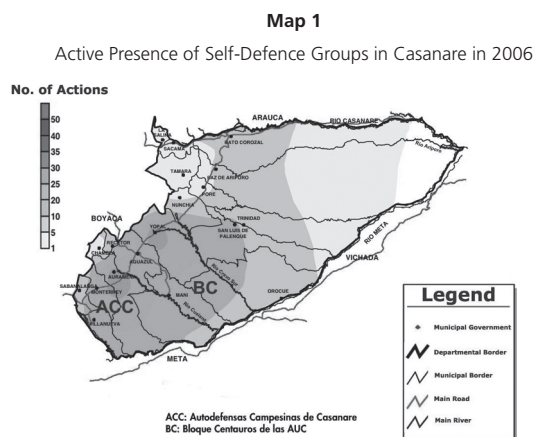
2.2. Oil and Lawless Groups

Oil-related activities may further have a massive impact on the lawless groups present in oil-producing areas. Private sector actors must be very careful in their interactions with such groups and must be aware that the royalties they generate represent a significant source of income for those involved in kidnapping or extortion.

A. Paramilitary Forces

The paramilitaries in Casanare are descendent of cattle ranching families who embarked upon the creation of their own armed guards to protect themselves against cattle theft and land invasion from the guerrilla. Paramilitary forces were facilitated by the 1968 and 1994 legislations²⁵, which authorised civilian armed groups supposed to support the army in preventive, defensive, and intelligence work. Today, the two main paramilitary groups present in the department are the *Bloque Centauros de las Autodefensas Unidas de Colombia* (AUC) and the *Autodefensas Campesinas del Sur de Casanare*²⁶.

The current territory repartition of Casanare's municipalities to paramilitary armies results from a long-standing fight between both groups which is predominantly based on the access to coca plantings and drug corridors, as well as the control over the sources of income stemming from extortion and, in particular, over the local and regional budgets which are predominantly funded by oil royalties (Map 1).



Adapted from *Vicepresidencia de la República, op. cit., p. 7.*

²³ Gaviria, A. et. al. (2002), *Petróleo y Región: El Caso de Casanare*, Cuadernos Fedesarrollo 8, Bogotá: Fedesarrollo, p. 53.

²⁴ Moore, M., *op. cit.*, p. 10; Human Rights Watch, *Colombia: The Ties That Bind. Colombia and Military-Paramilitary Links*, Human Rights Watch Report, Vol. 12, No. 1, 2000.

²⁵ Ley 48/1968; Decreto-Ley 356/1994.

²⁶ González, J. J., «Los Paramilitares y el Colapso Estatal en Meta y Casanare», pp. 311-338 in Romero, M. & López, C. (2008): *Parapolítica: La ruta de la expansión paramilitar y los acuerdos políticos*, Bogotá: Intermedio.

The oil industry in Colombia has a tremendous impact on paramilitary forces in several ways. First, through the «taxes» locally called the «*vacuna*» they impose on companies in exchange for protection and security of their personal and facilities, and through the extortion of money from local businesses, contract workers, municipal and departmental authorities. According to a journal study, about 30% of working contracts are appropriated by paramilitary groups²⁷.

Second, through the opportunity created to buy oil at a relatively cheap price and steal it. The oil collected is then either used to satisfy the paramilitaries' own needs, or sold in the black market. In addition to that, some quantities of oil are used as an essential element of the coca-cocaine production chain.

Third, since their origins, right-wing paramilitary groups are struggling against any suspected guerrilla sympathisers in the whole country. Without distinguishing legitimate social activists from support to guerrilla, paramilitaries have targeted civilian population and oil union members through massacres and selective murders so as to eliminate any potential obstacle to their control over Casanare's municipalities.

B. Guerrilla Groups

The origins of the current leftist guerrilla groups present in Casanare can be traced back to the «*Violencia*» period where the two main guerrilla forces, the FARC and the ELN, have taken advantage from the fact that the region was almost totally neglected by state security forces. Altogether, it is estimated that the FARC and the ELN control approximately six over the nineteen municipalities in Casanare.

Oil fulfils different functions for these groups. For the ELN, oil is a politically strategic commodity which enables it to legitimise its nationalist campaign. The ELN has built precise objectives related to oil exploitation in Colombia. Its members promote indigenous management of oil reserves and are conceptually opposed to the presence of transnational oil companies in general.

The exportation of large volumes of crude oil are perceived as illegitimate thefts encouraged by the neoliberal ideology which fails to satisfy the needs of the Colombian nation. The oil industry and the advent of two very lucrative sources of income—the kidnapping of oil workers and businessmen, and the extortion of private and foreign oil companies—helped the ELN recuperate and escape from destruction after the Anorí operation carried out by the State forces in 1973 and 1974. In 1997, it was calculated that the ELN received more than 59 billion pesos (52 million dollars) in extortion payments from the petroleum sector²⁸.

For the FARC, oil is considered as a military target and a source of funding. Although the territorial configuration of this group in Casanare has less to do with interest in the oil business than with the illegal drug trafficking which provides the biggest part of the FARC's income (45.8%), oil has been a potentially very lucrative source of funds in several ways²⁹. Indeed, the income generated by extortion from traders, farmers and peasants represents its second largest source of revenue (41.3%) and ransoms required for the liberation of kidnapped persons gets the third place with 6.75% of its total budget. According to a report submitted by the Colombian Farmer Federation³⁰, in 2003 the FARC kidnapped over 232 farmers and received in ransom an estimate amount of 20 million dollars. Finally, given its high level of profitability and the opportunity to use oil in the drug production process, oil theft has become one of the FARC's main strategic assets. The Mining and Energy Ministry of Colombia estimated that losses due to oil theft amounted in 2003 and 2004 to 67 million dollars each year. According to intelligence sources, this sum may represent 10% to 20% only of the real total amount, since the main part of this income is fraudulently appropriated by the paramilitaries.

C. Criminal Network

Additionally, the oil industry has had important consequences on criminals who are neither members of the paramilitaries nor supporters of the guerrillas, but who exploit the opportunities

²⁷ Vicepresidencia de la República, *Panorama Actual de Casanare*, Bogotá: Observatorio del Programa Presidencial de Derechos Humanos y DIH, No. 26, 2006, p. 10.

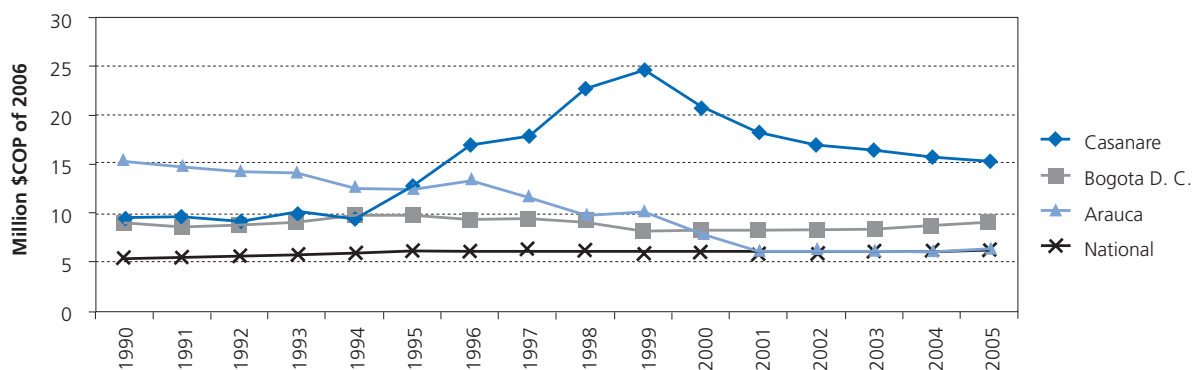
²⁸ Caballero, M. C., «La Guerrilla Millonaria», pp. 28-31 in *Cambio* 16, No. 264, 1998, p. 30.

²⁹ For more details on this topic, see Junta de Inteligencia Conjunta de la República de Colombia, *Estimación de los ingresos y egresos de las FARC durante 2003 basados en información de inteligencia recolectada por las agencias del estado*, 2005.

³⁰ *Ibid.*, p. 10.

Figure 7

Evolution of Casanare, Arauca, Bogotá and Colombia GDP per capita



Sources: Departamento Administrativo Nacional de Estadísticas (DANE) website.

left in the interstices of the political violence in the country. The stealing of oil, which is then sold at bargain basement prices, is a growing enterprise and provides a very lucrative source of revenue³¹. It is not, for sure, easy to prove when theft is criminally motivated or when it is related to political violence. In any case, it costs millions of dollars each year, contributes to fuelling violence and insecurity and participates to the overall climate of social breakdown.

2.3. Oil and Local Communities

The advent of oil wells in Casanare has also had a great impact on local communities with important consequences in terms of grievance exacerbation in the Department.

First, the *economy* of the region has been affected by the direct royalties resulting from the oil exploitation and the indirect effects the oil industry has had on other sectors, such as financial and business services, construction, trade and public utilities. Between 1995 and 2005, Casanare saw its income multiplied by

10 (Figure 7), compared to the 5.7 average of other departments. However, economic growth has not been reflected in a higher standard of living. In 2005, the unsatisfied basic needs index was still substantially higher than the national average (35.6% compared to 27.6%)³². Between 1993 and 2003, the quality of life index even decreased in Casanare of 13%³³.

The economic profile of Casanare has been transformed with the starting of oil production. Agriculture dropped from a 51% of local GDP in 1985 to 16% in 1997 while oil activities increased from 12.5% to 48%. These changes in the structure of production have had in turn their own impact on employment rates and conditions. It is estimated that between 1994 and 1996, about 12,000 jobs were created in Casanare, and 80 workers were arriving in average every day in the region. Most unskilled workers were hired on a 28-days contract for which it was only possible to reapply every three months. This rationing system was established as a result of the much higher salaries in the oil industry than elsewhere (Figure 8) and generated an intense and sometimes harmful competition between potential workers.

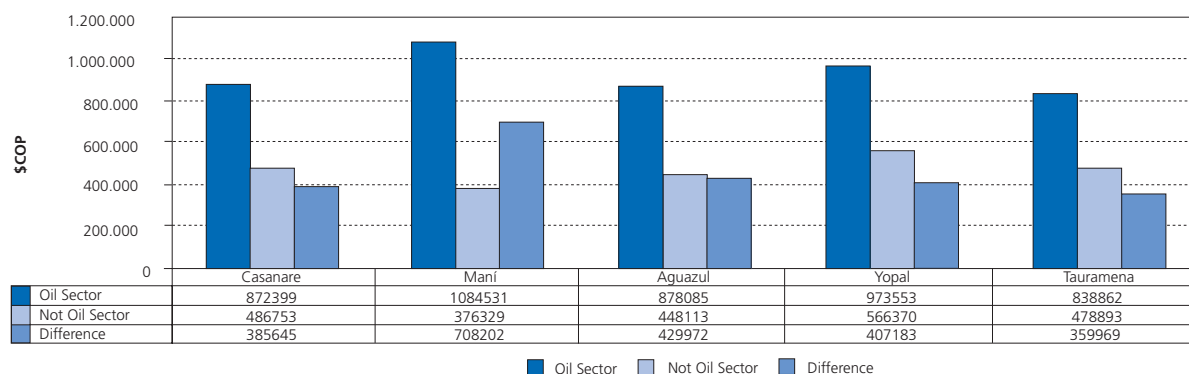
³¹ Pearce, J., *Beyond the perimeter fence: oil and armed conflict in Casanare, Colombia*, LSE Centre For Global Governance, Working Paper 32, 2004, p. 15.

³² Departamento Administrativo Nacional de Estadísticas (DANE), *Censo General 2005: Necesidades Básicas Insatisfechas*, Boletín, 2005, p. 4.

³³ ECOPEL & International Finance Corporation (IFC), *Propuestas para mejorar la gestión de las regalías en Colombia*, No. 2., 2008.

Figure 8

Salary differences between the oil sector and other sectors in 2006



Adapted from Fedesarrollo (2007): *Casanare: Estudiando el Presente para Mejorar el Futuro*, Bogotá: Fedesarrollo, p. 58.

From a *demographic* perspective, the oil industry generated immigration flow linked to the prospect of landing a high-paying job during the construction and development phases. This has been confirmed by the presence of an increasingly young adult male population in the Department. Between 1973 and 1993, Casanare's population jumped from 89,000 to 175,500; it is estimated that it reached 300,000 in 2005³⁴. The population spread shifted from a former 68% rural to today's 62% urban majority. The rapid influx of people into cities created many problems, as local authorities were not prepared to deal with newcomers in terms of basic infrastructure, public utilities and housing.

The oil boom further originated direct *socio-cultural* changes. The migrant workers arriving in the Department tended to come from higher economic strata with a higher level of education than the native population and could more easily access the skilled job market provided by the oil company³⁵. This increased both quests for and access to local skills training, and intensified tensions amongst communities.

More changes related to the oil boom occurred within the way of living in Casanare: discotheques were set up and the diet of the people swift towards tinned food; intra-family violence,

prostitution, drunkenness and drug consumption increased; and the first AIDS cases were detected. All this has contributed to sustaining, if not escalating, the general climate of insecurity in the region.

Finally, the oil boom has had grave repercussions on the organisation of the *civil society*. During the 1980s, social organisation in Casanare was scarce and weak, but not inexistent. In the oil industry, it has however never been possible to set up effective worker unions, *inter alia*, because any initiative taken towards that direction was repeatedly discouraged, often by force.

In conclusion, by providing legitimately or illegitimately, willingly or unwillingly the Government and illegal armed groups with large-scale revenues, and by denying the local communities their human rights and their dignity, there is no doubt that oil activities have had a significant impact on the conflict dynamics in Colombia. BPXC responsibility for or complicity in human rights violations, the ways by which this responsibility can be recognised and the practices implemented in an effort to ensure the company's compliance with human rights standards are the focus of the next chapter.

³⁴ DANE website.

³⁵ Gaviria, A. et al., *op. cit.*, p. 20.

3. Ethical Investment in Colombia

The preamble of the 1948 *Universal Declaration of Human Rights* stipulates that «every individual and every organ of society, (...) shall strive by teaching and education to promote respect for these rights and freedoms (...)». Although this statement is not yet enforceable, there is today an emerging consensus on the need to recognise the core of human rights obligations as binding norms on all parts of the society, including non-state actors, and hence transnational corporations³⁶.

This last chapter reviews the *raison d'être* of the recent tendency of corporate social responsibility (CSR), its developments and outcomes. In particular, it analyses the corporate social regimes adopted by BPXC in Casanare in an effort to discharge its obligation of due diligence.

3.1. Theoretical Approach to CSR

A. Origins, developments and instruments of CSR

There are traditionally two radically opposed views concerning the social responsibility of corporations. On the one hand, Milton Friedman's Shareholder Theory sustains that the «only social responsibility of business (is) to increase its profits»³⁷. Therefore, transnational corporations must always seek to maximise shareholder value and since social responsibility initiatives subvert the shareholder primacy principle, executives, as agents of the shareholders, have no right to get involved in social causes with the company's funds.

On the other hand, the recent wave of business ethics holds that not only economics but also social and environmental con-

cerns should be part of the hardcore of operational decision-making process. This idea has been most extensively developed by Thomas Donaldson's Integrative Social Contracts Theory (ISCT)³⁸, which asserts that transnational corporations operating in war-torn areas can only ethically justify their activities when positively impacting on the local communities.

The ISCT has become part of the repertory of specialised decision-oriented theories in the business ethics literature since the late 1990s, but its impact has regrettably been constrained within academic circles and has not echoed back within most business community yet. Nonetheless, interest in CSR has been steadily increasing during the 1980s and 1990s and became a major concern for most prominent corporation managers. CSR is a concept half-way between Friedman's Shareholder Theory and Donaldson's views on business ethics, which content and meaning vary dramatically within a diverse business, let alone within a business sector or across sectors.

There is currently no universally accepted definition of CSR and the World Business Council defines it as «*the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as the local community and society at large*».

Pursuant to the *horizontal application* of international human rights law, corporations bear *indirect* —not *direct*— international human rights responsibilities provided under domestic law in accordance with States international obligations³⁹. Problems emerge and an «accountability gap» is created when host states are neither able nor willing to hold corporations accountable to reasonable minimum standards⁴⁰. As a remedy, several national initiatives were taken by *home states* towards compel-

³⁶ Reinisch, A., «The changing International Legal Framework», pp. 37-89 in Alston, P., (ed.), *Non-State Actors and Human Rights*, UK: Oxford University Press, 2005, p. 71.

³⁷ Friedman, M. (1962): *Capitalism and Freedom*, Chicago: University of Chicago Press, p. 133.

³⁸ See Donaldson, T. & Dunfee, T. W. (1999): *Ties That Bind: A Social Contracts Approach to Business Ethics*, Cambridge: Harvard Business School Press; Dunfee, T., «A Critical Perspective of Integrative Social Contracts Theory: Recurring Criticisms and Next Generation Research Topics», pp. 303-328 in *Journal of Business Ethics*, Vol. 68, No. 3, 2006.

³⁹ For more details on this topic, see Clapham, A. (1993): *Human Rights in the Private Sphere*, Oxford: Clarendon Press; Kamminga, M. T., «Holding Multinational Corporations Accountable for Human Rights Abuses: A Challenge for the EC», pp. 553-570 in Alston, P. (ed.) (1999): *The EU and Human Rights*, Oxford: University Press.

⁴⁰ Kamminga, M. T., «Corporate Obligations under International Law», Report of the 71st conference of the International Law Association, Berlin, 2004, p. 4.

ling corporations subject to national jurisdiction to ensure that their business is in line with the national law, therefore expanding home state jurisdiction to corporate activities abroad. One of the most effective legal instruments adopted in this vein is the 1789 Alien Tort Claims Act (ATCA), which grants jurisdiction to the Federal District Courts of the United States to hear claims brought by aliens for torts committed in breach of the «law of nations» or a treaty of the United States. Few states such as the United Kingdom, and Australia have also drafted bills to outline corporate responsibility through legislation.

The recent trend in enforcing corporations' accountability may be interpreted as providing hope for justice and corporate liability. However, both the host state and the home state are facing enormous difficulties in their attempts to control corporations, the most important of which being the lack of political will⁴¹. Neither the host state mechanism nor the home state mechanism has proven sufficient to ensure that corporations respect human rights when operating in a foreign country. A set of rules directly binding on corporations must be adopted. This is the essential purpose of the CSR campaign and the subsequent attempts to adopt voluntary codes of conduct which typically consist in a set of self-regulatory principles to apply by companies in their everyday operations and define the ethical standards of the corporation. Examples of these initiatives are the *UN Global Compact*, the *OECD Guidelines for Multinational Enterprises*, the *ILO Tripartite Declaration on Multinational Enterprises and Social Policy*, and the *Voluntary Principles on Security and Human Rights*. Regrettably, these sets of «soft law» are not legally binding and their implementation depends totally on the company itself.

The reasons for companies to join CSR frameworks are multiple. Unfortunately, the approach is usually largely defensive in that only once the companies had to deal with, for instance, lawsuit or strong public pressure they start to change

their thinking and strategies⁴². Companies work hard to protect their reputation and most of them are keen to demonstrate their concern about the potential human rights impact of their presence in conflict-prone countries. But scrutinising CSR practices raises questions over their adequacy and effectiveness in regulating extraterritorial business activities and preventing corporate complicity in human rights abuses. Voluntary codes of conduct are often criticised for not going far enough as they do not objectively measure what companies do on the ground—and are mostly not designed to—and fail to deal with the question of monitoring and accountability mechanisms in a convincing way⁴³. Furthermore, the rapidly expanding scope of these regimes and their proliferation make it difficult for companies to determine exactly what is required of them⁴⁴. As to CSR programs, most of them focus mainly on infrastructure improvement, environmental protection, and social development project, and lack of a coherent strategy or well-designed assessments of their relative impact⁴⁵.

Given the unsatisfactory outcome of the current medley of non-binding codes of conduct adopted in the field of CSR, what is needed if human rights are to be respected is a clear mandatory regime based on legally binding obligations set within a legislative framework against corporate complicity in human rights abuses. A step towards progress in this direction was achieved with the adoption of the *Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises with regard to Human Rights* (hereinafter referred to as the Norms) in August 2003 by the UN Sub-Commission on the Promotion and Protection of Human Rights⁴⁶. The Norms identify human rights relevant to the activities of business and provide a comprehensive set of principles related to labour, environmental and consumer protection issues. Although, as such, the draft proposal has no legal standing, it gets credit for being the only initiative drafted in mandatory language that entails the express obliga-

⁴¹ Gómez Isa, F., «Empresas Transnacionales y Derechos Humanos: Desarrollos Recientes», pp. 55-94 in *Lan Harremanak Especial/Ale Be-rezia*, Propuestas Locales para Otra Globalización – Seminario sobre globalización económica, derechos sociales y normas laborales, 2006, p. 64.

⁴² «Just Good Business», *The Economist*, 17 January 2008.

⁴³ For an analysis on corporate voluntarism and human rights, see Simons, P., «Corporate Voluntarism and Human Rights: The Adequacy and

Effectiveness of Voluntary Self-Regulation Regimes», pp. 101-141 in *Relaciones industriales*, Vol. 59, No. 1, 2004.

⁴⁴ Sherman, J., *op. cit.*, p. 11.

⁴⁵ *Ibid.*, p. 10.

⁴⁶ UN Doc. E/CN.4/Sub.2/ 2003/12/Rev.2. Resolution 2003/16, 13 August 2003. For a complete overview of the history and design of the Norms, see Weissbrodt, D. & Kruger, M., «Human Rights Responsibilities of Business as Non-State Actors», pp. 315- 350 in Alston, P., *op. cit.*

tion for transnational corporations to respect international human rights standards.

The UN Special Representative on the Issue of Human Rights and Transnational Corporations and other Business Enterprises (SRSO), is very critical about the Norms⁴⁷. He assesses that the reasoning of identifying a limited set of rights for which companies may bear responsibility is precisely wrong. Considering the premise that corporations can affect virtually all internationally recognised human rights and that corporations are expected to perform their activities with «due diligence», he suggests that efforts should focus on defining the responsibilities of companies with regards to all such rights.

B. The scope of due diligence

The due diligence concept refers to the various steps taken by a company to become aware of, prevent and address adverse human rights impact⁴⁸. Accordingly, corporations must be aware of the country and local contexts in which they are operating, the human rights impact eventually generated by their own activities in that context, and whether they may contribute to stimulating or perpetuating abuses through the specific relationships connected to their operations. In this vein, they shall adopt human rights policies and implement human rights impact assessment (HRIA) procedures.

The scope of due diligence to meet corporate human rights responsibility depends on the company's «sphere of influence». This ambiguous concept was first introduced into the CSR discourse by the UN Global Compact and later emphasised by the Norms. The SRSO opted recently for a definition of corporate «influence» in terms of «control» or «causation», being «*the potential and actual human rights impacts resulting from a company's business activities and the relationships connected to those activities*»⁴⁹. In this view, sphere of influence is about when and where companies must take steps to ensure that they respect human rights⁵⁰.

Another important element of analysis of due diligence is the concept of «corporate complicity» which has become the leitmotiv of both legal and non-legal attempts to hold corporations accountable for human rights abuses. There are essentially three main categories of corporate complicity in human rights abuses⁵¹: direct, indirect or beneficial, and silent. By initiating or pursuing their activities in politically unstable countries, or by holding business relations with local suppliers and/or distributors, corporations make themselves part and parcel of the wider internal conflict. Although there is heretofore no universally accepted definition of corporation complicity, establishing the scope of complicity has become an important challenge for the business industry. An expert panel of the International Commission of Jurists suggested that three elements could or should qualify an act or omission as complicity: «*conduct that enables a violation to occur where the violation could not have occurred without that contribution; that exacerbates the violation's impact; and/or that facilitates the violation*»⁵². Thus interpreted, the assistance required to engender complicity needs not cause, or be a necessary contribution to the commission of the crime⁵³.

In non-legal contexts, corporate complicity has also become an important benchmark by which other social actors judge companies. Investors have proved powerful in stressing companies to avoid complicity in human rights abuses. In recent years, they have formally signified their willingness to suspend, cease or reconsider their association with companies who are involved, even indirectly, in human rights violations⁵⁴. Companies themselves have recognised the potential for complicity in human rights abuses and have included in their codes of conduct specific mentions to avoid complicity. Finally, certain collective initiatives, which were first elaborated to prevent indirect rather than direct corporate violations, such as the *Voluntary Principles on Security and Human Rights* also provide implicitly guidance on how to avoid complicity. It is regrettable that, due to their

⁴⁷ UN Doc. A/HRC/8/5, 2008.

⁴⁸ *Ibid.*, p. 17.

⁴⁹ UN Doc. A/HRC/8/16, 2008, p. 4, para. 6; UN Doc. A/HRC/8/5, 2008, p. 20, para. 72.

⁵⁰ UN Doc. A/HRC/8/5/Add.1, 2008, p. 32, para. 136.

⁵¹ On the categories of corporate complicity in human rights abuses, see Clapham, A. & Jerbi, S., «Categories of Corporate Complicity in Hu-

man Rights Abuses», pp. 339-349 in *Hastings International and Comparative Law Journal*, Vol. 24, 2001.

⁵² UN Doc. A/HRC/8/5/Add.1, 2008, p. 33, para. 144.

⁵³ UN Doc. A/HRC/8/16, 2008, p. 11, para. 37.

⁵⁴ *Ibid.*, para. 63.

voluntary dimension, these initiatives only work for companies that are willing to volunteer⁵⁵.

3.2. BPXC's Corporate Social Responsibility

Official statements and rhetoric too often fall well short of the reality, indicating herewith that CSR does not go as deep as one would claim yet⁵⁶. In Casanare, BPXC's attempts to develop sustainable social investment have been hampered by both the company's underestimation of the social dimensions of investing in a region of violent conflict⁵⁷ and its failure to adopt on time a sincere, effective and comprehensive social strategy.

A. From «Bricks and Mortar» Strategy

BPXC has been extremely slow in addressing strategic issues to manage and mitigate the negative social impact of its presence in Casanare⁵⁸. Prior to 1993, BPXC did not have explicit social policy as for its extractive activities. Its security concerns dominated its understanding of the region dynamics. Social concerns were included in an all-encompassing corporate health, safety and environmental policy that compelled the company not to harm the people and the environment. The company's social spending went mostly to infrastructure projects. This extremely localised approach reflected a benevolent paternalism without any overall coherent strategy. It was first and foremost aimed at obtaining a social «license to operate» from communities and at building good relationships with local politicians and professionals.

BPXC acknowledged its policy mistakes and adopted in 1993 its first Community Affairs Policy based on the company's interactions with stakeholders in Casanare. Social programs were

categorised by sectors and a community affairs budget of 29 million dollars was appointed to a wide range of social investment activities between 1993 and 1997. The company took part in the creation of a non-profit organisation, the *Fundación Amanecer*, which aims to support income generation schemes and enhance micro-business initiatives in Casanare. Furthermore, BPXC sought to manage in a more proactive way the expectations of local communities and to elaborate a «win-win» partnership with civil society and government. It focused its social programs on areas such as health, housing, reforestation, productive agriculture, micro-enterprise initiatives and infrastructures. The main criticism of this policy lies in the narrow definition of the project's area of influence, which generated further tensions between municipalities located within this area and municipalities located next to it.

In 1996 BPXC tried to reinforce its ability to manage social risks by expanding the scope of social investments but the results were weak. An evaluation team from the World Bank reported that not all involvements with stakeholders in Casanare resulted in mutual benefit, nor even in the perception of mutual benefit⁵⁹. Moreover, the evaluation team stated that in some cases BPXC could be criticised for investments or other interventions that are perceived as «too little or too late».

While the intensity of violence was increasing in the late 1990s and oil personal and facilities turned into prime targets for guerrillas' attack, BPXC acknowledged that the implementation of an effective partnership building strategy was critical for the industry's health⁶⁰. In 1997, BPXC's Community Affairs Team was at its height with sixteen members but the staff was suddenly reduced to seven the following year⁶¹ in an effort to centralise Community Affairs concerns in Bogotá. In 1998, it developed a strategy based on the elaboration of a reliable

⁵⁵ Global Witness, *Oil and Mining in Violent Places: Why voluntary codes for companies don't guarantee human rights*, Global Witness Report, Washington, 2007, p. 16.

⁵⁶ «Just Good Business», *The Economist*, 17 January 2008.

⁵⁷ Inter-Agency Group (Catholic Agency for Overseas Development, Christian Aid, Catholic Institute for International Relations, Oxfam Great Britain, Save the Children Fund UK), *Good Intentions are not Enough*, Recommendations and Conclusions of the Inter-Agency Group, unpublished (copy in possession of author), 1999, p. 4.

⁵⁸ In this respect, see Pearce, J., «Oil and armed conflict in Casanare, Colombia: complex contexts and contingent moments», pp. 225-273 in Kaldor, M., Karl, T. & Said, Y., (eds.) (2007): *Oil Wars*, London: Pluto Press, p. 252 as well as Davy, A. et al., *op. cit.*, p. 25-39.

⁵⁹ Davy, A. et al., *op. cit.*, p. 32.

⁶⁰ Pearce, J. (2007), *op. cit.*, p. 250.

⁶¹ Davy, A. et al., *op. cit.*, p. 28.

and up-to-date database, the creation and implementation of a strategic partnership, the conflict impact management and the preparation for Casanare's future. In 2000, the oil company convened a group of local firms and civil society organisations, namely the Business Partners for Development (BPD), to investigate the role of a tri-sector partnership between the company, the government and the civil society in promoting sustainable development and peace⁶².

As to its social responsibility activities, BPXC provided, *inter alia*, vocational training to 1,800 ex-employees in an effort to support non-oil sectors, encourage diversification of the local economy, foster non-oil dependent local economies, and reduce the negative impact of a large number of unemployed workers in the region. In order to strengthen political awareness and develop new leadership at various levels of society⁶³, BPXC supported eight-month Community Training Programs for leaders representing civil society, local government, and the private sector. Finally, the company helped set up a House of Peace and Justice to deal with daily conflicts which otherwise would have taken months to resolve through the official legal channels.

Overall, BPXC social policy may be full of great intention but the quality of commitments to CSR programs must be judge on outcome, not on intention. As such, social and economic development of Casanare is not particularly envious since the arrival of the company in the area, as reported by two studies published by the Colombian think tank Fedesarrollo in 2002 and 2007 which attest that BPXC social policy remains seriously weak and fails to integrate genuine and comprehensive development perspective.

As for example, BPXC's Community Affairs Representatives profess that the company helped improve Casanare's future by constructing new schools and that, as a result, basic education coverage increased from 77% to 88% between 2002 and 2005⁶⁴. But talking about education is not talking only about

quantity but also about quality. From this perspective, the quality of education remains highly problematic in Casanare. Official statistics indicate that the level of non-assistance to school in the area is still very high, 13.1% compared to 9.4% in Cali or 6.5% in Bogotá. The level of illiteracy of 9% is disconcerting, and so is the low level of 4% of the Casanare population who reaches the professional level of education⁶⁵. «There is no development, only infrastructure», was the view of a group of native women interviewed by the British Professor, Jenny Pearce, in Yopal in 2002⁶⁶.

Furthermore, the leadership role taken by BPXC in implementing the tri-sector model has been criticised by many for threatening the governmental authority⁶⁷. Much of what is proposed in the partnership could normally fall under the authority of a government. Whilst the company claims it has always tried not to slide into a state-like role by building relationships were possible with state institutions and ensuring that it works closely with the state-owned oil company Ecopetrol⁶⁸, criticism about BPXC being too heavy-handed in promoting its vision of development in Casanare has not been scarce⁶⁹.

B. To Corporate Social Management?

Broadly speaking, BPXC needs to overcome the general mistrust generated from the past mistakes among local communities through, amongst others, the design and implementation of a comprehensive social strategy. Forasmuch as relationships are built over time, for good and for bad, historical relationships between BPXC and the civil society will need to go through a transition period leading to a more collaborative and trusting relationship⁷⁰. The complete and effective implementation of the tri-sector partnership promoted by the oil company is therefore unlikely to happen quickly. And since any of the illegal armed groups involved in the fight over strategic commodities in Casanare could at any time decide that the tri-sector part-

⁶² See Campbell, A., & Carment, D. (2002): *Fuelling Conflict or Financing Peace Development? Linkages Between MNC Investment and Conflict: A Case Study Analysis of BP AMOCO's Social Policies and Practices in Colombia*, Ottawa: Carleton University.

⁶³ Pearce, J., *op. cit.*, 2007, p. 255.

⁶⁴ Fedesarrollo, *op. cit.*, p. 37.

⁶⁵ DANE, *Censo General 2005: Perfil of Casanare*, Boletín, 2005, p. 2.

⁶⁶ Pearce, J. (2004), *op. cit.*, p. 37.

⁶⁷ *Ibid.*

⁶⁸ Pearce, J. (2007), *op. cit.*, p. 256.

⁶⁹ Campbell, A. & Carment, D., *op. cit.*

⁷⁰ Tull, J., *BPD Engagement in Casanare, Colombia – Progress Report Internal Assessment*, 2001, p. 22.

nership and the people involved in implementing it are military targets⁷¹, in the very short term, one of BPXC's main concerns should have much to do with the physical protection of those who are engaged in the promotion of human rights and human development.

In parallel, BPXC is strongly recommended to develop a social and human rights regime which is adequate and appropriate to reduce or mitigate the negative impact of its presence in the operating area and to ensure that it is not complicit in human rights abuses. In this vain, external monitoring and enforcement mechanisms are of utmost importance.

Conclusion

This paper sought to expose the role and demonstrate the responsibility of transnational oil corporations operating in conflict-ridden countries on the human rights violations perpetrated in or near the operating area, and hence on the dynamics of the conflict itself. In Colombia, the armed conflict is historically rooted in ideological differences and deep-seated grievances of economically and politically marginalised rural populations. Nonetheless, greed and natural resources, such as coca plants and oil, have been critical in sustaining, expanding, and intensifying the conflict. Access to local and global markets helped provide combatants with new economic opportunities and sources of revenue, who therefore may not be particularly concerned with restoring peace. These developments demonstrate the difficulty of bringing violence to an end and have a tremendous impact for those seeking to elaborate effective strategies and policies of conflict resolution and peace-building.

The clear impact of economic factors on violence in the country is confirmed by the direct correlation existing between the progressive growth of the guerrilla and paramilitary forces, as well as the qualitative and quantitative escalation of conflict on the one hand, and the increase in drug and oil production on the other hand.

The analysis of BPXC's activities in Casanare, in particular the analysis of the company's relationship with the main four cat-

egories of actors involved in war, illustrates the dilemmas and challenges that must face transnational oil corporations when entering an area without full knowledge and understanding of the social and political patterns of local life. For BPXC, it is only when the conflict began to impose higher costs on business operations, when oil workers were experiencing the adverse consequences of violence (notably kidnapping and extortion), and when its image was seriously tarnished by international human rights networks, that a threshold was finally reached and the company became conscious that community development had to be made sustainable in the long term —not simply through ad hoc initiatives such as a one-time infrastructural fix.

Not only BPXC has been slow to recognise that successful implementation of strategic policies and programs depends on the involvement of other stakeholders, but reality also shows that the company's corporate responsible regime has been weak and at best inadequate. Although BPXC's managers often pride themselves for having taken a lead in the corporate social responsibility initiative, there is enough evidence proving the lack of genuine willingness and professionalism in implementing a responsible social strategy aiming at building «sustainable, non-oil-dependant social and economic development programs»⁷². BPXC has failed to satisfactorily address human rights and sustainable development in its social programmes and its self-regulation regime is «at best minimalist and at worst ineffective in creating real accountability on the part of (the company) for complicity in violations of human rights associated with activity in conflict zones»⁷³. Whereas international human rights defenders are increasingly exposing and evidencing allegations of corporate complicity in human rights abuses through their «naming and shaming» campaigns, the legal recognition of the definition of complicity, as including companies who «benefit from human rights violations», would have important repercussions on the oil industry in Colombia, and in the rest of the world. Policy developments in this field will require further efforts to reach consensus on what actually can be defined as «complicity» in human rights abuses in violent conflict.

More systematic and empirical research is also needed about the role of the international private sector in Colombia and the

⁷¹ *Ibid.*, p. 23.

⁷² Tull, J., *op. cit.*, p. 9.

⁷³ Simons, P., *op. cit.*, p. 130.

effectiveness of corporate responses to mitigate destabilising effects of business activity. In parallel, more field-based analysis is required to investigate the specific relationship between private sector investments and violent conflict, not only targeting the damaging impact of the former on the latter but also focusing on the conflict-prevention and peace-building potential of the business industry.

Oil investment in war-torn societies endows opportunities and risks, hope and despair. Companies operating in conflict areas face several obstacles and challenges in their attempts to reduce or mitigate the negative impact of their activities on local and global conflict dynamics by fostering solidarity, social capital and non-violent methods of conflict resolution, as well as promoting and implementing democracy and human rights.

The first of these challenges is to identify precisely how corporate social responsibility has to be designed and implemented. In this respect, the meaningfulness of social strategies must be measured by looking at their outcome, not their intention. Mere charity and paternalism is not enough and the adoption of a human rights-based approach to corporate social policies and strategies is strongly recommended. According to the Statement of Common Understanding of the UN Agencies⁷⁴, this approach must identify rights-holders and their entitlements, as well as corresponding duty-bearers and their obligations; it has to work towards building the capacities of rights-holders to make their claim and of duty-bearers to meet their obligations.

Furthermore, transnational companies must adopt policies that integrate a holistic view of the operating environment and the social, political and legal framework that determines the relationships between stakeholders in the region. A clear component of the success of corporate social programmes is to recognise local individuals as key actors in their own development, rather than passive recipients of commodities and services who do not know what is best for them⁷⁵. Participation is both a means and a goal that helps legitimise social activities by achiev-

ing equitable and broad-based representation of the community. The mainstreaming of HRIA on activities that may directly or indirectly affect human rights is strongly encouraged if corporate social responsibility is to be meaningful.

In addition to that, companies must establish clear mechanisms that help guard against corruption and diversion of funds to off-budget⁷⁶. A first step toward such a goal is to adopt a policy of full transparency of both payments to and security agreements with individual host countries. Another step is to empower individuals and communities to hold the company to act accountable, ensuring effective remedies where rights are violated. Finally, companies' policies must lay down effective compliance mechanisms, including provisions for periodic independent monitoring and evaluation of both outcomes and processes guided by human rights standards and principles, as well as instruments for stringent reporting and verification of reports⁷⁷.

The second main challenge faced by multinational companies operating in conflict-prone areas in their effort to implement effective corporate social policies is determined by the role of the host government to take seriously its responsibilities towards all its citizens and not only the elite, and the danger of sliding into a de facto state-like role⁷⁸. According to Andrew Clapham, «the biggest obstacles to ensuring human rights accountability for corporations are not really philanthropical but governmental»⁷⁹. The role of the government is critical in order to reach and enforce an effective, ethical, and viable framework of global governance that may potentially address the complex connections between local war economies and the global consumer markets for conflict goods⁸⁰.

On the social front, it is unlikely that the reforms necessary to act within the principles of social justice will be adequately addressed by the companies themselves. Indeed, they fall short of both expertise and public interest. One cannot overemphasise the role of governments and multilateral agencies in developing a mandatory legislative framework for investment in conflict-

⁷⁴ See UN Development Group, *The Human Rights Based Approach to Development Cooperation: Towards a Common Understanding among UN Agencies*, 2003.

⁷⁵ *Ibid.*, 2003.

⁷⁶ Swanson, P., *op. cit.*, pp. 33-35.

⁷⁷ Simons, P., *op. cit.*, p. 129.

⁷⁸ Pearce, J. (2007), *op. cit.*, pp. 259-262.

⁷⁹ Clapham, A., *op. cit.*, p. 443.

⁸⁰ Malone, D. M. & Nitzsche, H., *Economic Agendas in Civil Wars: What We Know, What We Need to Know*, Discussion Paper No. 2005/07, United Nations University - World Institute for Development Economics Research, 2005, p. 16.

prone countries. They must take domestic action to incorporate extraterritorial regulatory measures and effectively address corporate investment in conflict zones by creating ethical, uniform, well-defined and enforceable international obligations applicable to all transnational corporations and based on international human rights and humanitarian law.

Finally, the UN Secretariat and the Security Council have a key role to play, as a «guardian» of the human rights principles, in driving the policy agenda forward⁸¹. Their growing attention on both natural resource exploitation and the role of private sector activity in conflict zones has been demonstrated by the establishment of a working group on transnational corporations within the machinery of the UN Sub-Commission on the Promotion and Protection of Human Rights in 1998, and confirmed by the appointment of a Special Representative of the UN Secretary-General on business and human rights in 2005. These developments acknowledge the relevance of these matters to the preservation of international peace and security.

The success of ethical corporate regimes adopted by companies active in conflict-prone regions lies in both the macro-level policy regulation of corporate activities that provides indicators of ethical behaviour and helps identify socially responsible actions, and the micro-level corporate willingness to fuel peace by effectively implementing ethical human rights standards.

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⁸¹ *Ibid.*

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