



Ecuadorian President Rafael Correa. Photo: Olivier Polet/Corbis

# *Private oil companies face bleak prospects in Ecuador*

Ecuador returned to OPEC after 15 years of absence. The country was accepted as an active member during a rare Heads of State Summit of last November in Riyadh. Measured by its oil production of 540 thousand barrels a day, no big deal. However, Venezuela's President Hugo Chavez, who leads the pack of price-hawks within OPEC, had good reasons to welcome Ecuador's homecoming. He sees in the small Andean country an ally and a reinforcement of the trend among oil-rich countries towards growing state control over resources and increased political use of the "oil weapon". Ecuador's President Rafael Correa shares with Chavez the conviction that a new type of socialism is the best way to overcome poverty, weak institutions and underdevelopment. He has issued a 'wake-up call' from 'a neo-liberal nightmare', although Ecuador in fact has hardly 'reformed' its economy. So how close is private oil to packing its bags?

- Clockwise:
- Oil site owned by Petroecuador in Shushufindi Sur in the Oriente.
  - A Petroecuador oil rig explores for oil in the Oriente.
  - Oil drilling site in Ecuadorian rain forest
  - The Occidental Company's Eden Processing Facility in Eden-Yuturi.

Photos: Ann Johansson and G. Bowater/Corbis



| By Rudolf ten Hoedt

Foolish is not how René Ortíz should like to label Ecuador's tightening the screws on private oil. The former OPEC secretary-general and current executive president of the association of private oil companies in Ecuador, remains polite. 'President Correa makes private oil operations nonviable, write that down', he says in his office in a red bricked tower along the Avenida Amazonas, the business centre of the capital Quito.

Although adamantly opposed to Ecuador's surging resource nationalism, Ortíz was still impressed with his president during the summit of OPEC leaders in November. After Ortíz was decorated by King Abdullah of Saudi Arabia, Correa crossed the conference room and publicly embraced him. 'That was a gesto de caballeros', he says while stowing the decoration, a silver plaque with precious stones, away in a black leather case. 'Correa acted like a gentleman.' And gentlemen, says Ortíz, do not insult.

In the highly reclusive golf club on the eastern outskirts of Quito, undecorated oil executives are less polite. They use harsh words when they talk among themselves

by decree the state's share of extra oil revenues from 50% to 99%.

This measure serves Correa's objective to give the state a bigger role in the economy. It may turn out to be a significant step on Correa's road to Socialism of the 21st century, chapter Ecuador. The abrupt tax hike leaves the private oil industry with a frozen oil price of \$ 26 per barrel. According to some, it equals 'de facto nationalization'.

Correa's move has added to the unrest and fury among private companies, which produce more than half of Ecuador's daily production of crude under production sharing agreements. The companies were already hit in 2006, when the previous government introduced a law designed

A violation of existing contracts, they said. 'Unconstitutional and a judicial monstrosity', René Ortíz claims.

Now, one year later, the Correa administration accuses several companies of non-compliance with the new law and of owing the state more than \$ 160 million. The companies deny and fight back. Two have asked for international settlement.

The recently installed Asamblea Constituyente, a body of 130 elected citizens that is supposed to write a new constitution and has already unilaterally taken over the role of parliament, is adding fuel to the fire. The ruling party controls the assembly by an overwhelming majority. The chairman of the constituency is a leftist economist who is no friend of foreign investments. In an article in the Hoy daily newspaper, he referred to Ortíz and others in the industry as 'snakes hidden in their hide-out'.

His name is Alberto Acosta or El Betí. He is seen as perhaps the most powerful man after Correa and is one of the co-authors of Correa's economic plan. A plan that will give the state more control over the

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about Rafael Correa's oil policy. Since he entered office, the president has raised

to transfer 50% of the 'windfall profits' from high oil prices to the government.

economy and over the important oil sector in particular.

Acosta served for a short time as minister of energy under Correa. He left his post after clashing with state-controlled Petroecuador. This poorly performing oil company is as powerful as it is notorious for its lack of transparency. Acosta is opposed to exploring new reserves in the Ishpingo-Tambococha-Tiputini or ITT oil fields in the Yasuní National Park in the Amazon forest. The oilfields here are the only hope for a substantial increase in the output of crude. The plan to suspend further development in the Amazon forest in exchange for international financial compensation is El Betí's.

In the view of many oil executives, Acosta's influence is bad news. 'He is worse than Correa', says one executive who does not want his name to be published. 'Acosta is a neo-anarchist and a communist. A man who despises private investment and wants to turn Ecuador in a pós-petróleo country. We operate in total uncertainty.'

One of the most interesting developments to watch is how Correa will deal with the recent influx of Chinese investments. The biggest foreign oil operation after Repsol/YPF is in Chinese hands. Andes Petroleum, a joint-venture of China National Petroleum Company (CNPC) and Sinopec, acquired the local assets of Canadian Encana for \$1.4 billion in 2006. Ecuador is the fourth country in Latin America where the Chinese have landed in order to secure crude and other supplies. Earlier they stormed Venezuela, Colombia and Peru. The Chinese have big plans in Ecuador. Flooding Ecuador's stretched Pacific coastal area with motorized rickshaw's or tresciclos is just one of them. Among their more ambitious targets are major investments in precisely the highly disputed ITT oil fields.

For his part, President Correa has started thinking Chinese. During a state visit to Beijing in November he invited China to turn Ecuador into its main trading hub

for South America. Correa offered China concessions to operate the seaport and the international airport of Manta that will serve as a US military airfield until 2009.

The pragmatic Chinese have not responded yet. Although the concept of Ecuador as a trade hub makes sense, China also has more investor-friendly Peru

it, even if it hurts the environment.' And he recently took measures against civil protesters in the Amazon area who block oil operations and occupy installations.

Correa's actions confirm the impression among oil executives that Correa is more pragmatic than ideological and 'far more intelligent' than Venezuelan president

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on the radar. The Chinese decision may depend on old-fashioned capitalist criteria like investment conditions, security and opportunities. Here Ecuador might run into difficulties.

Andes Petrol, the joint venture of Sinopec and CNPC, is one of the companies that is unhappy with the government over the expropriation of windfall profits. Andes has said its operation has become nonviable and may file for arbitration. In addition, Sinopec, along with other companies, has acquired concessions for the disputed ITT oil fields. The Chinese may see their ITT aspirations blocked by a radical constituency with El Betí Acosta at the helm.

'I think', says a private oil executive, 'that the constituent assembly will produce environmental rules and give room to civil participation to such a degree that the development of the ITT reserves and other new oil projects will become even more difficult if not impossible.'

But the outcome of this struggle is not certain yet. One of the big questions is what Correa will or can do in order to lure the Chinese deeper into Ecuador. The president has not closed the road to oil exploration in the ITT area yet. Late November, he declared he did not intend to give in to 'environmental infantilism'. The El Comercio daily quoted Correa on December 2nd saying: 'If there is oil in any corner of the jungle, we will explore

Hugo Chavez. The state of emergency Correa declared in one Amazon province after activists made Petroecuador's production fall by approximately thirty thousand barrels a day, may be another indication.

For private oil companies, physical insecurity as a result of strikes, demonstrations and extortion is just as bad as judicial insecurity. 'In the areas where oil is produced chaos reigns', confirms an independent consultant who reports to the Inter American Development Bank on the social environment of oil production in Ecuador.

Restoring order in Ecuador's chaotic oil provinces may be good news for the oil industry. But will this policy come in time for private oil companies to benefit from? According to Ortíz, the local subsidiaries of foreign companies are running cash flow deficits since the government raised taxes. Investment has been reduced to a minimum. Ortíz: 'For the oil companies there are three options left. Renegotiate contracts, change contracts into oil servicing contracts or pick up their bags and go. I really do not know what will come out of this.'

President Correa gave a hint on his return from China. He declared to be in favour of future oil contracts with governments and state companies such as Sinopec, PdVSA and Pertamina. In Ecuador, private oil has not seen the eye of the hurricane yet. ■