

4-9-2012

# Will social unrest affect investment in Ecuador's oil sector?

Inter-American Dialogue's Latin American Energy Advisor

Follow this and additional works at: [https://digitalrepository.unm.edu/la\\_energy\\_dialog](https://digitalrepository.unm.edu/la_energy_dialog)

---

## Recommended Citation

Inter-American Dialogue's Latin American Energy Advisor. "Will social unrest affect investment in Ecuador's oil sector?." (2012).  
[https://digitalrepository.unm.edu/la\\_energy\\_dialog/62](https://digitalrepository.unm.edu/la_energy_dialog/62)

This Article is brought to you for free and open access by the Latin American Energy Policy, Regulation and Dialogue at UNM Digital Repository. It has been accepted for inclusion in Latin American Energy Dialogue, White Papers and Reports by an authorized administrator of UNM Digital Repository. For more information, please contact [disc@unm.edu](mailto:disc@unm.edu).

***Q and A: Will Social Unrest Affect Investment in Ecuador's Oil Sector?***

**Citation:** Inter-American Dialogue's Latin American Energy Advisor, April 9-13, 2012; pp. 1, 3, 5. Also online at [www.thedialogue.org](http://www.thedialogue.org).

**Copyright © 2012, Inter-American Dialogue**, used with permission from the publishers.

More than 1,500 indigenous protesters last month brought Ecuador's capital city to a "standstill" over government plans to exploit natural resources in the Amazon region. The group alleges that President Rafael Correa has capitulated to free-market forces with policies opening up lands to mining and drilling that could ravage the Amazonian rainforest, while the administration counters that such measures are necessary for the country's economic development. How well is Correa handling discontent over natural resource extraction? Are such protests likely to hinder investment and development of the country's oil sector? What should both sides be doing differently to resolve these problems?

**A: Wilson Pástor, minister of nonrenewable natural resources of Ecuador:**

"While Ecuador is roughly the size of the U.S. state of Colorado, we are blessed with significant deposits of gold, silver and copper. Our reserves of those metals, among other valuable natural resources, recently prompted President Rafael Correa to explain that 'We cannot be beggars sitting on a sack of gold.' According to recent estimates, Ecuador's mineral reserves are worth roughly \$185 billion, or seven times more than the government's current annual budget. Given the country's continued need for economic development, Ecuador does not have the luxury of ignoring its mineral deposits in favor of a development plan that leaves natural resources completely untapped. Our Constitution explicitly recognizes the rights of nature, and environmental responsibility is a top priority for our mining sector. We take pride in mining that helps generate economic development while emphasizing tangible improvements for the communities most directly impacted. Last month, the Ecuadorean government began a new era for its mining sector by signing a contract with Chinese-owned Ecuacorriente to extract copper in Zamora Chinchipe province, in southeast Ecuador. Contract terms stipulate that Ecuador will receive 52 percent of the project's mining profits, an unprecedented rate estimated at roughly \$4.5 billion. A large portion of the money will be reinvested into sustainable, local development projects around the mining site in the Amazon Basin. Under President Correa's proposal, local residents would have access to a new hospital, improved roads and infrastructure, school improvements and a new track for bicycling. That's the type of responsible mining Ecuador needs."

**A: Ramiro Crespo, president of Analytica Securities in Quito:**

"Indigenous communities in Ecuador have had very negative experiences with the extraction of resources. They have been hit with the environmental damages while the benefits have gone to others. Hence, they understand that they have little to gain and much to lose. This goes back all the way to the colonial period, as does the concept of ownership of underground resources by the state—at the time, the king of Spain. So unlike indigenous communities in North America, they have no tangible incentive to support resource development. In the Amazon province of Pastaza, resistance to the next round of oil tenders will therefore be strong. President Correa has alienated his former indigenous supporters. Funds continue to flow into infrastructure rather than education. From the extraction of oil and metals, he has promised indigenous communities 12 percent of the bottom line of company profits. This, however, is legally questionable and will come from funds promised to workers in other industries. Development of projects, be they mining or oil, is going ahead before consultations mandated by Correa's 2008 Constitution. The legislature has twice refused to discuss the development of oil block 31 in the Yasuní national park, which is also obligatory under the Constitution. Repression has meanwhile been harsh and, in the short term, moderately successful, but it has also helped reconsolidate a powerful indigenous movement with little interest in compromise."

**A: Mario Alejandro Flor, partner at Bustamante & Bustamante in Quito:**

"President Correa has made it clear that natural resources projects in Ecuador, and more specifically large-scale mining, will be performed under stringent environmental policies. The president described the indigenous protests as an attempt to destabilize the government and its projects. It is possible to have both 'good mining and good water' at the same time if things are done right, says Correa. I find it unlikely that the protests will jeopardize investment in and development of the country's oil sector. The government has established well-defined mechanisms for natural resources extraction processes, including the issuance of new acts (for example, the Mining Act of 2009). The protests convey concerns about mining and extraction processes, the implementation of which are new to Ecuador, unlike the oil industry, which has been active in the country for the past four decades. In order to minimize protests, the government should raise awareness among local communities about the benefits of mining, stressing that mining processes will be carried out under strict environmental control. One important benefit is that a percentage of mining profits would be assigned to social investment and territorial development in the mine's area of influence. Furthermore, the Ecuadorean Constitution stipulates that before engaging in any exploitation and extraction activity, a local consultation must be held. The implementation of these measures, among others, would help pacify the protesters."

**A: Rene G. Ortiz, international policy and strategy analyst and former minister of energy and mines of Ecuador:**

"The discontent over natural resources extraction is just a good political excuse. The 2013 presidential elections have been launched in Ecuador. Anti-Correista movements and politicians have to raise the only viable flag, being against Correa. There is also—though a bit under-covered—an increasing anti-China sentiment. Some see Chinese involvement in Ecuador's

economic affairs as unchecked, unaudited, non-scrutinized and unchallenged. Additionally, Correa has directed hard criticism against newspaper owners, columnists and opinion makers, including lawsuits which have backlashed against him. The weather is not helping either, including many floods and other problems. The government is really not addressing the issues, just avoiding them. The indigenous groups have expressed clearly that they are not against mining. Thus, it is politics, in election times, which puts people in the streets. They are highly capable of putting together street demonstrations in order to return to the political arena, given the proximity of the presidential campaign. Keep in mind that Ecuador's electoral system takes place in two rounds; during the first round, representatives to the legislature are elected. Delays in signing mining contracts are related to critical items such as terms and conditions, lack of appropriate arbitration and 'rule of law'. That applies to new oil and gas E&P blocks in the southeast. Arbitration anywhere in the world would pave the way for new oil and mining contracts. Direct management by the indigenous organizations—with proper auditing —of royalties and other benefits that the industry generates would also help ease things between the groups and the government."

*The Energy Advisor welcomes responses to this Q&A. Readers can write editor Gene Kuleta at [gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org) with comments.*