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Is Ecuador's Refinery of the Pacific on Track?

Inter-American Dialogue's Latin American Energy Advisor

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Q and A: Is Ecuador's Refinery of the Pacific on Track?

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In 2008, PDVSA and PetroEcuador agreed to build the "Eloy Alfaro Delgado" Refinery of the Pacific, which reportedly will be the only high-conversion plant on Latin America's Pacific coast. The facility will require an investment of \$12 billion, of which Venezuela and Ecuador have so far committed \$3 billion. On March 9, Ecuadorean President Rafael Correa announced that more money would be distributed to accelerate the manufacturing of construction equipment. Is preliminary work on the refinery on track to be ready by 2015? Are the right plans in place for the refinery to attract the necessary investment and who would be its likely investors? How would the refinery's completion affect Ecuador's energy sector?

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

"The 'Eloy Alfaro Delgado' refinery, as planned by the Ecuadorean government, will definitely be one of the largest refineries in all of Latin America. Besides producing fuel for automobiles and other vehicles, this petrochemical facility will manufacture petroleum-derived products, such as synthetic fibers, polyethylene and rubber tires. The company in charge of construction—and eventually operation—is to be constituted as a joint venture, where the government will own 51 percent of the shares, which will remain in the possession of the state-run oil company Petroecuador, and 49 percent in the hands of PDVSA, Venezuela's state petroleum company. The project is expected to refine approximately 300,000 barrels per day, more than the daily Ecuadorean production, which amounts to approximately 200,000 barrels per day. Nevertheless, because the Pacific refinery project will be built by both the Venezuelan and Ecuadorean governments, most likely its production capacity will not enable other countries to ship their oil to the refinery. The estimated investment budget for concluding the project is \$12.5 billion. The government is conscious that investment from overseas is needed to complete this project. The refinery will be built between the counties of Manta and Montecristi, in the province of Manabí, located along the Ecuadorean coast. The place was chosen because of the low risk of environmental impact. The national economy is expected to grow copiously. The project will provide 13,000 jobs in the short term, as the plant is set to be finished in 2015. The energy sector will definitely experience significant growth. Ecuador is an oil-exporting country, with petroleum exports making up a hefty share of the national budget. In spite of this, we import a large volume of petroleum-derived products. This refinery will give Ecuador the opportunity to offer oil derived products for national and international markets."

A: Wilson Pástor, Ecuador's minister of non-renewable natural resources:

"Investment is necessary for the refinery's completion and the government has hired a financial company to attract foreign capital. The conclusion of the project would result in the production of about 800 megawatts of electricity, of which 350 megawatts would be delivered to the grid. It should be noted that Petroecuador and PDVSA will participate in the Pacific refinery project with \$3 billion, of which they have so far invested \$408 million. The total cost of construction will be \$11.8 billion."

A: Paulina Durango, partner at Arizaga & Co. Abogados in Quito:

"Ecuador's most ambitious project is the construction of Refinery of the Pacific in the Manabí province, which will need investment of approximately 12 billion dollars and to process 300,000 barrels of oil per day for this plant to become an engine of economic development for our country. In early March, the project had a fundamental change in its manner of funding, originally looking for state and private partners as well as export credit agencies and others as part of a 'financial pull.' In practice, though, this system was very difficult to enact and for this reason, the state has decided to 'fast track' the project by providing continued and greater investments to ensure that it comes into operation by October 2015, two years earlier than originally planned. The state's involvement has been the major investment directed at shortening the construction time and getting the project up and running. So far, according to information released by the administration, the state has invested around \$400 million for the technical, financial and environmental studies that include relocating groups living within the project's zone. The South Korean firms SK Energy and Eximbank have been presented as possible companies to construct and finance the project, and were contacted directly during an official visit last November. The Refinery of the Pacific is a joint project with the Venezuelan government—PDVSA is a minority partner—and has been a part of energy accords signed between the two countries since 2007. One of the main goals in the long run is a reduction in the large amounts of money that the Ecuadorean government must spend on imports and increasing Venezuela's presence on the Pacific side of the region. The challenges are enormous and without tireless and committed work, it will be very difficult to satisfactorily complete the project."

The Energy Advisor welcomes reactions to the Q&A above.. Readers can write editor Gene Kuleta at kuleta@thedialogue.org with comments.