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LADB Staff

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In mid-May Ecuador's government terminated Occidental Petroleum Corporation's contract to exploit oil resources on one of the country's most productive fields after a 19-month legal prosecution of the company for the unauthorized sale of an oil field. The US retaliated by suspending ongoing trade talks with the Andean country immediately after Energy Minister Ivan Rodriguez found against Los Angeles-based Occidental, also known as Oxy. The move followed an April vote in the Ecuadoran Congress that increased the royalties oil companies operating in Ecuador must pay. Ecuador's termination of Oxy's contract means the largest single corporate entity extracting petroleum there has been ousted, opening the possibility for greater involvement by nearby Venezuela or Brazil.

Petroecuador told Occidental on May 16 that it was taking back the field known as Block 15, according to a statement from the state-run company. The field may be auctioned to Petroleos de Venezuela SA (PDVSA), Petroleo Brasileiro SA (Petrobras), or another company, Ecuador Public Administration Minister Jose Modesto Apolo said. Modesto said that the state oil companies from Colombia or Mexico might also be candidates to replace Occidental as operator of the assets. "We have a list of companies, and a decision will be made in the short term," he said. Ecuador said that Occidental failed to obtain government approval to transfer part of an oil block to Canada's EnCana Corporation in 2000. The company said it has complied with the terms of its accord for Block 15.

EnCana has since sold its Ecuadoran assets to a Chinese venture called Andes Petroleum Company for US$1.4 billion.

For almost two years, Ecuador's government had been considering whether to end Occidental's contract because of the unauthorized sale (see NotiSur, 2004-09-10). Occidental offered Ecuador as much as US$1 billion in disputed taxes, investments, and extra revenue from its crude output to settle the dispute, company spokeswoman Jan Sieving said on March 21. Fernando Proano, a spokesman for Petroecuador, said the same day that Occidental also asked the Ecuadoran government to extend the company's contract, which expires in 2012, through 2019. Until the termination, Occidental the fourth-largest petroleum company in the US had produced about 100,000 barrels per day of the total 532,000 bpd Ecuador pumps.

Occidental's Ecuador operations represented 7% of its total output. The company also holds a 14.5% stake in the Oleoducto de Crudos Pesados (OCP), the heavy-crude pipeline that runs 450,000 bpd from the Amazonian interior to the Pacific for export. Occidental said the annulment of the contract would not change its status in the OCP. Immediately after the announcement, shares of Oxy stock dropped by as much as 4%. Occidental, which has operated in Ecuador since 1985, said it still wanted an "amicable settlement" of the dispute.

Greater national control of resources by different means

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The decision came two weeks after Bolivian President Evo Morales said he would "nationalize" his country's massive natural-gas reserves (see NotiSur, 2006-05-12). Nonetheless, the seizure methods of Ecuador and Bolivia differed, with Morales issuing an executive decree while the Ecuadoran decision came after a long prosecutorial process. Former Chilean President Ricardo Lagos (2000-2006) emphasized the judicial character of the Ecuadoran decision, unlinking it from Bolivia's "political decision" to nationalize all its gas resources.

During a May 22 visit to the Ecuadoran capital, Lagos spoke with President Alfredo Palacio about the decision and supported the possibility of Chile associating with Ecuador for the exploitation of the fields that Oxy controlled. "The measure taken by Morales in using his powers is one thing and the case of Ecuador is another, which I understand is basically a private matter," said Lagos after a meeting with Palacio. He insisted that the annulment of the Oxy contract to operate in Ecuador be understood as a "juridical difference between a state and a business" without the difference causing a dispute between the US and Ecuador.

"Host governments are feeling emboldened by higher energy prices" and are demanding more from foreign producers," said Julian Lee of the Center for Global Energy Studies in London. "There is a growing resource nationalism in the world. Ecuador can be seen as part of that."

Venezuelan President Hugo Chavez claimed "total control" of four joint ventures that pump extraheavy oil in the country's Faja region during the second week of May. These are run by foreign companies including BP Plc and ExxonMobil Corp. Chavez has rewritten contracts and raised royalties and taxes to give the government a bigger share of the money foreign oil companies get from pumping oil in Venezuela, the world's fifth-largest oil exporter. Ecuador, with the third-largest crude reserves in South America, has now joined Venezuela and Bolivia in tightening restrictions on foreign oil companies.

In 2004, Ecuador threatened to shut Occidental's operations after a court in London ruled it owed the company US$75 million in overpaid taxes. One of the major questions regarding the seizure of Block 15 is whether Petroecuador will be able to operate the concession.

"They may come to some sort of accommodation that allows Ecuador to say we took the assets over and that allows Occidental to be the operator," said James Halloran, who helps manage about US $33 billion at National City Bank in Cleveland, including more than 600,000 Occidental shares. He said that Petroecuador does not have the expertise or capital to operate the field the way Occidental would, Halloran said.

Multiple protests and blockades have rocked the Ecuadoran petroleum industry this year, as residents have seized or blockaded oil installations to demand greater public works in their regions (see NotiSur, 2006-02-24). Protests also paralyzed the northern and central regions of Ecuador in mid-March, as indigenous opponents to the government signing the Andean Free Trade Agreement (AFTA) blockaded highways (see NotiSur, 2006-03-24).

Meanwhile, other suitors are plying Ecuador's government. Venezuela's President Chavez was in Ecuador on May 30 to discuss oil policy with Palacio's administration, and reports said that Ecuador

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was considering returning to the Organization of the Petroleum Exporting Countries (OPEC), which it left in 1992. Spain's Repsol has also expressed interest in Block 15. US cuts off free-trade talks in response US reprisals on Oxy's behalf were swift.

Neena Moorjani, a spokesperson at the office of the US Trade Representative (USTR) in Washington, DC, said on May 16, "We are very disappointed at the decision of Ecuador, which appears to constitute a seizure of the assets of a US company." Moorjani, press contact for USTR Rob Portman, announced the immediate suspension of free-trade talks with Ecuador. "We will seek an immediate clarification from the government of Ecuador, including whether it intends to fully compensate the company as required under our bilateral investment treaty," she said.

"This is a sanction, unacceptable blackmail," Ecuador's Interior Minister Felipe de la Vega said to the Uno television channel. "We are a sovereign nation and if people want to halt the free-trade talks, which is sad, then we will look to Europe." De la Vega spoke as the dispute between the two countries regarding oil and trade appeared to worsen, as have relations between the administration of US President George W. Bush and Venezuela and Bolivia, two other key South American energy producers.

Congress alters hydrocarbons law to take raise royalties

In April, Ecuador's Congress increased the royalty rates charged to petroleum companies operating within its borders, a move that echoed other regional efforts to direct more benefits from natural-resource exploitation to domestic growth. Such charges to multinationals are more feasible with petroleum prices having more than tripled since many contracts were arranged in the 1990s. Where oil was selling at US$20 a barrel in the 1990s, in late May the price was staying above US$70. Impoverished nations like Bolivia and Ecuador now apparently want to use the high prices to bring back the double-digit growth rates regularly seen during the period of state-based development that developing nations experienced before the wave of privatizations and fiscal tightening of the 1980s and 1990s.

Ecuador increased its split of income with oil companies to 50%. President Palacio vetoed an earlier vote that gave 60% of profits to the state and 40% to the drilling companies.

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