

ECUADOR WEEKLY REPORT®

KEY INDICATORS

For the week of Jun 6 – Jun 10, 2016

Get Smart

Last week, *Telesur*, a Latin American joint public broadcaster founded and mainly funded by the Venezuelan government, broadcast a purportedly Ecuadorian video by an anonymous first-person speaker with a disguised voice alleging that the US Central Intelligence Agency controls leading critics of the Correa administration. The primitively made video uses innuendo and the juxtaposition of elements to support its claims. While no serious broadcaster could consider airing this obvious fabrication, government newspaper *El Telégrafo* anchored it in the week’s print and online coverage. Shockingly, even president Correa backed its outlandish claims.

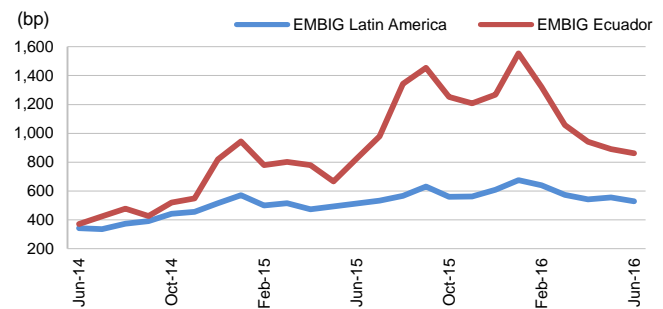
The video, a grueling 24 minutes to watch, includes doctored infrared footage of fighter pilots speaking English with a Spanish accent, insinuating that it stems from the bombing of the Angostura camp in 2008. In fact, while reviewing the footage, we found that the doctored footage shows Brazilian air force Super Tucanos, as the planes’ markings still reveal the Brazilian circle-in-a-star symbol on its wings, while lacking the Colombian version’s painted maw; upon further review, we discovered that the footage was stolen from a Super Tucano training video posted on *YouTube*. In its core claims, the *Telesur* video singles out an Ecuadorian woman working for the Inter-American Institute for Democracy (IID) as the alleged CIA spymaster running a ring of opposition leaders bent on “destabilizing” Ecuador. The IID, a respected pro-democracy organization based in Miami, is led by Carlos Alberto Montaner, a highly regarded Cuban-

Ecuador's Global Bond Prices

Bond	Last Price					
	17-jun	May-16	Apr-16	Mar-16	Feb-16	Jan-16
Global 2020	98.46	100.28	95.21	90.54	79.08	74.92
Global 2024	87.40	89.44	88.04	82.88	72.81	69.63

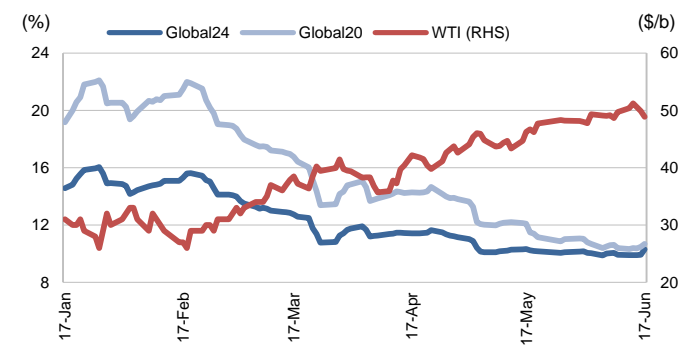
Source: Bloomberg and Analytica

EMBIG Spread



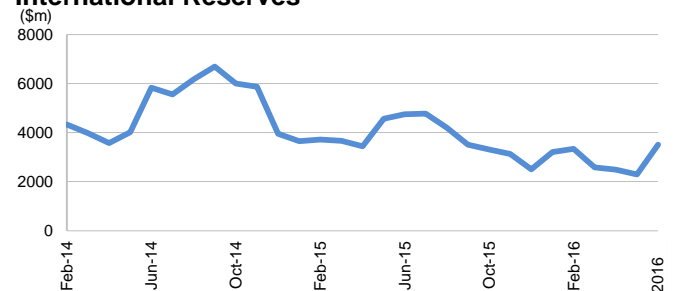
Source: JP Morgan and Analytica

Bond Yields vs. WTI in 2016



Source: Bloomberg and Analytica

International Reserves



Source: BCE and Analytica

American author. The Castro regime has long accused him of being a US agent given his strong intellectual influence in the whole of Spanish-speaking America. The *Telesur* video makes similar statements, claiming that IID board member Karen Hollihan, “runs” a spy ring involving some two dozen people.

The list includes unsurprising names: the fugitive Isaías brothers – two very wealthy bankers accused of embezzlement during the 1998-2000 financial crisis and who fled to Miami more than a decade ago and serve as bugbears to the current administration; leading investigative journalists and commentators; retired army officers; and Quito mayor Mauricio Rodas and his brother Armando, as well as left-of-center politicians Gustavo and Marcelo Larrea, and Andrés Páez, a legislator for the conservative opposition party CREO. *Telesur* and *El Telégrafo* present Hollihan as the alleged successor to an Arab-Ecuadorian who in the previous decade worked as an agent in Quito, using a Persian rug shop in an exclusive neighborhood as a front. News of that case was actually first reported in 2008 by Christian Zurita for Guayaquil newspaper *Expreso* and largely plagiarized this week by *El Telégrafo*, which casually includes him on the list of operatives allegedly manipulated by the CIA through Hollihan. Nothing about her work, meanwhile, qualifies as even remotely suspicious, nor does the pro-government reporting even approximate the obligations for proper journalism established in the 2013 media law; clearly, it aims for the “character assassination” the law forbids.

But politicians including pro-Correa legislator María Augusta Calle, at least previously close to the Colombian Marxist rebel group FARC, minister of politics Paola Pabón, government spokesman Patricio Barriga and Correa himself have all raised indignant voices in a bid to give the manipulated reports credibility. Speaking to foreign reporters in a tense

press conference last week, Correa blasted private media for failing to reproduce the *Telesur* report, which he called “excellent” (a reporter for the broadcaster said that the video had “arrived” at its offices). US ambassador Todd Chapman downplayed the reports as decades-old conspiracy theories, to which Correa responded that “it’s clear there are CIA activities ... to destabilize progressive governments in the region,” alleging that CIA-trained opposition leaders participate in anti-government demonstrations.

It would be shocking if Correa were to lack the intellectual capacity to see the false reporting for what it is. More likely, the whole thing is a diversion seeking to rally loyalists behind a cry for national sovereignty and to distract from ongoing corruption allegations (see below) and the weak economy. Yet the whole thing is so ridiculous that it has derailed itself as a communication strategy, leaving the sad spectacle of a head of state appearing desperate to portray himself as a victim of conspiracies. On behalf of the true victim, Hollihan, IID has said that it will pursue charges and damages against those responsible for this travesty, adding that “We back and congratulate Dr. Karen Hollihan for her brave fight for freedom and democracy and Latin America.”

Oily Payments

The journalistic treasure trove of the Panama Papers continues to provide more evidence of suspicious transactions involving Ecuadorian officials. This week, *El Universo* broke stories, based on documents of legal firm Mossack Fonseca, involving Petrochina, Petroecuador, its former chief executive, as well as Ecuador’s ambassador to Panama. While officials sought to deny and/or downplay the information reported by the Guayaquil-based daily, working in partnership with the International Consortium of Investigative Journalists that coordinated the distribution of the leaked documents,

the reports add to the body of corruption suspicions troubling the Correa administration.

The most significant case involves the Petrochina \$1 billion, 7.25% two-year loan to Ecuador from July 2009, the first of several such deals locking a major part of Ecuador's oil exports into the hands of the Chinese company. The comptroller general's office investigated the deal and, in 2013, found an unjustifiable loss of \$34.5m, which it blamed on a series of former and current officials at Petroecuador, the state oil firm that handles the sales side of the government-controlled industry. *El Universo's* report, meanwhile, revealed that Ecuadorian companies were paid a commission of \$1 per barrel. Petroecuador had agreed to deliver 69m barrels to cover the loan, which is kept off Ecuador's debt books by the government's decision to consider these types of transactions "pre-sales" rather than credit operations.

Petrochina passed the oil to Castor Petroleum, a unit of Russian-owned oil trader Gunvor. According to the documents reported by *El Universo*, Castor, via a subsidiary of its own, Waterway, paid the commission to Ecuadorian-owned firms Eston, based in Nevada, and Oil Services and Solutions (OSS), a Petroecuador supplier that has received more than \$30m in government contracts.

El Universo linked Eston to several individuals including Enrique Cadena, previously singled out by investigative journalist Fernando Villavicencio as a leading intermediary in Petroecuador's foreign oil sales. It also reported that Panamanian bank Banvivienda had subsequently closed Eston's account due to suspiciously high transaction amounts. The cascade of transactions had raised suspicions of wrongdoing, particularly since some of these companies also signed contracts with offshore companies linked to Alex Bravo, the former head of Petroecuador arrested under suspicion of corruption last month (EWR801).

In response, the companies named in the deals have sought to dispel the allegations but failed to address the whole information. Petroecuador chief executive Pedro Merizalde said the report was plagued by "non-confirmed, non-contextualized information" published only a few months before the upcoming electoral campaign and that the dealings "corresponded to daily export operations" (*El Universo* noted that it requested interviews with Merizalde on several occasions). On its part, Gunvor denied direct dealings with Eston. Meanwhile, the comptroller general's office has switched position, now agreeing with Petroecuador that the company indeed sold the oil at market prices, while the oil continued to flow to the US, not to China. The Spanish legal term for the expiration of its investigation – *desvanecer* – can also be translated into English as "fade away." But the allegations won't, given the contradictions and severity of the suspicions.

For one thing, president Correa said that he fired Bravo as soon as he found out about the executive's offshore holdings, but Merizalde continues to run Petroecuador even though the leaked Mossad Fonseca papers show that he, too, owns a Panamanian company bought in 2012, but which he, according to *El Universo*, omitted from his obligatory asset filing (as did prosecutor general Galo Chiriboga with a house controversially obtained in a suit over a decade ago and owned by a Panamanian shell company). In testimony before congress, former oil minister Carlos Pareja denied any wrongdoing but was surprisingly grilled by pro-Correa legislators for making contradictory statements on corporate filings also regarding a large house in Samborondón near Guayaquil.

On his part, Correa has sought to focus attention on opposition politicians who, also, have offshore ownership, but have not appeared in the Panama Papers. In the case of former banker Guillermo

Lasso, the multi-millionaire runner-up in the 2013 presidential election said that his current investment there was approved by Ecuador's banking regulator. Correa however said that he is considering asking voters to bar people with accounts in tax havens from holding office. That referendum would accompany the presidential elections next February. This would not only manipulate the upcoming vote but flagrantly violate other candidates' democratic rights to stand for public office. But "decency must be inaugurated," Correa said. He has had almost a decade to do this, yet evidence is growing that he has led the country in the other direction. Oil in particular is a slippery business; politics in Ecuador is tightly bound to the industry's fortunes. And there is clearly a lot of rotteness in Ecuador's state oil sector.

The editorial board of Analytica Investment's Ecuador Weekly Report publishes information obtained from expert sources, public information and media reports, and documents. Anonymity of interviewed sources is protected.