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**ECUADOR WEEKLY REPORT<sup>®</sup>**

**KEY INDICATORS**

**For the week of Jun 20 – Jun 24, 2016**

**Rights and Wrongs**

This week marked the fourth anniversary of Australian Wikileaks founder Julian Assange’s voluntary stay in Ecuador’s embassy in London. A day after a meeting with Assange, Ecuador’s foreign minister Guillaume Long, a British citizen (nationalized Ecuadorian, according to the ministry), had a fruitless meeting with the UK’s minister for the Americas, Hugo Swire, where both sides could only agree that the stalemate should end as soon as possible. Later, Long said that the UK needed “to take seriously the recent opinion of the United Nations, which considers the situation of Julian Assange one of arbitrary detention ... If we want a system for the protection of human rights that fulfills its function, we have to try to ensure that United Nations decisions are met. They can’t simply be ignored when it’s convenient.” The contrast with reality could hardly be more blatant: Just days before the Assange anniversary, the foreign ministry egregiously misinterpreted a human rights decision issued by the same committee that had published the one on Assange.

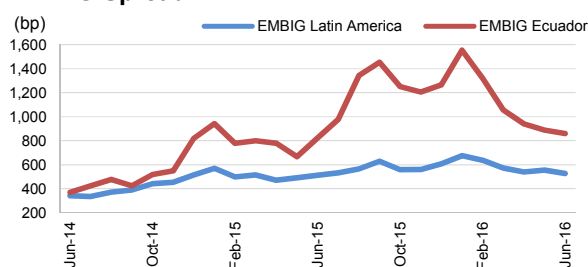
On June 3, the UN Human Rights Committee (UNHRC) found that Ecuador had violated the rights to due process of Roberto and William Isaiás, two very wealthy entrepreneurs who fled to Miami amid accusations of embezzlement in the wake of the 1999-2000 systemic financial crisis. The complex Isaiás case lies at the heart of the social interpretation

**Ecuador's Global Bond Prices**

Bond	Last Price					
	6/24/2016	May-16	Apr-16	Mar-16	Feb-16	Jan-16
Global 2020	98.23	100.28	95.21	90.54	79.08	74.92
Global 2024	87.83	89.44	88.04	82.88	72.81	69.63

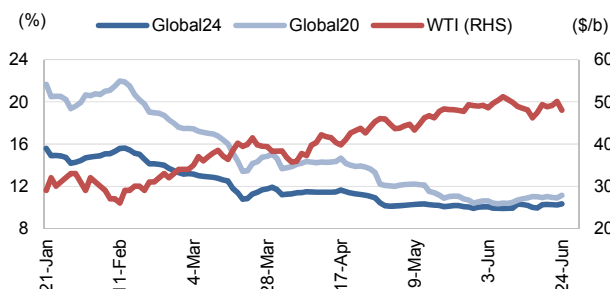
Source: Bloomberg and Analytica

**EMBIG Spread**



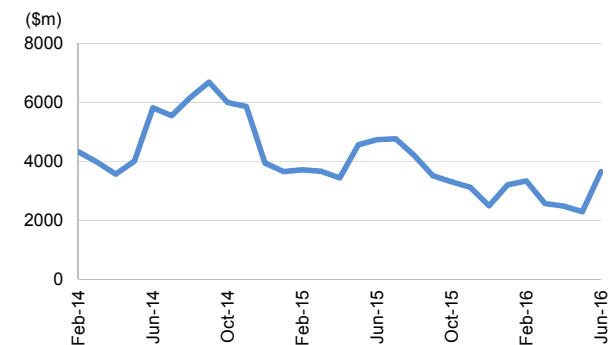
Source: JP Morgan and Analytica

**Bond Yields vs. WTI in 2016**



Source: Bloomberg and Analytica

**International Reserves**



Source: BCE and Analytica

of the events in those years, which led Ecuador to ditch its sucre in favor of the US dollar. Over the years, the Isafas have maintained their innocence and blamed government mismanagement for the collapse of their bank, Filanbanco, at the time the biggest in the country. In July 2008, the Correa administration seized their remaining business empire in Ecuador, saying the sale of the around 200 assets would go to compensating victims of the financial distress. A day later, the constitutional assembly that was currently in session issued a resolution in support of the decision, which had led Fausto Ortiz, finance minister at the time, to quit the administration. The resolution, called "Mandate 13," said that the Isafas would have no right to appeal to constitutional authorities to defend themselves against the confiscation. They, in turn, complained to the UNHRC, alleging violation of the right to due process.

In an Orwellian redaction, the foreign ministry touted the UNHRC findings published earlier this month as a victory for the current administration. In its interpretation, "no violation to the guarantees of due process exist," the ministry said. "The criminal suits have been channeled through judges and duly assembled and competent jurisdictional organs in accordance with the law, thereby guaranteeing the objectivity, independence, and impartiality of its decisions." Indeed, the UNHRC said that initial trials had not necessarily violated their rights, even as public officials had demanded they be charged. But this wasn't the same for the present administration's seizure, whose assets president Rafael Correa put into the hands of second cousin Pedro Delgado as an administrator; Delgado himself is now a fugitive in Miami after he had to admit in late 2012 that he had forged his economics degree.

On its part, the UNHRC is quite clear: It "determines that the party state (Ecuador) violated the right of the authors (of the complaint) ... to a trial with the due guarantees in the determination of their rights and obligations of civil character." Additionally,

Ecuador "has the obligation to provide the authors with an effective recourse," allowing them to defend themselves. "In compliance with this obligation, the state must give full reparation to individuals whose rights under the covenant have been violated. Consequently, the state party should ensure that relevant civil proceedings comply with the guarantees ... of the covenant (with the United Nations) and this opinion;" Ecuador has six months to inform the UNHRC of how it has managed to repair the damage. Hopefully, this will prove more effective than the government administration of the Isafas assets, which has been woeful. Meanwhile, on June 27 and 28, the UNHRC will review the current human rights situation in Geneva, with representatives of Ecuadorian non-governmental organizations scheduled to give presentations. This will give the government a fresh opportunity to prove that Long's comments were serious, although it appears unlikely: Still in Europe, Long spoke out against free trade agreements, even as trade minister Juan Carlos Cassinelli rushed to Brussels to try to get the deal ratified before Ecuador's trade benefits expire in December.

### **Sunset Wedding**

Around 5 a.m. on June 17, police special forces in Guayaquil and nearby Samborondón, Quito, and Machala seized real estate properties and cars, weapons, and cash valued at more than \$8m by the interior ministry in "Operation Sunset." They arrested seven alleged leaders of a ring accused of masterminding around a half billion dollars in gold smuggling and money laundering between 2012 and 2014 through a number of companies, in particular two called Spartan and Clearprocess. The investigation included anti-laundering, anti-narcotics, mining, and tax officials. Aside from the huge amount of money involved, public curiosity was piqued by the fact that one of the accused was about to marry the daughter of trade minister Cassinelli, long a prominent figure in Alianza Pais (sic), president

Rafael Correa's political movement. Numerous top officials were invited to the ecclesiastic wedding, which had to be abruptly cancelled (the civil wedding had already gone ahead).

The prosecution says that the officials used the identities of around 230 individuals who qualified for the small business simplified tax regime. Gold mined illegally in Peru, where the illicit industry has caused severe damage to Amazon rainforest, was smuggled into Ecuador, leading to a major data inconsistency: Ecuador in 2012-2014 mined gold worth \$675m, yet gold exports totaled \$1.02b. Spartan and Clearprocess out of nowhere emerged to become the leading gold exporters to the U.S., according to deputy interior minister Diego Fuentes. Information presented by the investigative authorities point to slow and perhaps only summary review of the tax records of the involved companies before suspicions of wrongdoing began to emerge. From nothing, Clearprocess's earnings surged to \$189.2m in 2014, according to documents presented by the prosecution during the suspects' arraignments. Despite being able to get away with huge amounts of laundering, the suspects, too, did worry that they might get caught, according to transcripts of tapped phone conversations the prosecution also presented. In a country where ordinary citizens and businesses suffer huge amounts of hassling for even basic procedures like reporting a robbery, the ease with which they could pull off their dealings should raise eyebrows.

No government officials have been implicated in the case. Beyond the personal blow suffered by Cassinelli's family, the situation has affected the reputation of the March family, a moderately well-known name in Guayaquil's business establishment; three March brothers are among those arrested. Investigative news site Focus Ecuador however had previously linked Spartan's owner, Alberto March, to former oil minister Carlos Pareja, as well as controversial oil broker Enrique Cadena. According to El Comercio, its review of the leaked "Panama

Papers" showed a fund run by March receiving hundreds of thousands of dollars from Spartan in international transactions. Operation Sunset may yet become a headache for officials as the investigation continues.

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