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**ECUADOR WEEKLY REPORT®**

**KEY INDICATORS**

**For the week of Jun 4 – Jun 8, 2018**

**Justice Served**

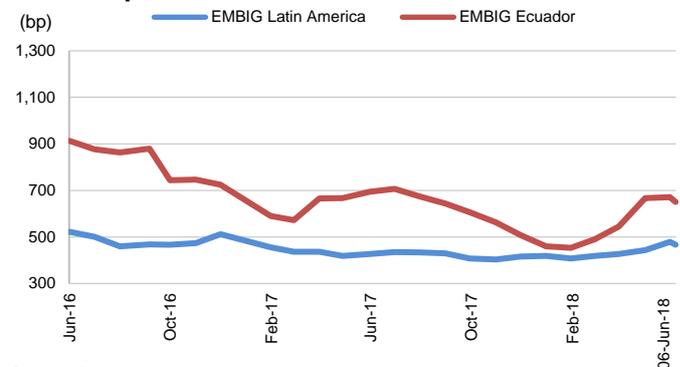
At the start of a public session, Julio César Trujillo asked a boisterous crowd at Quito’s Universidad Central for patience. The transitional Citizens’ Participation and Social Control Council (TCPCCS), tasked thanks to last February’s referendum with the review of top judiciary and regulatory officials, took five long hours to read out its decision to fire the whole top echelon of the Judiciary Council (JC), the main body through which president Rafael Correa (2007 – 2017) imposed government control over Ecuador’s courts. Removing Gustavo Jalkh, the JC’s president, and four other directors was inevitable to remove Correísmo from the courts. The road to true judicial independence is now much more open, but remains full bumps.

Jalkh’s firing was only a question of time after the TCPCCS won the political battles that preceded the announcement. President Lenín Moreno threw his weight behind the Council’s efforts when it appeared his legislative bloc could undermine it. Trujillo had already said that “Jalkh and his whole gang of accomplices of permanent violation of human rights won’t stop us.” The TCPCCS verdict in detail laid out the conflicts of interest of the JC, including its political proximity to the former leader, as whose interior minister Jalkh had served before formalizing the Correa administration’s control over the judiciary in 2011. These conflicts disqualified them from their positions, according to the Council. Much like the recent audit of Ecuador’s debt by the comptroller general’s office, it painstakingly and coolly explained

Bond	Last Price (end of the month)						
	2018						2017
	8-Jun	May	Apr	Mar	Feb	Jan	Dec
Global 2020	104.48	104.12	103.10	108.42	108.75	109.98	110.94
Global 2022	105.51	105.36	105.54	111.06	113.07	116.32	117.48
Global 2023	97.54	97.75	97.89	104.68	106.64	110.12	110.67
Global 2024	93.74	94.06	94.11	100.70	102.06	106.04	106.60
Global 2026	99.10	99.08	98.50	107.37	110.44	114.40	115.03
Global Jun 2027	98.74	98.70	98.11	107.08	110.35	113.76	114.73
Global Oct 2027	94.80	94.49	94.36	102.19	105.58	109.17	109.90
Global 2028	88.90	88.66	88.53	96.76	99.23	102.04	-

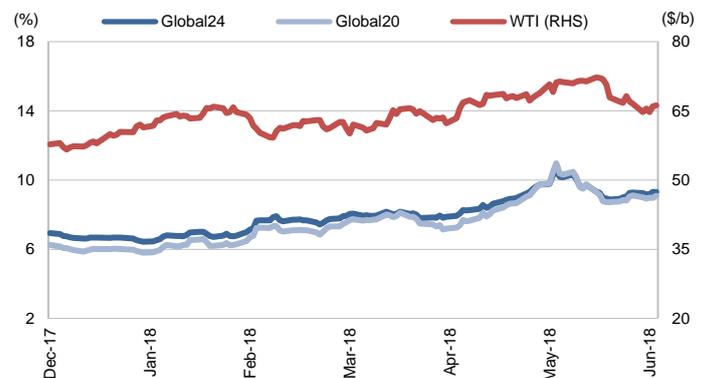
Source: Bloomberg and Analytica

**EMBIG Spread**



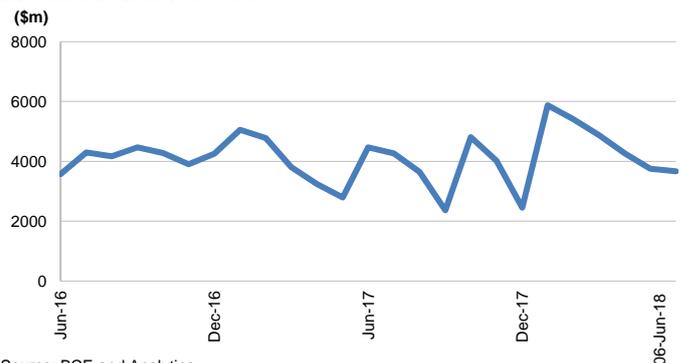
Source: JP Morgan and Analytica

**Bond Yields vs. WTI**



Source: Bloomberg and Analytica

**International Reserves**



Source: BCE and Analytica

each of its steps, including why it had to discard hundreds of citizens' complaints due to formal problems, only to come to the decision to decapitate the JC anyway.

Beyond conflicts of interest, the officials manipulated the appointing of judges, prosecutors, and notaries, as well as using a discretionary tool called "inexcusable errors" to fire judges who dared to rule against the administration's wishes in select cases. Alexis Mera, Correa's lawyer and the former top judicial counsel of the presidency, in recent testimony before congress acknowledged having called judges in what he said was desperation. Leaked e-mails showing communications between Correa, Mera, and Jalkh helped underscore the evidence of the manipulation. All of this undermined judicial independence and the administration of justice, the TCPCCS found. Jalkh and his colleagues questioned the legitimacy of the procedures. In what was likely a calculated incident, they stormed out of the previous hearing before the TCPCCS when Jalkh refused to use the chair he was told to use. The JC officials said they would obey their three-day deadline to appeal. In a press conference, Jalkh dismissed the conflict of interest charge, saying that the TCPCCS had failed to show proof and that having worked for the government previously didn't mean that there was such a conflict. At the close of this edition, the matter hadn't been definitely ruled on. It would be a shocking reversal if the TCPCCS would change its mind thanks to the appeal (it is also the final instance).

Of course, the removal of the current leadership of the JC begs the question of future quality control in the judiciary. As a terminally flawed body, the JC should be abolished altogether like the media regulator, which Moreno wants to do away with in the impending reform of the media law. Perhaps the TCPCCS will name a new panel dedicated to ending the JC's existence in favor of judicial reform. Officially, there is multi-party support to end political interference in the judiciary, not least to finally attract

foreign direct investment. During the recent Council of the Americas investment summit in Quito, the issue came up numerous times. Yet how to do it could well generate controversy. After all, Correa's takeover of the courts was only the latest, gravest, most blatant incident of this sort of political meddling in the courts. Susceptibility of the courts to pressure from the streets remains an issue. The suspension of the Río Blanco permits of Chinese mining company Junefield near Cuenca by a judge in that city a week earlier has sparked worries in the mining industry that pressure from environmentalists could again put the industry against the ropes just as it appeared poised for takeoff. The spectacle of an audience baying for Jalkh's head at Universidad Central, contrasting with the quiet, serious reading of the debt audit a few weeks earlier, undermined the solemnity of the TCPCCS's removal of Jalkh and company.

Moreno himself this week did provide two additional positive signs for his goal of restoring autonomy in the courts. He decided to lift the confidentiality on information regarding four particularly controversial cases: The 2010 murder of air force general Jorge Gabela, who criticized the purchase of Indian Dhruv helicopters (which were removed from service after most crashed); the 2012 jailing of opposition legislator Galo Lara as the alleged mastermind behind a multiple murder (he made numerous corruption allegations against Correa); the attempted kidnapping in Bogota of opposition activist Fernando Balda; and the disappearance of university student David Romo, both in 2013. Later in the week, Moreno met the International Criminal Court's Nigerian president, Chile Eboe-Osuji, before an ICC seminar in Quito regarding its relations with South America. Tips from the ICC on how to handle what will soon probably be heard as crimes of the state will be welcome.

### **Snap, Crackle, Pop**

Coca – Codo Sinclair (CCS) was supposed to be

the prime so-called emblematic hydropower plant of a slew projected under president Correa. Inaugurated in November 2016, the 1,500 megawatt plant became one of just three of the eight actually completed, amid budget overruns costing some \$2.5b. When cracks as wide as 22m emerged in the brand-new distributors that funnel waters to the turbines, along with problems with transformers, alarm bells rang. A large chunk of the \$7.5b bilateral debt Ecuador owes China began to look questionable. Last week, Carlos Pérez, now adding the electricity and mining portfolios to his previous job as oil minister “because the president thinks I don’t have enough to do,” as he joked in a speech to local and US investors, inspected the plant to see what was happening with the cracks. In the end, the media blitz appears to have gone ahead to pressure Sinohydro, the construction company.

Pérez told the reporters at the plant that the company had agreed to pay for an audit by an as yet unspecified German company specialized in reviewing the kinds of problems that have emerged at CCS, located in a steep valley amid towering tropical forest interspersed, at least during the current rainy season, with numerous graceful waterfalls. What the reporters saw was a largely repaired distributor, a giant funnel that gradually spirals to the turbines, where workmen had already fixed the more than 800 mostly tiny, superficial cracks that, apparently, had emerged on the inside surface and in part been detected at delivery well before Correa inaugurated the plant together with Chinese president Xi Jinping by pressing a button in Quito. Large areas of the distributor had been fixed by polishing the surface, covered with water-repelling paint.

While the plant remains otherwise fully operational, routine maintenance on the other seven distributors – one per turbine – means that they, too, likely will need repairs. At the same time, due to relatively low demand, the plant is only generating enough power to provide about a quarter of Ecuador’s electricity, well below capacity, despite ample

availability of water, Pérez said. This however may be masking that the plant was built suspiciously large, double the size of earlier plans, by using average annual levels of the flow of water rather than the industry-standard probable flow equivalent to levels available 90% of the time during the same period. This makes it less likely for all turbines to generate at capacity over the whole of the year. In the speech in which he joked about his workload, Pérez pledged to complete the plants still under construction, starting with the nearly finished Delsitanisagua between Loja and Zamora in the south. But if overcapacity is already a real issue, it would be worthwhile to take a step back and review the whole state-dominated industry before committing scarce resources on sunk capital.

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