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ECUADOR WEEKLY REPORT®

KEY INDICATORS

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Undermining Mining

Ecuador's difficult path towards becoming a responsible mining economy has once again taken a stumble. Courts in Cuenca have stopped development of the Río Blanco project, a gold mine nearing completion owned by Chinese mining company Junefield. The rulings have received support from Cuenca's mayor, Marcelo Cabrera, and umbrella indigenous organization CONAIE. While the risks of mining projects do imply a need to take particular care of the environment over the lifetime of mines, the plight of Río Blanco instead presents the risks of doing business in Ecuador in a bad way.

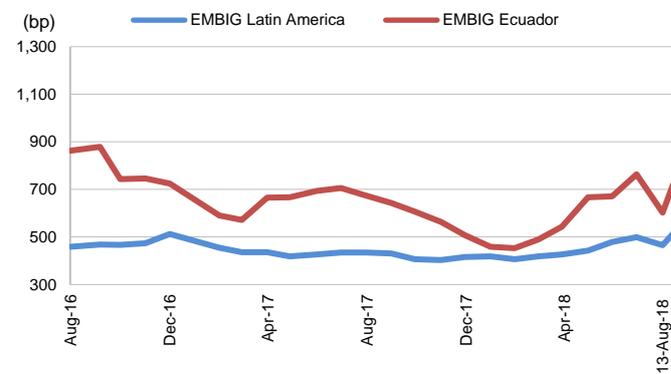
Río Blanco is a 5,000 hectare concession west of Cuenca, with 500,000 inhabitants Ecuador's third-largest city. The underground mine, which is slated to occupy 3.6% of the concession, is estimated to hold 605,000 ounces of gold and 4.3m ounces of silver. Over the 11-year lifetime of the mine, it is estimated to have a throughput of 800 metric tons a day. For Ecuador, that makes it a mid-size project, although it would be small in Chile or Peru. Its location near the El Cajas national park, an internationally significant high-Andean wetland area, has contributed to major environmental controversy ever since project development began, as has its potential impact on human settlements in the area.

Ecuador's troubled experience with oil, but also with mining, means that these concerns should not be taken lightly. Proper use of the public funds obtained by mining is also of concern. Not all of this has been fully resolved. We are only at the beginning of a

Bond	Last Price (end of the month) 2018						
	17-Aug	31-Jul	29-Jun	May	Apr	Mar	Feb
Global 2020	102.77	105.54	102.24	104.12	103.10	108.42	108.75
Global 2022	104.11	108.28	102.55	105.36	105.54	111.06	113.07
Global 2023	96.85	100.21	93.71	97.75	97.89	104.68	106.64
Global 2024	92.02	96.56	89.25	94.06	94.11	100.70	102.06
Global 2026	97.01	100.99	93.58	99.08	98.50	107.37	110.44
Global Jun 2027	96.67	100.61	93.33	98.70	98.11	107.08	110.35
Global Oct 2027	92.68	96.60	89.16	94.49	94.36	102.19	105.58
Global 2028	87.85	91.40	84.02	88.66	88.53	96.76	99.23

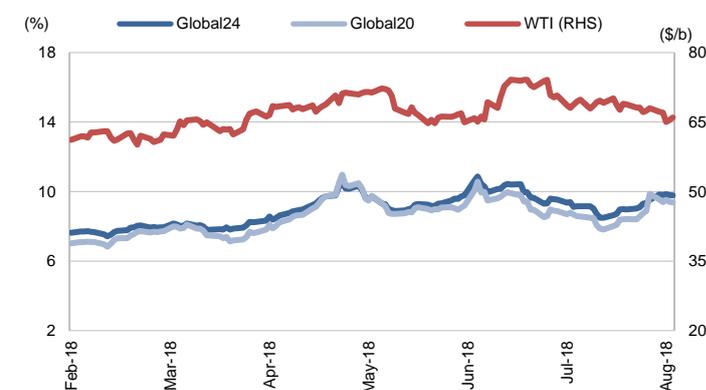
Source: Bloomberg and Analytica

EMBIG Spread



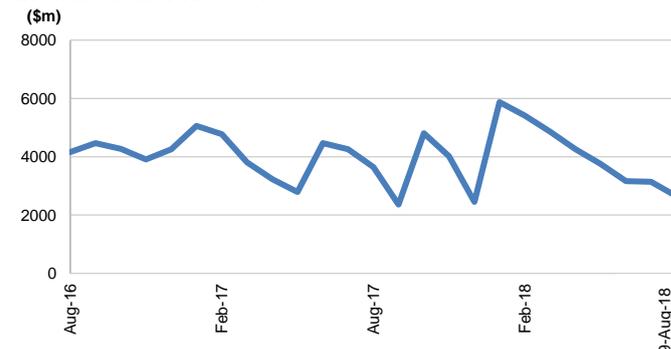
Source: JP Morgan and Analytica

Bond Yields vs. WTI 2018



Source: Bloomberg and Analytica

International Reserves



Source: BCE and Analytica

process, with the prospects for a sovereign wealth fund with contributions from mining only a tantalizing possibility. Still, major universities, notably Universidad San Francisco de Quito and Universidad Técnica Particular de Loja, have started academic programs in cooperation with private industry players, both local and foreign, to get mining on serious footing. Some claims meanwhile have gone beyond the reasonable. Many in Cuenca believe that the mine could poison the city's water, which could actually only happen if the water were to flow uphill. If there is a problem with the water, it will affect communities downriver, including Ponce Enríquez, a small town in the coastal lowlands where the provinces of Azuay, Guayas, and El Oro meet and where the ore from Río Blanco is supposed to be processed. Nearby Tenguel is an area already suffering from mining pollution. Claims that El Cajas will be pockmarked by mines are almost as exaggerated as only small parts of concessions are, if ever, developed. One must remember that only one of 1,000 prospective sites ever make it from discovery to actual mining.

In part, the inability of industry and the government to present mining in a more realistic way has undermined public confidence in the industry. President Rafael Correa (2007 - 2017) managed to alienate both environmentalists and the industry. Defenders of the natural heritage suffered political persecution when Correa dropped his position against large-scale mining, triggering resistance, while companies pulled back investment in the face of maximum rent-seeking by his administration, mirroring problems he had with the oil industry. Towards the end of his final term, the realization that exaggerated financial demands hindered mining development gave way to a far more realistic regulatory regime. This led Ecuador to become something of a mining darling under Lenín Moreno, Correa's successor.

As Río Blanco neared completion however, its little-guarded camp was occupied by protestors in

May. Versions of what happened next conflict starkly. According to police and the government, the protestors destroyed the camp. Media report that protestors have managed to block access to the mine. On their part however, CONAIE and environmentalists working with the organization report harsh police repression of the protests. Yaku Pérez, an indigenous leader and lawyer, says that he was kidnapped while driving on May 9th for several hours by people who damaged his car and accused him of orchestrating the burning of Río Blanco's camp.

In June, at the request of Ecuarrunari, CONAIE's Andean branch, and environmental organization Yasunidos, a first-instance judge ruled that Junefield had not properly consulted the community, suspending the concession and ordering a demilitarization of the area. Center-left mayor Cabrera supported the decision and asked for a reversion of the concessions in the area "at least" until the completion of soil analyses by local universities. One might not expect him to understand the details of mining industry workings, but to expect a government to revert a concession only to then possibly hand it back is absurd. The appeal meanwhile has upheld the first-instance decision. Additionally, the judges who reviewed the initial ruling said that the February 4th referendum, in which two thirds of local residents voted in favor of banning mining from protected areas, implied that they were against the project. It's not clear however that a majority of local residents reject the mine as several filed *amicus curiae* suits in favor of it.

Deputy mining minister Henry Troya has criticized the ruling. He says that the judges have no legal basis to interpret last February's vote, which was supposed to give the industry legal security, as an additional tool to limit mining outside protected areas. While an appeals process is possible, the future for Río Blanco presently looks dim as a judge has refused to let the government's request for clarification of the appeal to go forward. Now, the

government is considering going to the Constitutional Court, which is facing a full restructuring, meaning that it's unclear when that court might be able to review the case. This means that the timeline for mining investments of \$4.5b agreed between companies and the government through 2021 may not be met, at least regarding those of Junefield.

While other projects, most importantly the Lundin Gold mine in the Cordillera del Cóndor, are going ahead smoothly, this crisis could lead investors to lose confidence in Ecuadorean mining again. Junefield after all had all the legal permits to develop the project. As a newsletter, we have strongly supported CONAIE during much of the Correa era as the regime politically persecuted the organization and its leadership. While the incident against Pérez must be investigated by prosecutors, it appears that CONAIE and Yasunidos's environmentalism is little more than a pretext to put forward anti-capitalist economic ideology as the organizations are doing little to combat the scourge that is illegal small-scale mining. This ultimately undermines the legitimacy of environmental protection in a country that sorely needs to do more to safeguard its mega-diverse heritage.

Now Spin This

Fernando Alvarado was one of the top figures of the propaganda machine that brought Rafael Correa to power and helped to keep him there for a record consecutive decade and six months. Now, amid investigations into corruption allegations, the prosecution has outfitted him with an electronic ankle monitor and ordered him to report periodically to a court in Guayaquil. His defense says that he is innocent of embezzling a suspected \$250,000. His willingness to return to Ecuador from Ghana, where he said he had a consulting gig, proves his intent to clear his name, according to his lawyer.

Under Correa, the government established a multimedia conglomerate including print, television,

radio, and social media, the latter also extending to "troll centers" used to attack imagined or real opponents. While generally a bit in the shadow of his brother Vinicio, Alvarado held several leading positions in the media administration, including running the television broadcasters TC Televisión and GamaTV confiscated by the government in 2008 as well as leading the communications secretariat. Investigations by the comptroller general and the anti-laundering office found widespread evidence of corruption of which the \$250,000 now in question, for the costs associated with Correa's Saturday propaganda shows, is only a small part. According to parts of the analyses carried out by comptrollers, Alvarado had himself royally compensated by TC, having the broadcaster pay for things like supermarket bills and luxury travel expenses. In all, the investigations into the Alvarado family shows a turnover of some \$160m in four companies.

Still other scandals have yet to make it into the judiciary, including a non-existent website for which the government paid as much as \$6.4m as part of its campaign against U.S. oil company Chevron and the monopoly for the distribution of urea run by his son, college-aged at the time, for whom his driver served as the supposed owner of the company, Vialmesa. On his part, Correa next month is due to appear in court in Belgium related to a fracas on the streets of Louvain-la-Neuve between him and Ramiro Cueva, owner of Loja broadcaster Ecotel and who turned from a college friend to an enemy during his government. Correa, who moved to live in Louvain with his family (his wife is Belgian), accuses Cueva of threatening him with a gun and attacking him; Cueva says that the former president stole his phone and punched him while his beefy bodyguards pinned him to the ground. With top Correístas including the boss himself forced to defend themselves in court, it looks unlikely for the Moreno administration to face a significant challenge from them any time soon, despite their dreams of a return to power. The

prosecution of leading Correistas also helps to protect the administration from social unrest as it slowly works to unravel the economic crisis it inherited from them.

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