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## ECUADOR WEEKLY REPORT®

## ECONOMIC INDICATORS

For the week of February 15– February 19, 2016

### Real Estate Windfall

The Anti-Corruption Commission, a citizen body created by several center-left social organizations, this week accused the government of having paid some 50 times more for land still set aside for a future oil refinery than the previous owner had paid. According to documents presented by the commission, a leading entrepreneur, Carlos González-Artigas, owner of La Fabril, a Manta-based manufacturer of cooking oils and detergents, bought the terrain for \$121,275 in 2007, only to sell it to the Refinery of the Pacific joint venture in 2009 for \$6.7m. The commission will submit its "grave evidence of corruption" to the prosecutor general, Galo Chiriboga, this week, naming officials in the deal including Marcela Aguiñaga, environment minister; Washington Arteaga, mayor of Montecristi; admiral Luis Jaramillo, at the time chairman of the refinery's board; Carlos Proaño, its chief executive; and comptroller general Carlos Pólit, who, unlike the others, still holds the same position.

Deceased Venezuelan president Hugo Chávez promoted the refinery project, as he did in several other countries, and found a willing partner in his Ecuadorian peer, Rafael Correa. According to copies of documents we have seen, Chávez had already brought on board

### Ecuadorian Global Bonds (Feb 18, 2016)

	BID	ASK
Global 2024	65.25	66.25
Global 2030	62.25	68.25

Source: Bolsa de Valores de Quito

### BCE International Reserves In million US\$

Jun, 2015	4,739.19	38.00%
Agu, 2015	4,201.41	-11.00%
Oct, 2015	3,308.36	-21.00%
Dic, 2015	2,495.96	-25.00%
Feb 5, 2016	2,783.83	12.00%

Source: Banco Central del Ecuador

### Inflation

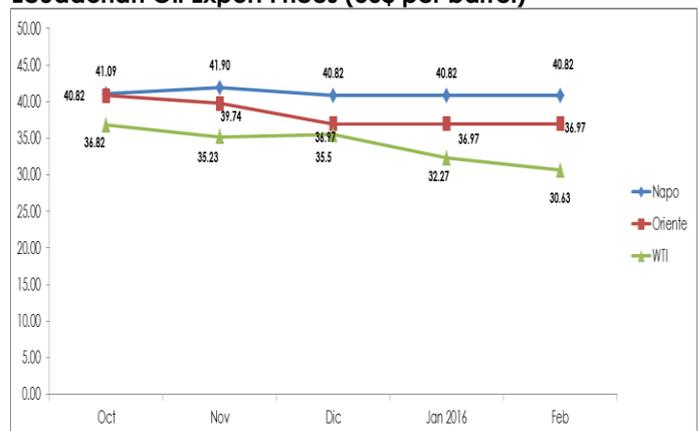
Jan 2016	0.31%
Year to Date	0.31%
Year on Year	3.09%

### Banks – Short and long term Deposits In million US\$

Sep, 2015	14,498.80	-1.28%
Oct, 2015	14,582.60	0.65%
Nov, 2015	14,313.10	-1.85%
Dic, 2015	14,554.40	1.69%
Jan 31, 2016	14,868.40	2.16%

Source: Banco Central del Ecuador

### Ecuadorian Oil Export Prices (US\$ per barrel)



Source: Bolsa de Valores de Quito

South Korean industrial conglomerate SK. State-owned Petroecuador owns 51% of the refinery project joint venture, Venezuelan peer PdVSA the remainder. All attempts to finance the plant, budgeted at \$12.5bn, have so far failed. When Correa and Chávez put down its first stone in 2008, they said the plant would start up in 2013. So far, the government has spent, or "invested," as it insists, \$1.2bn on the plant, including design, earth removal, and an aqueduct under construction, slashing the original planned output by a third to 200,000 barrels a day (leaving the planned budget intact however). PdVSA appears not to have contributed anything.

In its investigation, the commission found that the decision to buy the land stemmed from a unit of SK, over the objections of the navy's oceanographic research institute, which called a refinery at the site "a time bomb due to the environmental impact it would have on the local population." Officials ignored the objections and Montecristi valued the land at \$13.47m on Christmas Eve, 2009 in a pre-sale memorandum. The deal for half the price but 50 times what González-Artigas had paid in 2007 went ahead December 29. "All of this suggests the existence of abuse and arbitrariness in the management of public funds controlled by officials given the positions they held," the commission said in a statement. Interviewed by Quito newspaper *El Comercio*, former CEO Proaño said that Jaramillo had managed to cut the purchase price in half after PdVSA had planned to spend the "budgeted" amount of around \$13m. He also said that he didn't become CEO until January 2010, however media reports including outlets close to the government reported him holding the job at least as early as August 2009.

## Quito and Guayaquil Stock Exchanges

Equities Most Traded			
Issuing Company	Cash Value (From Feb. 10 to Feb 12, 2016) (In Thousands US\$)	Closing Price (In US\$)	Last Date of Trade
BANCO PICHINCHA	294.11	0.47	10/02/2016
CORPORACIÓNFAVORITA C.A.	180.54	2.10	18/02/2016
RETRATOREC S.A.	55.84	3.90	11/02/2016
INDUSTRIAS ALES	17.26	1.00	12/02/2016
FIDEICOMISO GM HOTEL	13.50	2,700	12/02/2016
BANCO GUAYAQUIL	6.62	0.52	16/02/2016
SOCIEDAD AGRICOLA E IND. SAN CARLOS	6.50	1.05	15/02/2016
FIDEICOMISO HOTEL CIUDAD DEL RIO	6.06	3,240	18/02/2016

Source: Precios máximos y mínimos de acciones & Pulso Bursátil Semanal  
Issued by: Bolsa de Valores de Quito.

Fixed Income					
Securities lead by Analytica					
Issuing Company	Issue Type	Total Amount Issued (In Thousand US\$)	Credit Rating	Term (in years)	Yield of Return
OTECEL S.A.	Commercial Paper	50,000	AAA	1	4.25%
ECONOFARM SANA SANA	Securitization	12,500	AAA	5	7.25%
FARCOMED FYBECA	Securitization	12,500	AAA	5	7.50%
EDESA	Commercial Paper	10,000	AAA	1	5.25%
DEXICORP-GRUPO KFC	Commercial Paper	7,500	AA+	1	6.00%
URBANO EXPRESS	Securitization	4,000	AAA-	3	7.50%
		5,000		5	8.00%

While the commission is blaming Pólit for dragging his feet and promised to present three more examples of probable corruption in the refinery case, in 2014, Pólit's office had found that the refinery management had paid \$29.34m too much on basic engineering amid a total \$311.11m. It singled out Jaramillo and two PdVSA officials, Nelson Pablo Martínez and José Ramón Arias. The commission has continued to work despite facing a libel suit from electricity minister

Esteban Albornoz after it said last September that cost overruns and additional contracts implied corruption at the Manduriacu power plant; both Pólit and Chiriboga have rejected the accusations. The real estate has certain ironies to it. For one, the street protests against Correa last year were to a significant extent sparked by his plans to impose major windfall taxes on real estate gains. Second, a government deal to buy property involving Aguiñaga is at the heart of the latest verbal dispute between the administration and the military. Without waiting for a court order, Correa told the finance ministry to debit \$41m from the military's social security institute (ISSFA) after a finding that the city of Guayaquil had valued dozens of plots of land at just \$7m, while Aguiñaga as environment minister and Javier Ponce as defense minister agreed to pay ISSFA \$47m for the land (Correa said at the time that the land was worth close to \$100m). Aguiñaga, currently a legislator for Correa's political vehicle and second vice president of the congress, has been defended by presidential legal secretary Alexis Mera as having committed "an error in good faith" and saying that she "reached that deal, under some pressure from the government, because the military said that 'if I don't sell at that price I won't sell'." Mera's defense of Aguiñaga, arguing in favor of keeping the dispute with ISSFA out of the courts, has added to discontent about government disregard for due process.

### **Sky-High Losses**

Rumors that state-owned airline Tame, formerly owned by Ecuador's armed forces, was suffering financial losses gained strength in recent weeks after it decided to cancel several

routes, including those to white elephant airports in Macas and Tena in Ecuador's Amazon territory and between Latacunga in the central Andes and the oil town of Coca, hit hard by the crisis of the oil industry. This week, senior management held a rare press conference, during which Paola Carvajal, the chief executive and a former transportation minister, acknowledged losses of \$58m in 2014 and 2015; the \$10m loss of the former deepened to \$48m last year, she said. Carvajal, whom president Correa named CEO last September, announced a restructuring and "stabilization" program for the airline.

Among immediate cost-cutting, she announced the end of flights between Quito and Fort Lauderdale and Quito and Sao Paulo. Eliminating the latter alone will cut costs by \$10m, Carvajal said. Flights from Guayaquil to Fort Lauderdale will continue as Tame decided to keep this route with just 52% occupancy compared with the 58% from Quito because the latter destination faces imminent competition from Jet Blue. In 2008, Tame briefly flew to Manaus in an experiment linked to the administration's pipe dream of an economically relevant linkup stretching between the Ecuadorian port of Manta and the Brazilian Amazon city. International destinations continue to include Bogota, Buenos Aires, Cali, Caracas, Havana, Lima, and New York City. By transferring Tame's ownership from the air force to the civil administration, president Correa did open the US market for the airline because US regulations bar foreign military-owned airlines to land there. But politically chosen destinations have undermined Tame's finances severely. Among these are Havana, Esmeraldas, Salinas, and Santa Rosa and above all Caracas. Like a number of foreign

carriers, Tame in January 2014 suspended flights there because Venezuela's currency managers had failed to pay millions of dollars owed the company. The current situation is unknown to the public however.

Tame's emergency efforts aim to limit losses this year to \$10m, amid targeted sales of \$208m, and to achieve profitability in 2017. Too little financial information is available to make more than summary comments on Tame's plans. That, in itself, is scandalous. The cost of aviation fuel should fall amid the overall decline of oil prices, although this should benefit its rivals too. Tame's plan to sell its four Embraer planes is correct as it focuses costs on its remaining planes, all of them Airbus models. It should however never have bought the Brazilian planes in the first place if keeping costs down was important. The more plane types a company operates, the more fragmented maintenance becomes, making it more expensive. Beyond the sale of the Embraers, Tame's management should consider taking additional steps and consolidating its three Airbus types to one, if possible, to cut maintenance costs further. Of course, profitability hinges on seat load factors on the remaining routes, where different-sized planes can make sense.

Information on Tame's Amazon basin operations meanwhile is also lacking. On its Web site, it lists six planes, three ATR's and three Quest-made Kodiaks, but there is no information on the supposed close to 70 destinations in the Amazon basin, about a third of existing air strips in the region. At just \$15 to \$25 per ticket – half price for children and seniors – the routes are unlikely to be making money, while undercutting those of small private aviation companies operating out

of Shell-Mera near Puyo and elsewhere. Tame invested \$18.88m to start up its Amazon venture, launched in 2014. As of August 21, the last date for which Tame has provided information, it registered 22,000 users of the Amazon service, thus registering maximum income of \$550,000 in 18 months of service, if all users had paid the top fare. More efficient options should be considered, perhaps by future management. Perhaps an insurance could cover ambulance flights by private companies, rather than having an entire state airline maintained at a deficit to cover the remote area.

Overall, the end of several international routes to Quito is unfortunate, even considering the entry of budget airlines Jet Blue and VivaColombia. Ecuador's tourism industry requires more competition in aviation and to lower prices and retain competitiveness compared with cheaper destinations in Latin America and elsewhere. But Tame's plight also adds to the evidence, like the inexistent Manta refinery, that the Ecuadorean government is a poor entrepreneur. The list of inefficient state companies is long.

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