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FEATURED Q&A

Will Ecuador's Moreno Attract Big Investments?

Ecuadorean President Lenín Moreno is seeking billions of dollars' worth of investment over the coming years. // File Photo: Ecuadorean Government.

Q **Ecuadorean President Lenín Moreno is seeking to form public-private partnerships in areas including infrastructure, energy, telecommunications and mining in an effort to generate $7 billion worth of investment by 2021. In outlining his plans for the economic measures earlier this year, Moreno also vowed deep cuts to the country's government bureaucracy, which he said would save $1 billion annually. Will Moreno succeed in his efforts to attract the amount and type of investment he is seeking? Which sectors in Ecuador are especially ripe for investment? What are the main challenges Moreno faces in the effort? Does Ecuador's debt level, much of which is scheduled to be repaid soon, threaten the country's economic growth?**

A **Walter Spurrier, President of Grupo Spurrier and director of Weekly Analysis in Guayaquil, Ecuador:** "Moreno's goals are very ambitious and likely to fall short. The list includes some unlikely, capital-intensive projects, such as an aluminum smelter; but Ecuador has no bauxite. Moreno wants private investment in a major new refinery, but government-owned Petroecuador has a monopoly on the wholesale of fuels, which are subsidized. Investment in energy projects would require substantial legal and regulatory changes. Previous Ecuadorean governments did not succeed in privatizing state-owned businesses. Of current government-owned businesses, the phone company, which has a license for mobile services, stands a good chance of being sold. Mining is attracting hefty investment, but Moreno recently halted new concessions. There is considerable investment in the shrimp feed business. Corporations already in Ecuador withheld investment

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Brazil to Hold Auction for Oil Blocks

Sixteen oil companies are set to bid on four oil blocks in Brazil's Campos and Santos basins. The areas are believed to hold approximately 14 billion barrels of oil.

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Opposition lawmakers accused the Conred disaster agency of negligence, saying the agency didn't properly warn residents about a deadly volcanic eruption.

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Venezuela Frees Two Chevron Employees

The two employees had been arrested in mid-April. They were the first employees of a foreign oil company to be detained since President Maduro's government launched a crackdown in the industry last year.

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Maduro // File Photo: Venezuelan Government.

ECONOMIC NEWS

Brazil Set to Hold Auction for Offshore Pre-Salt Oil Blocks

Sixteen of the world's largest energy companies are signed up for a major auction of Brazilian oil fields today, The Wall Street Journal reported. It will be the government's fourth auction of areas in the pre-salt region of offshore Brazil in just over a decade, and sector analysts were watching to see if less investor friendly policies and political risk in Brazil's turbulent election year would scare some foreign companies away. In the end, prospective bidders included U.S.-based Chevron and ExxonMobil, China's Cnooc, Spain's Repsol and others. The four blocks in the Campos and Santos basins likely hold some 14 billion barrels of oil. Bids could run as high as 75 percent of oil produced, analysts say, and the government also expects to collect around $800 million in signing fees. State oil company Petrobras, which still has the option to be the operator in areas it chooses, has said it is interested in being the operator in three of the areas. On Tuesday, the board of Petrobras elected Ivan Monteiro, the company's chief financial officer, to be the new CEO, Platts reported. Monteiro's designation completed the company's surprise transition of power after his predecessor, Pedro Parente, resigned last week under the threat of an oil-worker strike and week-long national transportation stoppage over fuel price policies that Parente had championed. Monteiro will serve out the remainder of Parente's term, which expires next March, Petrobras said in a regulatory filing.

Monteiro // File Photo: Petrobras.

Jamaica Sees Record Number of Visitors From January-May

A record number of visitors have arrived at Jamaican ports from January to May this year, Tourism Minister Edmund Bartlett said Wednesday, the Jamaica Gleaner reported. More than 1.02 million stopover tourists visited Jamaica in the first five months of the year, a 5.5 percent increase as compared to the same period last year, and cruise arrivals also recorded a similar percentage increase for the same months, reaching 933,892 visitors. Foreign-exchange earnings for the period rose by 9 percent to $1.3 billion. "Having a million stopover tourist arrivals for the first five months of the year is truly unprecedented," Bartlett said in a statement. The government estimates that Jamaica is on track to have 4.6 million visitors in 2018, which would set a new annual record. Last year, tourism was up 12 percent on the island. In related news, Netherlands-based Playa Hotels and Resorts this week completed its acquisition of five all-inclusive properties in Jamaica, Caribbean Journal reported. The company offered Barbados-based Sagicor Group Limited $100 million cash and 20 million shares in common stock for the properties, a total package worth almost $320 million. Two Sagicor nominees also joined Playa's board of directors.

BUSINESS NEWS

Venezuela Releases Two Chevron Employees

Venezuelan authorities on Wednesday released two employees of U.S.-based oil major Chevron, the company said in a statement. "Our colleagues are in good health and have been reunited with their families," the company, based in San Ramon, Calif., said in a statement. The employees, Carlos Algarra and

NEWS BRIEFS

Guatemalan Disaster Agency Accused of Negligence After Eruption

Opposition lawmakers in Guatemala on Wednesday called for an investigation into whether criminal negligence at the country's emergency response agency, Conred, led to the deaths of nearly 100 people in the wake of Sunday's eruption of the Volcán de Fuego, or Volcano of Fire, outside Guatemala City, El Periódico reported. "They did not care and they did not take precautions," said Congressman Mario Taracena. Conred officials said they had issued alerts that day, but locals generally do not respond to evacuation alerts because they are used to the risk of eruption.

Brazil's Temer Planning Decree to Overhaul Mining Rules

Brazilian President Michel Temer plans to bypass Congress to issue a decree next week that will overhaul the country's half-century-old mining code, Reuters reported Wednesday. Two unidentified sources told the wire service that the decree would cut red tape and attract international investment to the mining sector. Brazil's Congress passed measures late last year to create a new mining regulator and raise royalties on a variety of metals and minerals, but it failed to approve a separate measure overhauling the mining code.

SQM's Hiring of Ponce 'Imprudent': Chilean Finance Minister

Lithium miner SQM's decision to hire its former chairman, Julio Ponce, was "imprudent," Chilean Finance Minister Felipe Larraín said Wednesday, Reuters reported. The statement followed an agreement in December with then-President Michelle Bachelet's government that Ponce distance himself from SQM. Ponce was fined for market manipulation in 2014.

Rene Vasquez, were arrested by Venezuelan intelligence agents on April 16 amid a corruption probe of Venezuela's oil sector, local daily newspaper El Universal reported. They were the first executives of a foreign oil company to be arrested since President Nicolás Maduro's government launched investigations last year into the oil industry. Some 80 people, including 22 high-level managers, have been arrested since then. Among them are a former oil minister and a former president of Venezuelan state oil company PDVSA. The two Chevron employees had been facing possible charges of treason after refusing to sign some parts of a contract for a joint venture with PDVSA, Reuters reported, citing unnamed sources. The men had been arrested at Chevron's offices in Puerto La Cruz, where it has approximately 150 employees. Chevron also has two other offices in the country. The arrests were part of escalating tensions between PDVSA and foreign oil companies over the governance of joint ventures and control of supply contracts, sources told Reuters. Venezuelan authorities have not disclosed the reasons for the employees' arrests and have not said whether they had been formally charged with any crimes, the Associated Press reported. Venezuelan authorities in January arrested several managers at Petro-Piar, a joint venture between Chevron and PDVSA. Authorities charged the managers with embezzlement and conspiracy in connection with accusations of illegal manipulation of production data. The Chevron employees' release came just days after Venezuela released Joshua Holt, an American who had been jailed in the South American nation for two years without a trial. Maduro's government released Holt following talks with U.S. legislators. Venezuela also freed dozens of jailed anti-government activists last weekend. On Wednesday, Venezuelan Foreign Minister Jorge Arreaza repeated his calls for dialogue with the U.S. government, which has slapped sanctions on Venezuela. The most recent round of U.S. sanctions were imposed after Venezuela's May 20 presidential election, in which Maduro was declared the winner. Maduro's opponents and numerous foreign governments have denounced the election as a sham.

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during Correa's decade in power, when Ecuador seemed heading Venezuela's way. They have to make up for lost time, and have the incentive to invest, as the proposed law offers very generous tax breaks for projects that kick off within the next 24 months. One of Correa's departing gifts was revoking bilateral investment treaties. That is the most difficult stumbling block to attract investment. Ecuador's byzantine bureaucracy is another. Uncertainty regarding Ecuador's economic stability is also a deterrent. Ecuador is committed to reducing its dependence on external credit, which requires cutting public spending, whose ratio to GDP is far higher than those of Colombia, Peru and Chile. The stabilization program would have to turn the fiscal deficit into a surplus; the rate of growth is likely to be very modest during the process."

A **Daniela Chacón Arias, member of the Quito City Council:** "President Moreno's economic plan was, in general, well received by the private sector, although with doubts about the political efforts and institutional and legal reforms needed to execute it. Since the announcement, several steps have been taken that show a willingness to implement the plan. That is, removal of several cabinet ministers who supported former President Correa's policies, the change in the council that oversees the judiciary and that Correa used to hunt down opponents, and the presentation of the bill for attracting investments, generating employment and reaching fiscal equilibrium. Having independent courts in which the rule of law is guaranteed is one of the main challenges Ecuador faces in attracting investment. In addition to passing this bill in the legislature, political efforts to win strong support for it will determine the success of the economic plan. As for the announcement to seek public-private partnerships, I am still skeptical, as the country has not yet developed the institutional and legal capacity to build these partnerships. Although the president will create a special unit dedicated to this effort, the results are yet to be seen. Finally, in terms of debt repayment, the bill proposes a fiscal equilibrium to be achieved in three years, but it doesn't specify the measures to reduce state spending, which are crucial to achieving equilibrium, and it doesn't establish an agency responsible for monitoring the compliance with the fiscal stability plan."

A **Francisco Swett, dean of the School of Economics and Business at Universidad Espíritu Santo in Samborondón, Ecuador and former Ecuadorean minister of finance, member of Congress and central bank president:** "Economic policy in the Moreno era continues to be a series of trial balloons. One fourth of his term has gone by, and still there is no economic policy to confront issues that are real and way beyond the capacity of any politician to talk himself out of. Ecuador's public-sector spending needs to come down from 40 percent to the historic 25 percent of GDP with a sense of urgency. The price of procrastination is zero growth, continued deflation and accelerated loss of political capital thus far sustained by beating the Correa political 'dead horse.' Currently, the budget faces a $9 billion cash shortfall. In this scenario, a $1 billion reduction in spending, even if it happened, would hardly make a dent. To gain credibility in capital markets, Ecuador will require a prior agreement with the International Monetary Fund, and programmed cuts of at least $3 billion on a yearly basis until the fiscal gap is reduced to manageable proportions. Foreign investment will continue to bypass Ecuador due to lack of legal security, and the mining sector is a sort of a decade-long chimera. Rather than keep hoping, it is time to act upon wasteful spending and restructure the tax regime by adopting a rational, manageable, more inclusive, productive and sustainable tax base, the elements of which exist but require political will and decisions.

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All options require facing new realities where oil prices will not come to the rescue, but only the right vision and actions will promote growth and development."

A **Vicente Albornoz, dean of business and economics at the Universidad de las Américas in Quito:** "President Moreno's U-turn in economic policy was just as surprising as most of his radical changes in policies. After beginning his presidency as a close ally of his predecessor and mentor, Rafael Correa, he distanced himself from most of the authoritarian policies he inherited from Correa. He also won with an ample majority in a constitutional referendum in February, which gave him the tools to dismantle the corrupt government structures created during Correa's time. The new economic policies proposed by the government imply a yearly reduction of public expenditure of 1.5 percent of GDP for the next four years. This could be called a 'shock and gradualist' adjustment policy, because even a one-time reduction of 1.5 percent of GDP in public expenditure would be considered shock therapy in other economies, and Moreno plans to repeat that reduction for four years in a row. This may be harder as a political challenge than as an economic one, and this casts some shadows over the sustainability of the economic program. These doubts may be the largest obstacle for the fulfillment of the ambitious investment program, as private investors may not be fully convinced of its long-run success. After being for many years the laggard in foreign investment in Latin America, Ecuador has ample opportunities for FDI in areas as diverse as oil, mining, agriculture and services. The new free-trade agreement with Europe should also create investment opportunities."

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>
> **— Vicente Albornoz**

A **Ramiro Crespo, CEO of Analytica Investments and President of Analytica Securities in Quito:** "When Lenín Moreno swore in Richard Martínez as Ecuador's new finance minister three weeks ago, Moreno made a strong commitment to fighting corruption. In particular, he said he would follow the money to ensure individuals formerly in the public sector would not be allowed to re-emerge as nouveau-riche magnates thanks to embezzled public funds. This is highly laudable, and the finance ministry should leverage this as a key policy tool to spearhead the reduction of mid- to senior-level positions in the bloated bureaucracy that represents a potentially hostile threat to Moreno's government. Ecuador spends $9 billion annually on public-sector salaries, the benefit of which is not immediately clear. It would be preferable to move strongly to prune especially the higher levels, which should be identifiable thanks to the networks established by notorious officials like Ricardo Patiño, who massively expanded the foreign ministry as political patronage. Technology and other tools can help speed this effort. It would be a stronger signal to attract investors, alleviate debt worries and give Ecuadoreans a sense that those responsible are being called to account than to continue to gut capital spending and/or rely on new laws to solve this pressing problem. In a country where dead people vote, it shouldn't be surprising that they also work in the bureaucracy and contribute, together with many no-show sinecures, to the coffers of the governing party and nomenklatura. Severance payments would be minimal, and tax evasion and recovery of laundered money could be immense."

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