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THEDIALOGUE

FEATURED Q&A

Will Ecuador's New President Change Course on Energy?

Lenín Moreno took office last month as president of Ecuador, whose economy has suffered because of the collapse in the price of oil, its top export. // File Photo: Ecuadorean Government.

Q Rafael Correa concluded a decade in office as Ecuador's president when his former vice president, Lenín Moreno, succeeded him last month. During his presidency, Correa increased state control of the country's oil and gas sector, restructured state energy companies, struggled with the massive Eloy Alfaro Refinery of the Pacific project, and launched the failed Yasuní-ITT initiative, which would have had wealthier countries pay Ecuador in exchange for it forgoing the extraction of oil in the Yasuní National Park in order to preserve biodiversity and limit carbon emissions, among other measures. What will be Correa's legacy for the country's energy sector? How will Moreno seek to revitalize output in the sector, which has been hard-hit by low oil prices in recent years? What should Moreno prioritize for the energy sector, both in the short and long term?

A Mario Alejandro Flor, partner at Bustamante & Bustamante in Quito, Ecuador: "Rafael Correa will be remembered for having invested in renewable energy sources, particularly in hydroelectricity. Thanks to the investments made in the past decade, more than 80 percent of the energy Ecuador consumes comes from hydroelectric power. This means cheaper energy, less environmental contamination (as compared to thermoelectric generation), and energy exported to neighboring countries. Nonetheless, and specifically with regard to oil matters, President Lenín Moreno has the challenge of improving confidence in the country for the big global players and making Ecuador attractive for huge projects. For this purpose, he might have to

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TODAY'S NEWS

POLITICAL

Mexico Registers Highest Monthly Murder Rate in Decades

The country's homicide rate for May totaled 2,186, the highest number of murders for a single month in at least 20 years.

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POLITICAL

Venezuelan Foreign Minister Resigns

Delcy Rodríguez plans to run for a position on the controversial "constituent assembly" that is to rewrite the country's Constitution.

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ECONOMIC

Peruvian Finance Minister Quits Following Censure

Peruvian Finance Minister Alfredo Thorne resigned after losing a no-confidence vote in Congress. In secretly recorded audio, Thorne was allegedly heard telling the government's comptroller general that he would get a larger budget if he approved a project for a new airport near Cusco.

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Thorne // File Photo: TV Perú.

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POLITICAL NEWS

Murder Rate Spikes in Mexico, Deadliest Month in Decades

Mexico's murder rate is up sharply this year, and the number of homicides in the country in May totaled 2,186, the highest number of murders in a single month in at least 20 years, according to statistics published Wednesday by the country's Interior Department, the Associated Press reported. The previous monthly high for the homicide rate was 2,131, registered in May 2011. For the first five months of this year, there were 9,916 reported killings across Mexico, a 30 percent increase as compared to the same period last year. "Pretty grim. Not shocking because we've seen this for months," Mexican security analyst Alejandro Hope told the AP. "But yeah, it's really grim." The violence is in part being fueled by "the weakening of the Sinaloa drug cartel," said Hope. The cartel's leader, Joaquín "El Chapo" Guzmán, is imprisoned in New York, where he is facing drug trafficking charges. Hope said "the parallel rise of the Jalisco [New Generation] cartel is also to blame for the rise in violence. Baja California Sur registered the highest jump among states' homicide rates. The state saw 36 killings in the first five months of 2016, but that number soared to 169 for the same period this year. Hope said a Sinaloa cartel faction is fighting its rivals for control in Baja California Sur. Large increases were also registered in Veracruz, where the homicide rate nearly doubled to 93 percent, Quintana Roo, where it rose 89 percent and Sinaloa, which had an increase of 76 percent. Just four states saw a decline in the murder rate for this year through May—Campeche, Coahuila, Mexico State and Nuevo León. In no state did the homicide rate fall more than 6 percent. On Wednesday, the governor of Veracruz, Miguel Ángel Yunes, told reporters that two dismembered bodies,

> **"Pretty grim. Not shocking because we've seen this for months."**
>
> **— Alejandro Hope**

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analyze what type of upstream contract with private oil companies is most convenient for the interests of both parties. Moreno could face certain budgetary restraints. Petroleum pre-sales, OPEC agreements and keeping domestic production up are significant issues that the new president will have to bear in mind. Furthermore, in light of the somewhat bleak outlook for the petroleum industry, Moreno will focus on other areas of natural resources extraction. Certainly, mining will be a prevailing option for the new government's development strategies."

Ramiro Crespo, president of Analytica Securities in Quito: "Correa's legacy is a disappointment for the energy sector. He assumed that high oil prices would continue indefinitely when he changed the production-sharing agreements to service contracts. He expelled first-rate international operators in favor of little-known companies that are now making a considerable profit despite low oil prices. Service contracts provide an incentive to overproduce and manage reserves poorly. The Yasuní-ITT project was a complete façade and resulted in the area neither being protected, nor the project being developed according to plan. The country doesn't have the funds to invest, and low oil prices mean the fields will have to produce more than twice the amount planned in order to achieve the same returns. Correa fostered an environment where corruption ran wild. The Petroecuador scandals resulted in hundreds of millions of dollars leaving the country through suspect contracts. High costs, too many employees and little strategic direction

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NEWS BRIEFS

Peruvian Finance Minister Resigns After Losing No-Confidence Vote

Peruvian Finance Minister Alfredo Thorne resigned Wednesday after the country's Congress voted to censure him amid claims he offered a high-ranking official a larger budget if he approved a plan for a controversial airport project. President Pedro Pablo Kuczynski has not yet named a replacement for Thorne.

Brazil, Russia Agree to Stronger Ties on Foreign Policy Issues

Brazilian President Michel Temer met with Russian President Vladimir Putin on Wednesday, during which the two leaders signed a statement on "strengthening a strategic dialogue on foreign policy issues." The statement says the two countries will make an effort to contribute to "more fair, democratic and multi-polar international relations based on a central role of the United Nations, the primacy of international law and collective action." After the talks, Putin said that Russian energy and transport companies hope to expand operations in Brazil.

Chilean Court Rules Frozen Assets Be Returned to Pinochet's Family

A Chilean appeals court has ruled that the $4.8 million in cash and assets that were frozen during a legal investigation of the late dictator Augusto Pinochet should be returned to his family, Agence France-Presse reported today. The ruling was split and could be appealed. The assets were seized as part of the so-called Riggs case in 2004. In the same ruling, six retired officers were acquitted of charges that they had misappropriated public funds, reversing a 2013 ruling that said the officers who had served in the Chilean Military House could have helped Pinochet hide his fortune in Washington's Riggs bank.

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contained in seven bags, had been dumped late Tuesday outside the office of the state's security chief. Armed assailants also attacked three workers who had been putting up a billboard with a reward offer targeting criminal suspects.

Venezuelan Foreign Minister Resigns

Venezuelan Foreign Minister Delcy Rodríguez resigned Wednesday in order to run for a seat in the new constituent assembly, which will be tasked with writing a new Constitution, Reuters reported. "She truly deserves the recognition of the entire country because she has defended Venezuelan sovereignty, peace and independence like a tiger," President Nicolás Maduro said during his announcement of Rodríguez's resignation. The election for the controversial new body is set for July 30. Opposition members are planning to boycott the vote, which they say will be rigged in Maduro's favor. Maduro has said that a constituent assembly is necessary to rewrite the Constitution, overriding other institutions, in order to stabilize the country amid its long-running political and economic crisis. In nearly three months of anti-government protests, 75 people have been killed. Rodríguez's resignation came as foreign ministers from throughout the Americas failed to agree on a resolution for a plan to mediate the crisis between Venezuela's government and its opposition during the Organization of American States' General Assembly meetings in Cancún, the Associated Press reported Wednesday.

BUSINESS NEWS

Xpress Money Expanding Network in Latin America

Money transfer company Xpress Money said Wednesday that it is expanding its network in Brazil, Chile and Guatemala through a series of partnerships. The Dubai-based company said the development is part of its plan to boost its network in Latin America to 40,000 locations by the end of the year. "Recent remittance trends in LATAM indicate that there is good potential for business growth in the region," the company said in a statement. Xpress Money said the region offers good potential for its business growth as remittance flows into Latin America rose by an estimated 6.9 percent last year, to $73 billion, according to the World Bank's Migration and Development brief. That growth is expected to continue in coming years, though at a more moderate pace of 3.3 percent for this year and 3.6 percent for next year. "Our aim is to make money transfers convenient for expats residing across all geographies in the world," Sudhesh Giriyan, Xpress Money's chief operating officer, said in a statement. The company said it currently has 180,000 agent locations in 160 countries.

IN FOCUS

Panama's Varela Defends Decision to Recognize China at Expense of Taiwan Ties

By Nicole Wasson

WASHINGTON—During his trip to the United States, Panamanian President Juan Carlos Varela on Wednesday defended his government's decision to give diplomatic recognition to China, effectively cutting off diplomatic ties with long-time ally Taiwan.

"China has 20 percent of the world's population, the second-largest economy, the second-main users of the Panama Canal, and the first supplier to the Colón free trade zone," Varela said in an event at the Inter-American Dialogue. Varela added that he anticipates that the newly formalized relationship will provide more economic opportunity for Panama. "This is going to bring a lot of investment to our country; this is going to bring a lot of trade; it is going to bring more opportunities."

Varela // Photo: Missy Reif/Inter-American Dialogue.

Varela also criticized President Nicolás Maduro's handling of Venezuela's ongoing political crisis, calling on Maduro to engage in dialogue that may lead to policy change, rather than taking violent measures to resolve the crisis. "When a president orders the military to confront his people every day, it's not good for democracy, and it's not good for the president," he said. "You [would only] use tear gas against your people because you are losing governability. You are losing the capacity to rule your country." Panama has been a strong proponent of reaching a resolution between Venezuela's government and its opposition leaders.

Looking ahead, Varela identified the fight against corruption as being a key challenge for Panama. "We must make sure that the new government elected two years from now is also an honest government that is committed to the fight for transparency against corruption." Varela said he also hopes that one of his legacies will be that his government used social wellbeing to drive its decisions on investing public money. "People want to invest funds with political criteria, just to build parties and not to build nations. I'm investing all public money with social criteria."

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have resulted in debts to suppliers of more than $2 billion. Now the foreign debt-to-GDP ratio is ludicrously high, and the country's future shipments of oil have been sold to China in opaque deals. There is much doubt that Moreno will bring significant change if Correa continues as a shadow president. However, there is hope with the appointment of Halliburton veteran Carlos Pérez as the new minister of hydrocarbons. The country's priorities should be to leave OPEC and increase production in an environmentally conscious fashion, and to list the national oil company's shares locally and abroad to force them to be more competitive, accountable and transparent, as there is currently no independent auditing firm that is willing to give an audit opinion for these companies."

Jose L. Valera, partner at Mayer Brown: "Correa's legacy for Ecuador's energy sector is poor. When oil prices were high, he strong-armed all the foreign oil companies into giving up their profit-sharing contracts and signing new contracts under which they would become service providers. Under the service arrangements, all production belongs to the state, and the company is paid a fixed fee per unit of production delivered to the state, plus reimbursement of certain costs. Correa sought to keep all the upside of rising prices for the state. He put Ecuador firmly on the side of resource nationalism and state control in the oil sector. Correa made a choice: instead of ensuring through competitive contracts that Ecuador's population is adequately and efficiently supplied, and that exportable surpluses increase, he instead opted to maximize short-term rent to spend more while completely disregarding the long-term development of a diversified,

> **"Ecuador's oil production has been stagnant for many years..."**
>
> **— Jose L. Valera**

stable and strong economy. Ecuador's oil production has been stagnant for many years, and as a result of increased domestic demand, the exportable surpluses are ever lower. The drop in oil prices for a country that relies heavily on revenue from crude oil exports has been devastating. Ecuador is not currently creating the conditions necessary for the private sector to help meet its challenges. Moreno has all the legal tools necessary to revitalize output in the sector if he implements pragmatic policies, instead of being driven by ideology and short-term opportunism. Many countries are attracting capital for exploration and development of their hydrocarbon resources. All Ecuador needs is changed policies. Oil is in the ground, waiting to be extracted."

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org.

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