

ECUADOR IS BACK ON THE MAP

The economy is opening up to international investors



MINING AND ENERGY:

Minister for Energy and Non-Renewable Natural Resources, Juan Carlos Bermeo, outlines the investment opportunities

IN-DEPTH SECTORAL ANALYSIS:

Mining
Oil and Gas
Exports
Investment Climate

TRADE AND INVESTMENT:

Interview with Minister of Production, Foreign Trade, Investment and Fisheries, Julio José Prado



República
del Ecuador



Gobierno
del Encuentro

Juntos
lo logramos

Dear LatAm INVESTOR Readers,

In the last presidential elections, the Ecuadorian people gave their massive support to a government that will be a friend to the world. A government that today is formed by citizens that have the creation of employment and post-pandemic economic reactivation as their priority.

More than anything, we are a government that understands the importance of investment for economic growth. We also know that the best way to build a solid presence in the world is by forming friendships with all of the countries, instead of turning our backs, which sadly was the norm over the last 15 years.

It is well known in the international community that Ecuador is a land with touristic, human and economic potential without limits. The difference is that this government understands that, while all of that is of vital importance, we must also establish a stable framework for investment.

For that reason, today we are beginning a new era in which the name of Ecuador will not only be synonymous with natural riches, beautiful landscapes and blessed climate, but also with legal security, respect of the independence of different branches of the state and human rights.

Together, Ecuador and the world, has a marvellous future to build. Today, because of various situations happening in the region, we are a unique strategic partner. All of us who believe in the rule of law, individual liberty and human rights have a challenge in the coming years. It is time to show that our values are the path to forge societies that are more advanced, prosperous and, above all, more equal. We should cooperate to demonstrate that economic opening and legal security are the path to bring prosperity to every corner of the planet.

That's why our foreign policy is epitomised in the motto: **"More Ecuador in the world and more of the world in Ecuador."** That reflects our firm belief in a world of shared prosperity, which is not just good in itself but also because we know that where there is prosperity there will also be political stability. Where there is free and fair trade, there is peace. We believe that attracting investment, together with all of the work that we will develop with our partners in the world, will create an example of stability that will mark a new direction for Latin America.

To that end, in barely 30 days, we have taken firm steps that confirm our will for cooperation and openness. We have begun negotiations to shortly join the Pacific Alliance. We have passed a decree to reduce red tape and ease investment into the country. We are organising a large investment forum with the Inter-American Development Bank, that will take place in the coming months. By the end of 2021 we will have a Single Window for Investments up and running. This digital platform will have all the information that international investors need to invest in our country. In that way, with actions, we are proving what I said in my inauguration speech on the 24th of May: "Ecuador opens its doors to international trade. We are open for business."

Finally, to all of the readers of this prestigious magazine, I say, **invest in Ecuador.** Believe in our country and its leadership. We hope to see you in person very soon to give you the welcome to this wonderful land of opportunities. Here there is a whole new world to build, full of dreams that we share to today and that tomorrow, together, we will achieve.



Guillermo
Lasso

Guillermo Lasso,
President of the Republic of Ecuador



Guillermo's Goals

Ecuador's new president, Guillermo Lasso, arrives with much optimism yet he has plenty of challenges to overcome...

In 1964, then British Prime Minister, Harold Wilson, famously observed that 'a week is a long-time in politics.' If that's true then the last few months feel must feel like a lifetime for Guillermo Lasso. In February of this year, he was trounced in the first round of presidential elections, with analysts predicting a third-successive election failure. Scraping through to the final round in April, he was consistently behind in all of the polls except that one that really mattered – securing the presidency in a surprise victory.

Investors were buoyed by the prospect of an ex-banker running one of Latin America's most-closed economies and markets immediately reacted to the news with Ecuadorian bonds rallying and country risk indices falling. Inside the country Ecuadorians contemplated the end of 14 years of *Correismo*, which began in 2006 with the ten-year rule of populist, leftist Rafael Correa,

continued for four more with his errant protégé Lenin Moreno, and had been expected to continue with Andrés Arauz – the *Correista* defeated by Lasso.

He inherited a country in crisis. A combination of high government spending, low tax revenues and weak economic growth had pushed debt to unsustainable levels forcing Ecuador to seek a bailout from the IMF in 2019. Then came the Covid-19 pandemic in 2020, which hit Ecuador particularly hard.

According to data from the Financial Times, Ecuador has the second-highest excess deaths per capita in the planet. That exacerbated its economic woes, with GDP contracting almost 8% in 2020. The pandemic also exposed the country's institutional weakness. A series of corruption scandals involving the collapsed health system

particularly enraged the public.

International investors are pleased because of the superficial change of politics. A left-wing authoritarian has finally been ejected from the political stage, while a market-friendly banker enters from the right. Yet the real change is more profound, explains Javier Salazar, Managing Partner, EY Ecuador. "Even more important than the political change, is the fact that we have elected an excellent administrator. The biggest problem in Ecuador in recent years is the crisis of administration in the state. If you look at the crises we have, whether it is in our pandemic health response, or our education system, the cause is always poor administration. There was a tendency to put specialist experts in ministerial posts – ie appointing a doctor as the Minister of Health.

"But actually, what this country needs is more efficient administration. Lasso understands that because he comes from the private sector, where companies separate between technical specialists and expert administrators." Maria Amparo Alban, an Executive Director at London-listed, Ecuador-focused mining company, SolGold, agrees. "Lasso is not a typical political Ecuadorian leader. He is a business leader because the country wanted to vote for something different. Lasso is a technocrat and the country hopes that will bring a less corrupt style of government."

The peaceful transition away from



Daniel Pino, Founding Partner, Pino Elizalde Abogados

“**Lasso knows what has to be done and he will try to make those necessary changes as soon as possible**”

Correismo also signals the increasing maturity of Ecuadorian politics, says Alban. “Moreno left power with a 9% approval rating but he was allowed finish his elected term peacefully - that would have been unthinkable before Correa. It was one of the unintended positive consequences of having a strong president in power for ten years. Ecuador now looks more politically stable than the rest of Latin America, which is incredible. Ecuador is undertaking a linear process of improvement, while previous stars, such as Chile, Peru and Colombia look more problematic.”

A tough job

Ecuador may look good compared to regional peers but Lasso still has plenty of internal challenges to resolve. In very simple terms he plans to attract international investment to key sectors, such as mining, oil and gas and agro-industry, to create employment, improve public services and pay off the country's debt.

Elsewhere in that report we analyse the specific measures needed to attract investment, but suffice to say that after 14 years of ‘21st-century socialism’ Ecuador requires profound economic reform. Nobody doubts Lasso's ability to diagnose the problems and find solutions but it remains to be seen if he can implement the reforms in a country prone to protest.

Daniel Pino, Founding Partner of Pino Elizalde Abogados, a Guayaquil-based corporate law firm, believes Lasso should learn from the region's history. “Take the ‘Macri Experience’ in Argentina, for example. When Mauricio Macri won the Argentine presidential election he was in a similar position to Lasso today. There was hope, but Macri's government was slow in implementing necessary

changes, and today the country is back following the same policies of the past. Hopefully, Lasso has learned from that experience and follows a different path. I personally think he knows what has to be done, and that he will try to make those necessary changes as soon as possible.”

Protests in neighbouring Colombia show that change must be managed carefully. “He will have to prioritise necessary changes”, says Pino. “He will have to be careful in the implementation of economic changes, by including social safeguard measures to alleviate the effects of the changes on those more fragile sectors of the society.”

Lasso could also face a challenge in Ecuador's legislative body, the National Assembly, where he holds just 25 of 131 seats. Yet Alban notes that Lasso can implement some reforms without the Assembly. “In the first 100 days he will use presidential decrees to remove some of the restrictions that the previous governments had placed on the private-sector and society in general. But his primary focus is the vaccination programme. He knows that unless Ecuador defeats the pandemic then any economic plans are just pipe dreams. He has pledged to disburse 9 million Covid-19 vaccines in the first 100 days. If he does that it will have an immediate economic boost, as schools can reopen and people get back to work. But it will also have important political implications. A successful vaccination programme will win him support from a wide base of society and that will give him the political breathing space to pass economic reform regulation.”

Another big social issue is rising violent crime. Ecuador is the second-safest country in Latin America, measured

by homicides, yet recently there has been an uptick in high-profile murders. “Ecuador had enjoyed peace for many years”, says Pino. “More recently, however, certain decisions from former President Correa arguably changed that, such as removing a US Air Base in the coastal city of Manta that was used to monitor drug trafficking activities and legalizing possession of drugs in small quantities. Criminal activity has increased due to those and other factors, and that is affecting the status of Ecuador as a safe country. That is another challenge that the new administration faces.” Like the vaccine, it's a domestic issue that matters a lot more to people in Ecuador, yet success here will give Lasso the political capital for further economic reform.

Pino says he's already seen companies react to the new government. “Many clients were pausing their investments in different areas due to political uncertainty. That appears to be changing rapidly.”

In this report we interview the key members of Lasso's new government - including an exclusive letter from the man himself to our readers. But we also speak to international investors and local experts to discover if Ecuador is finally ready to make the most of its world-class natural resources.

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Mining Will Test Lasso's Mettle

The new president needs an economic boost from mining but will have to balance that with his social and environmental campaign commitments...

Lasso's April election victory saw him splashed all over the local newspapers. Local business magazine, Vistazo, had the best front page of them all – President Lasso dressed in an indigenous poncho, embracing his wife with the spectacular Andes in the background. It wasn't just a striking visual image – it was a neat summary of the main reason for his victory. Because Lasso won a surprising amount of the indigenous vote by promising to respect the environment.

Now in power, those two issues – indigenous communities and the environment – look set to complicate his main economic priorities. Ecuador desperately needs higher fiscal revenues to solve the debt crisis. Lasso must also create jobs to show Ecuadorians that his reforms are working. The most significant potential source of economic growth, employment and tax revenues is Ecuador's nascent mining industry.

Geologists believe the country could hold as much copper as neighbouring Peru, the world's second-largest producer, with significant amounts of gold also. Yet the sector has been held back by weak institutions and anti-mining protests and there are only two large-scale mines operating in the country. Now Lasso must find a way to balance Ecuador's economic need for mining with its people's wish to protect the environment and communities.

Positive politics

The election was definitely a positive for the mining industry, says Keith Marshall, CEO of SolGold, a London-listed explorer that is now developing the Alpala copper-gold deposit in Ecuador. "We watched the Ecuadorian elections with great interest and were pleased with the result. We wish the new president every success and are looking forward to working with the government. There was nervousness around the election, not about the individual candidates, but because of the process itself.

That's why it was so reassuring to see the maturity of the political parties. For example, Andrés Arauz congratulating Guillermo Lasso was exceptional and a positive example to supposedly more established democracies of how to handle political defeat."

Ron Hochstein, the CEO of Lundin Gold, the country's only operating large-scale gold mine, agrees. "This is the most optimistic I feel about mining in Ecuador since I started working on Fruta del Norte six years ago. I moved to Ecuador when Rafael Correa was still in power, I lived through the election of Lenin Moreno and now we have seen Guillermo Lasso beat Correa's protégé, Andrés Arauz. Either Arauz or Lasso could have won and I would still be feeling positive because regardless of who is the president, Ecuador clearly needs responsible mining. The foreign

investment, export earnings and tax revenue the sector creates could help Ecuador grow out of its current economic crisis."

Indeed, Lasso's victory is the next chapter in a story that began in Ecuador, when Rafael Correa created a new mining code. "The timing has been fortunate for the mining industry", says Hochstein. "When Correa opened the country to large-scale international mining it gave companies like ourselves a couple of years to develop our projects. Two of us are now operating, while others, such as SolGold, are in the advanced exploration stages. Things slowed down during the Moreno presidency but we are fortunate that the industry was able to develop to the point where it is able to prove its worth to the Ecuadorian people during this tough economic scenario."

Forging a new policy

Mining is a new industry which means there is almost no experience in the country, says Maria Amparo Alban, an Executive Director at SolGold. "A new mining law was drafted in 2010. Then there was some legal tweaking in 2014, creating the framework that led to the few large-scale operations you see today."

"Back in 2014, we had a leftist, authoritarian-style government that was able to implement policies top-down without much resistance. Society

was strongly controlled, which helped limit protests against the new mining projects.”

Correa’s successor, Lenin Moreno, ran a transition government that struggled to advance the mining sector. Under his watch the country’s first large-scale mines opened, but this reflected the work of his predecessor. Moreno’s government closed the mining cadastre, which prevented new concessions being opened, while its environmental ministry was reluctant to issue permits for extractive industries. The institutional inertia created uncertainty, with illegal mining proliferating and protests against large-scale projects.

So now, the new government needs to create a mining policy, which reflects

the new reality of the country, says Alban. “I think the key is to make mining more inclusive. The problem we have at the moment is that many parts of civil society, such as the universities, NGOs and local communities, feel excluded from the mining industry. They don’t see how it benefits them.

I think the new government needs to recognise that Ecuador is no longer a country where mining policies can be implemented from the top down. Politics have changed, and Ecuador is transforming from a representative democracy to a participative democracy. Local authorities also need to be brought into the fold. They don’t have the institutional capacity to evaluate complex mining projects but they need to be strengthened so they can be partners.”

Building consensus

Part of the learning curve for the Ecuadorian business and political elite has been learning that mining is very different to the country’s traditional extractive industry, oil and gas. “In Ecuador, oil and gas industry has been present for more than 30 years and the practices have not been the best ones from a social and environmental point of view”, says Paola Espin of Insuco, a British firm that handles social issues for natural resource companies.

“With oil and gas, the major intervention is to put the oil well, then the interactions with the communities tend to be relatively low. Mining on the other hand, employs more people for construction and operation, and this disturbs the social dynamics of the community, for example, if it’s a rural ►►



SolGold is an emerging copper-gold-silver major, and leading exploration company focussed on the discovery, definition and development of world-class copper and gold deposits in Ecuador

SolGold first entered Ecuador in early 2013, and has since discovered the Tier 1 Alpala Project with 21.7Moz gold, 9.9Mt copper and 92.2Moz silver.

The Alpala Project has been endorsed by a number of globally-renowned companies including Newcrest Mining, BHP and Franco-Nevada.

SolGold is the largest tenement holder in Ecuador and is currently exploring 13 additional priority projects – part of its ultimate ambition to become a major mining company in Ecuador.

SolGold’s vision for Ecuador’s mining industry is built on sustainable foundations and 98% of the more than 800 staff are Ecuadorians.

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@SolGold_plc



SolGold Plc



SolGold Plc

Brisbane: +61 7 3303 0660 | London: +44 20 3823 2130 | Quito: +593 2 6011021 | www.solgold.com.au



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area that concentrate on agriculture, people will tend to leave the fields for mining related activities. This also attracts job migration to the area and that can create a very negative impact.”

But even when companies get the environmental issue right, there can still be problems. Part of the issue is trust, says Guillen Calvo, Insuco’s Latin America Director. He points to a recent regional study which found that “Ecuador is one of the countries where people least trust their institutions. It appears as if people don’t have trust in national authorities, the Environment Ministry, in mining companies and local authorities, some don’t even trust NGOs. If you compare Peru to Ecuador, the level of trust - even if there is

emerged in Ecuadorian politics in recent years, perhaps its people are right to be wary of their elected officials. Mauricio Martínez, co-owner of Semaica, a large Ecuadorian construction firm that has branched out into mining infrastructure, feels community anger should be directed towards illegal mining. “In the spaces that have been created by slow government policy, we have illegal mining. We need to accept that if we don’t allow formal mining in an area that is rich in gold then the illegal miners will go there. In the last few years, the previous Ministry of Energy and Non-Renewable Resources didn’t do a good job in that regard and illegal mining sprung up across the country.”

“ **We don’t get too excited about particular price moves, but the medium-term upward movement of copper prices will make it easier to finance our projects**

Keith Marshall, CEO, SolGold



conflict - toward the mining sector is higher in Peru because they have example of successful cases of large mines. So, the issue in Ecuador is not just that people don’t trust the mining sector -they don’t trust the local and public authorities either.”

Given the recent scandals that have

Martínez also questions the motives of some provincial politicians citing the oft-delayed Loma Larga gold project that was recently acquired by Dundee Precious Metals. “Loma Larga is a good project that should have been completed years ago but was unjustly attacked by local political interests. It’s not a choice of mining or water - we

can have both. Not no to mining, but no to illegal mining that pollutes.”

Mining can’t expect to have a 100% approval rate, warns Hochstein. “The risk of anti-mining referendums in the Andean highlands, especially near the cities of Cuenca and Quito, still exists. That’s not where we are though, so it doesn’t impact us directly, but we need to keep talking about what mining means and show how it benefits the country. The anti-mining forces will always be present though in some parts of the country because of the nature of local political interests in these areas.”

Geological riches

Lasso’s challenge is to build a new mining policy that incorporates as much as civil society as possible, without being held to ransom by voices that, for whatever reason, will always be against the industry. That might not be easy but the prize justifies the effort.

Daniel Earle is the CEO of Solaris Resources, a Canada-listed explorer developing the Warintza copper deposit in Ecuador. He notes that the country’s “geology is incredibly prospective - you have the direct extensions of the copper belts which host the major copper mines of Chile and Peru, representing over one third of the world’s copper supply, continuing into Ecuador. The belt we are located in was completely overlooked until [renowned geologist and metal deposit discoverer] David Lowell proved its potential.

“The level of exploration in the country is at a fraction of what it is in Peru or Chile. Those jurisdictions opened up decades earlier and more fully to tremendous success and national wealth creation, now with dozens of mines in production, starting with the



Lundin Gold is operating Ecuador's first large-scale goldmine

“low hanging fruit,” of course. Biggest and best first. That’s what we are tapping into in Ecuador now, with the sector only opening up in 2014, and the first two mines only having gone into production in the last couple years. Surely, new projects will also come once the claims system or cadastre opens.”

That massive geological prize has already enticed the world’s majors to set up in Ecuador. And despite the problems – the last administration proved ineffective in advancing the industry – interest remains high. That’s why Dundee Precious Metals bought the Loma Larga project despite the problems. Interest is also sustained by high copper prices. Take SolGold for example. It recently completed a successful fundraising that Marshall, believes was aided by the copper price. “Clearly the rising copper price helped encourage investors”, says Marshall. We don’t get too excited about particular price moves, but the medium-term upward movement of copper prices will make it easier to finance our projects.”

The \$70million raised will finance

SolGold’s regional exploration programme well into 2022, helping to discover more deposits. It shows how investor interest translates to action on the field that will help Lasso achieve his objectives. “The fundraising was two and a half times oversubscribed, which demonstrates the positive market sentiment towards the company”, says Marshall. “The key to its success was that we consulted all of our major institutional investors before raising the money. This meant they all had the chance to be involved and ensure that their stake wasn’t diluted. In fact, most of our main investors participated in the recent fundraising and we added some very strong names to our shareholder register.”

Ecuador remains a very exotic investment for most investors in the UK but with new investors piling into firms like SolGold, the country will become more well known. Hochstein believes mining will eventually make up a similar portion of GDP in Ecuador as it does currently in Chile and Peru. “Of course, it took a long time for mining to gain its position in those countries. We need the next wave of projects,

such as Alpala and Loma Larga to be developed. Mining was only 1% of GDP in 2020, but given that its only producing mines, Fruta del Norte and El Mirador, were ramping up, I think mining’s share of the Ecuadorian economy will grow in 2021. Especially as other sectors are struggling. Over the longer-term, the success of these initial projects will convince the people and politicians to support the industry more.” Ultimately Lasso will be judged on results. He can have an eloquently-worded mining policy but if no new projects are developed, investors will become more nervous about committing cash. Alpala – the 7th-largest copper project being developed anywhere on the planet – is key.

SolGold is doing its part says Marshall. “Within one year, the PFS will be finished, we will have started a definitive study and we will be considering initial construction work on site.” Investors will be watching to see if the new government can play its part. If Lasso can get new mines like Alpala built it will send a serious message that Ecuadorian mining is open for business. ■



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Minister of Energy and Non-Renewable Natural Resources,

Juan Carlos Bermeo,

explains how he will kickstart Ecuadorian mining and oil & gas...

LatAm INVESTOR:
How will you attract the international investment you need to double oil and gas production?

Minister Bermeo:

Investors are obviously concerned with returns but that is not the only factor. The regulatory framework and judicial security are also big drivers in attracting investors. We need to analyse the barriers that are currently impeding investment and the remove them. After Guillermo Lasso's victory the country risk – as measured by JP Morgan's Emerging Market Bond Index – dropped sharply. That shows that international investors have faith in the new president. It's clear that just with the change of president, there is a new perception about Ecuador. A recent survey showed that Lasso is the most popular president in Latin America. So right now, there is a big opportunity that we have to take advantage of and make further changes so that the international investment we need comes to the country.

LAI: *Will Ecuador need to change the contracts it offers oil companies to boost production?*

MB: I think that one of the best signals that the government can give is a rational analysis of its options. If the trend in the oil and gas industry

is participation contracts, then we will follow that path because we want to attract the best international companies. But we can't enforce these changes to existing contracts. Right now, the Ecuadorian Hydrocarbon Law, does not allow us to have participation contracts for oil fields that are already in production. So, we can't introduce that type of contract in much of the country. The law only allows us to use participation contracts for new fields, because the point of participation contracts is that they encourage risk capital that makes oil discoveries. The current contract has incentives for increased production.

That works when the tariff is fair for both the company and the government. That wasn't the case with the infamous 'carry forward' clause.

LAI: *Why should LatAm INVESTOR readers invest in Ecuadorian oil and gas?*

MB: The main reason is the dollar. All of your costs will be in dollars, as will your sales revenues – so there is no exchange rate risk. No other oil economy in Latin America can offer that. It means you don't have to spend money on hedging your exchange rate risks and makes us a paradise for oil companies.

In recent years we have climbed up the league table of Latin American oil producers but that is because other countries – particularly Venezuela – have had severe problems. That doesn't make me happy. I want the best for my fellow Latin Americans and I don't want Ecuador to improve its regional oil standing just because other countries are failing. I want us to do it through increased production. It won't be easy because lots of our fields have naturally high decline rates so it requires investment just to maintain production at current levels.

LAI: *Last year Ecuador signed up to EITI; why is that significant?*

MB: Yes, we have been part of the Extractive Industry Transparency Initiative since October 2020. It isn't just a sign of goodwill but involves a series of commitments and obligations to ensure that we comply with



the strict requirements. In fact, we have someone in the Ministry who is completely dedicated to compiling information for EITI. It's all about transparency and what that means in practice is providing reliable, timely and relevant information that allows people to make decisions. That can be information about the terms of contracts and royalties to analysis of how communities are impacted by projects.

We are also working closely with the Ministry of Environment, Water and Ecological Transition and its Minister, Gustavo Manrique. It is well-known that under the previous administration, environmental permits were one of the bottlenecks holding back the mining industry. We don't expect Minister Manrique to rush permit decisions, or not subject projects to proper analysis, but we will be working with them to see how we can accelerate the environmental permitting process. Because it's not just the companies that lose out when delays slow down their investments. Ecuador also suffers because it means we can't build the projects we need, so this government will work as a team to make permitting more efficient.

LAI: When will the mining cadastre reopen?

MB: That's a bit like asking me for next week's winning lottery numbers. I can't predict an exact date but I can tell you that we are approaching this with a calm, technical analysis. We are exploring a partnership with the Inter-American Development Bank, to help us define the quality and accuracy of the content inside the cadastre so that when it opens it works well. We know that reopening the cadastre is the key to attracting new investment and companies to Ecuador and creating a

pipeline of projects.

LAI: How will you counter anti-mining sentiment in Ecuador?

MB: As a government we are clear that mining needs to develop because it is the future of the country. But we also realise that Ecuadorian mining has to incorporate the best environmental and social practices. We don't want mining at any cost and we will only allow mining that respects the environment and communities. We understand that there are some places, such as protected areas, where mining can't take place, and that is fine. Meanwhile we will improve the regulations to ensure that the mining that does happen is responsible. Obviously, it is down to other ministries to police illegal mining. That has nothing to do with us. However, we will ensure that only miners with the best practices will have official authorisation from this ministry.

LAI: How quickly could Ecuadorian mining become comparable to the industry in Chile or Peru?

MB: We have to recognise that this isn't just down to the government and our laws and regulation - we must also understand the mining industry. It takes some years to discover and define deposits, then even more time to build a mine. I would love it, if the mining industry could accelerate this timeframe but that is not realistic. Nobody is going to invest billions of

dollars until they have everything in place and as much information about the deposit, production volumes and economic feasibility. We want mining to be done right, so we have to accept that will take time. Especially in a country like Ecuador where the deposits are very large.

But we are clear about one thing - 2020 to 2030 will be the decade of mining



in Ecuador. It will be up to history to decide if I have been a successful minister or not. I was proud to serve as a Vice Minister under former minister Carlos Pérez, and now I will try my hardest to leave my stamp on the development of Ecuador's energy and non-renewable natural resources.

By 2030 we hope that mining will be attracting billions of dollars of investment, generating billions of dollars in annual exports and employing hundreds of thousands of Ecuadorians. We will have the best companies in the world working here because our geology is spectacular.

We have the same geology as Peru and Chile and even the little exploration that has happened so far has found some massive deposits. When these are turned into mines they will be among the biggest in the world, which is why we want to attract the largest, most responsible mining companies. So I invite LatAm INVESTOR readers to explore investment opportunities in Ecuador.



Heroic Hydrocarbons

Ecuador's oil and gas industry made a massive recovery from the depths of the pandemic; now it's targeting clean growth...

In the election campaign Guillermo Lasso's opponents said many harsh things about him – but nobody ever accused him of lacking ambition. Now he's in power you can see why. One of his main policies is to double production of oil to 1 million barrels per day (bpd). Oil is Ecuador's main export, so the economic impact would be enormous. It would provide the fiscal revenues to fix state's debt crisis and the dollar earnings needed to maintain the country's dollarized economy.

But it won't be easy. It's the equivalent of Chile trying to double its copper production or Cuba doing the same with sugar. After all, oil has been

and gas projects in Ecuador's portion of the Amazon rainforest. We spoke to Ecuadorian oil experts to discover if Lasso's oil aim is possible and how international investors can help.

Resilient recovery

Most people around the world suffered tough times during the pandemic, but Ecuador's oil industry was hit particularly hard. "We faced a triple black swan", says Carlos Sarmiento, Schlumberger Managing Director for Ecuador, Peru and Colombia. "Covid-19, low prices and the rupture of two pipelines that lasted almost 40 days." From a health perspective, coronavirus hit Ecuador hard as in

"We have increased our costs during this period by taking a lot of Covid-19 protective and preventive measures", says Sarmiento. "An example is that to maintain business continuity, we were one of the very first to have a specific charter for our people to make sure that they were sitting with the right distance between them. At the beginning, flying was stopped completely in Ecuador, but we kept finding ways to keep doing our job, protecting our people and at the same time helping the communities around us. We believed that we couldn't be successful if we were to just protect individuals and not the community around us that were likely to be affected."

Well-run oil and gas operations can exist in harmony with the environment



Ecuador's top export product for decades, so it's not as if Lasso has been the first president that would like to sell more of it. Moreover, the world – and particularly Ecuador – is far more environmentally conscious nowadays. Indeed, some European banks have already ruled out funding further oil

April 2020 it became the first country in Latin America to see its health system overwhelmed by the virus. Yet oil was deemed an essential economic activity and the government insisted that the wells keep producing. That created massive challenges for oilfield services firms like Schlumberger.

Ecuadorian oil services company Sertecpet, also felt the consequences of this "perfect storm", says CEO Eduardo López. "The national crisis also created severe problems for Sertecpet because state entities stopped paying us. We still had to pay for the workers, in fact our costs

had increased because of the medical measures we were implementing, and our cashflow was drying up. So, we went to the market and emitted bonds. They were successful because of our strong reputation.”

The story of Ecuadorian oil’s recovery from the depths of April 2020 is one of resilience. Its infrastructure was resilient as both pipelines were fixed, its producers were resilient, because they found pandemic solutions and, most importantly of all, oil was resilient because the price recovered from record lows to around \$70 a barrel today. But Lasso is looking for more than just survival. He wants expansion and that’s what we will explore below.

Great geology

In global terms Ecuador is a small producer. It was the least significant member of Opec, before it left the oil cartel in 2020. It’s not even a big player in the region, with Brazil, Mexico, Colombia, Argentina, Venezuela all historically producing more oil than Ecuador. Yet poor energy policies in Venezuela, Argentina and Mexico have caused crude production to fall sharply in those countries in recent years. That’s encouraging energy investors to look for more market-friendly jurisdictions

in Latin America, which is why Lasso’s ambitious plan is well timed.

Of course, to attract energy companies you need more than a good plan, you need lots of oil – and Ecuador has just that. Given that he is also Schlumberger’s Managing Director in Peru and Colombia, Sarmiento is well-placed to compared Ecuador’s competitive advantages. “From a geological perspective there is no better place in the whole of Latin America than Ecuador, or with lower risks. The risks are not geological.”

López is equally upbeat on Ecuador’s natural resource endowment. “The country has the natural resources, whether it’s hydrocarbons, renewable energy or mining, to improve the quality of life for the Ecuadorian people and expand our economy. With oil and gas, we have 1.9 billion barrels of proven reserves, but if you include probable and possible that grows to 4.6 billion barrels. To be honest I think those numbers are very conservative. Essentially, they ignore the vast unexplored regions, such as offshore and the parts of the jungle that we haven’t reached yet.”

The geological riches

below ground are enhanced by solid supporting infrastructure above it, says Sarmiento. “The pipelines are ready to transport almost 800,000 bpd and the roads are fantastic. You can travel on very good roads to almost everywhere, especially on the fields that are currently in development.” Again, this compares well with other Ecuador’s neighbours. “In Colombia there have been problems with pipeline blow-ups, it happened quite often, and they also have the issue with the long distance from the industrial centres that make it quite difficult to operate. Peru is the same with operations in the jungle and areas that are undeveloped.

The comparisons with Colombia are particularly interesting because at the beginning of this century, it did something similar to what Lasso is trying now. “Look at Colombia”, says Mauricio Martinez, the co-owner of Semaica, a large local construction firm. “It has less oil than Ecuador but the government of Uribe did it. Colombia’s annual output went from 500,000 bpd to 1 million bpd, so it can be done. But this needs to be a national plan, so Petroecuador needs to go along with it.”

Top technology

National oil company, Petroecuador is the largest player in the industry and great part of its production comes from subcontracting specialist firms like Schlumberger. In effect, in some contracts, Schlumberger invests its services and technology and is paid a

“

From a geological perspective there is no better place in the whole of Latin America than Ecuador

Carlos Sarmiento, Schlumberger Managing Director for Ecuador, Peru and Colombia





COUNTRY REPORT | ECUADOR

tariff that depends on production – incentivising it to boost output. “These outcome-based contracts allow the cash-constrained NOC to access cutting-edge technology and investment”, says Sarmiento.

“Our work in the country shows that production can be increased. We used to produce around 45,000 barrels a day (bpd) at the beginning of a contract in 2012, reached peak production of 90,000 bpd in 2016 and now we sustain a production plateau at around 60,000. Another example, we started Auca with around 60,000 and now we are closer to 80,000 as we incorporated very extensive water flooding program for secondary recovery. We are also applying digital technologies in all fields to reduce losses and taking efficiency to new levels of performance.

Other fields have not necessarily had the same technology applied to them. It is known that other fields can increase production and add reserves using what I mentioned before, this applies not only for green fields but also for mature fields. With the use of the right technology, we can do more with current contracts and be more protective to the environment by using low impact technologies.”

“For Ecuador, the main challenge is in the policymaking and the type of contract that is going to incentivise the Government to make this happen quickly. Since 2012 Schlumberger has invested close to \$5billion in Ecuador. These numbers are not registered as foreign direct investment, but as national oil company expenditure instead”.

Daniel Pino, Founding Partner at Pino Elizalde Abogados believes that a change in the political mood will also

help attract investment to the oil and gas sector. “The problem was not only of legal nature. It was also political. We had attractive and updated regulations then, but political actions and decisions caused international investors to avoid Ecuador. I personally believe that is what happened with Ecuador in the last 15 years. Certain decisions that were very controversial such as removing Ecuador from bilateral investment treaties (BITs) and from ICSID (International Center for the Settlement of Investment Disputes), both promoted by the World Bank, scared investors away. Other decisions brought a lot of litigation and arbitration against Ecuador, especially in the oil sector, where the former government forced changes in the regulation and took private operations

from many foreign oil producers with those changes. Even though the government was able to capture a significant share of the output of oil with those changes and to enjoy 10 to 15 years of significant revenue, those actions resulted in chaos in terms of international investment perspective”.

Clean oil

Ecuador’s oil history is sadly littered with examples of environmental malpractice. The most egregious was Texaco, which spilt millions of barrels of oil and billions of gallons of wastewater into the rainforest during the latter half of the 20th century.

That experience, understandably, makes many Ecuadorians resistant to further oil production in the jungle.

GALAPAGOS - LIVING LAB FOR ENERGY INNOVATION

Alejandro Echeverri, President of the British Chamber of Commerce in Quito, explains an innovative project to help the Galapagos Islands go green...

This initiative is led by the University of Edinburgh in agreement with the British Chamber in Quito. The vision is to accelerate the evolution of the energy matrix of the Galapagos Islands to preserve the species that are unique in the world. Moreover, it will convert the islands into a centre of energy innovation that will allow the development and testing of new technologies to benefit public and private companies, not just from the Galapagos but from the Ecuadorian mainland and the region.

The objectives of the initiative are:

1. Carbon reduction – Net zero carbon by 2040.
2. The reduction and/or eradication by 2040 of the impact of eco-tourism and the resident population in the Galapagos Island’s globally-renowned natural ecosystem.
3. Position the Galapagos as a centre of innovation, recognised at world level as sustainable islands, boosted by world-class research, human talent development and best practices in business models and technology.
4. Guarantee a secure and efficient energy system to allow the transition to a low-carbon emission future for the Galapagos Islands through sustainable economic development.



To overcome this Lasso must create a “national understanding that the environmentally and socially-responsible exploitation of these reserves is the best way to better the lives of poor Ecuadorians”, says López. “I really believe in ecosystems, so I don’t think this is something the president can do just with the oil companies. We need to get the civil society, NGOs, and the communities involved. It won’t be easy because they will have to agree that the only way to increase production is to expand the oil and gas frontier. But the entire Ecuadorian state needs to be clear that is the way forward for development.

“The only way we can do this in a sustainable way is by getting the best international companies, with the highest standards and best practices. We need them to partner the local communities, for example people could work as forest rangers to make sure that there are no illegal activities taking place in the jungle. By involving the community as economic partners you create a genuine, long-term win-win relationship that is the only way to ensure that this is sustainable.”

It’s not just environmental attitudes that have come along way since Texaco’s pollution. Technology has improved too. “Ecuador is one of the few countries where the environment is safeguarded by the constitution and there are very strict laws on that”, says Sarmiento. The Environment Ministry created, almost 10 years ago, a certification called Punto Verde which compares existing technologies with new ones. We are, by far, the only company in our industry that took that seriously. We have a big number of technologies that generate less CO2 emissions compared to the ones used elsewhere. We also have programmes with local communities that work on

reforestation amongst other things. We are looking into measuring and eliminating flaring because, in our opinion, it is the fastest way to cut CO2 emissions. With the use of artificial intelligence, we are better at reducing the losses and using energy in more efficient ways to produce the wells. The rigs we are using generate - according to the ministry and the auditors that work to provide the certification - a significant reduction of CO2 emission compared to other rigs used in the Amazon. We are looking at cleaner ways to power our operations through use of renewables, geothermal or hydrogen and we are investigating carbon sequestration, so that the core part of the business can meet environmental targets.”

Some environmental activists would say there is no such thing as clean oil and gas. But even though Ecuador has exciting renewable potential (see box) hydrocarbons will be needed for several decades to come. “There is a mega trend for clean energy”, says López, “but right now there are 1.5 billion people living on earth that don’t have access to energy. They are burning wood to feed their children and would love access to oil and gas. The world population is set to grow to 9.5 billion by 2050. That means that despite the switch to clean energy, we will actually see hydrocarbon consumption go up to an equivalent of 111 million bpd of oil equivalent by 2050. Hydrocarbons fuels the bulk of transport and it will be difficult to change that quickly.”

The world needs Ecuadorian hydrocarbons and if the country can double production, then that energy can provide much-needed investment, exports and tax for Ecuador’s economy. If it can do so in an environmentally-friendly way then it can improve the lives of Ecuador’s people too. ■



PINO/ELIZALDE
ABOGADOS



info@pinoelizalde.com | +593 4 - 3803790
www.pinoelizalde.com
Guayaquil, Ecuador.



COUNTRY REPORT | ECUADOR

Ecuador's new Minister for Environment, Water and Ecological Transition,

Gustavo Manrique,
explains how the country can exploit its natural resources while protecting the planet...

LatAm INVESTOR:
President Lasso wants to double oil and gas production to 1 million barrels per day; how will you ensure this doesn't damage the environment?

Minister Manrique:

It is all about following due process. This ministry will follow the framework and analyse the proposals from the oil companies. We will evaluate the mechanisms for boosting production. For example, if it is enhanced recovery of an existing field then we would expect its current environmental permit to already contain adequate plans for impact management. If it is a greenfield project that will involve getting a new environmental permit through an environmental license and those rules are already clearly laid out in the current regulations. In those regulations it shows the steps to getting a permit, which involve using clean technologies to reduce and mitigate harmful environmental impacts.

On the other hand, if they are companies that already have an environmental licence and want to carry out additional activities inside their authorised area, they just need to complete a complementary study, updating their environmental plan. If it's a really low-impact activity, then

they just need to notify the ministry. Again, all of this is in the current regulation.

We don't just rely on the companies to inform us of their operations. We have lots of control mechanisms, such as audits and inspections to ensure that oil and gas operations are not damaging the environment. Of course, the companies also have a legal obligation to monitor the environmental impact – such as emissions and discharged liquids – of their project. We have strong regulations in place to ensure that only environmentally-responsible companies can produce oil and gas in Ecuador.

LAI: *Your ministry has been criticised for delays in issuing environmental permits; how will you speed it up?*

MM: At present we are conducting a baseline survey of the capabilities of the ministry that we have inherited. When that is complete, we will make our own diagnosis of the problems and take efficient action to speed up processes and create tools that will allow project developers to obtain their environmental permits. We are working on technical guides to help applicants complete environmental impact studies and other instruments that will

improve environmental management. We believe we can speed up the regulatory processes without putting the environment at risk.

LAI: *Ecuador needs extractive industries to generate employment, tax and exports but it also needs to protect the environment; how will you balance those two needs?*

MM: The axis of social, environmental and economic development can not be separated from each other. To guarantee sustainable development we need to include all of the elements of the system, which gives us a balance that allows us to exploit our natural resources, without abandoning the protection of the most essential environmental components – physical, biological and social.



That is achieved through integrated prevention, protection and environmental control policies. We all have a role to play as individuals, society and companies.

Without doubt, the extractive industries generate environmental risks and we must work to prevent and mitigate these through measured policies, controls and activities that protect the environment. We need to encourage cutting-edge cleantech development and apply the best international standards to protect our ecosystems. That will guarantee sustainable development without abandoning natural resources, the economy and the social development of every community around the project.

LAI: The UK wants to work with Ecuador to protect its environment; how will your ministry work with international allies?

MM: I dedicated the first few weeks of my post to meeting with Ecuador's main strategic allies to boost international cooperation. In every meeting I have shared our vision of managing the ecological transition and have invited our multilateral and bilateral partners to work with us.

International cooperation has always been fundamental for the development of environmental programmes in Ecuador. I have assured every international donor, that their resources will be implemented efficiently and effectively in all of our programmes. We understand that there are no international borders in the challenge of climate change. Finally, we need to strengthen capacities to access new green financing methods that will allow the country to face climate change and invest in projects that can improve

our environmental profile. The UK is a leader in green finance and we need that investment to reduce emissions and build a new, clean economy. A combination of international and local finance can help us fund the innovation we need to reach our objectives.

LAI: Where are the sustainability investment opportunities in Ecuador?

MM: In a quarter of the 221 counties in Ecuador, the public water systems don't even reach 50% of their population. In the big cities, like Cuenca, Guayaquil and Quito, the situation is better, with water coverage at around 85%. But in the rural areas there is a real need for water services. The problem is that Ecuador's regional administrative system can make it difficult to develop projects in those remote areas, which tend to be poorer than the rest of the country.

So, there are lots of business opportunities related to potable water, sewage and water treatment. More than \$1 billion was invested in that field between 2012 and 2018 and we still have huge deficiencies.

LAI: How will Ecuador use COP26 to achieve its environmental goals?

MM: COP26 – uniting the world to tackle climate change – is designed to accelerate the adoption of the Paris Agreement, which is also a fundamental part of the global recovery from Covid-19. A green recovery that creates sustainable employment and faces the challenges linked to public health, climate change and the loss of biodiversity is needed to protect the environment for future generations. It is an opportunity for us to make progress in our journey to becoming

a carbon-neutral economy because its only through international cooperation that we can face the serious challenges that face Ecuador and the world. By approving a fair set of measures that comply with the Paris Agreement, COP26 will allow us to achieve the climate change objectives of the United Nations, allowing Ecuador and the other members to get to zero emissions as soon as possible. That will mean that we should see significant emission reduction in Ecuador by 2030.

Our society needs to adapt to climate change, especially the most vulnerable groups. For this energy transition to work we need to substitute polluting energy forms with clean energy, making the most of the opportunity created by the falling costs of renewable energy and power storage.

Yet there is much to do. We need to accelerate the transition to emission-free transport systems, gradually eliminating internal combustion engines. For all of this to happen it is crucial that we have a green finance system, so that all countries can invest in clean technology.

LAI: Please finish with a vision of sustainability in Ecuador in 2030.

MM: This ministry will have cemented its position as the institution that guarantees the quality of Ecuadorian eco-systems through delivery of efficient services that ensure the conservation and responsible use of natural resources. This will be guaranteed by a framework of balanced sustainable development between industrial activities and the conservation. We will steward an ecological transition that will improve the quality of life of Ecuadorians today and in the future.



Schlumberger: A Technology Company Unlocking **Access to Energy**

Schlumberger recently announced its commitment to achieve net-zero emissions by 2050. As a company rooted in science and engineering, we have drawn a road map to achieve this objective across our entire value chain, including scope 1, 2, and 3 emissions. We have already started along this path in Latin America, particularly in Ecuador.

The world economy is forecasted to grow by 40% by 2030—and with no realistic scenario for an immediate transition to nonhydrocarbon energy sources—the energy industry stands at a critical juncture. How will it help address climate change and align with the requirement to reduce carbon emissions by 40% during the current decade and achieve net-zero by 2050, while playing a role in providing the energy to meet the forecasted economic growth? Today, it is no longer a question of how we will address these issues. Rather, it is a new industry imperative that compels a more sustainable approach in developing the planet's energy resources.

expand into low and carbon-neutral energy. Given our extensive technology portfolio and domain expertise, we believe that we are uniquely positioned to lead the energy industry as it transitions to a more sustainable model. We can help our customers achieve their sustainability commitments, meet our own commitment to be net-zero by 2050, and help the communities where we live and work to achieve their pledge to the Paris Agreement, while simultaneously supporting the energy transition and reducing the effects of climate change.

To meet the energy demand more sustainably, we must leverage innovation, digital solutions, and know-how across our entire portfolio.

Our strategy focuses on three main elements:

1. Reduction of emissions in our operations

In 2019, 25% of our emissions were due to our operations. We have already begun to convert facilities to renewable

power and will electrify our fleet. Digital and integrated solutions will further accelerate our decarbonization plan.

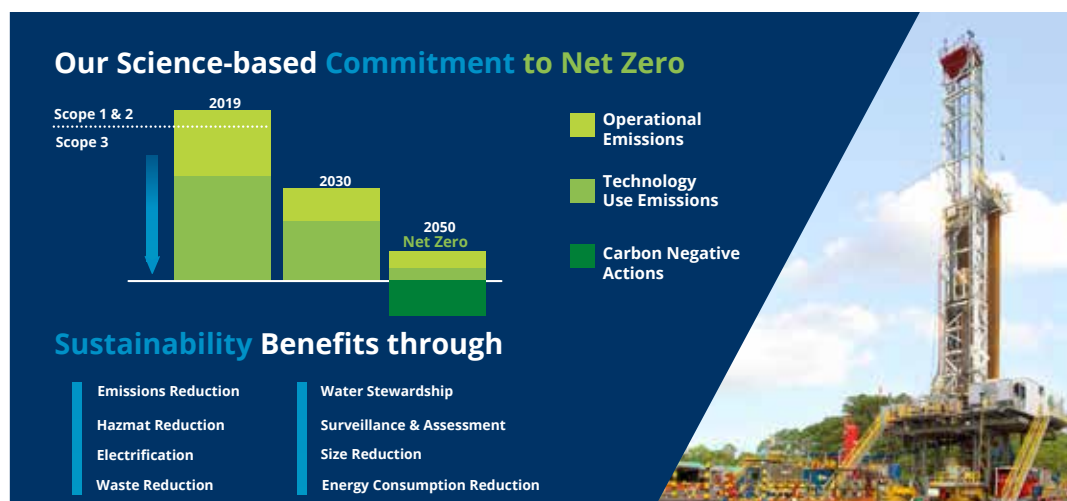
2. Schlumberger New Energy

Delivering the necessary emissions reduction will also require lower carbon energy liquids and gases, increased focus on electrification and adoption of new energy carriers. We continue to invest in new energy technology ventures and innovative partnerships in strategic sectors—including hydrogen, lithium, carbon capture and sequestration, geothermal power and geoenery for heating and cooling buildings.

3. Transition Technologies

To help our customers meet their sustainability objectives, we recently introduced our Transition Technologies* portfolio. Aligned with multiple United Nations Sustainable Development Goals, our Transition Technologies portfolio aims to bring about sustainability benefits through eight key attributes: emissions reduction,

Nearly a century since its founding, with a presence in more than 120 countries, 82 technology centers globally, and more than 12,000 active technological patents, Schlumberger has a history of solving complex energy challenges using science and engineering. As a company, we believe that our future should



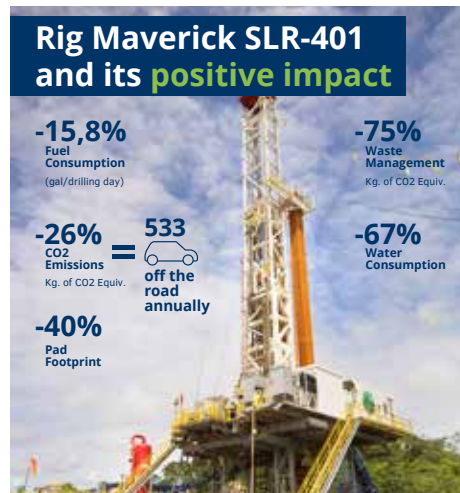
energy consumption reduction, electrification, surveillance & assessment, hazmat reduction, water stewardship, waste reduction and size reduction.

Deploying our technology will enable our customers to accelerate the industry's net-zero journey. Including scope 3 emissions, technology-use emissions represent 75% of our total CO2 equivalent footprint and occur when Schlumberger deploys technologies for customers in the field; thus having a direct effect on their scope 1 and 2 emissions. Our Transition Technology portfolio will serve as an enabler for the industry's decarbonization efforts. This portfolio was determined by screening conducted by Schlumberger's engineers that resulted in the identification of more than 100 impact-reducing technologies. The portfolio—launched June 2021—will grow through ongoing and continuous assessment of new and existing technologies and by embedding sustainability throughout our research and development processes.

With both sustainability and performance in mind, the Transition Technologies portfolio is divided into five themes that target a wide range of sustainability challenges and opportunities across the value chain:

- Address fugitive emissions
- Minimize drilling CO2 footprint
- Reduce or eliminate flaring
- Full-field development solutions
- Electrification

With 87 years in Ecuador, we have a history of working on sustainable solutions through technology. In 2016, Schlumberger was accredited with the certification “Punto Verde”, issued by the Ministry of Environment. And

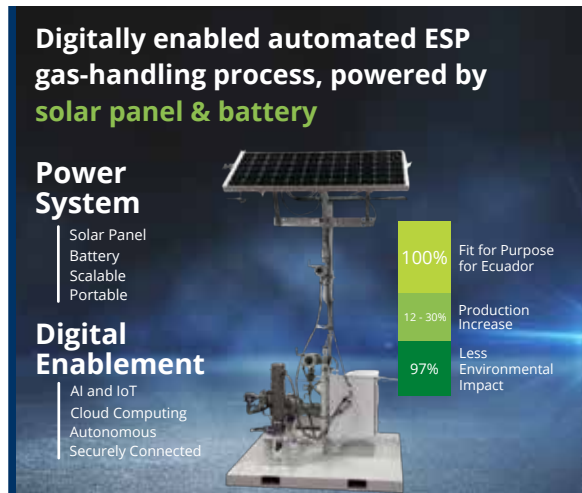


today, our base in Coca is eco-efficient certified, and we have seven more technologies that also carry the same certification.

In terms of solutions that drive performance and reduce emissions, one example is the Rig Maverick SLR-401 drilling rig, (see above left), one of two operating in the country. These rigs reduce wellsite pad footprint size by approximately 40% when compared with conventional set ups. As noted in the image on the left, these rigs increase operational efficiency, resulting in decreased energy consumption, improved waste management, and utilization of rainwater by using geomembrane technology.

Another unique and innovative example is our autonomous gas-handling system. Powered by solar panels and batteries, this fit-for-purpose solution is helping to reduce emissions while also optimizing operational performance (see above right).

While innovation will help us make significant strides towards a net-zero future, these advances must be complemented by incentives to maximize the impact across the value chain. One incentive to help with the development and advancement of sustainable processes and technology solutions would be through operators. This would ensure that projects are



not evaluated purely on economic factors, but that sustainability impacts are also considered, including social and environmental impact. There would also be a need for government regulations to continuously evolve to meet targets for net-zero emission goals whilst ensuring economic growth, thus creating a sustainable environment for future generations.

There are limitless opportunities for technology-driven improvements in sustainability across the entire energy industry. Through innovation and digital enablement, we will be able to measure and demonstrably reduce our environmental footprint across full operational life cycles and minimize the industry's impact.

Schlumberger is committed to a net-zero future, and working to do so through collaboration with customers, industry partners, and communities where we live and work. Core to this commitment, we are addressing our own emissions, and we have also introduced our Transition Technologies portfolio to support our customers on their journey. In addition, we are looking to various new energy verticals through our Schlumberger New Energy business. Through these efforts we will play a key role accelerating change and reducing global emissions, while also safeguarding the competitiveness of our industry.



COUNTRY REPORT | ECUADOR

Ecuador's new Minister for Production, Foreign Trade, Investment and Fisheries,

Julio José Prado,

points out the best opportunities for UK plc in the country...

LatAm INVESTOR: *The dollar makes Ecuadorian goods expensive; what can the government do to improve Ecuador's competitiveness?*

Minister Prado: Ecuador's use of the dollar is an opportunity for investors. Indeed, it's one of the country's best assets and gives security to businesspeople because it's a robust currency that is independent of internal monetary policy. Nevertheless, exchange rate fluctuations don't determine the competitiveness of an economy. That depends on many other factors, such as the level of innovation, business climate, judicial security, value added by local industry and the ability to integrate into production chains.

The dollar has given Ecuador a monetary stability that without doubt generates more advantages than disadvantages. Our productive sectors have developed their competitiveness in a dollarized economy, with constant growth since 2000. In 2000, non-oil exports were worth \$2.5billion, while in 2020 they reached \$15billion – an annual growth of 10% for the last 20 years.

Nevertheless, Ecuador's elevated production costs are undeniable and limit the competitiveness of key sectors. Our work in the public sector is to unblock the bottlenecks that hold back the private sector. One powerful tool

in this regard is Executive Decree 68, which was signed by Guillermo Lasso on the 9th of June. That established, as public policy, the reduction of bureaucratic procedures that hinder companies – especially SMEs. This should help Ecuadorian firms save time and money.

LAI: *How will you work to leverage the UK-Ecuador FTA and boost bilateral trade?*

MP: In the last few years the trade balance between Ecuador and the UK has been favourable for us. This began in the first three years of the Commercial Agreement with the EU, where exports registered an average annual increase of \$50million compared to the three years before the Agreement. Indeed, exports had actually been falling before that.

The UK-Ecuador Commercial Agreement has been in effect since January 2021, which means 95% of Ecuadorian products can enter the UK with zero duties. We hope that our companies make the most out of the agreement, and the early signs are positive. In just the first four months of 2021, we have already seen a big increase in non-oil exports to the UK, which are up 78% compared to the same period in 2020. That represents an extra \$42million of exports. In terms of duty-free access, the conditions will continue to improve as we move through the schedule of tariff relief that is in the agreement. For our part

we will continue to give training to the private sector so that it knows how to make the most of the agreement.

The best strategy to promote the agreement is to be a constant presence in the international fairs, business roadshows and trade missions, as they help to boost the image of Ecuadorian products in the UK. We want the most Ecuadorian exporters possible to explore business opportunities with British importers – and they can do that through our commercial office in London.

LAI: *Where are the best opportunities for British investors in Ecuador?*

MP: Ecuador is a country of opportunities in all parts of the value chain. From the development and maintenance of seaports to first-class roads and logistics services, that allow the distribution, commercialisation and internationalisation of farm and sea products to a world that demands nutrition from raw materials to finished food.

UK FDI in Ecuador is growing. In 2016 we received \$34million in UK investment. By 2020 that had grown to \$112million. So, for the last four years we've seen average annual increases in UK FDI of \$20million per year. Traditionally that investment went to the extractive industries but it has evolved to the productive sectors, like industry and agriculture, which boosts

our productivity and competitiveness.

According to our records, more than 85 British companies have shown serious interest in investing in Ecuador in recent years. Infrastructure investors like Actis and software players like MStar Solutions see Ecuador as an interesting investment destination. We expect important FDI increases in agroindustry, renewable energy, telecommunications, tourism, and superfoods. It's a win-win situation because international investment creates employment in Ecuador and generates return for British investors.

If a UK company does come to Ecuador, they should take advantage of the tax incentives offered by the investment contract model. They offer up to 15-years' exemption from corporation tax and, for certain key sectors, exemption from capital remittance tax.

LAI: How has the pandemic hit Ecuador's exports?

MM: Despite the circumstances created by Covid-19, Ecuador's producers and exporters made massive efforts to keep their businesses going. Our products are still being sent to all of our pre-pandemic markets, keeping the same high standards as before and, of course, meeting the new biosecurity requirements.

Indeed, exports have actually gone up over the period. Non-oil exports in 2020 rose 10% compared to 2019. That trend is continuing this year, with non-oil exports from January to April 2021 up 8% compared to the same period in 2020. Among the star performers, we should highlight banana exports, which were up 12% in 2020, cacao, whose exports increased 24% and the incredible performance of balsa wood, which saw exports jump by 217% in

2020. The main increase in demand came from the US, where the value of exports rose 19%. Our exports to the EU also saw a substantial rise, up 12% in 2020 compared to 2019. Finally, our annual exports to China rose by 7%.

The Ecuadorian government has put a massive Covid-19 vaccination plan in place, which will have a positive impact on the whole economy, including exporters. It will allow this ministry to implement our plans to help the private-sector open up new international markets and boost exports of non-traditional goods. We can only do all of those things if we have an active and protected population.

LAI: Please give us a vision of Ecuador's international trade and incoming FDI in 2030.

MM: We are beginning a new era that will define a new policy for exports and investment. As our president Guillermo Lasso has made clear, we want more of Ecuador in the world and more of the world in Ecuador. For that to happen we must improve our commercial integration with strategic partners, through better trade agreements. We will convert Ecuador into an attractive country for international investors that don't just bring capital but also new production techniques, technology and digital platforms for our companies – in particular the SMEs. We will generate a substantial change in terms of quality, adapting to new international demands for sustainability and efficiency.

Decree 68, which I mentioned earlier, is one of the first steps towards these objectives. It creates an institutional framework that helps investors by reducing unnecessary paperwork, making trade easier and cutting the indirect costs for the start-



ups that contribute to improve the competitiveness of the economy. We are creating a network of sector-specific clusters that will help different industries solve their needs and problems.

We are working with a long-term vision. The strengthening of institutions through public policies will help develop and diversify our industrial base, legal security for investors, implement new commercial agreements and find opportunities in new markets.

Finally, I would like to mention the decision to expand our network of commercial agreements that generate opportunities for our companies to access new markets, either in Latin America or further afield. Free trade deals or commercial agreements have been beneficial for countries because they expand markets, modernise production, generate employment and stimulate investment.

So, I officially invite the readers of LatAm INVESTOR to find out more about the business and investment opportunities, through our online online or at our trade office in London.

5th Floor, 141-142 Fenchurch Street, London EC3M 6BL. **E-mail:** ocelondres@produccion.gob.ec
T. +0044.203.078.8040



WANTED!

International Investors for Ecuador

Guillermo Lasso's ambitious plans require immense amounts of foreign investment; we analyse how he can make it happen...

Ecuador is a beautiful country – yet investors don't seem to think so. On average the country receives foreign direct investment (FDI) worth just 1% of GDP – the third-lowest in South America. That's even more surprising when you consider Ecuador's rich natural resources. It is a

immense amounts of international investment. Ecuador is South America's only dollarized economy, which is a massive plus for investors as it removes exchange rate volatility. Yet it also means that has a structural need for an inflow of dollars. In recent years it has earned them through exports

working with international investment magazines like LatAm INVESTOR he is already displaying an open attitude that was missing during *Correísmo*.

“

We have seen a couple of signs that show us change is coming



Paola Gachet, Partner, Robalino Law

“We have seen a couple of signs that show us change is coming”, says Paola Gachet, Partner at Robalino Law, Quito-headquartered corporate law firm. “For example, President Lasso has made the world aware that Ecuador is open to international markets, and also just recently, with the declaration that he will reinstate our participation in CIADI (ICSID), that's also a clear message that he will protect investments when they come in here. After all, we just had a downside on an international arbitration, but despite this, he remains open to discussing these settlements, and that if we fail, we're still going to pay. This shows we are more open to having investors discuss their problems in the future, and that's a good message, one more amicable to investment.”

world-leading exporter of tuna, shrimp, banana and cacao, with massive reserves of oil, copper and gold. So, investors should be pouring capital into the country. Yet various structural barriers mean that they don't.

If Guillermo Lasso wants to be a successful president, he must find a way to change that. All of his economic plans, from fixing the debt crisis to generating employment, require

or borrowed them from international partners. High debt levels mean Ecuador can't borrow much more money, so Lasso needs to increase the flow of FDI to guarantee the stability of the dollar. To do that he needs to identify and remove the obstacles that discourage international investors.

Good start

First, to give credit where it is due, Lasso has got off to a good start. By

Lasso's positive speeches and slogans – such as ‘More Ecuador in the World and More of the World in Ecuador’ – will encourage investors but ultimately it will take concrete changes in legislation or regulation to improve the environment for investors. At present Ecuador is placed 129th out of 190 countries in the World Bank's Ease of Doing Business ranking. One such measure, says Julio José Prado, Minister for Production, Foreign Trade,



**Maria Amparo Alban, an
Executive Director at SolGold**

“ If Lasso manages to pass a new labour law that liberates the labour market and makes contracts more flexible that would be an impressive achievement

Investment and Fisheries, is the new government's drive to cut red tape. “Executive Decree 68, which was signed by Guillermo Lasso on the 9th of June, established as public policy the reduction of bureaucratic procedures that hinder companies – especially SMEs. This should help Ecuadorian firms save time and money.”

Prado's mention of SMEs is interesting because it highlights that any measures taken must be tailored to the reality of the Ecuadorian economy. Indeed Celso Malimpensa, CEO of PwC Ecuador, notes that Ecuador has a very different economic makeup to what we are used to in the UK. One specific measure to boost the economy would be to improve financing conditions for SMEs. “Ecuador has more than 60,000 companies registered in the Superintendency of Companies and nearly all are SMEs. The private largest company has yearly revenue of more than \$2billion, while the company in 500th place has annual sales of \$30million. So, the economy is dominated by smaller players. Therefore, this government needs targeted policies that can help those companies become more productive, generate employment and boost tax for the state.”

“You could almost say that Ecuador

is one big family business”, jokes Malimpensa, before adding that “there are large, sophisticated family companies in Ecuador with excellent corporate governance.”

Next steps

It is very encouraging that Lasso's administration is picking the low-hanging fruit. As mentioned in our introduction, Ecuador's presidential constitution allows him to enact many reforms by presidential decree. However, to completely overhaul the Ecuadorian economy he will need to get legislation through Congress, where his party only holds 25 of 137

seats.

One of the most important – but also most difficult to pass – concerns employment law, says Maria Alban, an Executive Director on the board of SolGold, a London-listed, Ecuador-focused mining company. “Ecuadorian labour law definitely needs a reform – the original piece of legislation is from 1938. There have been some tweaks in the intervening years but it needs a complete overhaul to recognise the realities of the 21st century economy. It is a very strong labour code, which is part of the problem, as it makes Ecuadorian workers very expensive. If Lasso manages to pass a new labour law that liberates the labour market and makes contracts more flexible that would be an impressive achievement. It would be easier to change the constitution than the labour law, so it will be impossible to do without political alliances.”

Another important area is bilateral investment treaties. In his last days in power Rafael Correa annulled several of these agreements, stripping international investors of the protection



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they need to commit large sums to the country. Yet Pablo Zambrano, President of the Chamber of Industry and Production and Director of the International Centre of Arbitration and Mediation (CIAM), is optimistic. “Investors rely on bilateral investments treaties to have more security, specifically for conflict resolutions such as; arbitration, litigation and other alternative disputes resolution systems. We are really confident that in the next six months, the president will renegotiate these bilateral agreements with foreign countries to bring investments into Ecuador, specifically into mining, oil, fisheries and other important areas.”

Any new deal would need to be passed in Congress, explains Zambrano. “Lasso can sign international treaties. He can negotiate these international agreements. After the negotiations, they have to pass through Congress, but basically, if the agreements and treaties are approved by the president, Congress will approve them. I’m saying this because the commercial treaty with the European Union passed.” At present Ecuador is negotiating trade deals with the US and the Pacific Alliance. “In all these commercial agreements there

is a part regarding these resolutions. Securing authorisations from the constitutional court will give legal guarantees for investors. I think we are going in a good path in order to get this authorisation. I think in six months we can achieve this. What we need here is a basic and simple concept of rule of law, and in order to have this in Ecuador, we have to have authorisation from the constitutional court to guarantee arbitration for foreign investors.”

Lasso won’t just be challenged by Congress or the Constitutional Court. As his predecessor Lenin Moreno discovered when trying to cut fuel subsidies – ambitious reforms often spark protests in the street. Indeed, neighbouring Colombia learned a similar lesson when trying to pass a recent tax law. “There is always the possibility that protests happen”, says Gachet, “but this shouldn’t worry you, because this is just the sign of democracy. It’s something that is needed in the government as well, in the end it just comes down to how you manage those crises and I believe this hasn’t been tested yet.” Moreno responded to 2019 protests by fleeing the capital and watering down his reforms – investors will hope that Lasso



Pablo Zambrano, President of the Chamber of Industry and Production and Director of CIAM

is more determined.

Taxing times

Lasso needs FDI to boost economic growth and help the state repay its debts. The current fiscal situation is challenging, says Malimpensa. “Ecuador has a debt of \$63billion, which equates to 66% of GDP. Debt to other sovereign nations amounts to \$23billion, debts to multilaterals like the IMF comes to \$19billion, there is \$17billion worth of bonds issued to international markets and then around \$4billion on the local market.”

How to Protect International Investments in Ecuador

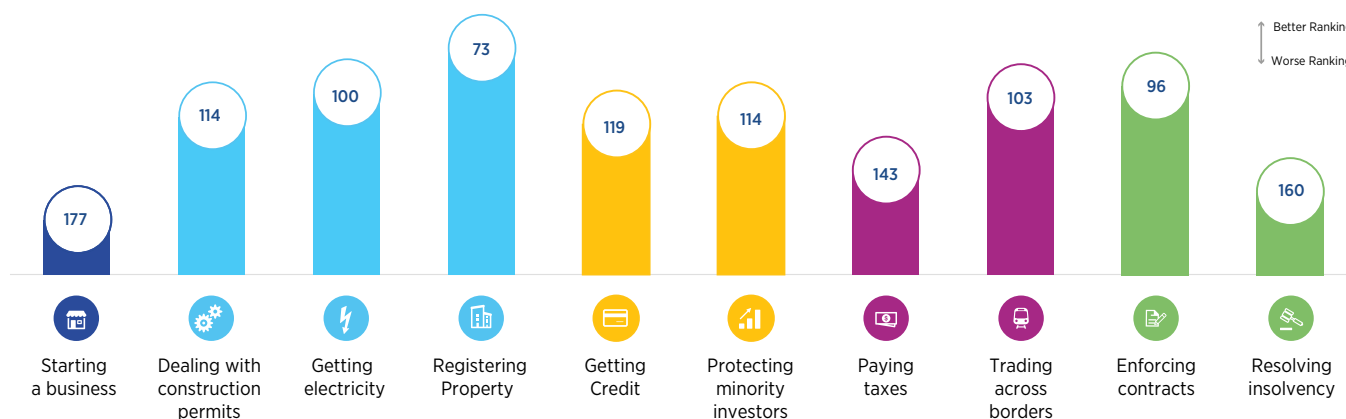
Pablo Zambrano explains how the International Centre of Arbitration and Mediation (CIAM) can help British investors resolve disputes in Ecuador...

The arbitration centre of the Chamber of Industries and the British Chamber of Commerce is an international centre, so investors can come here in order to look for a fair trial. We do have agreements with British centres in order to have arbitrators from Great Britain and we can also provide services of international arbitration and litigation. Our centre can be a really good ally for foreign investors and also for the Government.

Why? Because arbitration is independent and that’s the key issue and factor. When you have to go to court, the most important thing that you want is to have a fair trial and arbitration is a clear example of a fair trial. The members of our centre are known as the top professionals here in Ecuador, but we also have agreements with London, in order for us to have international arbitrators in case of disputes.

Breaking Down Ecuador's World Bank Ease of Doing Business Ranking

Ecuador's Overall DB Ranking = 129



That is daunting but one positive development is the high oil price, says Malimpensa. “The 2021 budget was made with an expected oil price of \$37 a barrel but now the price is above \$70. We are already starting to see some evidence of this in the public accounts. For example, the government received \$6 billion in taxes in May 2021 compared to \$5.5 billion in May 2022.”

Lasso is fortunate to enter power at a time of rising oil prices but that won't be enough to pay off the debt. So, the state will have to begin collecting more taxes without scaring away foreign investors. “We need to raise money”, says Gachet. “But instead of simply increasing taxes, I would prefer making those we have more efficient. When you have specific taxation that is just a limitation, it does not produce any money and you need to make a decision. If you can make life clearer for investors, you give them certainty. I've always been averse to tax exemptions, because what is needed is clarity and certainty. We need tax administration that understands business, rather than impose taxes that make no sense. So, we expect the president to make changes here before the year ends. And being a private investor himself, he understands that it's not always about changing the law, but just by making clear how the law should be applied provides benefit for industry.” Indeed Lasso has already proposed phasing out the current currency export tax of 5%.

Gachet's own attitude is one of cautious optimism. “The country will not change in one day... What I say to my clients is that maybe now we have someone at the table who understands the issues, but nothing is certain yet.” However, Gachet has some useful signpost for investors to look out for, that will show Lasso is making real change. “One sign may be that more investment agreements are being closed

with companies, because there are already projects here that just haven't been started yet, and investment will get things moving. Another sign would be if the President puts bidding agreements in place for certain sectors. In particular you will see concessions and PPP's.”

If that starts happening. And if Ecuador climbs up the table of important rankings like the Ease of Doing Business, international investors might finally start to appreciate some of the country's beauty. ■



www.ciam.com.ec





THE UK VIEW:

We catch up with

Chris Campbell,

HM Ambassador to Ecuador, to find out how the UK is partnering the country...

LatAm INVESTOR:
How will the new government impact UK-Ecuador trade?

Ambassador Campbell: Exporting is tricky when you are tied to the dollar, so it will be an interesting balancing act as to how the new Trade Minister, Jose Julio Prado, boosts competitiveness.

I think he's got a very clear vision that he wants to make Ecuador more competitive. In order to do that, you've got to have a more open market. That would be fantastic for ourselves and international exporters. But it will also

benefit Ecuador in terms of how they export their products to new markets including the UK. So, we want them to be more competitive because it will mean that their goods will do better in the UK market. At the same time, we want Ecuador to be a competitive market, overall, because that gives more opportunities to our exporters.

So that's a win-win if he can deliver on that. And we will do everything we can to help him achieve that, using the new UK-Andean country free trade agreement. It's the tool that can launch this for Ecuador, and we'll be talking to the Minister in more detail about that, as the weeks progress. The helpful thing is that José Julio understands the UK as he did his PhD at Lancaster University. He understands the UK model and is keen to develop more public/private initiatives. We are the home of PPPs, so hopefully we can help him with that as well.

LAI: *Lasso wants to double oil and gas production; is there a role for UK companies there?*

AC: We've got a clear position on oil and gas at the moment, which is that we are trying to move away from

fossil fuels - simple as that. And we're trying to make reducing emissions one of the key areas for discussion around COP26.

Certainly, we have a lot of experience as to how to protect the environment in those areas. We are already talking to a number of oil and gas companies here who have come to us - because we are the COP26 hosts this year - asking about 'how do we green ourselves?'

So, I think our focus will not be so much on UK oil and gas companies operating here but more around how to help the new government achieve its goal in a far more environmentally friendly manner. We have a new fund that we're hoping we can get Ecuador included in, which is about biodiverse landscapes. And that's about how we protect unique areas like the Amazon rainforest, which is where the oil and gas is located.

We're talking to the Ecuadorian government about this as well and they've been very positive. So, in terms of oil and gas, I can probably say we're not going to see a rush of UK companies coming in here, because there are other markets. But also, I think the niche area of expertise where we can help, is through evolving oil extraction in a more sustainable and green manner, without damaging the environment. There are UK companies that can help with this.



Ambassador Campbell (R) with Ecuador's new Minister of Economy and Finance, Simón Cueva

LAI: British miners will play a big role in Ecuadorian mining; how will the embassy support them?

AC: First and foremost we're here to help UK companies that want to invest in Ecuador. Anglo-American are here - at the early stages of their exploration, while there are others, such as SolGold, with strong UK connections. We're promoting responsible mining. Mining in Ecuador, excuse the dreadful pun, is a minefield. Because of the fact that nature rights are embedded in the constitution, and there are strong feelings around mining. So, we're trying to educate people here about the benefits of responsible mining.

Mining could provide massive revenue for the Ecuadorian government. They can't afford to lose those revenues but they rightly want to balance their environmental needs. Mining has to be done in a responsible manner, not just for the country but also for the mining companies. They have to protect two things, their brand and their reputation.

If they lose either of those, their shares drop and their shareholders are on their back. But most of the problems come from the illegal mining. So, there's a need to tackle illegal mining, and actively promote more responsible mining. A lot of that will come down to education, and how the communities will see the benefits of that responsible mining. And I think there's slight disconnect at the moment, in terms of revenues from royalties from the large companies, perhaps not getting to the communities that need it.

There's a misunderstanding out there about what the benefits of mining can be, but also how these mining companies work to ensure they're not damaging the communities where

they are working. They rely on those communities as they provide the workers, while the companies provide the employment and drive economic development. There's this symbiotic relationship, but I think that at the moment there's a communication disconnect, and the message has not got across that the large companies are not necessarily the problem. So that's where the embassy's going to focus its efforts. We will help any UK mining companies that are already here, or that want to come here, whilst also working with the Ministry of Environment and the Ministry of Energy and Non-Renewable Natural Resources.

The Ecuadorian government has already signed up to the extractive industries transparency initiative, EITI, so we will use that tool to build capacity here in Ecuador, to make it a greener sector and to take away some of those anti-mining arguments. It's a balancing act, I'm not naïve enough to say no international mining company is ever going to have a problem or can guarantee 100% that there won't be some form of environmental damage. But what they can do is make sure that they are compliant with all the environment requirements and standards at an international level. And I think that's the key thing, these firms hold themselves to international standards.

LAI: How will you leverage COP26 to improve the bilateral relationship with Ecuador?

CC: Welcome to our world - this is what we've been doing for the last year. Both my predecessor and I, have been working towards COP26, encouraging not just the Ecuadorian government but all governments around the world to be

more ambitious about their reduction of emissions, about their NDC's, about their planning for the future. We've got a project ongoing here in Quito about reducing emissions. And we've got a range of other projects that we've been working with Ecuador on, across the different areas of expertise that we have and the different priorities that we've been highlighting, using things like our historic relationship with the Galápagos islands, to help them with some of the maritime issues that they've been faced with. We've seen what illegal fishing can do to precious marine resources around the world, and every year we see an international fleet hovering off the edge of the marine protected area in Galápagos.

As a practical example, the University of Cambridge, University of Edinburgh, local universities and the government of Galápagos recently launched a new innovation hub in Galápagos, which promotes academic collaboration on environmental protection work. We focus on biodiversity protection, because it is one of the 17 most biodiverse countries in the world.

It's a jewel, in the global crown, and so we have to try and work to help protect it. We've been looking at how we can help Ecuador tackle mitigation and adaption - with a focus on green finance. COP26 is coming soon but we are fortunate that Ecuador has always been pretty much aligned with us in terms of conservation, protection and environment.

Ecuador is very progressive, because Ecuadorians realise what they have here, and that they have to protect it, not least because it's part of their valuable tourism revenue. People come here because of the unique biodiversity Ecuador has, and so all of our COP26 priorities actually are reflected here in day-to-day life.



More Ecuador in the World

Can the new government make Ecuador more globally-competitive?

Throughout this report you will have seen President Lasso's catchy slogan: "More Ecuador in the world and more of the world in Ecuador". If you analyse that from an economic perspective then "more of the world in Ecuador" refers to inflows of foreign direct investment, which we cover in a dedicated article on page 28. While the business way to have "more Ecuador in the world" is through exports.

Ecuadorian exports already have a strong position in global markets. It is one of the world's largest exporters of bananas, cut flowers, shrimp and tuna. In cacao it isn't the largest in volume, yet widely-recognised as having the best quality. These successes are largely down to Ecuador's unique natural endowment, explains Roberto Aguirre, CEO of Ecuador's largest tuna and shrimp exporter, Nirsa. "We are fortunate that the skip jack tuna in that Western Pacific is better quality – in colour, texture and taste – than tuna found elsewhere. Ecuador has also an advantage with shrimp because the large Gulf of Guayaquil is perfect for aquaculture. There is low salinity which is ideal for shrimp, which is why the natural quality of the product is so high. Indeed, it's not just our products.

The fact that Ecuador is on the equator means that it receives the sun's rays at a perpendicular angle, with plenty of radiation. That is great for our banana and cacao growers, who are also world-leaders in their field."

Those natural advantages allow Ecuador to dominate certain export

markets. But Lasso wants more than that. Since the pandemic, unemployment in Ecuador has risen above 6%, while 50% of all Ecuadorian jobs are informal. Lasso needs to create well-paid formal employment and the best way to do that is to add value to the raw materials the country is exporting.

"The country does not want to be an exporter of commodities because you can be easily replaced by other producers", says Aguirre. "You need to add value to a natural product, so



Roberto Aguirre, CEO, Nirsa

new team in the ministry of agriculture and they are very much conscious that they can't just be reliant on banana exports, shrimp exports, flowers. We're very good at these crops, but the world is demanding a whole array of new foods: healthy eating like avocados and asparagus, berries; and also, superfoods that are particularly good here in the region such as quinoa." Armstrong, who is also the Vice President of Agripac, Ecuador's largest agricultural product supplier, is optimistic about the sector's prospects. "There's an opportunity there to also differentiate

"The country does not want to be an exporter of commodities because you can be easily replaced by other producers"

that your clients want to buy from you. That's what Nirsa does with shrimp for example, when we make breaded shrimp."

Nick Armstrong, President of the British Chamber of Commerce in Guayaquil, believes the country should diversify its export offer. "I've had the opportunity to have meetings with the

ourselves from bigger players in other markets who can do what we do here on a larger scale."

For Ecuador to be able to access new markets it will need more trade agreements, says Aguirre. "I do not like to call for large government intervention, because I believe the private sector should be the motor

of economic growth. Of course, the government can help by removing import duties. That makes it easier for us to import materials for manufacture. We also need to be in more free trade agreements.”

Fortunately for exporters like Nirsa, new trade deals are one of the main aims of this government. In an exclusive interview with LatAm INVESTOR, Julio José Prado, Minister of Production, Foreign Trade, Investment and Fisheries, outlined his strategy. “A trade agreement with the US would give businesses in both countries more long-term visibility. At present, the preferential tariff access depends on unilateral programmes, such as SGP, that constantly need to be renewed, creating an atmosphere of uncertainty in the business sector.

“A deal with the US would boost non-oil exports”, says Prado, “as the US is already the main market, with a share of more than 20% at the moment. It’s clear that Ecuador and the US are complementary trade partners. Despite the fact that there is no agreement, the non-oil exports to the US grew by 19% in 2020, which shows us that a long-term trade mechanism could boost exports by easing market access, which our main competitors, Colombia and Peru, already have.

“The Pacific Alliance is also one of our main targets”, adds Prado. “This block is the 8th largest global economy, and joining it as a full member would open the doors to an Asian market that is constantly growing in size and purchasing power. The Pacific Alliance countries already account for 11% of Ecuador’s non-oil exports, worth \$560million in 2020. To join the Alliance, we need to close negotiations with Mexico, which we aim to do by the end of the year.”

Ecuador - UK

It’s great that Ecuador is improving ties with the US and the Pacific Alliance, but what about the UK? Thanks to some deft diplomacy the UK-Andean Countries Trade Agreement meant that Britain’s trade with Ecuador was unaffected by Brexit. Yet overall trade levels are flat, with the £248million worth of imports and exports in 2020, slightly below the high of £261million in 2017.

“Ecuador’s trade balance with the UK has historically been positive”, notes Alejandro Echeverri, President of the British Chamber in Quito. “Now, thanks to the agreement that came into effect on the 1st of January this year, more than 95% of all Ecuadorian products can get to the UK tariff-free. This is a massive opportunity for the country’s agro-industrial sector. Ecuador exported £177million worth of goods to the UK in 2020. Most of that was banana, tuna, shrimp and flowers.”

Economists count tourism as a form of export, because it involves foreign consumers buying local produce and Echeverri believes the industry is a real opportunity for Ecuador. “At the moment it is difficult because of the travel restrictions between the UK and Ecuador. However, it is an area with lots of potential. The new government needs to craft a tourism policy that allows us to take advantage of the natural beauty of our country and improve our trade balance. In the same way that our agricultural products have natural competitive advantages, so does our touristic offer – especially with the Galapagos.”

“When it comes to imports of UK goods to Ecuador, the figure was just £71million”, says Echeverri, “and they were made up of spirits, autos, medicine and industrial machinery –

so goods with high added value. But UK exporters could do much more. The fact that Ecuador is a dollarized economy means that local consumers have strong purchasing power and are used to importing high-quality goods from around the world.”

Those figures should get a boost now there is a new government in Quito, says Armstrong. “Lasso will be good in general for Ecuador and specifically for Ecuador-UK relations, because he is somebody who is very much outward looking. He has emphasised that Ecuador is part of a global community, we have to be out there, we have to be in close contact with consumers, with potential investors into this country. With previous governments, everybody has been very much inward looking and not really wanting to become part of that global community. Lasso is completely different in that respect. He’s pro-trade, pro-international investment and he realises the value of stability – both economic stability and judicial stability – which is attractive for anybody that wants to come and invest in this part of the world.”

Trade deals are great for opening up markets but exporters still have to find a cost-effective way to get their goods there. A massive road-building programme by former president Rafael Correa, helped cut journey times for exporters. Now the next major transport infrastructure is DP World Posorja, Ecuador’s first deepwater port.

For Nirsa, the port has been a gamechanger, says Aguirre. “We have had a big boost with the opening of the deep-sea container port in Posorja. They are practically our neighbours so it has reduced our transport time and costs as we no longer have to truck our produce to Guayaquil. The other



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advantage is that DP World Posorja is a modern, efficient container port with an excellent service.”

Agripac isn't using DP World Posorja yet, says Armstrong, but he has already noticed some indirect benefits. “Contecon has worked hard to also improve the port of Guayaquil. Likewise, Puerto Bolivar in Machala – so there is quite a lot of competition for the port business, not just in Guayaquil but all over Ecuador. That's what competition does. When you have monopolies, they tend to become inefficient, but when you have competition from not just one, two but three ports, not including Manta, then things become interesting. It's better for the importers, it's better for the exporters as well, with more options, you can negotiate better conditions. I think that once DP World Posorja gets the barge terminal working in Durán, and they start moving containers up and down the river, then things could change.”

Limiting factors

Ecuador has naturally good raw materials, improving transport infrastructure and will soon sign new trade deals. But if Lasso wants the country to add more value locally and create jobs, then he will have to find a way to boost productivity. “At more than \$400 per month the minimum wage is very high compared to the rest of Latin America”, says Javier Salazar, Managing Partner EY Ecuador. Moreover, that looks set to increase, as Lasso campaigned on the promise of raising it to \$500 over the course of his presidency. Part of the challenge for Ecuadorian exporters is that their costs are in dollars, whereas competitors in Peru or Colombia pay soles or pesos.

“Ecuadorian companies often struggle in international markets because of a

lack of competitiveness”, admits Juan Pablo Grijalva, CEO of El Ordeño, an Andes-based milk producer. “People blame the dollar but I think that isn't the reason. In fact, the dollar gives us stability, which in itself is a competitive advantage. There are countries in the region that gain competitiveness by devaluing their currency but I don't think it's a good idea. When you devalue you become poorer and your exports are based on the exploitation of the workers.”

“The dollar makes the job harder”, concedes Jose Antonio Vargas, International Business President of Semvra a canned and frozen food producer that already exports to the UK. “But in the long-run the dollar is good for us as it forces us to become more efficient and competitive.”

“For me the cost of capital is far more important than the dollar”, says Grijalva. “Lasso needs to help reduce interest rates on commercial loans. The longest loan we can get from a bank is five years, with interest rates of about 10%. It's hard to be competitive when that's how much your capital costs. The best we ever had was a 7-year loan at a 7.25% rate from the local stockmarket. Indeed, Ecuador's capital markets aren't very large but they work quite

well. However, we need longer bank loans at lower rates. That will allow businesses to invest for the long term.”

Yet being a dollarized economy impacts the interest rate dynamic in Ecuador, explains Miguel Edenberger, CEO of Banco ProCredit – the 14th largest bank out of the 24 in the country. “Interest rates are a function of the dollars in the economy. Less liquidity means interest rates go up, but once dollars start to come in, which is happening now, then interest rates start to go down. The amount of dollars circulating in the economy is what drives commercial interest rates. So, we are absolutely detached from central bank interest rates - they don't play a role here in Ecuador. Oil is the main export, so if you have high oil prices then dollars come into the country and rates fall. The performance of shrimp, banana and cacao will also have an impact.”

With a favourable external environment for Ecuador's main exports, we can expect commercial interest rates to decline over the coming year. But for Lasso to make a big impact on interest rates

“**Lasso will be good in general for Ecuador and specifically for Ecuador-UK relations**”

Nick Armstrong, President of the British Chamber in Guayaquil and Vice President of Agripac



he must “either liberate the market or reduce capital outflow tax”, says Edenberger. Many of the business leaders interviewed for this report, called a large foreign bank to enter the market. Indeed, one option would be to sell state-owned Banco del Pacifico to a new international entrant.

Another way to boost productivity is through technology. “Ecuadorian tech providers can compete with peers around the world”, says Pablo Zarate, CEO of Ecuadorian technology consultancy, Kruger. “There is good digital technology available in Ecuador. The problem is that tech adoption from Ecuadorian companies is slow. Take Ecuador’s world-class shrimp production for example. Ecuador is

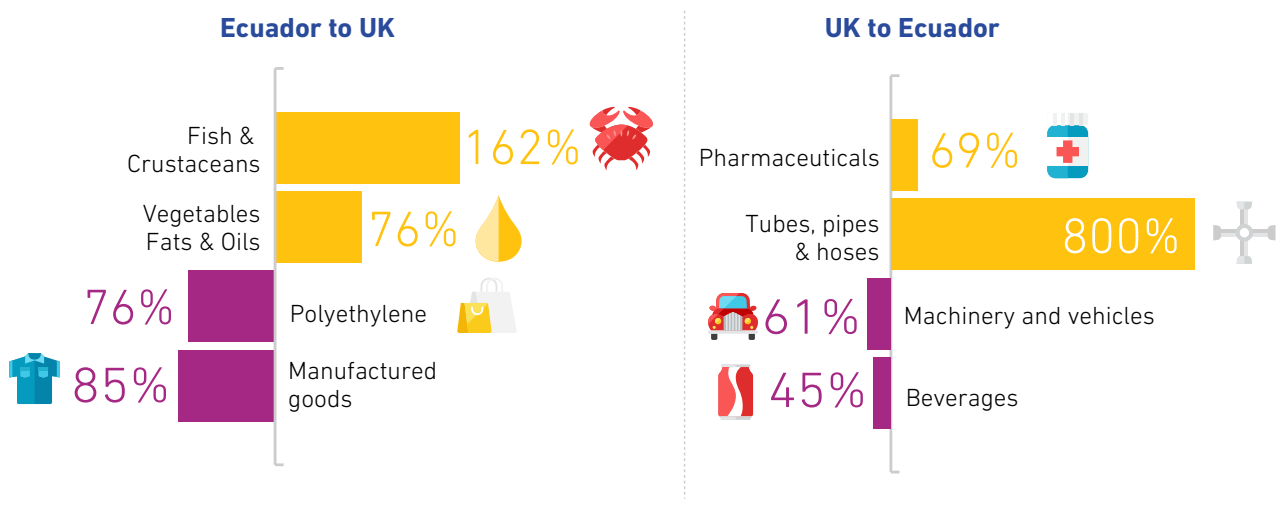
globally-competitive in that field but many of the shrimp farms aren’t even connected to the electricity grid. You can imagine the impact that digital management systems could have on shrimp farm productivity, but that’s difficult when they are running off a diesel generator.

“There are lots of family businesses here in Ecuador and they can sometimes be very conservative. The attitude tends to be, if it’s not broke, why fix it? That is a cultural barrier to tech adoption. In family firms there can be internal politics that prevent people honestly assessing performance and look for ways to maximise it. You also have to look at state policies. We don’t have a government that invests in technology

and innovation. That’s a big difference to somewhere like Costa Rica, where the government is constantly trying to encourage private-sector tech adoption.”

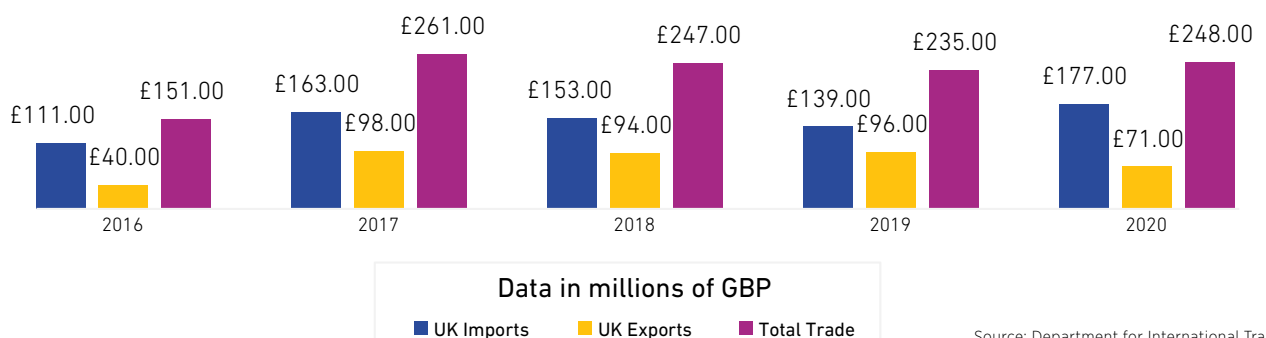
Lasso’s pledge to raise the minimum wage is admirable. After all, a government’s main aim should be to improve the life of its poorest people. But, with high unemployment and a large informal sector, the minimum wage rise will only work if Lasso is able to create more formal jobs. Over the next four years Lasso’s government will turn to technology, better financing, improved infrastructure and trade deals to make Ecuador’s exporters more productive. And that will create opportunities for UK firms. ■

COVID-19 IMPACT ON TRADE BETWEEN THE UK AND ECUADOR



THE UK-ECUADOR TRADE RELATIONSHIP

Yearly Trade Balance



Source: Department for International Trade



PANAMÁ

PARQUE INDUSTRIAL CON ZONA FRANCA

INDUSTRIAL PARK
WITH FREE TRADE ZONE

- **A 4 kms. del Aeropuerto Internacional de Tocumen**
4 km from Tocumen International Airport
- **Para industria pesada y liviana**
For heavy and light industries
- **Lotes en venta listos para construir su planta o bodega**
Parcels for sale ready to build your plant or warehouse
- **Zona Franca operativa con incentivos fiscales en materiales de construcción y maquinaria***
*Free Trade Zone with incentives on construction materials and equipment***
- **Construcciones a la medida (BTS)**
Built to suit buildings (BTS)
- **Arrendamientos a largo plazo**
Long-term leases
- **A 700 metros de la Subestación de Energía Eléctrica**
Located 700 meters from a Power Station
- **Contiguo a la Estación del Metro de Panamá - Línea 2**
Right next to the Panama Subway Station - Line 2
- **Acceso independiente a dos líneas de distribución de agua**
Independent access to two water distribution lines

+50% VENDIDO
+50% SOLD

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*Ley 32 del 5 de abril del 2011 **Law 32 of April 5th, 2011

Vía Panamericana, Ciudad de Panamá / +507 830-8888