



ECUADOR UPDATE

December 2006

I. Introduction

Ecuador has suffered a decade of political instability. Its last three presidents were removed from office well before completing their four-year terms. The causes include: feuding among political factions in Congress; animosity among a politically, geographically, and racially polarized population; corruption; and discontent from a largely repressed indigenous sector.

This political backdrop contributed to Rafael Correa's appeal as an outsider and his victory in Ecuador's November 26 presidential elections. Correa, a nationalistic, left-wing populist, formed an alliance of social groups to beat three-time candidate and billionaire Alvaro Noboa.

While Noboa had prevailed among 13 presidential candidates in the first round of elections on October 15, he did not win the necessary majority to avoid a second round. Noboa faced off with second-place finisher Correa in a runoff election on November 26th. Correa beat Noboa by more than 13% largely because he moderated his radical rhetoric and appealed to Ecuadorian voters' desire for change.

On January 15, 2007, Correa will become Ecuador's seventh president since 1996 (see Appendix A for list of past Ecuadorian presidents). This report summarizes the election outcome, outlines Correa's principal policy plans, and presents his key cabinet appointees.

II. 2006 Elections

Ecuadorians elected Rafael Correa, a 43-year old leftist economist from Guayaquil, as their president in November 26, 2006 runoff elections. Correa beat conservative banana tycoon Alvaro Noboa, who was on his third attempt to win the presidency.

Noboa won the first round of elections on October 15, but he did not garner enough votes to avoid a runoff. Noboa represents the established elite, favoring good relations with the U.S. and free market policies. He was leading in the polls prior to the second round, but was hurt by his endless unbelievable promises, for example, to build 300,000 new low-cost houses per year. He also damaged his image with erratic behavior, often dropping to his knees with bible in hand at public events, praying to God for support.

Meanwhile Correa attracted votes from the center in the second round by moderating his leftist rhetoric. He received full support from the indigenous communities and the population in the 'sierra' (Andean highlands). He even pulled support from his hometown of Guayaquil and the coastal areas, which typically are Noboa's stronghold. Ultimately Correa won with 56.67% of the vote to Noboa's 43.33%.

Rafael Correa

Correa is a young, charismatic academic who has never held elected office. He briefly served as finance minister to outgoing president Alfredo Palacio, but was forced to resign after his public denunciations over the World Bank's denial of a \$100 million loan to Ecuador.

Correa has a doctorate in economics from the University of Illinois and describes himself as a 'left wing Christian humanist.' During his campaign he pledged a 'citizens' revolution' against the country's discredited political system. He pledged to construct 100,000 new low-cost homes and promised to double the monthly 'poverty bonus' that is paid out to 1.2 million poor Ecuadorians.

Correa's anti-U.S. rhetoric and socialist ideology are similar to that of his populist friend President Chavez of Venezuela. His calls for increased social spending and a constituent assembly to enact reforms and rewrite the constitution mirror those of both Chavez and left-wing President Evo Morales of Bolivia.

U.S. Response

Correa famously criticized U.S. President Bush during the campaign, topping Chavez's remark by saying that calling Bush the devil was insulting the devil. Most U.S. observers favored a win by conservative candidate Noboa, who promised close relations with the U.S., free trade, and continued cooperation on the war on drugs. Ideologically, Correa is far to the left of most U.S. politicians and investors.

However, Correa greatly moderated his rhetoric after placing second in the first round. U.S. Ambassador to Ecuador Linda Jewell was quick to congratulate Correa when it was clear he won the runoff election. They had a positive meeting and pledged to work together. Correa also received a phone call from President Bush on Thursday following the election. This interaction contrasts greatly from the 'cold shoulder' treatment received by leftist Bolivian President Evo Morales after his surprising victory in December 2005. It appears the U.S. believes there is more to gain by working together with the leftist leader in the hopes of not losing another Andean country to Chavez's influence.

Congress

Correa will need all the support he can get as he faces a challenging situation in which to govern. His movement, Alianza País (Country Alliance), won no seats in the 100-member Congress. The largest bloc in Congress, consisting of 28 seats, belongs to Noboa's conservative PRIAN party (Institutional Renewal Party of National Action). PRIAN Congresswoman and Noboa's wife, Anabella Azín, will likely lead the legislature.

The second largest bloc, consisting of 24 seats, belongs to the left-wing, nationalist PSP (Patriotic Society Party) of former president Lucio Gutierrez. PRIAN and PSP, while unlikely ideological partners, could form an alliance to control a majority in Congress. Center-right PSC (Social Christian Party) could also join PRIAN and PSP in opposing Correa's policies.

Constituent Assembly

Correa often criticized Congress during his campaign, referring to them as '100 dictators' and a 'sewer' of corruption. He called for a 'consulta popular' or popular mandate, which is a referendum to decide on a constituent assembly and elect its members. He hopes to do this within six or seven months after his inauguration. He argues he cannot accomplish necessary reforms working solely with the Congress, but that with a constituent assembly they can rewrite the constitution. Ecuador has had 18 constitutions since its democracy was established in 1830. The most recent entered into force in August 1998.

According to the constitution, Correa needs the support of Congress to convene a constituent assembly for rewriting the constitution. Currently, of the 100-member Congress, an estimated 64 members are opposed to the 'consulta popular' (PRIAN, PSC, ID, RED, PRE, and UDC).

Correa flatly denied rumors that he would dissolve Congress in order to achieve his goals. He stated that Congress could continue with its fiscal functions and that the constituent assembly would decide on the permanence of the Congress.

III. Correa's Policies

Since the elections, Correa has made conciliatory remarks, indicating his desire to unite the country and seek consensus. However, he also continues to support somewhat radical positions on reforms and international policy. Several concrete policy initiatives and cabinet appointments have been announced.

U.S. Relations

Correa's policies will not favor U.S. positions in the region.

- He will not renew the U.S. military's lease on part of the Manta air base, which is headquarters for U.S. efforts to fight drug trafficking in the region. The contract is due to expire in 2009.
- He will not seek to complete a free trade agreement (FTA) with the U.S. (see below).
- He will renegotiate current contracts with foreign oil companies (see below).

Trade

Correa said he will not sign a FTA with the United States. Negotiations for a FTA were called off by the U.S. last May when Ecuador terminated its contract with U.S. oil company Occidental Petroleum and seized its oil fields.

According to María Gloria Alarcón, president of the Guayaquil Chamber of Commerce, failure to secure an FTA with the U.S. will result in up to \$300 million in lost revenues for Ecuadorian exporters who will face higher tariffs.

Most likely Correa will at least try to get the U.S. to extend the Andean Trade Preferences and Drug Eradication Act (ATPDEA). ATPDEA provides duty free access for more than 5,000 Ecuadorian products. It is set to expire on December 31, 2006, but the U.S. Congress is already debating an extension and will likely make it retroactive so that duties will not be imposed during the interim.

Energy

Correa will immediately renegotiate the volume and state involvement in current oil contracts. According to Correa, “We cannot permit that of every five barrels, they take four and leave us one.” He plans to strengthen state-owned Petroecuador, but has acknowledged the need for continued foreign investment and expertise. He also plans to rejoin the Organization of Petroleum Exporting Countries (OPEC), which Ecuador left in 1992.

Correa announced that Ecuador will begin sending petroleum to Venezuela for refining as soon as he enters office. He is tired of “throwing money out the window” by exporting crude to import derivatives. With the extra proceeds, Correa plans to invest in refineries, transportation, storage, and hydroelectric generation. Specifically, he proposed building refineries in Jaramijó and Monteverde, as well as modernizing the existing one in Esmeraldas.

Finance/Monetary Policy

Correa plans to renegotiate Ecuador’s \$16 billion debt and has not ruled out defaulting. This caused a sell off of Ecuador’s bonds and caused its default insurance to soar. Ecuador defaulted on its foreign debt three times since the early 1980s, but is liquid enough to cover current payments. Nevertheless, Correa wants to restructure the country’s obligations in order to spend more money on social programs.

Correa also threatens to cut ties with international lending institutions, including the World Bank and the International Monetary Fund. Without them he will likely pressure private banks to lower their interest rates and fees and seek to force investors to return billions of dollars held abroad since Ecuador’s 1999 financial crisis.

Despite rumors to the contrary, Correa asserted he will not de-dollarize Ecuador’s economy. Dollarization has stabilized the country’s economy and slowed inflation.

IV. Cabinet

Correa announced the names of several close friends and campaign collaborators he will appoint to his future cabinet.

Minister of Government: Gustavo Larrea

Larrea is a human rights activist who was at the forefront of protests that removed former president Lucio Gutiérrez from power. He will collaborate closely with Correa in the call for a constituent assembly to implement political reforms and create a new constitution. Larrea will be in charge of working toward these goals with the political parties in Congress. Proposed reforms include:

- Strengthen the independence of the Supreme Court
- Improve the transparency of the Supreme Electoral Council by ending appointment of political party representatives as Council officials¹

President of Petroecuador: Carlos Pareja Yanuzzelli

Carlos Pareja is a close friend of Correa and previously led Petroecuador. During his tenure he recommended the termination of Ecuador's contract with U.S.-based Occidental Petroleum.

After meetings with the current president of Petroecuador, Pareja declared, "Petroecuador will be 100% of the state and we will guarantee judicial security." While the state will still own and operate Petroecuador, he ruled out a process of nationalization such as Bolivia's. His promise to guarantee 'judicial security' is most likely aimed at calming concerns over the contract dispute with Occidental. He still hopes to attract US\$5 billion in foreign private investment for the industry. Some plans include:

- International tender for petroleum exploration in the southeast of Ecuador
- Construction of two new refineries and expansion and improvement of the existing refinery in Esmeraldas
- Underground gas storage project
- Improve oil pipelines

¹ Appointment of political party representatives as electoral council officials proved troublesome in the four coastal provinces on election day. When exit polls showed Noboa losing, he ordered his followers to stop the official vote count of scanning tally sheets and had them order a re-count of all the paper ballots one by one. Electoral officials from his party went ahead and suspended the count even though there was no evidence of fraud and legally the normal count should proceed before conducting a ballot-by-ballot re-count. After a tense night of arguments, the next morning the supreme electoral council from the capitol ordered that regular counting begin or officials would be relieved of their duty. By mid-day regular counting resumed and the crisis was resolved.

- Legal security and stability

Minister of Energy: Alberto Acosta

Acosta is known for his research and has written several articles criticizing neoliberalism. He questions a free trade agreement with the U.S. According to Acosta, an agreement would have negative consequences in agriculture and intellectual property and would create radical protection of foreign investment.

Finance Minister: Ricardo Patiño

Patiño served as Correa's vice minister of economy during the time Correa was finance minister for out-going President Palacio. He was key in garnering support for Correa from past government leaders, including those in exile. Patiño favors protectionist economic and trade policies and promises increased state spending.

For questions and additional information, contact Katja Newman at knewman@ksnconsulting.com

V. Appendix

Chronology of Ecuador's past presidents (Source: El Universo).

1979 – 1984	Jaime Roldós
1984 – 1988	León Febres-Cordero
1988 – 1992	Rodrigo Borja
1992 – 1996	Sixto Durán-Ballén
1996 – 1997	Abdalá Bucaram (Bucaram was overthrown by Congress after less than a year for his “mental incapacity to govern”)
1997 – 1998	Fabián Alarcón (Bucaram's vice president)
1998 – 2000	Jamil Mahuad (Overthrown by indigenous groups and the military following a severe financial crisis and protests against dollarization)
2000 – 2003	Gustavo Noboa (Mahuad's vice president)
2003 – 2005	Lucio Gutiérrez (Gutiérrez had led the revolt against Mahuad; he was unable to maintain support from his backers and was ousted after protests led by various political factions that were opposed to his unconstitutional reforms and controversial Supreme Court appointments)
2005 – 2007	Alfredo Palacio (Gutiérrez's vice president)
2007 – ?	Rafael Correa