BEIJING, BANKS AND BARRELS:
CHINA AND OIL IN THE ECUADORIAN AMAZON

March 2014

Overview

China’s economy and its global influence are growing at a rapid rate. Nowhere is that growing influence clearer than in Ecuador, a country that Beijing has lent nearly $9 billion and has promised $7 billion more in financing. Those loans and promises add up to nearly one fifth of Ecuador’s GDP, allowing—and in some cases forcing—the nation to advance new infrastructure and energy projects including massive oil, mining, and hydropower projects in the Amazon.

This report aims to serve as an analysis of China’s growing presence in Ecuador, to help shed light on Chinese projects and loans in Ecuador with attention to the Amazon region, and to offer insight into the significance of Chinese geopolitical power in the region and its implications for the future of the Amazon rainforest and its people.

Introduction

Limited by geography and necessity, the political and economic ties between Asia and South America have historically been modest. But over the last decade, the south-to-south relationship of these two Pacific Rim continents is in full bloom. And while a controversial new trade pact dubbed the Trans Pacific Partnership (TPP) has been six years in the works, bilateral relationships are being forged that are dramatically altering the world of finance, commodities, and markets, in particular between China and Ecuador.

But what does the world’s second largest economy want with one of the smallest? China and Ecuador have entered into a marriage of convenience, born out of the domestic necessity of each country. China’s oil consumption doubled between 2000 and 2010, and is on par to surpass the U.S. in the next five years. As part of its “Going Out” policy, China has been searching outside its national borders to meet its rising energy needs and is on a global quest for diversified sources of commodities and raw materials. Currently more than 50% of its oil consumption comes from imports. Securing access to cheap energy is vital for China to support its growing industrial expansion, massive population migration from the countryside to urban centers, and to maintain its hegemony as largest producer and distributor of goods to the global economy.

Ecuador, on the other hand, was in need of liquidity. An OPEC member with a dollarized economy, it was shut out of markets after a 2008 default on global bonds. Desperate for financing to keep its economy solvent, initial loans from China helped the small Andean nation stay afloat. Subsequent loans are now helping finance the greatest expansion of public sector spending in modern Ecuadorian history. By 2013, China provided an estimated 61% of Ecuador’s financing needs. In exchange, China will get nearly 90% of Ecuador’s oil—a staggering monopolization of production from an OPEC member, and the first time Ecuador has provided crude to a lender.

On the surface, the relationship appears mutually beneficial. Beijing provides credit and Ecuador provides oil and access to other natural resources. But as explained further in this report, the devil is in the details. The long

KEY TAKEAWAYS

- Ecuador’s growing dependence upon China has forced the Andean nation to advance massive oil, mining, and hydropower projects in the Amazon
- In 2013 China bought nearly 90% of Ecuador’s oil and provided an estimated 61% of its external financing
- President Correa has publicly criticized China’s demands as “barbaric,” “humiliating,” and “attempts against the sovereignty of Ecuador,” while privately pushing forward controversial and often secret deals with Beijing
- China recently released Green Credit Guidelines and Foreign Investment Regulations that could serve as important accountability checks for Chinese investment and operations in the Ecuadorian Amazon
view suggests it may be more of a colonial resource grab, with Ecuador playing the familiar role of debtor state bound by loan conditions with major implications for national sovereignty, and that appear even more odious than the loans for which it previously defaulted. The crude is slated to come from Ecuador’s Amazon—vast tracks of pristine rainforest with record levels of biodiversity and home to ten indigenous nationalities, many of whom are vehemently opposed to drilling. The recently acquired debt is driving a new Amazonian oil boom, setting the stage for a major battle over rights and resources that will shape the future of the Amazon and its people.

The First Deals

President Rafael Correa entered office in 2007 with strong anti-Washington rhetoric, promising to strengthen Ecuadorian sovereignty and distance the nation from U.S. imperialism. Ecuador’s 2008-2009 debt default helped to create that distance. It cut the foreign debt to $7.01 billion and it alienated Ecuador from foreign markets, making it virtually impossible for the nation to receive international loans. China, a nation whose state-run banks have a history of offering loans unburdened by restrictions or regulations to conflict or debt-ridden countries, seized upon the opportunity by offering loans to Ecuador. In 2009, the Correa administration accepted its first loan from China for $1 billion at an interest rate of 7.25%. Part of the loan agreement stipulated that Petroecuador, Ecuador’s state oil company, sell Amazonian crude to Petrochina, the world’s second-largest publicly traded oil company.

Project Summary

Since then, many loans for infrastructure, oil, mining, and energy projects have followed. In 2010, China-ExIm Bank provided a loan of $1.7 billion to the Ecuadorian government for the Coca-Codo Sinclair hydroelectric dam and $570 million for the Sopladora hydroelectric dam, and the Chinese Development Bank loaned Petroecuador $1 billion. In 2011, Petrochina paid a $1 billion down payment on oil to Petroecuador. The Chinese Development Bank gave an additional $2 billion loan to the Ecuadorian government, 70% of which was designated for the Ecuadorian government’s discretion and 30% of which was for oil. Many of the loans that have followed have been in the $1-2 billion range, with interest rates of between 6% and 8%, and demand payment in barrels of crude oil.

In these combination loan agreements and oil sale deals, the Chinese Development Bank (CDB) grants a loan to Ecuador’s Finance Ministry. In turn, state oil company Petroecuador “pledges to ship hundreds of thousands of barrels of oil to China every day for the life of the loan.” Chinese oil companies then buy the oil at market price, deposit the money into Petroecuador’s CDB account, and withdraw money directly from the account to repay the CDB for its loan. These deals allow China to secure long-term oil supply chains, establish itself as a major oil trader, promote Chinese industry and exports, and mitigate the risk of its loans. China has done the latter through controversial provisions that grant an un-

ECUADOR AND CHINA BY THE NUMBERS

- $9 billion = Chinese loans to Ecuador since 2009
- $7 billion = Chinese financing for a refinery on Ecuador’s coast
- 61% = the estimated amount of Ecuador’s external financing that China provided in 2013
- 83% = the amount of Ecuador’s oil that went to China in mid-2013
- 10 days = the time between President Correa’s public decision to exploit the Yasuní-ITT block and Ecuador’s announcement that it had received a $1.2 billion loan from China
- 2 out of 3 = bids on oil blocks in Ecuador’s 11th Round oil auction that came from Chinese conglomerate Andes Petroleum. The other bid came from the Spanish company Repsol.

Source: Joshua Schneyer & Nicholas Medina Mora Peres - Reuters
AMAZON WATCH

AMAZON WATCH

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precedent amount of Ecuador’s oil and its sovereignty to Beijing.

China has also tried to secure its loans by pushing for a massive expansion of Ecuador’s oil frontier, particularly in the central-south Amazon and Yasuní National Park, two of the most biodiverse areas on Earth that are home to seven indigenous nationalities.

Sovereignty for Sale?

During 2009 negotiations with the Chinese Export Import Bank over a $1.45 billion dollar loan, President Correa lashed out at the Chinese saying that, “negotiating with China is worse than with the IMF, they were asking for some outrageous guarantees.” He was particularly offended that the Ex-Im Bank urged Ecuador to put up the assets of its Central Bank as collateral, calling the demand “barbaric,” “outrageous things that are humiliating for this country,” and “truly attempts against the sovereignty of Ecuador.”

He warned that if they kept those conditions, Ecuador would have to distance itself from China and find another creditor.4,5

However, while Correa was denouncing China’s “attempts against the sovereignty of Ecuador,” his government was secretly signing a letter allowing Petrochina to seize assets from any oil companies operating in Ecuador in the event that Ecuador did not pay back China in full.6 The letter, which according to Ecuadorian law should have been reviewed by the legislature, only came to light nearly three years later.

Perhaps more troubling is the August 2010 “Four Party Agreement” between Petroecuador, the Ecuadorian Ministry of Finance, Petrochina and the Chinese Development Bank. Article 15 of that contract has what Analytica Investments calls a “sovereignty immunity waiver” that allows China to seize many of Ecuador’s assets if the country fails to repay the loans and requires Ecuador “to irrevocably and unconditionally [waive] any right...to assert any immunity from or in any Proceedings...against it or its assets.”7,8 The clause excludes Ecuador’s military equipment, embassies, consulates, natural resources that have not yet been extracted, its archives and cultural heritage, and any property that China would be unable to seize under Ecuadorian law.9 However, it is unclear what, if any, assets Ecuadorian law would exclude. The Account Management Agreement that Petroecuador and the China Development Bank signed on the same day has an identical clause.10

Former Finance Minister (and current Coordinating Minister of Political Economy) Patricio Rivera has refused to refer to the payments as loans, preferring to call them “advance sales.” This is despite the fact that Ecuador has had to pay interest on the payments to the Chinese Development Bank (not an entity selling oil to Ecuador) and the agreement that he signed refers to them as “loans.” The agreements require Petroecuador to maintain a minimum balance at the Chinese Development Bank and sets Beijing and London as locations for arbitration, contradicting Ecuador’s constitution that “forbids the state from agreeing to arbitration outside Latin America and the UN Commission of Trade Law’s (UNCITRAL) mediation network.”11

This has led to an expansion of Chinese oil operations in Ecuador. In July the Industrial and Commercial Bank of China agreed to finance more $8 billion of a $12 billion refinery on Ecuador’s coast, but reduced that number to $7 billion when Ecuador scaled down the size of the refinery.12,13 Andes Petroleum, a joint venture between the Chinese National Petroleum Company (CNPC) and Sinopec, operates in block 62 in Sucumbíos Province, and blocks 14 and 17 in Orellana Province, under the name PetroOriental. In late November, Andes submitted bids on blocks 79 and 83 in the Ecuadorian Amazon. Those accounted for two out of the three blocks in the government’s oil auction that received bids.14 By mid-2013 Ecuador had granted 83% of its oil exports to China, roughly the same number that went to the United States prior to the Correa administration.15

ARE YOU BUYING AMAZONIAN OIL?

• 70% = the percentage of China’s Ecuadorian oil purchases that go to the West Coast of the United States and Panpac, an offshore site “where oil cargoes are often loaded onto U.S. vessels”

• $6 million/day = value of shipments of Ecuadorian oil that middleman Taurus Petroleum shipped to the West Coast for much of 2013. That oil went to customers including Chevron, public enemy number one in Ecuador for its legacy of contamination in the Amazon.

• 17% = the percentage of the West Coast’s oil that came from Ecuador in 2013, usually handled by Petrochina’s middlemen. Only Saudi Arabia and Canada supplied more.

Source: Joshua Schneyer & Nicholas Medina Mora Peres - Reuters
The southern Ecuadorian Amazon and parts of Yasuní National Park are the only undeveloped parts of Ecuador’s rainforest. Chinese companies Sipec and Andes Petroleum, which recently merged with Chinese conglomerate Petrooriental, are already operating in the northern Ecuadorian Amazon and Yasuní National Park. Andes recently submitted bids on blocks 79 and 83, home of the Sápara. There are an estimated 200 Sápara left in Ecuador and UNESCO has recognized them as a cultural patrimony.
The 11th Oil Round

On November 28, 2013, Ecuador received offers on just three blocks from its much-touted auction of 13 Amazonian oil blocks known as the 11th Round or Ronda del Sur. The controversial round covered over six million acres of rainforest in Ecuador’s southern Amazon, home to seven indigenous nationalities who have vowed to resist all oil drilling on their traditional territory. This was scaled back from the original 21 blocks and over ten million acres that were announced in November 2012. Attempts to lease the southern Amazon have been plagued by indigenous and national resistance, a widely condemned consultation process, deadline extensions, wary investors, a transnational oil spill and global outcry.

In July of 2013, Quito-based organization Fundación Pachamama released a study showing that only 7% of the population and 39% of the communities that would be impacted by the round were even consulted, let alone gave their consent. On December 2 that same year, the government punished Fundación Pachamama for their opposition to the oil round by shutting down the organization and proceeded to launch preliminary investigations against ten of the country’s most prominent indigenous leaders for their opposition to the auction. The Secretary of Hydrocarbons is asking that the leaders be imprisoned.

While the lack of bids is a reprieve—for now—for millions of acres of primary rainforest, the 600,000 acres bid upon represent a grave threat for indigenous groups that call these forests home. Both blocks that Andes Petroleum submitted bids for are 100% indigenous territory: Block 79 is Kichwa and Sápara territory; and Block 83 is Kichwa, Sápara and Shiwiar territory.

Yasuni

According to documents obtained by Reuters, in 2009 Ecuador’s ministry of economic policy gave a private presentation to Correa’s staff in which the ministry promised to “make the utmost effort to support Petrochina and Andes Petroleum in the exploration of the ITT.” Perhaps unsurprisingly, ten days after Ecuador’s decision to abandon the Yasuní-ITT initiative the government announced that it had received another $1.2 billion loan from China.

Roque Sevilla, the ex-president of the negotiating committee for the initiative, believes that China was the deciding factor in Ecuador’s decision to drill. China is helping Ecuador to finance a $10 billion refinery on its coast, and Sevilla argues that the government has long planned on supplying the refinery with oil from Yasuní-ITT. According to Sevilla, documents from 2008 and 2009 state that the refinery would process 100,000 barrels of oil from the ITT fields, which the government sees as necessary to make such a large refinery commercially viable.

Last month CNPC signaled interest in Block 31 and Block 20. Block 31, like the neighboring ITT block, is also home to Waorani indigenous clans living in voluntary isolation. Article 57 of the Ecuadorian Constitution qualifies any operations there as ethnocide, but the National Assembly was able to bypass that provision by declaring drilling in both blocks in the national interest. However, long before President Correa announced his decision to exploit the ITT blocks, Petroamazonas had begun construction of a massive access road through it. As early as March 2013—months before President Correa’s pronouncement and the National Assembly’s vote—there were already oil rigs in Block 31. One of the photos leading the publication Plan V shows a jaguar walking amongst an oil pipeline in construction. Block 20 is currently under lease by Ivanhoe in partnership with Petroecuador, but massive local resistance has been a major barrier to production. In 2010 over 1,000 Kichwa from the area came together to oppose the project. Another barrier has been capital—the oil in Block 20 is so heavy that many companies classify it as a mining project, similar to the tar sands in Alberta.

In 2011 PetroOriental, a joint venture between the China National Petroleum Corporation (CNPC) and Sinopec, changed the shape of Block 14 so that it would extend to the border of Yasuní-ITT, a move that would make it easier to exploit ITT’s reserves. This move weakened the credibility of the Yasuní-ITT initiative and has led many to wonder how far Ecuador will go in order to pay back its debt to China.

Middlemen

While Chinese oil companies have a near monopoly on Ecuadorian oil, less than 2% of it ever arrives in China. Instead, Chinese state oil companies partner with private trading firms that sell the oil around the world, with 70% of it going directly to the United States or to PanPac, “an area offshore Panama where oil cargoes are often loaded onto U.S. vessels.” In 2013, that oil accounted for 17% of the one million barrels per day that came to the West Coast of the United States, second only to Saudi Arabia and Canada. In the first three quarters of 2013, the most active company was Taurus Petroleum, a company best known for its involvement in the “Oil-for-Food” scandal. According to shipping data acquired by Reuters, Ecuadorian shipments from Taurus alone ac-
counted for nearly 10% of oil that came to California.\(^6\) Those shipments, worth roughly $6 million per day, went to customers including Chevron, public enemy number one in Ecuador for its decades of contamination in the Ecuadorian Amazon. But in the last quarter of 2013, Taurus stopped shipments of Ecuadorian oil to California, and Core Petroleum, whose chief financial officer is also Taurus’ financial director, took over.\(^7\)

**Beyond Oil**

**Mirador Mining Project**

In 2010 China’s state-owned Tongling Non-ferrous Metals Group and China Railway Construction Corp. paid $679 million to absorb Canadian mining company Corriente, whose principal assets are found in Ecuador’s Corriente copper deposit. A deal has now been reached between the Ecuadorian government and the new Ecuadorian mining company to initiate the $2.4 billion open-pit Mirador mine that would affect over 450,000 acres of primary forest in the Cordillera del Condor, a highly biodiverse region in the southern Ecuadorian Amazon along the border with Peru that is the sacred ancestral homeland to many indigenous Shuar. It is claimed that the mine will produce 2.35 million tons of copper and $5.4 billion for Ecuador.\(^8\)

The project has been met with protests from the area’s indigenous Shuar population that manifested in a massive march from the Amazon to Quito involving many indigenous nationalities and non-indigenous allies. Currently, a case has been brought against the mining project in the Provincial Court of Pichincha that is using the Rights of Nature upheld by Ecuador’s Constitution to claim the project is unconstitutional and that a proper consultation process has not taken place. The plaintiffs in the case are the indigenous organizations CONAIE, ECUARUNARI, CONAFEO (now called GONOAE), local area residents, and civil society organizations including Fundación Pachamama and Acción Ecológica.\(^9\) The Chinese company’s investment in the region follows failed attempts by GEMSA, Billington, and Corriente Resources to mine in the area due to local resistance. How-
ever, on April 10, 2013 the Ecuadorian government and Ecacorriente signed a $2.4 billion deal and announced they will move ahead with the project ignoring irreversible social, environmental and climate impacts.

**Coca-Codo Sinclair Hydroelectric Dam**

The construction of hydroelectric dams is booming in Latin America, thanks in large part to Chinese financing. There are currently 151 proposals for dam construction in Andean countries, which represent a 300% increase over existing dams. In Ecuador, the idea for the Coca-Coda Sinclair hydroelectric project was formed in the 1970s, but it wasn’t until Rafael Correa took office—and China got involved—that the idea became a reality. The dam, considered the largest investment project in Ecuador, will divert the Coca River in Napo Province to purportedly supply 75% of Ecuador’s energy. A $2 billion deal was signed between the Ecuadorian state hydroelectric company Coca Sinclair and China’s Sinohydro in October of 2009. Sinohydro will construct the project, set to finish in 2015, 15% of which is being financed by Ecuador and 85% through a loan from China Ex-Im Bank.²⁹

The project will supposedly generate 1,500 MW of energy using 222 cubic meters of water per second. Environmental organizations are concerned about the impact of the dam on the region and claim that the river only maintains a flow of 80-100 cubic meters of water per second, and therefore is not sustainable and will lead to long term debts to China if unable to generate enough energy to repay the 6.9% interest on the loan.³⁰

Dam construction has been marred by controversy. Ecuadorian workers contracted by Sinohydro have repeatedly gone on strike, complaining about mistreatment, poor working conditions, and a lack of health care, food, and fair wages. The dam is likely to have a high social and environmental cost. Widespread displacement of local communities is inevitable as dam construction proceeds. The San Rafael waterfall, the most iconic and largest waterfall in Ecuador, is likely to disappear along with large areas of primary forest with dam completion.

**Manta-Manaus Corridor**

The Manta-Manaus Corridor is a multi-modal mega-project that is currently underway across the Amazon. It aims to connect the Brazilian port cities of Manaus and Belém with the Ecuadorian coastal port at Manta, a longtime development dream of both countries. Manta is South America’s closest port to China, and according to the Ecuadorian government, the objective is to turn it into the most important port city in the South Pacific, which will serve as the “entry and exit point for the Asian Basin.”

The project would allow South American countries an alternative to the U.S.-controlled Panama Canal, and models estimate that the new route would cut transport time in half. The project falls under the Initiative for the Integration of Regional Infrastructure in South America (IIRSA) and has many different funders, including large monetary institutions like the Inter-American Development Bank (IDB) and the Brazil Development Bank (BNDES), as well as private corporations from the region and from China. Brazil, responsible for the majority of Latin American exports to China, is a staunch promoter of the project. The corridor is a multi-modal mix of 120 projects, aiming to connect waterways, new and expanded roadways, ports, and airports. Project costs are estimated between $800 million and $2 billion. With China being the major destination for exports and source of imports, it is contributing greatly to the financing of many sub-projects.

The Corridor has received widespread criticism for its environmental and social impact both of direct impacts of the projects’ right of way (ROW), as well as long-term impacts from increase demand for natural resources from previously inaccessible areas and increase in agro-industrial development such as African palm and soy. The myriad of projects would affect many natural reserves in Ecuador, including the Llamancocha Biological Reserve, Llanganates National Park, Yasuní National Park, Cuyabeno Reserve, Sumaco National Park and the Napo Galeras Reserve. Infrastructure has and will increasingly impact local indigenous territories and peasant populations.

Furthermore, the project could have devastating effects on the Napo River, one of the largest Ecuadorian tributar-

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ies of the Amazon with highly variable water levels and huge volumes of sediment. To use it as a major export corridor would likely require regular dredging so that larger boats and barges could safely traverse the river year-round. A study commissioned by Ecuador and Peru and funded by the Inter-American Development Bank (IDB) concluded in late 2010 that this sort of dredging of the Napo River was “technically, economically, and environmentally unviable.” Kichwa indigenous communities along the riverbanks voiced overwhelming opposition in consultations conducted for the study, which concludes that there are a litany of risks posed by the project, from pollution from increased boat traffic to illegal logging to drug trafficking, and recommends that actions be taken to mitigate or prevent these impacts.

To date, major elements of the project have been halted due to funding and feasibility issues. Others, like expansion of the port in Manta, Trans-Andean highway expansion, and dam construction have been completed or are underway.

**Conclusion**

Understanding China’s relationship with Ecuador and Latin America becomes increasingly important as China’s power grows and drives the nation to seek energy and resources in remote parts of the world, like the Amazon. What China has achieved at Ecuador’s expense is staggering: near complete control of the finance, labor, construction, commodity access and extraction, which in turn guarantees China is paid back for its loans.

Given this reality, it is the international and local communities’ responsibility to hold both parties to the highest environmental and human rights standards. The Chinese government has issued issued two frameworks for overseas operations: Green Credit Guidelines for social and environmental responsibility standards for Chinese bank loans, and Guidelines for Environmental Protection in Foreign Investment and Cooperation that set environmental standards for Chinese companies operating internationally and for partner companies. However, two years after issuing the Green Credit directive, the China Banking Regulatory Commission has yet to create a department charged with overseeing its compliance.

These guidelines may prove to be important accountability checkers considering China’s willingness to fund projects and operate in highly controversial areas, including the south-central Ecuadorian Amazon. To quote a Chinese government official: “Where others see risk, we see opportunities and this country has many growth opportunities.”

**References**

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28. “Ecuador Subscribe Contrato con Empresa China para Construcción hidroeléctrica.”