CHINA IN ECUADOR:

NATURAL RESOURCES, INFRASTRUCTURE, AND SECURITY

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Executive Summary

China's presence in Ecuador started to expand in 2009 when the country was isolated from the international financial system and began to receive substantial loans from Chinese state and commercial banks. This financial favor was tied to conditioned purchases and the granting of services from China in at least three strategic areas: natural resources (notably oil and mining), security, and public infrastructure. Many of these loans were tied to long-term purchases of Ecuadorian crude oil, and all were tied to the hiring of Chinese companies and services to carry out public works in Ecuador.

Regarding natural resources, Chinese loans were conditioned on monopolizing Ecuadorian oil production and the extraction of some minerals. Through long-term sales and loans, Ecuador committed some 1,071,000,000 barrels of oil, equivalent to the entire national output of six years, which had to be delivered exclusively to Chinese traders. With this strategy, Chinese companies quickly monopolized the purchase and marketing of Ecuadorian oil. They were able to access contracts and concessions to explore and exploit significant oil and mining blocks. The value of the committed barrels exceeded the value of the advances and loans provided by Chinese entities. It was, without a doubt, an unequal financial favor with more significant benefits for China. For instance, there were cases where Ecuador continued sending barrels to China even though the debt had already been paid off.

Similarly, Ecuador's foray into large-scale mining began in the last decade, led by Chinese companies, whose arrival coincided with the large loans Chinese banks granted to the Ecuadorian government. Since then, the country has defined five mining projects considered strategic, three of which are in the hands of China-based companies.

Furthermore, Chinese companies play a fundamental role in security, with the creation of a national surveillance system through video cameras in public spaces. There have been complaints about the malfunctioning of this technology (El Universo, 2023). These projects were carried out under the justification of the increasing insecurity in the country, but they could lead to violations of the right to privacy and peaceful association.

In addition to surveillance system contracts, between 2008 and 2012, China and Ecuador signed six agreements related to cooperation, training, and military assistance (Ortega, 2016), which allowed for the acquisition of equipment and training. For example, Ecuador purchased Chinese radars for $60 million to monitor airspace, mainly to locate airplanes linked to drug trafficking. However, these devices did not work, leading authorities to unilaterally terminate the contract, claim the advance and guarantee, impose a fine, and file a lawsuit for damages. In response, the Chinese company filed a counterclaim. China's participation in security matters in Ecuador was recently extended under Moreno's government, not without controversy.

The loans from Chinese banks also financed public infrastructure contracts since Rafael Correa's government. However, the construction companies that won these contracts were only Chinese, excluding significant groups and sectors of the Ecuadorian economy. This conditioning of Chinese credit has already been reported in other Latin American countries.

All these deals in the three mentioned strategic areas were agreed upon with the highest authorities of the Ecuadorian executive power. However, low transparency standards were applied, preventing effective social control and assessment of their implications. As a result, acts of corruption have occurred, which, to date, are being aired within the judicial system. For example, scandals related to Rafael Correa's government officials involve major Chinese companies and their legal representatives.

Based on this diagnosis, this document proposes some strategies to make economic relations with China more transparent from civil society.

Introduction: “We will not accept blackmail”

Rafael Correa Delgado became President of the Republic in February 2007, when Ecuador was at an impasse with the World Bank (WB). Correa had been Minister of Economy and Finance in 2005, during the government of President Alfredo Palacio.

At that time, state revenues from the oil surplus were destined to the so-called Fund for Stabilization, Social and Productive Investment and Reduction of Public Debt (FEIREP), directing, by law, 70% of this income to the repurchase of public debt.

As soon as he became minister, Correa pushed through a legal reform to ensure that such funds were used less for debt buybacks and more for social investment (El Universo, 2005). His proposal was echoed by the National Congress, which approved the reform in July 2005. Almost two years later, already at the helm of the executive, Correa recalled how this legal change affected the country’s relations with the World Bank.

“We continue to investigate why, when I was Minister of Economy, in mid-2005, as blackmail for having reformed the FEIREP law, they withheld 100 million [dollars] that had already been granted to us [by the World Bank],” Correa said at a press conference in April 2007 (El Universo, 2007).

On that occasion, he threatened that if the WB did not give him a satisfactory answer, he would expel the agency from the country. “We are not going to accept blackmail,” he said. Days later, Correa ordered the expulsion of the WB’s representative in Ecuador (El Universo, 2007).

At the same time, the new government’s relations with the International Monetary Fund (IMF) were deteriorating. In July 2007, the agency’s officials had to leave their offices in a public building due to the insistent demands of the then Minister of Finance, Ricardo Patiño Aroca.

The regime’s propaganda asserted that both the WB and the IMF were incompetent and corrupt organizations, which is why they preferred to have credit relations with the Inter-American Development Bank (IDB) and the Andean Development Corporation (CAF) (La Hora, 2007).

While this was happening, Correa was strengthening ties with China. In November 2007, the governments of the two countries signed three economic agreements:

- A memorandum of understanding on economic cooperation;
- A framework agreement for the granting of preferential credit by the Export-Import Bank of China (Eximbank) for 200 million yuan;
- An economic and technical cooperation agreement through which China agreed to grant an interest-free credit of 20 million yuan.

Although these agreements never materialized, they were the prelude to what Correa would later implement.

The following year, the Correista government carried out a strategy that definitively distanced it from the international financial market. After several speeches in which the president argued that part of the foreign debt was illegal and illegitimate, in December 2008, Correa announced that his government would not pay the interest on the 2012 and 2030 Global Bonds.

In this way, the country officially defaulted. After the announcement, the country's risk level reached its historical maximum of 5,069 points. At the same time, global financial entities complained that a nation with high revenues due to high oil prices refused to pay its debt.

Months later, in June 2009, the government announced that it had repurchased the aforementioned bonds with discounts of between 65% and 70%, managing to withdraw a debt equivalent to 2,920 million dollars from the market. Consequently, Ecuador was left out of the international market for several years, which led to securing the bridges it had built with China (Basantes, 2019).

It was the Asian giant's debut in Ecuador's economy, which would become one of its main creditors years later. The first operation that allowed Correa to correct the fiscal deficit, outside the international financial market, occurred in July 2009.

By then, state-owned oil company PetroChina International had finalized a long-term crude oil purchase with Petroecuador. The Asian company gave an advance of 1 billion dollars, with an annual interest rate of 7.25%, to secure 69,120,000 barrels, which would be delivered in two years.

After that, the first loan to finance a mega project came. The Export-Import Bank of China (Eximbank) provided a loan of 1,682,745,000 dollars, with an interest rate of 6.9% per annum for a term of 15 years, to finance part of the Coca Codo Sinclair hydroelectric plant, the most expensive project in Ecuadorian history, awarded to the Chinese construction company Sinohydro Corporation.

Similarly, in August 2010, the first Chinese loan guaranteed with oil was granted. This was a complex operation involving several actors. The China Development Bank (CDB) has given Ecuador's Ministry of Finance a $1 billion loan with an annual interest rate of 6% for a four-year term. At the same time, to guarantee the payment of this loan, PetroChina and Petroecuador signed another long-term purchase and sale of 52,560,000 barrels of crude oil.

These four institutions (the CBD, the Ministry of Finance, PetroChina, and Petroecuador) also signed a quadripartite agreement for the loan to be repaid from the oil sales funds. 80% of this loan was used to finance the General State Budget, and the rest to contracts awarded to Chinese companies.

The deals described above show the three ways the Chinese authorities financed the Ecuadorian government: long-term purchase of crude oil, loans to finance public works, and loans secured by oil. These movements proliferated in Correa's government and continued on a smaller scale until Moreno's.

By the end of Correa's government, the effects were evident. China held almost all of the bilateral debt. The Chinese oil trading companies (PetroChina and Unipec) monopolized the trade in Ecuadorian crude oil, since there was no barrel sold by Petroecuador that did not pass through their hands.

Chinese oil and mining companies also won large contracts and tenders to explore and develop deposits. Chinese construction companies held the most significant contracts for the construction of public works. One of these stood out for its importance in the security field: the citizen video surveillance system.

Following Ecuador's exit from the international financial markets, China settled in the country with a predominant role in three strategic areas: natural resources, infrastructure, and security.

China arrived on the wrong foot

China Petroleum Technology and Development Corporation (CPTDC), a subsidiary of the state-owned China National Petroleum Corporation (CNPC), was the first company from the Asian giant to open offices in Ecuador around 1994. This Quito-based branch, however, did not register any activities in the country, and, finally, the Superintendency of Companies canceled its operating permit in 2005. It wasn't a good start.

A second attempt to operate in Ecuador occurred at the beginning of this century. CNPC and the other state-owned oil company, China Petroleum & Chemical Corporation (Sinopec), opened offices. CNPC established two branches: one through its subsidiary, CNPC Chuanqing Drilling Engineering Company Limited, in 2001. The other was in 2003, through its affiliate CNPC International (Amazon) Ltd., whose parent company was based in the US Virgin Islands.

Sinopec also opened two offices. Its subsidiary, Sinopec International Petroleum Exploration and Production Corporation, was established in 2002. In the same year, another of its subsidiaries, Sinopec International Petroleum Service Corporation, integrated the capital to establish an Ecuadorian company of the same name, Sinopec International Petroleum Service Ecuador S.A. China's state-owned oil companies resumed their economic plans in Ecuador with these four partnerships.

Two of these companies were not so lucky. A few months after basing themselves in Ecuador, CNPC International (Amazon) Ltd. acquired the rights that the company Lumbaqui Oil Ltd. had over the contract for the exploration and mining of Block 11. However, the activities did not materialize.

In July 2010, the Reform Law of the Hydrocarbons Law was published, promoted by Rafael Correa, which forced the current participation contracts to be changed and converted into service provision contracts. Failing to reach an agreement, the Ecuadorian government unilaterally terminated the Block 11 bidding contract in 2011. CNPC International (Amazon) Ltd. remained out of operation for several years. Its latest balance sheet reported a cumulative deficit of $95.4 million. The company was canceled in 2022.

Something similar happened with Sinopec International Petroleum Exploration and Production Corporation. After several years of inactivity, the Ecuadorian government announced, in November 2009, that the Chinese company and Petroecuador would form a joint venture to mine the Oglan field (Block 42), mainly with investment from the Asian firm (El Comercio, 2009).

However, the project did not materialize, and the government granted the concession to mine the block to another company (El Comercio, 2010). In the end, this subsidiary closed its offices in Ecuador in 2019. Both companies failed in their attempt to operate in the country.

The other two companies (CNPC Chuanqing Drilling Engineering Company Limited and Sinopec International Petroleum Service Ecuador S.A.) had a different fate. The first entered Ecuador with a firm business. Oil company Dygoil, which had a large contract from Petroecuador, subcontracted CNPC Chuanquing to increase production in two fields for $69.2 million.

The agreement came into force when the Chinese company was domiciled in the country in 2001. Three years later, CNPC Chuanqing won the rights to the main contract with Petroecuador. This was the only big business it had until 2008 when Ecuador's state-owned oil companies began awarding it large service contracts.

CNPC's business was boosted in 2017, and since then, it has received giant contracts exceeding 1.1 billion to drill wells in the Parahua, Sacha, and ITT fields (Ishpingo, Tambococha, and Tiputini).

Something similar happened with Sinopec International Petroleum Service Ecuador S.A. At the beginning of its operations, it was dedicated to leasing equipment, mainly for the state-owned Petroproducción and the private Phyllis Petroleum. It wasn't until 2008 that it began to get large public contracts.

This company also provides services to private oil companies such as Halliburton, Repsol YPF, Schlumberger, and others. The operations of these two companies show that starting in 2008, the fortunes of Chinese oil companies in Ecuador changed and grew exponentially.

The first breaking point occurred in 2006, when China's two state-owned oil companies, CNPC and Sinopec, recorded the most significant investment ever in Ecuador's oil sector. For $1.42 billion, they acquired two affiliates that Canada's Encana maintained in Ecuador.

After the sale, one changed its name to Andes Petroleum Ecuador Ltd. and the other to Petrooriental S.A. With the transfer, both companies acquired the rights to three concessions: 100% of the Tarapoa Block, 75% of Block 14 (although Petrooriental later acquired the entire project), and 70% of Block 17.

The investment also allowed them to become the largest partner in the Heavy Crude Oil Pipeline (OCP), the main oil transportation route on Ecuadorian soil, with 36.3% of the shares. Finally, Andes Petroleum gained access to 40% of the economic interest in Block 15, whose concession was in the hands of the American company Occidental (Oxy).

Encana had bought those rights in 2000 in exchange for an investment in the project. This operation provoked a controversy over whether or not Occidental should have had the authorization of the Ecuadorian government to carry it out. For that reason, the government reversed the Block 15 concession. This, in turn, triggered Occidental to sue the state internationally, which had to recognize 60% of the investment.

For its part, Andes Petroleum sued Occidental in the United States for its economic rights, something it did not do against the Ecuadorian state (El Universo, 2021). The truth is that this significant investment by Chinese state-owned companies, added to the loans granted a few years later by Chinese banks, definitively opened the doors to Ecuador.

In 2014, the Ministry of Energy and Non-Renewable Natural Resources (now the Ministry of Energy and Mines) awarded Andes Petroleum the exploration and mining of blocks 79 and 83 in the Pastaza province in the Ecuadorian Amazon. Two years later, the contract was finalized, which set an initial investment of 72 million (El Universo, 2016).

However, the project could not materialize due to the opposition of the indigenous communities settled there, a fact considered a force majeure event. This caused the execution of the contract to be suspended.

Chinese oil companies' success in the country is also seen in the operations of other subsidiaries and affiliates. In 2014, Servicios Integrado Pañaturi S.A. (an affiliate of Sinopec) was awarded three contracts by Petroamazonas to exploit the Indillana, Limoncocha, and Yanaquincha Este fields, with a 15-year term and a total investment of $402 million.

In addition, BGP Ecuador Co. S.A. (an affiliate of CNPC) has provided services to Chinese oil companies operating in Ecuador and Ecuadorian state-owned oil companies, accumulating hundreds of millions in revenues. For their part, the subsidiary China Petroleum Engineering & Construction Corporation (CPECC) and their affiliate CNLC Ecuador Corporacion S.A. have provided support in the operations of the Chinese oil companies.

They even have two affiliates (Frankstein S.A. and Inmocastle S.A.), which rent them real estate and vehicles to carry out their activities. This network of subsidiaries and affiliates shows how China's oil business was consolidated in Ecuador.

One of these affiliates is CPTDC China Petroleum Technology & Development Corporation Ecuador S.A., which, in 2011, completed a US$100 million sale of petroleum equipment to Petroecuador. This business is not explained by the significant investment of Chinese oil companies but by a much larger operation. In fact, the acquisition mentioned above was financed with the first loan granted by the CDB, guaranteed by Ecuadorian crude oil.

These types of loans and long-term oil sales allowed China to monopolize Ecuadorian oil production and consolidate itself in mining and other critical areas such as infrastructure and security.

China hoarded the oil

The purchase of Encana gave China an important presence in the Ecuadorian economy, which expanded from 2009 onwards when Chinese entities began to finance the Ecuadorian state budget through long-term purchases of Ecuadorian oil, loans guaranteed by oil, or loans to build significant public works. These types of financing proliferated during Correa's government (which ended in May 2017) and continued to a lesser extent during Lenín Moreno's term.

Two Chinese state-owned traders made long-term oil purchases: PetroChina International Co. Ltd. (a subsidiary of CNPC) and Unipec Asia Co. Ltd. (a subsidiary of Sinopec). Between 2009 and 2014, five long-term sales totaling $7.1 billion were made. This money was received as an advance, destined to the state coffers to finance the national budget.

Petroecuador had to discount this advance with the delivery of the crude oil, taking into account a fixed annual interest rate that ranged between 6.97% and 7.25%. In addition to having a fresh advance, these operations gave Correa another advantage since Ecuadorian law did not consider such advances as loans. Thus, the resulting amounts were not accounted for in the public debt reports, giving Correa room to continue borrowing without exceeding the legal limits.

During Correa's government, a similar way of financing the general state budget also proliferated. These were the loans that the CBD gave to the Ministry of Finance, which were guaranteed by raw delivery. The CBD provided four lines of credit totaling $7 billion. Annual interest rates ranged from 6% to 7.25%. The government agreed to include a confidentiality clause in the credit agreements despite Ecuadorian regulations not requiring them for these cases (El Universo, 2020).

In addition, in 2016, the last year of the correato, the Industrial and Commercial Bank of China (ICBC) granted a loan of $970 million to Petroecuador that was also tied to the delivery of crude oil, with an annual rate of 6.2% plus the three-month Libor variable.

That money was directed to the General State Budget since the state oil company received the loan on behalf of the Ministry of Finance, something that, according to the Comptroller General of the State, had no legal basis (Contraloría General del Estado, 2018). These revenues were the government's primary source to mitigate the fiscal deficit.

Petroecuador committed a massive amount of crude oil to Chinese traders for long-term sales and credits from the CBD and ICBC. The figure reached 1,071,000,000 barrels of oil. This is equivalent to the entire national production of the last six years, according to the oil sector reports of the Central Bank of Ecuador.

In addition, Petroecuador did the same type of business between 2015 and 2016 with Thailand's state-owned PTT International Trading Pte. Ltd., to which it committed another 240 million barrels. The amount of crude oil offered exceeded production capacity.

In all these sales, Petroecuador had been obliged to deliver 132.8 million barrels in 2015, but in that year, Ecuadorian oil exports reached 131.4 million barrels. In 2016, this gap widened. One hundred forty-nine million barrels had been pledged, and exports reached just 126 million (El Universo, 2017). China hoarded all of the production in those years.

The value of the barrels committed exceeded the amount of the advances and credits provided by Chinese entities. With these operations, China wanted to ensure that Ecuador committed an overwhelming amount of oil.

What was done was to pay for each shipment by deducting a part of the advance or credit, as the case may be, also considering the annual interest fixed in the contracts. In this way, there were cases where Ecuador continued to send barrels even though the debt had already been paid off.

China and Thailand delivered just 14 dollars on average, either in advance or credit, for each barrel committed (El Universo, 2017). These negotiations occurred between 2009 and 2016, when the average price of a barrel of Ecuadorian crude oil was around 75 dollars. The Office of the Comptroller General of the State found that the number of barrels committed in these contracts was fixed without any technical basis. This was just one of the irregularities in these contracts.

Another anomaly, perhaps the most serious, was the price per barrel set in the contracts. The large amount of crude oil committed affected how the price of Ecuadorian oil was calculated. Ecuador produces two types of crude oil, Napo and Oriente, which are heavy.

For its price on the international market, West Texas Intermediate (WTI) crude oil is taken as a reference. Traditionally, a differential (almost always negative, since Ecuadorian crude oil is heavier) published by Argus and Platts magazines is applied to the price of WTI, and a premium agreed between the seller (Petroecuador) and the buyer is added.

This formula was applied to the first long-term sales contracts signed between Petroecuador and Chinese oil companies. The price of WTI was taken, to which the differential published by Argus was reduced and a premium was increased. However, in June 2014, Argus stopped publishing the differential for Ecuadorian crude.

The problem was that, to set that value, the magazine took the sales of Ecuadorian oil in the international market as a reference, and these had stopped being done precisely because everything was committed to the Chinese oil companies. Argus' decision left a void in the contracts. To solve this problem, in mid-2014, the six contracts in force were modified to create a new formula.

This new formula was also based on the international price of WTI, but a variation was introduced. The original contracts were based on the WTI price on the day the crude was shipped, the day before, and the day after. An average of these three days was taken, which was the price with which the calculation started.

With the new formula, this changed. The following was done: once the oil was shipped, they waited ten days and took the price of WTI for the next five days. It must be taken into account that, at that time, in 2014, the decline in the price of oil was imminent. Waiting ten days and taking the price for the next five days meant selling the crude at a lower price. This caused millions of dollars in losses for Ecuador (El Universo, 2017).

The new formula was designed by the American consulting firm Arthur D. Little, which was hired by Petroecuador. The argument to defend it was that when the price of crude oil recovered and began to rise, Ecuador would instead benefit.

In fact, when the price of oil began to rise at the beginning of 2016, new amendments to the contracts were signed, and the price of WTI was established as a reference on the day of shipment, a few days before and a few days after, as was done at the beginning (El Universo, 2017). Clearly, the formula changes were made with China's interests in mind.

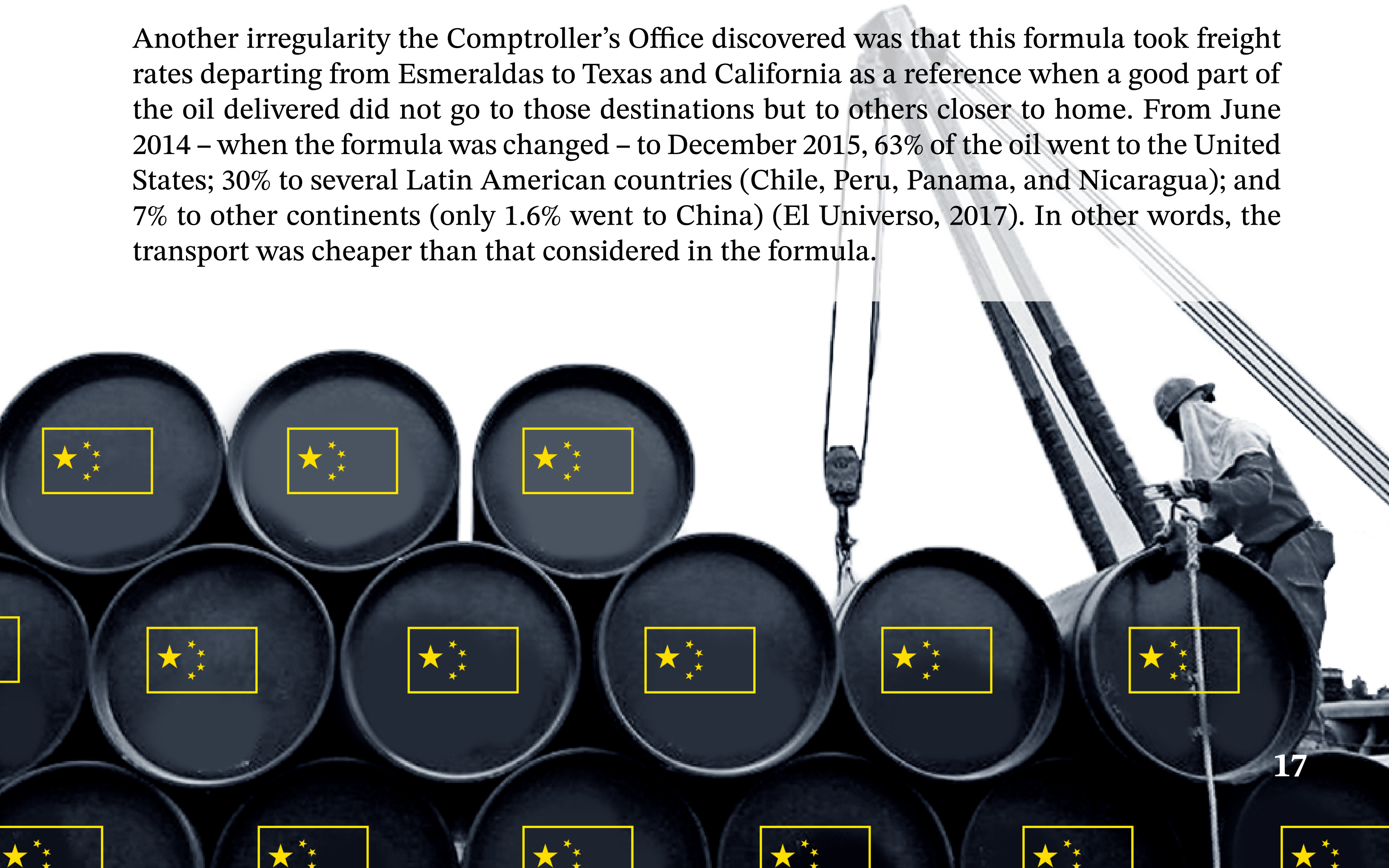
The formula designed by Arthur D. Little also introduced other variations. As Argus had stopped publishing the differential of Ecuadorian crude oil, the new formula was based on the differential that Argus itself reported for ASCI crude oil (a mixture of heavy oils that includes one called Mars), from which two additional penalties were subtracted.

For the former, a table of derivatives was created to establish how deficient Ecuadorian crude oil is with relative to Mars crude during refining. To calculate this difference, the cost of coke was taken as a starting point; it was also calculated by Argus. This value was the first punishment.

The second was the cost of transportation freight. To calculate it, the average cost between an Esmeraldas-Houston freight and an Esmeraldas-Los Angeles freight on a Panamax vessel was established. In other words, Petroecuador paid the cost of transportation. In short, the new differential for Ecuadorian crude oil was composed of three punishments: the ASCI crude differential, the refinery performance index (the cost of coke), and the freight value.

The Office of the Comptroller General of the State found a prejudice in how the cost of these freight rates was calculated. The Panamax is a small vessel designed to cross the Panama Canal, but Ecuadorian crude oil was transported on larger Aframax vessels, which made the cost of transportation lower than that of the formula.

Another irregularity the Comptroller's Office discovered was that this formula took freight rates departing from Esmeraldas to Texas and California as a reference when a good part of the oil delivered did not go to those destinations but to others closer to home. From June 2014 – when the formula was changed – to December 2015, 63% of the oil went to the United States; 30% to several Latin American countries (Chile, Peru, Panama, and Nicaragua); and 7% to other continents (only 1.6% went to China) (El Universo, 2017). In other words, the transport was cheaper than that considered in the formula.



Finally, the new formula maintained the premium that has traditionally been negotiated between the seller and the buyer. This rubric, which improves the price of crude oil, was gradually reduced in the contracts signed between Petroecuador and Chinese oil companies. The first contract, from 2009, set a premium of $1.25 per barrel of Napo crude and $1.30 per barrel of Oriente crude. In contracts signed in 2016, those premiums were reduced to just $0.25 per barrel of either type of crude.

When Lenín Moreno succeeded Rafael Correa in 2017, the new Petroecuador administration proposed renegotiating contracts with Chinese oil companies, arguing for an economic impact. One of the measures adopted was to deliver as little crude oil as possible to Chinese oil companies, relying on a clause that allowed for an increase or decrease of 10% of the amount committed in each shipment. Then, they began to supply the Chinese oil companies with as little as possible to leave a surplus that would allow them to make a spot sale, which was achieved (Mena-Mena & Almeida, 2022).

The first spot sale took place in September 2017. It was obtained by the multinational Glencore, which offered a positive differential of 0.51 dollars per barrel above WTI. In other words, while a negative differential (penalty) was calculated in the contracts with Chinese oil companies, a positive differential (prize) was obtained in the bidding. This served as an argument to start the renegotiation process with the Chinese oil companies, as it became apparent within the public opinion that the contracts with the companies of the Asian giant were harmful to the country.

The renegotiation was lengthy. In the end, they were able to change some clauses of the contracts. In 2018, six contracts were amended, increasing the premium in favor of Petroecuador to $0.90 per barrel. These amendments also changed how the cost of freight is calculated.

Instead of taking the cost of a Panamax on the Esmeraldas-Houston (Texas) and Esmeraldas-Los Angeles (California) routes, they chose to average between (i) the cost of an Aframax freight on the Esmeraldas-Los Angeles route and (ii) that of a Panamax freight on the Esmeraldas-Houston route. This reduced the punishment for Petroecuador concerning transportation. In other words, the renegotiation made it possible to improve the premium and reduce the freight penalty.

In addition, the government of Lenín Moreno was able to obtain an additional loan from the CBD for 900 million dollars, putting as collateral the crude oil that had already been committed in two previous oil contracts, one signed in 2011 and the other in 2014 (El Universo, 2018). In these cases, Ecuador had already paid the debt, but there were still barrels to be delivered. This new loan was signed during an official visit by the president in December 2018.

In the government of Guillermo Lasso, who succeeded Moreno in May 2021, there was a new renegotiation of contracts. From the beginning of his term, Lasso promoted the signing of a Free Trade Agreement (FTA) with China and made an official visit to the country in February 2022. He managed to get Chinese President Xi Jinping to extend the terms of two loans granted by the CBD, which were guaranteed by oil delivery to PetroChina.

As a result, Petroecuador pledged to deliver crude oil in smaller monthly quantities, but until 2027. With this extension, the Ecuadorian state-owned oil company secured a more significant surplus for more spot sales. These negotiations also led Petroecuador to sign a new long-term sale to PetroChina, but this time, clauses regulated by the international market and without advance payment were used.

This was possible because Argus magazine had once again quoted the differential for Ecuadorian crude oil in March 2022. For this reason, in this latest long-term sale, the traditional formula for calculating the price of a barrel was resumed: the price of WTI minus the differential established by Argus, plus a premium.

China concentrated public works

Loans from Chinese banks financed many public contracts, especially for construction works, which were awarded to companies in the creditor country. The four lines of credit the CDB granted to Correa's government had a percentage of free availability, that is, to feed the General State Budget and another to finance contracts.

For example, the first line, granted in 2010, was for 1 billion dollars. 80% went directly to the tax coffers, and the rest to two contracts: one to install a citizen surveillance system at the national level for 100 million and another to provide oil equipment for the same value. This is the only line of credit where it has been possible to clearly establish how all the resources destined to finance contracts were used.

The other four lines have not been made transparent, as the Ecuadorian government declared the confidentiality of the documents of these financial operations. However, several public records, such as audits by the Office of the Comptroller General of the State, financial statements of the contractors presented to the Superintendence of Companies of Ecuador, as well as the contracts themselves, have made it possible to establish that the credits of the CDB financed at least 34 public contracts, amounting to 2.208 billion dollars, during Correa's term.

Besides these loans, Correa's government received others from the Eximbank and the Bank of China to finance 85% of the cost of major works. The Eximbank granted seven loans for a total of US$3.547 billion to finance the following projects: the Coca Codo Sinclair, Paute-Sopladora, and Minas-San Francisco hydroelectric plants; a nationwide electric power transmission system, the Santa Ana Aqueduct Hydraulic Plan, the construction of the Yachay City of Knowledge, and the extension of Simón Bolívar Avenue (Quito's peripheral road).

For its part, the Bank of China provided four loans for a total of 864 million dollars to pay for infrastructure: the Cañar and Naranjal flood control projects, a contract for the execution of ten roads and another for three of them, as well as the construction of 200 prefabricated schools. All of these contracts were awarded to Chinese construction companies.

This financing caused Chinese companies to scoop up the largest public contracts. Official documents show that at least 48 contracts were financed in whole or in part by Chinese loans, which totaled $7.3 billion (El Universo, 2017).

Of these, only eight saw evidence of a selection process among bids from Chinese companies. In the rest, the contracts were awarded directly, without competition, based on the provisions of the Organic Law of the Public Procurement System, enacted in 2008 by the Constituent Assembly of Correa's majority, as well as its regulations, issued by Correa himself in 2009.

These rules opened the door to awarding contracts without competitive bidding in case they are fully or partially financed by a foreign government. As a result, six Chinese holding companies hoarded these types of contracts:

1. Power Construction Corporation of China (Powerchina) – through its subsidiary Sinohydro Corporation Ltd.,
2. Harbin Electric International Co. Ltd.,
3. China Gezhouba Group Company Ltd.,
4. China National Machinery Industry Corporation (Sinomach) – through its subsidiaries China CAMC Engineering Co. Ltd. And China National Electric Engineering Co. Ltd.–,
5. China Three Gorges Corporation – through its affiliate China International Water & Electric Corp. (CWE) and
6. China National Electronics Limited Corporation – through its subsidiary China National Electronics Import & Export Corporation (Ceiec).

In the available public documentation, more contracts are awarded to these six holdings in the Correa government. There are at least 19 contracts paid entirely with Ecuadorian owned funds and another 11 whose source of financing has not been determined. These 30 contracts total $652 million.

Loans from the CDB, ICBC, Eximbank, and the Bank of China were included in Ecuador's public debt reports, but not the long-term oil purchases made by PetroChina and Unipec.

Assets with China reached their highest peak in December 2016, a few months before Correa's departure, when they reached $8.144 billion. By then, China had accounted for almost all of Ecuador's bilateral debt (Ministerio de Finanzas de Ecuador, 2016), accounting for one-third of the total external debt.

More credit operations with China were recorded after Moreno took office in May 2017. In October that year, the Bank of China provided a $200 million loan to the State Bank of Ecuador. The following year, the CBD granted a fifth credit line for $900 million. For its part, between 2018 and 2019, Eximbank provided three loans for 250 million dollars to finance road works and a citizen security project.

China built surveillance

Since the first line of credit that the CBD granted Ecuador in 2010, the Chinese authorities defined the areas they were interested in financing. Funds from that loan were used for oil and citizen security contracts. The latter project area was ambitious.

It consisted of building surveillance centers with cameras in public places in thirteen cities nationwide. It was initially valued at $232.4 million. The company Ceiec would be in charge of the technological installation in two phases, for 171 million dollars, while China CAMC Engineering, for civil works, for 62 million dollars. It would be the beginning of state surveillance of citizens.

However, the project became more expensive along the way. For the $62 million agreed to in the contract, CAMC committed to build 12 regional centers, a national center (located in Quito), and an operating room. However, for the same amount, the company only delivered six regional centers and the national one. In each building, the budget rose between 5% and 127%.

The authorities justified this increase by saying that the size of the buildings also grew (El Universo, 2016). To complete the project, the Coordinating Ministry of Internal and External Security had to sign an additional contract with Ceiec to carry out the six works that CAMC did not do. It wasn't the only unforeseen economic event. Public documents show that the project cost as much as $302 million.

This work has two functions: to respond to emergencies and to carry out intelligence work (Mozur, Kessel, & Chan, 2019). President Correa inaugurated it in December 2012. He christened it ECU-911. The officials who work in the surveillance center not only monitor what is happening on the country's main streets, with the 4,300 cameras they have at their disposal but also coordinate the attention of all kinds of emergencies.

To this end, they have the power to organize all the personnel of the public and rescue forces. In addition, the images captured by the cameras are replicated in the Strategic Intelligence Center (formerly the National Intelligence Secretariat), an agency created during the Correa government responsible for coordinating all state intelligence agencies under the political control of the Presidency of the Republic.

This was used to spy on political opponents, activists, and journalists during Correa's government, as revealed by an investigation by The New York Times (Mozur, Kessel, & Chan, 2019). The report suggests that the ECU-911 replicates state surveillance systems implemented in China.

Following the operation of ECU-911, the mayors of Quito and Guayaquil, the country's largest cities, have launched more sophisticated surveillance projects that include facial recognition cameras of Chinese technology. However, they have not been completely successful.

In 2019, during the administration of the mayor of Quito, Jorge Yunda Machado, the capital city acquired 203 cameras from the Chinese manufacturer Hikvision. It installed them in 47 points in the center of the city. For its operation, the Municipality signed an agreement with the ECU-911 so that the new cameras would be integrated into its system and that the council could have access to a replica of the surveillance throughout the city.

The Municipality's investment was 1.7 million dollars. Later, the Comptroller General's Office discovered that Hikvision cameras were used as regular cameras without facial recognition technology and therefore imposed a fine for the value of the investment (Revista Vistazo y Código Vidrio, 2023).

Similarly, in 2022, the Municipality of Guayaquil contracted a monitoring and alert service by installing 15,000 facial recognition cameras manufactured by Hikvision. The contract cost reached $29.5 million, and the devices were installed in the video surveillance system that the council shares with the ECU-911.

Surrounding this contract, doubts exist about the possible violation of citizens' right to privacy (Plan V, 2022). In addition, there have been complaints about the malfunctioning of this technology (El Universo, 2023). Both projects were carried out under the justification of increasing insecurity. Still, they could lead to mass surveillance systems of citizens without respecting the right to privacy and peaceful association.

This is not China's only intervention in Ecuadorian security. Between 2008 and 2012, Ecuador signed six agreements with China related to cooperation, training, and military assistance (Ortega, 2016). In June 2009, the Ecuadorian Ministry of Defense acquired four radars from the Chinese company CETC International Co. Ltd. for $60 million to monitor airspace, with the primary objective of locating clandestine planes belonging to drug cartels that transport drugs, weapons and money between Ecuador and Central America.

However, this equipment did not work, so the Ministry had to terminate the contract unilaterally, reclaim the advance and the guarantee, impose a fine, and file a claim for damages. Faced with this, the Chinese company responded with another claim (El Universo, 2016). In an attempt at conciliation, the Ministry proposed that, instead of paying the fine, the company implement a cyber defense system. Still, whether this materialized is unknown, as it is a matter of state security.

Similarly, in 2014, the Ecuadorian government acquired 709 military-grade vehicles, with equipment and mechanical tools, from the Chinese company Poly Technologies Inc, a subsidiary of the state-owned China Poly Group Corporation Ltd. The contract amounted to $83.7 million. According to official documents on the Public Procurement portal, 96% of that amount was financed with funds from one of the CBD loans. Those same files show that a few vehicles were free of charge, as they were considered donations from the Chinese government.

Other examples of China's intervention in security issues involve training and other donations. Xiamen Meiya Pico Information Co. Ltd. is a Chinese company with Chinese government capital engaged in cybersecurity. On the instruction of China's Ministry of Public Security, this company provided specialized training in digital forensic analysis in several countries affiliated with the Belt and Road Initiative, known as BRI, and one of them was Ecuador (Weber, 2019). However, it is not known to which specific institution he gave the training.

In addition, in 2014, China agreed to a donation of military equipment that arrived in Ecuador in August 2016. Among the materials were 10,000 AK-47 rifles and three patrol boats with heavy machine guns (El Universo, 2016).

On the other hand, official documents from Ecuador's Ministry of Finance show that, during the negotiations of several Chinese loans at the end of 2015, the Ecuadorian government put some projects on the table to finance with that money. Among them is one related to the Ministry of Defense of Ecuador, of which there is no further public information. These agreements and projects show that security is a key intervention area for the Chinese government.

China's involvement in security issues in Ecuador was extended under Moreno's government. In December 2018, China granted a $30 million non-reimbursable loan to be earmarked for military security (El Universo, 2018). In addition, in November 2019, Eximbank gave another loan of $113.5 million to finance a plan to de-concentrate security services in Ecuador's districts and circuits.

Months later, the government awarded a $95 million contract to the China Road and Bridge Corporation, a state-owned China Communication Construction Company subsidiary, to construct and equip 100 Community Police Units and six Community Policing Units (Primicias, 2023). These detachments are located in neighborhoods to strengthen citizen security and have been targeted by criminal organizations in recent years.

China in Mining

Ecuador's foray into large-scale mining is recent, as oil exploitation has been the engine of its economy for 50 years. In the last decade, large mining projects began to be established by Chinese companies, whose arrival coincided with the large loans Chinese banks granted to the Ecuadorian government. Since then, the country has defined five mining projects considered strategic, three of which are in the hands of companies from the Asian giant. This shows the great influence of that country in this area.

Chinese miners arrived in Ecuador on a par with large loans secured by oil. In August 2010, when the CDB granted the first of this type of credit, the Chinese company CRCC-Tongguan Investment Co. Ltd. acquired the entirety of the Canadian company Corriente Resources Inc., which, in turn, was the shareholder of two Ecuadorian companies with important mining concessions: Ecuacorrientes S.A. and Explorcobres S.A. (EXSA). The former holds the concession for the Mirador project, and the latter for San Carlos Yantzaza.

CRCC-Tongguan was incorporated in China in December 2009, with the capital of Tongling Nonferrous Metals Group Holdings Co., Ltd. (which has a 70% stake) and China Railway Construction Corporation Limited (CRCC) (which has a 30% stake). Both Tongling and CRCC are Chinese state-owned holding companies. The first is dedicated to mining, and the second to construction.

The Mirador project was the first large-scale mine to produce minerals in Ecuador. It is located in the province of Zamora Chinchipe, in the southern Ecuadorian Amazon. The project comprises ten mining concessions, of which only one (Mirador 1 Accumulated) has been declared strategic, while the others are considered protected areas related to the project.

It was granted a concession in the 1990s and, in 2004, passed into the hands of Corriente Resources Inc., through Ecuacorriente. The exploration stage ended in 2012 when the project was already in the hands of the Chinese. That year, the Ministry of Mines permitted Ecuacorrientes to start mining. The project started production in June 2019 and has proven reserves of 3.39 million ounces of gold, 27.1 million ounces of silver, and 3.12 million ounces of copper. The concession company has invested US$1.462 billion.

The San Carlos Yantzaza project is located in the province of Morona Santiago, also in the southern Ecuadorian Amazon. It comprises thirteen mining areas that were concessioned between 2001 and 2002. In 2004, the concessions passed to Corriente Resources Inc., through EXSA.

The project is still in the exploration stage, which is delayed because the areas were occupied by peasants from neighboring communities between 2006 and 2016 when the Ecuadorian Armed Forces evicted the area. The mining company was able to establish a temporary camp called La Esperanza.

On the other hand, the Chinese companies Junefield Mineral Resources Holdings and Hunan Gold International Investments Limited are the final beneficiaries of another of the five mining projects considered strategic in Ecuador, the Río Blanco project. The capital of both Chinese companies arrived in Ecuador in 2012 when they incorporated the Ecuadorian company Junefield Resources Ecuador S. A. (Junecua).

The investment did not come directly but through two other Chinese companies it owned: Junefield Gold Investments Limited and Power Fortune Development Limited. In February 2013, Junecua acquired all the shares of the Panamanian company San Luis Minerales S.A., which held the concessions of the four mining areas that make up the Río Blanco mining project.

In December 2015, San Luis Minerales transferred the Rio Blanco concessions to the Ecuadorian company Ecuagoldmining South America S.A., which had also been incorporated months earlier with capital from Junfield Gold Investments Limited and Power Fortune Development Limited.

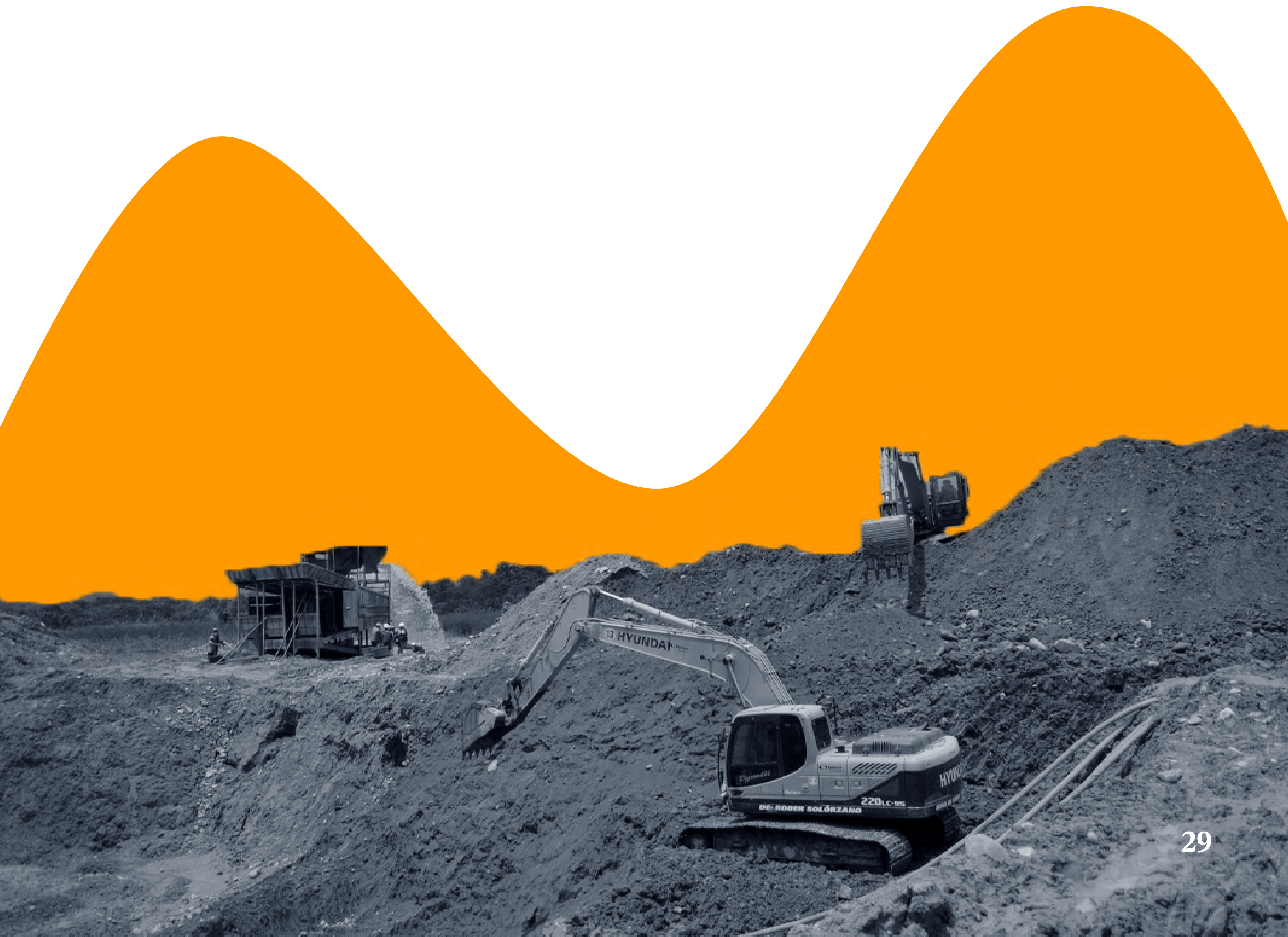
The Río Blanco project is located in the province of Azuay, in Ecuador's southern highlands. It is in the exploration stage, paralyzed by several political and judicial problems. A group of community members took over the countryside in May 2018, to which the security forces reacted. A month later, a judge ordered the suspension of mining activities and the demilitarization of the area, arguing that prior consultation had not been carried out with the indigenous communities of the sector, as mandated by Ecuadorian law.

The State appealed this provision, but the appeal was not granted. Faced with this setback, the government filed an extraordinary protection action before the Constitutional Court, the highest judicial authority in the country, to revoke the suspension of mining activity in Río Blanco. This action is still under analysis.

Meanwhile, in January 2020, Junefield presented the Ecuadorian State with a notice of dispute under the Agreement on the Reciprocal Promotion and Protection of Investments concluded between Ecuador and China. This dispute also does not have a resolution yet.

Finally, in February 2021, a popular consultation was held in the capital of Azuay (Cuenca), whose results prohibited mining activity in the water sources that feed four rivers that pass through that city. One of the projects affected by this decision is Río Blanco.

However, there are legal discrepancies as to whether or not the result of the plebiscite should paralyze it, as this decision could not be applied retroactively (Primicias, 2021). In any case, the project's activities remain paralyzed by legal and political conflicts.



Accusations of corruption

Since Rafael Correa left power, in 2017, and the control authorities appointed during his government left office, several corruption cases have been uncovered, many of which involve large Chinese companies and their legal representatives. There are four judicial processes of importance since, in them, high-ranking government officials, including Correa himself, have been sentenced in one and in the others prosecuted. These are the cases namesas Bribery, Sinohydro, China CAMC, and Petroecuador.

In the Bribery case, the former legal representative of Sinohydro Corporation, Cai Runguo, who was also China's ambassador to Ecuador, was accused, although the case was dismissed. This case refers to a corruption network through which the Correa government received money to finance its political campaigns in exchange for favors in public procurement.

In April 2020, a court sentenced Correa, his vice president Jorge Glas, and four officials of his government with the rank of ministers of state, to eight years in prison for bribery. Other lower-level public officials and private businessmen were also convicted. Twenty were convicted, two of whom received a mitigated sentence.

The Attorney General's Office accused Runguo, who was China's ambassador to Ecuador between 2007 and 2011, and later became Sinohydro's attorney between 2014 and 2016, among the defendants. The company's irregular payments to cover the ruling party's propaganda even appeared in its tax returns (El Universo, 2019). However, a National Court of Justice judge ruled that there was not enough evidence to call Runguo to trial and dismissed the case (El Universo, 2020).

The attorney general, Diana Salazar, has questioned this decision, arguing that the same evidence against Runguo was used to prosecute other defendants who, in the end, were convicted (Mena-Mena, 2023). For his part, Correa, who is a fugitive in this case, has stated that it is a political retaliation against him to prevent a new candidacy for the presidency. In any case, this procedure shows the limitations of the Ecuadorian justice system in handling corruption cases against important Chinese authorities.

Runguo's name appeared in another case that the prosecution called Sinohydro. This is an alleged payment of bribes that the Chinese company would have given to Lenín Moreno when he was Correa's vice president to obtain the contract for the Coca Codo Sinclair hydroelectric plant. One of the key pieces of evidence collected by the Attorney General's Office was the transfers made by Sinohydro's parent company, in China, to a company belonging to a lobbyist and close friend of Moreno.

To investigate this case, the Attorney General's Office requested information from Sinohydro itself. Still, it refused to hand it over, arguing that the company belongs to a group considered by Chinese law as an "important pillar of the national economy" and that, for that reason, its technical and commercial information is classified as a "state secret" (Mena-Mena, 2023). However, the Attorney General's Office completed the investigation with the assistance of its counterparts in the United States, Spain, Switzerland, Belize, and Panama.

A hearing is now pending in which the Attorney General's Office must present the evidence collected before a judge so that the judge can decide whether or not the defendants are called to trial. The Attorney General's Office has already announced that its indictment will be against 25 people, including Moreno, Runguo, and four other senior Sinohydro officials (El Universo, 2023). This process still has a long way to go.

The China CAMC case is named after China CAMC Engineering Co., Ltd. The Attorney General's Office named it that way because it located a possible bribe of 1.3 million dollars from this firm in favor of the then-Deputy Comptroller General, Carlos Celi De la Torre, in exchange for the fading of a gloss issued for irregularities in the construction of the Government Financial Platform.

The contract for this work amounted to $198 million. The Comptroller's Office discovered that, after the contract was awarded, the company made changes to the designs and reduced the work cost by 22.6 million, but that this amount was not reduced in the cost of the contract. For this reason, the supervisory authority issued a gloss for that figure (Mena-Mena, 2022).

The huge building, located in Quito's shopping mall, was flooded days before Correa inaugurated it near the end of his term in May 2017. In the criminal proceedings, a judge of the National Court summoned five people to trial for alleged bribery, including the former deputy comptroller, the Chinese company CAMC Engineering, and its legal representative, Liang Yang (El Universo, 2023). A court will have to evaluate the evidence gathered by prosecutors.

The irregularities in the Petroecuador case became public in 2013, when political activist Fernando Villavicencio published the book Ecuador made in China, and they were judicially confirmed in the United States. Prosecutors from this country have uncovered a network of bribes behind Petroecuador's long-term oil and oil sales, including those made to China's state-owned PetroChina and Unipec. However, no executives of the companies have been prosecuted.

According to the investigations, it was crude oil intermediaries such as Gunvor, Trafigura, and Vitol who allegedly financed the illegal payments, amounting to tens of millions of dollars. There are seven criminal proceedings in the United States for these acts. Among these, five defendants pleaded guilty and agreed to cooperate with justice, one company settled, and only one defendant pleaded not guilty (Mena-Mena & Almeida, 2022).

Following these revelations in the United States, another criminal case was opened in Ecuador for alleged bribery. A senior Petroecuador official has already pleaded guilty and been sentenced, while 16 others are still on trial (El Universo, 2023). Among the latter are two key figures: Nilsen Arias Sandoval and Willam Vásconez Rubio, who negotiated long-term oil sales and credits from China. The hearing is pending where the Attorney General's Office must present the evidence against the defendants so that a judge can decide whether or not they will be called to trial.

Conclusion: The Lessons

It has been fourteen years of bilateral relations based on the "help" of a powerful partner, the People's Republic of China, in exchange for oil, minerals, and business for its companies. What at first was seen favorably for Ecuador, was blurred by the suffocating contracts for the Ecuadorian state oil company or million-dollar works with structural or corruption problems. That is why civil society must be vigilant from the beginning to know the scope of these agreements and constantly observe their evolution, demanding transparency from the authorities.

One of the main challenges in researching relations with China is understanding the complexity of this country. From afar, it appears, as a whole, very well coordinated by the central government and the Communist Party. Although the supremacy of these instances is unquestionable, there are structures behind them that allow us to see that there are actors with intersecting interests in different areas. One of these is business.

It is wrong to think that it is the same to award a contract to one Chinese state-owned company or another, since the same government centralizes both. The truth is that they do compete with each other. In China, state-owned companies are organized into holding companies that monopolize dozens of subsidiaries that, in turn, have investments in foreign affiliates.

In this way, the subsidiary of one holding company can compete with that of another or even with another subsidiary of the same group. One of the first challenges for researchers interested in China is to define which holding company we are interested in.

In addition, it is important to know what procedures foreign companies must carry out to do business in each country. These processes will generate a series of very valuable documents for the investigation. It's what journalist John Dinges calls "document state of mind" (Scharfenberg, 2010).

In Ecuador, for example, foreign companies must be domiciled to do business with the State, and to do so, they must submit a public deed registering their articles of association in both the original language and Spanish. These documents will let us know if the Chinese company we are investigating is a subsidiary or an affiliate and to which holding company it belongs.

Another important issue is to know that some subsidiaries do not belong entirely to the State but issue shares in the stock market, being obliged to maintain a high level of transparency. This is the case, for example, of China CAMC Engineering, which has had corruption scandals in Venezuela, Bolivia, and Ecuador.

The company's shares are listed on one of China's three stock exchanges, the Shenzhen Stock Exchange. On the website of this exchange, you can find a series of financial reports where the company's projects around the world are listed. This financial information can help circumvent the opacity with which certain governments cover their business with China.

We must also ask ourselves what reports foreign companies should submit to local authorities, as they will also be a valuable input. In Ecuador, for example, all foreign companies, in addition to submitting their financial statements to the tax authority, must submit them to the Superintendence of Companies, which keeps them public.

In these reports, most companies are required to declare their main businesses in the country, thanks to the International Financial Reporting Standards (IFRS). Thus, if a public contract is hidden on the desks of some ministry, this information could appear in those financial reports.

Another key factor is defining which actors are involved in doing business with Chinese companies. It is not the same to say that the government or the ministry awarded a contract as to say, specifically, which were the officials who participated in that process. In the case of Ecuador, the negotiations were conducted at the highest level. To this end, former President Correa had work teams in the financial, legal, and strategic sectors, each headed by someone he trusted.

Below them were the operators in charge of crystallizing the agreements with the Chinese authorities. For example, some of their activities were recorded in the reports they submitted to claim travel expenses for each trip to China. Documents such as these make it possible to define the actors within the structure and which specific businesses are in their hands.

Other important players work outside the state payroll. These are operators and lobbyists who help foreign companies to complete their business. It's not just important to know which law firms help companies establish themselves legally in a country. It is known that Chinese companies make use of their nationals already established in one place, under the dynamic known as the United Front.

In Ecuador, there was the case of a Chinese businessman, owner of a popular restaurant, who helped two large firms in his country to establish their domicile and obtain their first public contracts. Later, it became known that a front company linked to the employees of that businessman had received money from oil bribes (Mena-Mena, 2023).

Another example is the Sinohydro case, which was revealed thanks to unjustified payments that the Chinese company recorded in the financial statements filed with the tax authority. Years later, the Attorney General's Office discovered the beneficiary of those payments, a lobbyist who would have channeled part of the money to Lenín Moreno when he was Correa's vice president. The case is in court, and there is still no sentence, but it shows us the importance of detecting the operators of the companies.

Despite the opacity of these types of agreements and their operations, there are several fields in which civil society, academia, and journalism can act. The experience of Venezuela, Bolivia, Ecuador, and Argentina, where China has had a large presence, shows the vastness and complexity of business structures. Faced with them, citizens must not lose the organizational capacity to understand and make these rackets transparent.

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