Blood, Oil and Tears

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Bolivia and Paraguay are not in the good books of the Financial Action Task Force (FATF), the inter-governmental organisation founded in 1989, which sets the global standards for combating money laundering and the financing of terrorism. The FATF, in February, recognised that although both countries have made commitments to address material deficiencies, they now need further encouragement and prompting to achieve positive results.

The FATF is especially displeased with Ecuador and has placed it in a category of recalcitrant nations (such as North Korea) because the country has not yet made a high-level political commitment to FATF standards in key areas such as criminalising money laundering and terrorist financing; and adequate procedures to identify and freeze terrorist assets have not been put in place either. Ecuador's president, Rafael Correa, has rejected the FATF's findings and has hotly disputed the claim that the country's legislation is inadequate to protect the banks against money laundering and terrorism financing. He charges that it is because of Ecuador's growing ties with Iran (which has opened an embassy in Quito) while the United States of America and other governments continue to pressurise Iran not to develop its nuclear programme any further. Ecuador's private bank association agrees with the president, noting a 2009 agreement between the country's Central Bank and some Iranian financial institutions. Meanwhile, as mentioned in last month's Latin Letter ("The Chilean Way"), Chile has amended its bank secrecy laws and Costa Rica, the second most dynamic economy in Central America after Panama, is following suit (although it does not in fact have stand-alone legislation on bank secrecy but rather a scattering of statutory provisions which cover confidentiality in the areas of commerce, banking and taxes). Costa Rica will be featured in next month's column.

Ecuador's obstinance in its dealings with the OECD reflect the politics of Rafael Correa who has allied himself with Venezuelan President Hugo Chávez and Bolivian President Evo Morales; all three are outspoken critics of the US as well as advocates of a South American drive towards nationalisation. Besides upsetting the US over Iran, Ecuador has fought against entering into a free trade treaty with Washington and last year, the US lost its use of Manta air base when the treaty expired and President Correa refused to renew it.

Rafael Correa became president in 2007 and he quickly concentrated his efforts on voter support for a referendum to draft a new constitution that he said would place more power in the hands of the poor. His critics at the time said that it would be the president's powers that would, in fact, be increased. Despite an opposition-controlled Congress, 64% of the electorate approved the new constitution which also allowed a president to stand for re-election for a second term; this President Correa did and it led to a convincing victory in April last year.

President Correa, who speaks both English and French, has a doctorate in economics from the University of Illinois in the US and is a former professor at Quito's San Francisco University. He rose to power without any political party backing and in 2005 he was appointed economy minister. After only four months in the post, however, he was forced to resign after publicly berating the World Bank for refusing to give Ecuador a loan. Such outbursts seem symptomatic of Ecuador's leaders and Rafael Correa's kindred spirit was probably the colourful and well-loved José María Velasco Ibarra who was both temperamental and an outstanding orator. He would say: "Give me a balcony and I will be president!" He was, in 1934, 1944, 1952, 1960 and 1968, but both the establishment and the army regarded him as a firebrand and so he was allowed to serve only one full term.

The country has a turbulent political history – since 1997 three presidents have been ousted – and until the discovery of oil in the 1960s by the American company, Texaco, which today is known as Chevron Texaco, Ecuador was often described as a backwater. The country's Amazon oil fields, however, have caused deforestation and environmental damage which has led to a multi-billion-US dollar lawsuit against Chevron Texaco, further souring relations with the US and a major factor in bringing the free trade talks with the US to a standstill.

When the Spanish arrived in 1530 the country was ruled by the Incas and once independence came in 1820 claims to parts of its territory were made by neighbours: Ecuador lost two wars with Colombia, one with Brazil and another with Peru. The country originally was ruled by either generals or strongmen, although since 1987 its democracy has been consolidated and a small ruling class has been supplemented by a growing middle class. Before then presidents, at least in the 20th century, were continually battling personal rivalries as well as two opposing rival factions represented by the government in Quito nestling in the Andes near the slopes of a volcano and the powerful merchants in Guayaquil which is both the main port and the commercial capital of Ecuador.

Although its close ally, Venezuela, is struggling with inflation, Ecuador has been able to control its own according to a report in the Latin America Advisor; economists have pointed out that because Ecuador now only uses the US dollar as legal tender it is unable to print more money to finance its budget. By contrast Venezuela could see its inflation rate reach a 14-year high this year following its currency devaluation in January which has pushed up the costs of imports upon which it heavily relies. Morgan Stanley, the New York-based bank, believes that the country's inflation rate could reach 45 percent following last year's 27 percent increase which was the highest annual inflation rate among 78 economies tracked by Bloomberg. A devaluation in 1996 hit consumer prices which soared 103 percent but this recent devaluation will have one short-term benefit: by increasing the local currency value of oil exports, which account for 90 percent of Venezuela's exports, debt payments up to the end of next year will be able to be made.

Ecuador is also a member of that group of Latin America countries with an over-dependency on one commodity. It may be copper in Chile, but it is oil in both Venezuela and Ecuador and in June, 2007, ("Distant Thunder", Issue 177) I reminded readers of how Mexico's oil bonanza came to an abrupt halt when prices plummeted in 1981; the peso nosedived, capital took flight and the banks were nationalised. Falling oil prices near the end of the 20th century were also a major contributor to driving the Ecuadorian economy into recession.

Despite the environmental impact mentioned earlier, revenues from Amazon oil are critical to the country's economy and with the huge potential of untapped reserves, there is a lot of incentive to increase production. Ecuador is a member of the Organisation of Petroleum Exporting Countries and depends on oil for a third of its national budget. Sadly, the volcanic Galapagos Islands, Ecuador's possession some 600 miles off its coast, with its unique animals and birds which inspired Charles Darwin's evolutionary theories, are probably the only Ecuadorean territory guaranteed sanctuary from such economic pressures: certainly the protests of the Amazonian tribes threatened by oil exploration seem but cries in the wilderness.

"We were here thousands of years before Christopher Columbus arrived – the land can't be touched, it's our inalienable right". Will that plea from Milton Carrera, president of the Achuar, one of three tribes that will be greatly affected by oil drilling, be heard? The cynic in me recalls that Charles Darwin referred to the survival of the fittest which was exemplified in the sentiments expressed by the late American actor, John Wayne: "I don't feel we did wrong in taking this great country away from them. There were great numbers of people who needed new land and the Indians were selfishly trying to keep it for themselves".

In January, Ecuador's foreign minister, Fander Falconi, resigned after President Correa criticised his handling of negotiations to protect an Amazon reserve from oil exploration by securing international donations of USD3 billion. A frustrated president has set a deadline of June for the initiative to be concluded otherwise he might find his own solution. For the hapless tribesmen it could mean that although blood may be thicker than water, oil is thicker than blood.

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