

THE National Investor



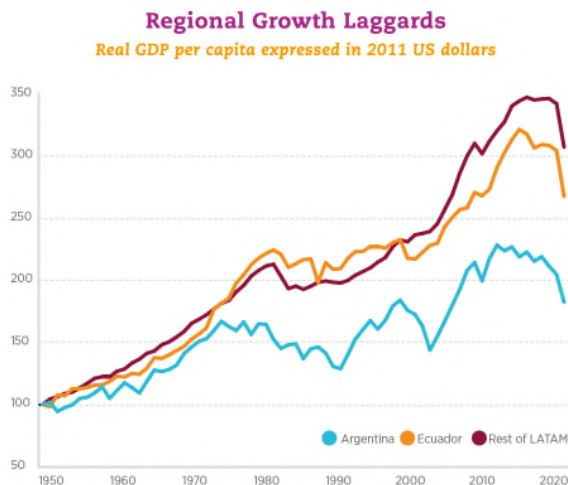
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The below two excerpts from recent issue cover The Editor's present "take" on Ecuador's financial and political situation, as well as recent legal and legislative developments

FROM OUR AUDIENCE

ECUADOR I.M.F. DEAL / COMING ELECTION

Chris—I have been getting more worried about Ecuador lately due to its debt and the horrible economy it seems to have again. What's your view on all this as well as the fact that right after our own election here Ecuador votes again for a new government the beginning of 2021? I've read one article lately that has been negative on this and, by extension, the country's mining companies. (From the Sept. 5 issue)



As I will shortly be putting out an updated Special Report on Ecuador, I'll limit these comments:

First, you may have missed the news out in recent days that **Ecuador (as well as Argentina) has reached a deal with the I.M.F. and various other creditors.** The international banking cartel is every bit of a mind to paper over potential problems as is the Fed here at home: and if such can at all be at least postponed, none of these emerging market nations will be allowed to outright default.

For the news RE: Ecuador specifically, see <https://www.imf.org/en/News/Articles/2020/08/28/pr20290-ecuador-imf-and-ecuadorian-authorities-reach-staff-level-agreement-on-new-eff> and

<https://www.bloomberg.com/news/articles/2020-08-31/ecuador-reports-98-5-of-bondholders-exchanged-bonds>

Essentially, quoting one report, “. . .Ecuador is pledging to grow well above trend while keeping primary spending more or less constant in real terms. In turn, while presenting a more conservative growth scenario, Argentina does not see room for a fiscal adjustment. These promises, even if they look modest like in the Argentine case, could be unattainable under the continuity of the current policy framework. Attempts to introduce structural reforms in Ecuador, such as comprehensive labour reform, have failed. In addition, the outlook for reforms does not look promising. Furthermore, Ecuador cannot resort to a devaluation to overhaul its competitive edge and jumpstart growth (Due to Ecuador using the U.S. Dollar-*Ed*). . .”

Overall, Latin America has been hit harder by the Wuhan Virus than anywhere else on the planet. Ecuador is essentially in an economic *depression* NOW; as is all of South America, which is expected to have a historic contraction of nearly 10% in its economies this year. **In Ecuador’s case in these recent debt restructuring deals, notably, it is pledging that its growing legal mining sector will do a good share of the work to help it meet its obligations going forward.**

As for that mining sector, imagined threats (still) to it and the upcoming election: Ecuador’s Constitutional Court just shot down *for a third time* of late challenges brought by Azuay Province prefect Yaku Perez, seeking to allow a local referendum that would curtail activity in that province (home to, among others, **INV Metals’** Loma Larga development-stage gold project.) Now, Perez seems to be prepping to show just how scant his support among the larger population is; due to this, as well as he and others of the far left going overboard in last year’s protests and riots across the country. **He is attempting to qualify to run for president next year.** Yet according to one recent poll, he was dead last among four likely candidates.



By present indications, the two leading candidates will be the “Center-left” Andres Arauz (left nearby) and “Center-right” Guillermo Lasso (right.) **Both candidates are seeking to be “coalition” ones.** Arauz is combining the old Correa coalition with other left/social justice fragmented parties and even some “centrist” ones. (Correa was initially tapped as his V.P. candidate; but that is being contested as I write this.)

Just as I am putting this issue together, though, I have read that perhaps the more important and potent coalition will be headed by Lasso. The former banker from Guayaquil has lost the last two presidential contests: to Correa and, last time, to current lame duck President Lenin Moreno. But it’s sounding as if at least one other potential “right”/pro-business candidate is stepping aside and throwing his weight behind Lasso so as not to split that segment of the vote.

Even Arauz cannot be said to be “anti-business.” And notably—and in clear deference to the U.S., whom Ecuador under Moreno has pledged renewed fealty to, together with the I.M.F.—Arauz has said he will steer clear of supporting Venezuela against the U.S.

In pretty much any imaginable outcome, Ecuador's mining industry will be a winner; especially since the revenues from this growing sector are needed more than ever by a country pretty much flat on its back.

TOO COMPLACENT RE: ECUADOR?

Between my own recent issue discussing Ecuador's early-2021 election and some recent developments on the legal/legislative front there, there have been a number of questions. Below I have consolidated them into the two main ones. (*From the Oct. 26 issue*)

1. Ecuador politics is in the news from (writer/publication omitted) He suggests that Yaku Perez has a far better chance than you recently suggested of being Ecuador's next president. That, of course, could be a death warrant for Ecuador's mining industry. Your thoughts? ...Some valuable data here I believe.

2. Explain to me what I just read about Ecuador's high court now ALLOWING local communities to challenge mining after all (?)



Carlos "Yaku" Perez Guartambel (left; you can learn more about him at <http://yakuperez.com/>) is—by every measure I see, and according to virtually everyone I speak with—decidedly *not* going to be elected Ecuador's next president. Your writer's take you passed on on his purported legal acumen is debatable; Perez's efforts failed three times in succession to get the country's Constitutional Court to bless local efforts to hold "popular consultations" to attempt to give local communities *final* veto power over mining activities. (What that Court *did just invite* I'll discuss below.)

Look: I have some sympathies to what Perez claims to stand for. As you know I love Ecuador and its people; and its extraordinary climate, flora, fauna and the rest. I do not want to see mining companies either allowed to spoil all this. But as I have pointed out many a time, it is not legal, regulated, large-scale mining to be worried about: it is the smaller, *illegal* mining which has degraded the environment in many places as well as provided cash for all manner of criminal activities. That Perez doesn't seem as concerned about this suggests that his claims to be the protector of Ecuador's water supplies is as much theater as conviction; and a cover (intended or not) for crime.

He unquestionably has a solid core of followers and supporters; not the least among them wealthy, *mostly white* liberal expats who first put Cuenca—the big city in Azuay Province that Perez recently resigned as prefect of—on the map as a desired expat destination. To them as well, the cause of "protecting water" in the province is one they embrace as a means to keep extractive activities at bay (like most of these types, since *they* now have all the "stuff" they'll ever want thanks in part to extractive industries, that's all that matters.)

But even among fellow indigenous Ecuadorians, Perez does not have unanimous support, as I have discussed before. Elsewhere, other native peoples in other provinces have not only embraced the emerging, modern mining industry but in some cases are *direct* financial partners. So while Perez gets a lot of press and has considerable backing in his own neighborhood, it gets thin after that.

Likewise—especially when, recently, some of Perez’s ostensible fellow travelers among indigenous activists engaged in rioting in the capitol city of Quito (in part, attempting to pull down a statue of Spain’s Queen Isabella as some of these folks engage in their own forms of “cancel culture”)—the extremist tactics of many on the far left even in Ecuador have hurt them. Just as with *last* October’s riots over President Moreno mortgaging Ecuador anew to the I.M.F. (you know as well that I am rooting for Ecuador’s *people* in all this) the mayhem and deaths did not sit well with the great majority of the people.

So despite the noise, **Perez falls somewhere in between a Ralph Nader and a Bernie Sanders.** He will be a continuing presence in the country’s political equation; and may bring a few people into the National Assembly who will support legislation cracking down on *all* extractive activities. We’ll see.

The main reason Perez has little-to-no chance is because of the Correista candidate Andres Arauz (standing with the mic at right with his arm around his running mate Carlos Rabascall.) As I was just sharing with a good Greek friend of mine, Arauz reminds me of former Greek Finance Minister Yanis Varoufakis: economics background but a *legitimate* populist, articulate, etc.



Much as the overwhelming majority of “liberals” in the U.S. will vote for the Democrat Party candidate and not for a “better” one running, say, for the Greens so, too, will Perez not draw all that much from “leftists” in Ecuador. **Arauz seems the real deal; not a turncoat as lame duck President Lenin Moreno turned out to be for Correa’s Citizens’ Revolution.** He is all but certain to get 40% or close to it in a first round minimum: all of Correa’s still-considerable support, and those that want both economic growth and a reversal to some extent of Moreno’s I.M.F.- and U.S.-favoring policies.

I will be keeping my finger on the pulse of all this, of course (and *still* hope to be in the country again the end of the year.) *But to me, the question now is simply whether Arauz will have enough of a margin in the first round over likely second-place center-right candidate Guillermo Lasso so as to avoid a runoff.* Keep in mind where Lasso is concerned that current President Moreno is loathed by an overwhelming majority of the country, too, for implementing “capitalist” policies that were championed by Lasso when he ran. So many Ecuadorians will believe that they will get more misery still with Lasso (who, had not Moreno become so unpopular, might have had a chance in this, his third try.)

Now on to the Constitutional Court and other legislative and legal issues where the picture indeed *has* become murkier of late.

After having on three successive occasions *correctly* shot down Perez-inspired attempts to have popular consultations allowed in local elections to veto mining activity, Ecuador’s high court *seemed* to qualify that late last month. Essentially, the court held to its prior positions *where existing and already-*

licensed concession holders are concerned. But it opened the door to allowing future local challenges in the cases where there are not already licenses granted by the national government/concessions awarded.

What is contradictory about a clearly *political* ruling to throw a bone at last to anti-mining forces, NGOs and the like is that Ecuador's existing constitution and laws do not themselves make a distinction as to present/future concession grants. *Whenever* they occur, it is the national government and its regulatory bodies that are charged with these decisions. Much as is the existing case in North America (and elsewhere) local governments, environmental groups and others are free to sue those higher-ups if they feel the laws and proper processes are not being followed. And there are indeed ways to slow things up a LONG time to make sure everything is done right.

For present purposes, this guarantees what many of us already knew: **that various ministers' promises that the *cadastre* (for new mining concessions) would re-open before the end of 2020 won't happen.**



For a while, there had been some hope that *at least* those applications that had been submitted prior to President Moreno shutting the new concession process down in late 2018 might finally be acted on. Current Energy and Mining Minister Rene Ortiz (left) was still suggesting this likelihood at mid-year, as he (impressively, I'll add) was laying out how the government was already working as a top priority to get present mining and exploration activities insulated from the pandemic and restarted sooner rather than later. *On that, the government by all appearances has*

done extremely well given the health and logistical challenges.

But at the end of the day, the remnants of a LOT of lethargy on the part of lame duck and HUGELY unpopular President Moreno continue to hobble the sector; and have to at least some extent given the room to anti-mining forces to mount the present counterattack. While Moreno was correct at the time to call a "time out" in late 2018 for reasons I have discussed previously, that the *cadastre remains* shut down is yet more evidence of this president being A.W.O.L. regarding most things that would help the country. Pretty much Moreno's only notable "accomplishment" has been re-mortgaging the country to the International Monetary Fund. (For a good take on this, I suggest you read <https://www.elmonominero.com/la-pandemia-en-el-catastro-minero/>; a recent commentary from Stevie Gamboa.

On an October 1 conference call I was on with him, Ortiz seemed almost resigned to the likelihood of future concession grants and possible challenges to them from locals being fought out on a case-by-case basis. This—again—is not at all unlike what happens elsewhere; nor does it mean that Ecuador generally suddenly has a renewed cloud over it. It does mean that 1. Where there are *legitimate* dangers to water, etc. from future proposed activities, there will be more room to stop *those* activities (notwithstanding the contradiction in the Constitutional Court which will have to be resolved *somehow* in the future) and 2. Companies will have to exercise *greater care still* to choose areas where such potential headaches are either minimal or non-existent.

Using a couple of several examples I have in the past: **No one tries to judge the overall environment for mining in the U.S. of A. by pointing to the NorthMet Project in Minnesota's Iron Range...not to mention the HUGE copper-gold Pebble Deposit in Alaska.** In those two major examples of major projects, challenge after challenge have kept development at bay. *Yet if either of those were located in the State of Nevada, they would already be in production.* The environment in Ecuador will be no different.

So it shouldn't be all that strange to see some of what we are now: a politicized high court finally giving some room to anti-mining forces. . .measures in the country's National Assembly to codify some of this. . .*and renewed efforts to expand as much as these folks can get away with the definition of "protected" territories and kinds of areas that are off-limits, period.* **On that last item, there were just oral arguments about a week ago in the Constitutional Court over Rio Magdalena; one of a few areas where Cornerstone and ENAMI, EP have concessions under their J.V. arrangement.**

Here, a lower court in Imbabura Province had tried to get the national government to *revoke* licenses already issued to CGP/ENAMI. At first glance, this is a question just answered: that existing licenses are not subject to *local* overview. **But also at issue is the definition of what kind of "protected areas" are or are not off limits as a first matter.** Rio Magdalena is partially within the Los Cedros Protected Forest in Imbabura, *though that was obviously known by regulators when permits were granted.*

Though I have more than once had it explained to me (including as I am finishing this issue) the legal reasons why the CGP/ENAMI licenses should stand at Rio Magdalena, it's not going to shock me if yet another politically-motivated decision comes. We'll see.

Whether things get any worse than all this remains to be seen. **And to repeat: all of the above frankly does little more than to take Ecuador's overall environment closer to that of the U.S. and Canada (certainly, B.C.!)** With *both* of the leading presidential contenders on board, I am by no means looking for a *fundamental* change to the still-positive environment and future potential of Ecuador's still-infant mining sector.

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