THE AMERICAS

ECUADOR

Oil industry faces uncertain future

Political turmoil shakes Ecuador at every turn, and the recent ouster of Lucio Gutiérrez creates more uncertainty in the nation's troubled oil industry.

BY STEVEN DUDLEY
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BOGOTA, Colombia — Ten years and seven presidents, three of them deposed before their terms ended, has not been a good equation for Ecuador's oil sector. And judging from declarations of the recently installed government of President Alfredo Palacio following last week's ouster of Lucio Gutiérrez, things may only get worse for investors in the country's most important industry.

On the surface, Ecuador's oil sector seems as if it's thriving. Production is close to 530,000 barrels per day — on par with Colombia — and, with help from a recently constructed pipeline, exports are about 400,000 b/d. Revenue from oil sales accounted for the bulk of the 6 percent rise in GDP last year.

But experts say production is topping out. Even worse, there is no replacement for the production in the near future and many fields are in serious decline and disrepair.

NO NEW EXPLORATION

Since 1995, no new exploration and production contracts have been signed, according private sector observers. Over that time as many as 10 auctions have been held; none of them even finished the first bidding round due to the chronic political instability.

"Every government that started an [oil] policy either failed because they were just putting up [test] balloons, or they were thrown out [of office]," explained René Ortíz-Durán, the head of the private foreign oil association in Ecuador, known by its Spanish acronym AIHE.

For his part, Gutiérrez had announced two auctions to be held in May and September of this year. Both are on now on hold as the new government gets settled after weeks of upheaval and congressional wrangling led to Gutiérrez's hasty departure April 20 after only 27 months in office.

With political turmoil and legal uncertainty at every turn, companies are cutting Ecuador loose. Canadian upstream firm EnCana has put its blocks on the market (and removed them from the books). Italia's ENI is reportedly waiting for the right offer on its holdings, and Brazil's Petrobras has recently sold some of its production areas.

Even the most emboldened foreign oil companies are taking a beating. California-based Occidental, whose fields produce nearly a fifth of all Ecuador's oil, is enmeshed in several legal disputes with the government.

Last July, an international arbitration panel ruled that Ecuador's government had to pay Occidental a $75 million tax rebate (Duke Energy has filed a similar claim). The government has appealed the Occidental decision; it is also challenging the terms of a joint-production contract with Occidental on another field.

And last year, following an attorney general's investigation, state oil company Petroecuador filed a complaint stating that Occidental breached a contract when the company sold 40 percent of its share in a production block to EnCana without the government's permission. The government is seeking to annul the agreement for exploration.

"Even with the price of oil, if they have a [de facto] expropriation, then you're going to think twice about investing in Ecuador," said IDEAglobal Latin America analyst Alberto Bernal.

On Monday, newly appointed President Alfredo Palacio sought to allay fears of a legal upheaval in Ecuador's energy sector when he told foreign journalists that the government of Ecuador "has to respect national and international laws."

EYEBROWS RAISED

But the new administration — which has yet to name an energy minister and has had at least two candidates turn it down — has raised eyebrows with its nationalistic agenda.

Newly appointed Finance Minister, Rafael Correa, said a specially established oil fund, of which 70 percent goes toward buying back the country's foreign debt, should be abolished. He also said more public money should be put towards strengthening Petroecuador, the historically inept state oil company.

"It's an anti-investment message," said Fernando Santos, a former energy minister in the 1980s of Correa's comments. "[And] Petroecuador is in such a state of decomposition and corruption, nothing is going to happen."

According to Analytica Securities, an Ecuadorean investment firm, Petroecuador is losing between $300 and $700 million per year to theft, corruption, and ineptitude.

"Gutiérrez's oil policy was slow and confusing, but it was moving in a [predictable] direction," said Analytica President Ramiro Crespo. "Palacios' policy is just confusing."

Crespo likens Ecuador's oil industry to an eccentric millionaire who enjoys remodeling his mansions every six months. The problem, he says, is that Ecuador has only one small house.

Special Correspondent Carla D'Nan Bass contributed to this report from Quito.

ECONOMY

Brazil mid-month inflation rises on transport, food

Core inflation rose less than expected, prompting speculation the central bank may stop raising interest rates.

BY GUILLERMO PARRA-BERNAL
Bloomberg News

SAO PAULO — Brazil's inflation accelerated in the month ended April 13 as transport, food and medicine costs soared. Core inflation rose less than expected, prompting speculation the central bank may stop raising interest rates.

Mid-month inflation for April, as measured by the government's IPCA-15 consumer price index, rose to 0.74 percent in the March 15-April 13 period from 0.61 percent at the end of March and 0.35 percent in the month through March 14. The annual inflation rate climbed to 7.88 percent from 7.54 percent last month, according to the report released in Rio de Janeiro.

FUTURES RATES FALL

Yields on interest rate futures fell, as traders pared bets on higher rates, after core inflation rose to 0.67 percent from 0.63 percent. Core inflation excludes utility fares and food prices. Central bank monetary policy minutes tomorrow may give clues on whether rate increases have ended, said Flavia Cattan-Naslausky, economist at Royal Bank of Scotland in New York.

"Even as the data suggests that inflationary pressures may continue, the market view is that further rate increases may be irrelevant," Cattan-Naslausky, who expects the bank to maintain its overnight rate target at 19.5 percent next month, said in a phone interview. "The minutes will shed light on whether the central bank is satisfied with the effects of its monetary policy."

The yield for the rate contract due Jan. 2, 2006, fell for the first day in six, shedding 9 basis points, or 0.9 percentage point, to 19.53 percent at 12:44 p.m. New York time. The currency rose 0.8 percent, the seventh gain in eight days, to 2.5168 to the dollar, pushing its gains this year to 5.5 percent.

UNEMPLOYMENT UP

Accelerating inflation, a surge of one-third in lending and an uptick in urban unemployment led the central bank to boost the so-called Selic rate this month by a quarter percentage point from 19.25 percent, the eighth straight monthly increase. The bank meets on May 18 to decide on interest rates.

A Bloomberg survey of 20 economists predicted a median inflation rate of 0.7 percent for the March 15-April 13 period. Economists including Cattan-Naslausky and Lehman Brothers' John Welch were expecting a core inflation rate close to 0.7 percent.

Bus fares rose 4.4 percent in the month ended on April 13, compared with a 1.8 percent gain in the previous month, while medicine prices accelerated 0.6 percent, the statistics agency said. The cost of food rose 0.8 percent, compared with 0.2 percent in the previous month.

In a separate report, the agency said the urban unemployment rate in Brazil's six biggest metropolitan areas rose to 10.8 percent in March from 10.6 percent in February. Joblessness rose after 200,000 people went out to look for work, signaling that Brazilians are confident that the economy will continue growing, the agency said.

MILLIONS UNEMPLOYED

By the end of March, there were 2.38 million people without a job, about 60,000 more than in February and 400,000 less than a year earlier. The March jobless rate came in below the 11.2 percent forecast of 14 economists in a Bloomberg survey.

The number of people with jobs rose to 19.56 million in March from 19.43 million in February, the agency said.

CANADA

Finance minister who erased deficits looks to spend

Paul Martin, who is now Canada's prime minister, has agreed to spend billions to save his government.

BY GREG QUINN
Bloomberg News

OTTAWA — Paul Martin, who as Canadian finance minister erased a quarter-century of budget deficits, is abandoning fiscal prudence with a multibillion-dollar bid to save his government, investors said.

Now prime minister, Martin agreed Tuesday to spend an extra C$4.6 billion ($3.7 billion) over two years on social spending and the environment, using half of a projected surplus.

The socialist New Democratic Party won the spending in exchange for backing the proposed budget of Martin's Liberal Party.

"It's quite shocking just how he's willing to throw away all that reputation that he built up over time in a desperate attempt to hang on to power," Harold Scheer, who helps manage the equivalent of $3.8 billion of fixed-income assets for Baker, Gilmore & Associates in Montreal, said in an interview.


MARTIN

Martin, 66, eliminated a C$42 billion deficit during his decade as finance minister under Jean Chretien and put Canada on the road to what will be a ninth straight year of balanced budgets. The World Economic Forum, a gathering of top political and business leaders, named Martin as the first-ever Canadian member of its "dream cabinet" in 2001.

Martin, who needs backing from opposition parties in Parliament to shore up support for his minority government, agreed to come up with money from the government's projected C$9 billion surplus over two years amid threats from Stephen Harper's Conservative Party and the separatist Bloc Quebecois to force elections.

Martin must quit or call an election if the budget is defeated, and the agreement suggests Martin is less focused on Canada's books than he was as finance minister, Scheer said.

Speaking in Amherstburg, Ontario, Wednesday, Harper said "once again, the numbers have miraculously changed, and we have nearly C$5 billion scrawled on the back of an envelope somewhere." He vowed to "put this government out of its misery at the earliest possible opportunity."

Financial markets reflect political turmoil since revelations this month of advertising contract kickbacks and hidden payments to Liberal campaign workers.

The Canadian dollar is the worst performer this month against the U.S. dollar of 16 major currencies, falling for all but four days in April. Wednesday, the Canadian dollar dropped to 80.04 U.S. cents from 80.31 cents Tuesday.

"Canadian dollar assets look expensive and particularly Canadian bonds look expensive in light of what's happening on the political scene here," Scheer said.

Canada's benchmark stock index, the Standard & Poor's/TSX Composite Index, has dropped 3.2 percent since April 1, compared with a 2 percent drop for the Dow Jones Industrial Average.

Investors are now demanding more to hold Canadian bonds than similar U.S. securities. The yield on Canada's benchmark 30-year government bond has risen to 4.59 percent, or 5 basis points higher than the U.S. bond. Three weeks ago, the yield on the comparable Canadian security was 3 basis points lower.

Martin's newfound penchant for spending was evident before the deal with the New Democrats, who are led by 54-year-old Jack Layton. The Liberals boosted program spending by an inflation-adjusted 10 percent last year, the most since the Liberals had a coalition with the New Democrats in 1974, said Clement Gignac, chief economist at National Bank Financial in Montreal.

"There is no doubt in my mind that if the government has to choose between keeping the balance-budget promise or remaining in power, it will choose to remain in power and that will be the end of balanced budgets," Gignac said.

Martin, whom Chretien forced out as finance minister in June 2002, promised Tuesday to keep Canada's budgets balanced and pay down at least C$4 billion of the country's C$488 billion debt in the next two years. He told reporters that "the purpose of this deal is to make parliament work." Canada is the only country in the Group of Seven industrialized nations with balanced books.

Canada's surplus is forecast at C$4 billion in the fiscal year ending March 2006.

CHILE

Argentina halts natural gas flow

SANTIAGO, Chile — (AP) — A shortage of natural gas in Chile caused by the interruption of supplies from neighboring Argentina will last until next week, forcing scores of industries to depend on more expensive fuels, an expert said Wednesday.

The supply from Argentina, which began shrinking several months ago due to local shortages and maintenance work, was near zero this week, leading Chilean Economy Minister Jorge Rodriguez to conclude Tuesday that there was only enough gas for private homes.

"This critical level will last until Friday and only by Monday we can expect some improvement," said Carlos Cortes, leader of the Santiago gas distributors. The instability of the supply is expected to persist for much longer.

Gas supplies to electric power plants and large industries were cut off, forcing them to turn to oil and other more expensive fuels, Rodriguez said. That could raise some consumer prices and electricity bills.

Rodriguez said the government has asked Argentina to restore supplies to at least one of the three large electric power plants that have been affected. At normal times, Argentina was exporting an average of 20 million cubic meters a day to Chile.

The shortage came at a time when gas consumption grows with the onset of winter in the Southern Hemisphere.

Still, the Chilean government has assured that there will be no rationing for private homes.

In the meantime, Rodriguez said the government is encouraging improvements to hydroelectric plants.

"We must forget cheap gas. It no longer exists," Rodriguez told the Santiago El Mercurio.

On Monday, Primer Minister Patrick Manning of Trinidad Tobago, on a three-day visit to Chile, offered to sell gas to the country.

BUSINESS BRIEFS

• VENEZUELA

VALVE COMPANY EXPROPRIATED

CARACAS — Venezuelan President Hugo Chávez signed an order Wednesday expropriating a Venezuelan company that used to manufacture valves for the oil industry.

The former owners of the company, National Valve Builder, owed their workers some 1.9 billion bolívares (US$884,000) in unpaid wages since abandoning the business, Chávez said during the signing ceremony.

"We are only guaranteeing compliance with their rights as workers," Chávez said.

The former owners of the company, who according to the government joined a strike against Chávez's government, did not immediately issue any public statements about the government's decision.

• VENEZUELA

CHAVEZ TO BOOST MINIMUM WAGE

Venezuelan President Hugo Chávez said he will raise the minimum monthly salary 26 percent after record oil prices boosted government revenue this year and last.

The government will increase the minimum wage for private and public workers to 405,000 bolívares a month effective May 1 from the current 321,000 bolívares, Chávez said in a televised speech in Caracas.

A 61 percent surge in government spending helped fuel economic growth of 17 percent last year after contractions of 7.7 percent in 2003 and 8.9 percent in 2002. The economy of Venezuela, the world's fifth-largest oil exporter, grew as much as 11 percent in the first quarter, Central Bank Director Domingo Maza said this month.