

Time to quit Quito?

Dagong, China's official ratings agency, published a list of 50 sovereigns in 2010 that ranked Ecuador last – on CCC. Dagong's rating, together with the recent actions of President Rafael Correa, should give investors in Ecuador further cause for concern.

A referendum in May plans to give Correa greater control over Ecuador's banks, judiciary and media. Although Correa is expected to win, his repeated use of referenda and vetoes is fuelling dissent. Yet despite doubts over the durability of his support, Correa is likely to stay in power until the next election in April 2013, for which he is also currently the best-placed candidate to win.

Beyond these domestic matters, Ecuador's recent diplomatic actions run a greater risk of harming its economy. The release of diplomatic cables by Wikileaks containing unpalatable comments by the US Ambassador prompted her expulsion in April. Emblematic of their deteriorating relationship, the expulsion means negotiations for a free-trade agreement with the US – abandoned in 2006 – are unlikely to resume. Exporters will also suffer because Ecuador's preferences with the US under the Andean Trade Promotion and Drug-Eradication Act, which expired in February, are unlikely to be extended. A lack of long-term agreement with the US will reinforce Ecuador's barriers to foreign direct investment.

FDI from non-American companies has also been affected by Correa's recent actions. A BIT with France was cancelled the day before a French business delegation arrived in Quito, and Ecuador has neglected trade ties with countries like Brazil, Germany and Japan in favour of political allies such as China, Iran and Venezuela. However, plans to replace traditional financing with support from these political allies have faltered because China, for example, demands stricter guarantees than the IMF. Where financing has been arranged, such as a pre-sale of oil output to China in exchange for a US\$1bn loan, it was on terms that prevent Ecuador from taking full advantage of today's high oil prices.

GDP estimates have been revised up to 3.3% over 2011-12. However, beyond rising oil prices, much of this recovery is fuelled by increased bank lending. Furthermore, several weaknesses underlie Ecuador's dollarised economy. These include political and legal insecurity, a low-skilled population, inadequate utilities and unaffordable financing. Affordable financing has been unforthcoming since Correa's 2009 default, when FDI and commercial lending to the government froze. Ecuador does encourage FDI, recently signing agreements worth a potential US\$7bn with American and Canadian miners like International Minerals, Ecuacorriente and Kinross.

However, for each action it takes that encourages FDI, Ecuador takes several others that discourage it. In November 2010, Correa threatened to expropriate the assets of foreign oil companies that did not agree to new pro-state contracts – which precipitated Noble Energy and Petrobras exiting Ecuador. Then in February, a provincial court fined Chevron US\$18bn for polluting the Amazon River basin. But such actions extend beyond oil companies: in March, Correa mooted nationalisation of banana exporters to avoid alleged abuses by exporters who have ignored the government's price floor.

Ecuador has defaulted on its external debt thrice in the last 15 years. The most recent was the exception because it was deliberate: the government was able to pay but used its 2006-07 debt audit to engineer reduction of its external debt stock by 21%. With deteriorating diplomatic, investment and trade environments, Ecuador may again find itself actually unable to service its external debt. Dagong's ranking of Ecuador at the bottom of the pile may yet prove appropriate.

We invite holders of defaulted trade debts and rendered arbitral awards relating to Ecuador to contact us for advice.

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Africa Hyper-Exotics		May 2011	
Country / Issue	Price Range		
Angola / Trade	50.000%	55.000%	
Angola / Loans	55.000%	59.000%	
Cameroon / Trade (non-HIPC)	14.000%	20.000%	
Congo / Trade (non-HIPC)	22.000%	26.000%	
DR Congo / Loans, Trade (non-HIPC)	16.000%	20.000%	
Ghana / Trade (non-HIPC)	78.000%	82.000%	
Kenya / Trade	39.000%	49.000%	
Mozambique / Trade (non-HIPC)	20.000%	26.000%	
Senegal / Loans, Trade (non-HIPC)	12.000%	16.000%	
Sudan / Loans (non-HIPC)	11.000%	14.000%	
Tanzania / Loans, Trade (non-HIPC)	10.000%	13.000%	
Uganda / Trade (non-HIPC)	14.000%	16.000%	
Zambia / Loans, Trade (non-HIPC)	13.000%	20.000%	
Zimbabwe / Trade	1.000%	4.000%	↑

Latin America & Caribbean Hyper-Exotics		May 2011	
Country / Issue	Price Range		
Cuba / Trade	2.000%	4.000%	
Cuba / Loans	5.000%	10.000%	
Suriname / Loans, Trade	14.000%	18.000%	

Eastern Europe Hyper-Exotics		May 2011	
Country / Issue	Price Range		
Azerbaijan / Trade	18.000%	23.000%	
Bosnia / Trade	36.000%	41.000%	
Georgia / Trade	11.000%	15.000%	
Serbia / Trade	44.000%	54.000%	
Turkmenistan / Trade	23.000%	33.000%	↑
Ukraine / Trade	18.000%	25.000%	
Uzbekistan/Trade	20.000%	24.000%	

Middle East Hyper-Exotics		May 2011	
Country / Issue	Price Range		
Egypt Trade	65.000%	75.000%	
Iraq / Paris Club	84.000%	89.000%	↓
Iraq Bonds	91.000%	92.000%	↓
Libya / Trade	25.000%	35.000%	
Syria / Trade	6.000%	11.000%	

Asia Hyper-Exotics		May 2011	
Country / Issue	Price Range		
Mongolia / Trade	22.000%	30.000%	
North Korea / Loans, Certificates	9.000%	12.000%	

Prices are a percentage of principal only, however assuming inclusion of an average amount of PDI for the specific debt instrument and the specific debtor. Trade debts and their documentation differ from case to case and price ranges should therefore be considered as a benchmark only.

Price ranges are based on a monthly compilation of sources and analytics. Liquidity on most instruments is very limited and trading may not have taken place for some time.

Omni Bridgeway is regularly requested to value distressed debt of countries not listed above, including distressed debt eligible under HIPC (Heavily Indebted Poor Countries) and/or Paris Club agreements. Such valuations are available on request. Omni Bridgeway does not provide its legal services for debt that qualifies for treatment under the HIPC Initiative.

For such debt, Omni Bridgeway offers its clients the management and guidance through the HIPC reconciliation and restructuring process and related services.