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**Oil and Politics
in Ecuador
1972 - 1976**

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FOREWORD

The present work inaugurates a new series of publications by the Institute of Latin American Studies, taking its place alongside the Monograph Series, Information Pamphlets and other publications which have been in existence for some time. The object of the Working Papers is to preserve and present the results of research while it is still in progress, and to invite discussion among interested scholars from which the author can benefit. Research projects are developed at the Institute by its own staff and teachers, by research fellows and visiting scholars, by colleagues in the Schools and Colleges of the University, and by other scholars associated with our programme. These are the groups who have provided the stimulus for the new series, and it is from them that the authors of the papers will normally be drawn. The object of research is frustrated if it cannot find an outlet in publication; once published it can be improved by the responses of others. The Institute hopes that the Working Papers will help to satisfy these objectives and to promote the advancement of knowledge.

J. Lynch

When Washington launched its anti-OPEC offensive in 1974, it met resistance from an unexpected quarter. It was not surprising that in June 1974 the President of OPEC should assert that

certain private companies, the international consortia and even the governments of the great economic powers, are uniting their strength in order to fight this organisation and bring about its destruction. But OPEC has known how to resist, despite the different forms of imperialist pressures such as diplomatic and economic boycotts, because OPEC's cause is that of the great majority of mankind - long exploited by the exploiters of every epoch.²

What was surprising was the identity of the speaker - he was Captain Jarrín Ampudia, Ecuador's Minister of Natural Resources.

Ecuador had only begun serious oil production in 1972 and its export capacity was barely 2% of that of Saudi Arabia. Nevertheless, the impact of oil was sufficient to bring about major changes in Ecuador's domestic and international outlook. It temporarily loosened the political boundaries of a backward Latin American country and paved the way for new men with new ideologies to take power and begin a major transformation of Ecuador; although more conservative influences were able to recover their position, they did not altogether succeed in reversing the changes that had been made.

The key figure in these developments was Captain (later Admiral) Jarrín, who became Minister of Natural Resources in February 1972 and later President of OPEC. After his dismissal in October 1974, he became a symbol of Ecuadorian nationalism with both firm friends and very bitter enemies. In a sense, Jarrín follows an older tradition of Latin American military nationalism which can be traced back to Horta Barbosa of Brazil and even Mosconi of Argentina³. In another way, he shares the "Third World" consciousness of the elites of many underdeveloped countries which has been able to assert itself only under the right material conditions. If Jarrín's outlook was deeply rooted in history, however, so was that of his conservative opponents, who willingly reflected Ecuador's own political conditions - personalist and weak government, a psychology of dependency and close connection with Washington.

As we shall see, therefore, the "dependency" writers have accurately predicted the nature of political conservatism in Ecuador; during this period, a powerful foreign government and its domestic allies combined against a radical threat in order to suppress its most dangerous manifestations. During the crisis years of 1973-4, Ecuadorian sovereignty counted for very little. More surprising, however (at least in terms of this paradigm), was the emergence of a radical threat to the status quo not from the "broad popular masses", but from a military radical who in broad political terms was almost isolated but who was nevertheless capable of mounting a formidable challenge to the existing order. This challenge, and its outcome, are the subject of this paper.

Ecuador in 1972

When the military took power in February 1972, it found an oil industry which was economically quite well developed, but which remained a mystery to nearly all Ecuadorians. Ecuador had been a producer of oil since 1918 (although its coastal fields had always been small and were now almost depleted) but successive regimes had hardly concerned themselves at all with oil policy and for many years Ecuador levied few taxes, had no state company and knew extremely little about the industry. In 1967, however, a major discovery had been made in the Oriente, and was followed by a string of finds both there and offshore. By 1972, an independent survey carried out by Rudolf Martin and Associates put the reserves discovered by the main exploring company - the Texas/Gulf consortium - at 3,200 million barrels (proved and probable) adding that "Texas-Gulf have some twenty promising structures which have not yet been drilled".⁴ A trans-Andean pipeline was under construction and due for completion in June 1972 with an initial capacity of 250,000b/d; expansion to 400,000b/d, or perhaps even more, was very much in prospect.⁵

The prospect of production on this scale had already brought some changes. There had been a major renegotiation of the original concession terms in 1969, and a new but non-retroactive oil law (the first since 1937) was introduced in September 1971. The 1969 negotiations had pushed expected government revenue up to reasonable levels in the short run but still left a great deal unclear or unsatisfactory. Overall, the question of government control had not really been tackled at all. Ecuador had no state oil refinery or even a firm contract to build one, although the matter had been under discussion at least since 1966. Moreover, although the 1971 law had set up a state company - Cepe - the legal terms of the creation were so unsatisfactory that Cepe had to be re-established in 1972. The question of

acreage was also important; Texas/Gulf's concession area amounted in 1972 to 400,000 acres (which represented a substantial reduction from its pre-1969 level) and other companies had concessions covering much of the rest of the potential oil-bearing area. Apart from the question of size, there was also the fact that at least one (offshore) concession had been granted under very doubtful circumstances - a matter which would later become important. Finally, there was the question of administration itself; there was still much validity in the government's own complaint made in 1966 that "the state does not dispose of sufficient personnel to be able to carry out satisfactorily the administration, control and regulation of all aspects of the oil industry".⁶

This lack of oil policy reflected the weakness and backwardness of the Ecuadorian state itself. This was not yet capable of producing reliable statistics on its own activities, let alone carrying out coherent policy. As the World Bank remarked,

different conditions and developments in these two major regions [Quito and Guayaquil] have over time deepened social and economic imbalances and prevented the emergence of a strong central administration. As a consequence, political power has remained fragmented into multiple decision-making centres - at the national, regional and local levels - including a multitude of autonomous and semi-autonomous agencies, each of them receiving earmarked tax revenue.⁷

Indeed, in 1970, the government had already decided to earmark 50% of the royalties from the Texas/Gulf concession area to the Armed Forces and 50% to the electricity company - Inicel.

This situation, however, did not relate simply to economic backwardness. The economy had grown rapidly in the years since 1948, with the main growth point being the banana-exporting haciendas of the coast where a conservative, but modernising, 'oligarchy' had grown up; during this period, there had also been a certain amount of industrialisation.⁸ Nevertheless, in 1972, most manufacturing was still small scale and artisan and even the larger companies were relatively inefficient, as well as being capital-intensive and highly concentrated both by ownership and location (since they were predominantly based in Quito or Guayaquil). This pattern had led to an "extremely unequal" distribution of income which was aggravated by the familiar problems of un- and underemployment.⁹

The urbanisation, which took place along with industrialisation, did have some effect on Ecuadorian politics. The voting population expanded from under 300,000 in 1948 to 827,000 in 1968 (out of a total adult population of around 2 million). The

impact of this change was limited, however, by the chronic weakness of Ecuador's political institutions; fragmented and disorganised populist parties merely replaced the older fragmented and disorganised conservative groups. If anything, postwar economic growth made politics even less important than formerly. As Fitch pointed out,

the new economic prosperity promoted a substantial lessening of tensions between the coastal oligarchy, the traditional landowning aristocracy of the sierra, and the increasingly numerous members of the urban middle class. With the increased opportunities for elite mobility outside of the political system and the rapid increase in the number of middle class bureaucratic positions resulting from the doubling of public expenditures, control over the government ceased to be a highly salient issue.¹⁰

Bouts of serious instability coincided with periodic difficulties in the export markets, but these did not lead to any major change in successive civilian governments' basically conservative approach. In good times, change was not necessary; in bad times it did not seem possible.

Under these circumstances, one might have expected the military to play a "modernising" role, and there were certainly tendencies in this direction. However, there had long been one major factor operating against this. Ecuador's military defeat by Peru in 1941 had been attributed by its army to the politicisation of the officer corps, and, following this defeat, there developed a strong "constitutionalist" mentality within it.¹¹ Over time, however, post-war influences, such as the spreading Latin American military ideology of counter-insurgency and its emphasis on the need for economic development, had come to influence army officers in a different direction. Partly for this reason, but also motivated by fear of "Communism" and disgust at civilian politicians, the military did intervene in 1963 and moved in a vaguely reformist direction (putting an Agrarian Reform Law on the statute book in 1964). However, the military government had no taste for the politics of mobilisation or confrontation and allowed itself to be driven from office in 1966 by the determined opposition of the Guayaquil merchants who were able to manipulate both currency transactions and press comments in order to whip up an atmosphere of crisis. Despite this setback, however, the army retained a group of "developmentalist" officers and these, further encouraged by the Peruvian example, later played their part in again stimulating military intervention.

In the years after 1966, however, the most important changes were taking place within the navy. It is likely that the immediate impetus to radicalisation here was the "Tuna War", fought by the navy against those American fishing boats which,

with backing from Washington, entered Ecuador's declared 200-mile offshore limits. This "war", waged intermittently for a number of years, gradually escalated and

suddenly became a major international incident in January 1971 with the detention of nine US tuna-ships, including the largest in the world, the "Apollo", for fishing only sixty-three miles off the coast. In mid-January, the US Congress reciprocated by applying sanctions which included the suspension of all aid, credits and guarantees. Despite strong pressure, the Ecuadorian government did not flinch and responded by imposing fines or confiscating the catches of detained ships and by ejecting the U.S. military mission.¹²

As we shall see, oil as well as tuna fish had an impact on the navy.

The Military Government of 1972

These changes within the military were catalysed by the prospect of oil. Few doubted that, when the oil began to flow in June 1972, there would be important changes in Ecuador, and this general sense of anticipation no doubt encouraged the military to take power directly. The February coup was actually precipitated by the efforts of civilian President Velasco Ibarra to use the military to block the probable electoral victory in June 1972 of his populist rival Assad Bucaram.¹³ Velasco's tactics misfired, however, and the military took power in its own name. Indeed, for a number of officers the motives for the coup were not purely negative; rather, they themselves hoped to take the initiative in using the oil wealth to transform the Ecuadorian economy and modernise its society. One of the most radical of these officers was Captain Jarrín.

Although appointed to the Ministry of Natural Resources, Jarrín was not an oil man. He had expected to become Minister of Education, but was given this more influential position after two more senior and conservative Naval officers had been vetoed by the Army. He was a military intellectual, and had been head of the Naval academy where he had propounded a radical form of the "national security" ideology. Moreover, Jarrín was a determined nationalist who had been influenced by the creation of Petrobrás in Brazil, and who immediately conceived a strategy of gradual oil nationalisation in Ecuador.

To this end, he quickly collected together a team of oil nationalists, which included both Ecuadorians and foreigners with

experience of the industry.¹⁴ Organisationally, this group worked together very well indeed; the World Bank later referred to "a group of highly motivated and dedicated professionals, both at the Ministry of Natural Resources and the national oil company. Indeed, the improvement in the public management of petroleum resources has been remarkable".¹⁵ Within the team, there was no doubt of Jarrín's personal ascendancy; one of his aides later recalled that "for the first few weeks he took our advice, but after that he took charge".¹⁶

Jarrín's position within the incoming government, however, was more difficult. There were some factors which worked in his favour. For one thing, the general orientation of the regime was nationalist; Rodríguez Lara had no wish to repeat the experience of his military predecessor who in 1963 had been severely criticised as an entreguista for coming to an understanding with the US over fishing limits. Moreover, many officers had been influenced by Peru and, in any case, once the military had taken power away from conservative civilians, they needed a rationale for continuing to hold it. The fishing "war" itself had strongly implanted nationalist values within the navy where Jarrín's policies were enthusiastically supported by the senior Navy Minister, Admiral Sergio Vásquez Pacheco. In any case, the overall climate in 1972 seemed ripe for a policy of oil nationalism; the oil had, after all, already been found and the foreign investment had already been committed, so that the bargaining advantage now lay with the host government. Moreover, the international climate of the period was extremely favourable to host governments, as was being amply demonstrated by the governments of Venezuela and a number of countries in the Middle East. Finally, in a country with so little technical expertise in oil as Ecuador, the calibre and expertise of Jarrín's team went a long way towards neutralising any neoliberal criticisms that his opponents might make.

Against these advantages, however, there were serious potential weaknesses in Jarrín's position. The greatest of these was Jarrín's own lack of a political base. To some extent, this was the result of his own choice - both because he was a military elitist who showed very little interest in attracting civilian support or even in cultivating a strong personalist image, and because he sought protection against attack by ensuring that all of his proposals were fully discussed within the government and within the military before they were implemented. However, there was also the fact that Jarrín was a Naval officer and so could not rely on strong personal loyalties within the Army, which was after all the most powerful of the services. Indeed, given the Army's power but its essential lack of cohesiveness, Jarrín was forced to build his house upon sand; it could survive the clear weather of 1972-3, but was swept away in the storms of 1974.

From the beginning, however, Jarrín was determined to press ahead on a variety of fronts.¹⁷ Of these, one of the more important was connected with the offshore concessions. Here Jarrín was not a prime mover, but nevertheless came to be associated with the policies of the rest of the government, which consisted of a clamp-down on those suspected of "irregularities" in the acquiring of concessions. The real motivating force behind this campaign was a book written by J. Galarza (El Festín de Petr6leo) which was the "first best-seller in Ecuadorian history" and which made blanket accusations against practically everybody who had ever dealt with the industry. In particular, Galarza attacked the granting of a concession to ADA in 1968. This was issued by the Arosemena G6mez government against the advice of its technical experts to six unknown Ecuadorians and was transferred six days later to an American consortium. Galarza's accusations greatly increased in credibility in May 1972 after a televised meeting between Galarza and Ren6 Bucaram, formerly asesor of petroleum of the Ministry of Mines and subsequently a Texaco executive. Bucaram declared that he had himself opposed the granting of the ADA concession, on the grounds that the ostensible applicants lacked the capacity to undertake the necessary work. His decision had then been overruled from above despite the fact that the Industry Minister was out of the country at the time. Moreover, only 200 copies were issued of the official gazette which contained news of the contract. Although the issuing of the ADA concession was not particularly remarkable in the context of pre-1972 policy-making, the publicity which it attracted was such that the ADA concession was cancelled in November 1972 and a number of those connected with issuing it were temporarily placed under arrest.

The most important aspect of oil policy, however, concerned relations with Texas/Gulf and the smaller companies of the Oriente. The first major step taken by the government was the issuing of Decree 430 (12th June 1972) which stipulated that those who had obtained concessions before 1971 would have to renegotiate them to take account of the 1971 law. This decision was not taken easily; according to one source,¹⁸ Jarrín was close to resignation before his proposals were finally accepted. Years later, Jarrín recalled that his opponents

were those who were willing to allow the disappearance of the last trace of the 1971 Hydrocarbons Law, by not applying it until the year 2016, by which time all concessions would have returned to the state and there would not have been a drop of oil remaining in the Ecuadorian Oriente.¹⁹

The main concern of the government was to recover acreage rather than revenue, and the first consequence of the new decree was a conflict with Minas y Petr6leos. Minas was the first Oriente concession of the period, having been granted in 1961 to

an Austrian geologist named Harold Strouth. The original concession made up 4 million hectares and in August 1962 Strouth received permission to bring in other (foreign) investors. In 1964, a large part of the concession was sublet to Texas/Gulf in return for a 2% royalty (upon which Jarrín in 1972 imposed an 86% tax). Subsequently, Strouth sold his share in Minas to an American consortium which included Aminoil, Amerada Hess, Hamilton Bros, and Kirby Petroleum. This consortium began work in the area (it later claimed that its investment totalled US \$18m.) and was prepared to continue developing its finds. The position changed abruptly, however, with the passage of Decree 430 which forced Minas to cede a portion of its territory and to accept considerably higher surface taxes.

Thus, on November 20th, the New York Times carried an article on Ecuador which was clearly inspired by an oil company. It quoted an oil executive as saying that "we are trapped in a line of fire between the two big political factions in Ecuador; the Army and the Navy. The Army promised us protection but the radical Navy boys won the first battle to get rid of us". The article added that "a month after oil production began, the Minister of Natural Resources, Navy Captain Gustavo Jarrín Ampudia began to pressurise those companies still in the exploration phase, ordering an increase in the payment of concession dues. President Rodríguez suspended the order." This hint of Army-Navy divergence clearly embarrassed President Rodríguez more than Jarrín who, after all, was only implementing the law and whose position was now strengthened by this clumsy assault. Thus Jarrín almost immediately replied to the article by accusing Harold Strouth of talking to the press and claiming that Minas was simply refusing to obey the law. There followed a lively polemic between Jarrín and company spokesmen (who claimed that Strouth no longer had anything to do with the company) before the concession was eventually cancelled in early 1973.

The main concern of policy, however, was the renegotiation of the contract with Texas/Gulf. The main issue involved was that of the amount of acreage which the consortium was to return, although domestic price levels, and Jarrín's concern to give Cepe a share in the consortium, were also important. Texas/Gulf tried to offer increased production as a bargaining counter against the government's demands, and the company even hinted that reserves might justify a second trans-Andean pipeline if the terms were right.²⁰ Moreover, the consortium claimed that it had worked its entire concession area and initially asked US \$70m. as compensation for its returned acreage. However, despite their apparently strong position, the companies had little to offer Jarrín. He had no fear of prolonged negotiations and the consortium's offer of higher output was of no interest. Jarrín had always aimed at long-term nationalisation, and his immediate aim was therefore to rescue as much as possible from the hands of the companies in order to entrust it to Cepe for

development in the longer-term. For this reason, he had made no concession to Minas y Petr6leos (which could apparently count on a sympathetic hearing from other parts of the government - at least until the New York Times article) and had no reason to make any to Texas/Gulf. Moreover, Jarr6n was a conservationist; perhaps influenced by Venezuela, he believed, in 1972, that oil prices would continue to rise and that oil left in the ground would therefore appreciate. Jarr6n wanted to develop Ecuador by exporting less oil, but over a longer period and at a much higher price. Moreover, even apart from his price expectations, Jarr6n was willing to hold back output out of a fear of the domestic consequences of an uncontrollable flood of oil wealth; he wanted to spin out developments more gradually.

Others, however, were less patient. It is not clear whether consortium spokesmen quietly tried to put over their views to the more conservative Ecuadorians (although it would be surprising if they had not), but certainly there were those who wanted a rapid build-up of production and who were worried by the seemingly endless series of disputes taking place between the government and Ada, Minas y Petr6leos, Texas/Gulf, etc. Indeed, the conservative press kept up a line of criticism against Jarr6n for taking too hard a line with Texas/Gulf and the other companies - particularly when a number of smaller companies, disappointed with exploration results and uncertain about the political climate, gradually pulled out. Thus,

according to a number of observers, the virtual inactivity of the companies is due to doubts about the basic provisions of the new contracts which must be signed with the government. (El Tiempo, 2 Oct. 1972)

Subsequently, it editorialised that

the abandonment of territory, the departure of two new companies from the country following the same route as AMOCO, the virtual paralysis of work in the Gulf of Guayaquil, the lack of interest with which work is going ahead in other areas, ought to stimulate an objective and profound analysis on the part of the military regime and the population as a whole, which is the real owner of the petroleum. (4 January 1973).

Even El Universo wrote that

the exploration activity which several companies undertook at the same time appears to have stopped dead and....there are growing doubts about whether the Ecuadorian government has not miscalculated. (15 February 1973).

It was certainly true that investment in exploration and even development had virtually dried up, but the resulting criticism was largely muted by the fact that the oil was continuing to flow and that the price was continuing to rise. Nevertheless, the rest of the government eventually began to pressure Jarrín to settle and finally presented him with an ultimatum - get an agreement or resign. When the agreement was finally signed in August 1973, Jarrín had a signed letter of resignation in his pocket.²¹

According to the contract eventually signed, Texas/Gulf handed back much of their territory but were allowed to keep the rest until 1992. They would invest US \$60m. over the next three years in order to bring the level of production up to 400,000b/d. Cepe was to be allowed to buy into the consortium, taking 25% over four years at a price not revealed officially but believed to be US \$65m. Financially, the Ecuadorian government had already achieved its objectives, through a complicated set of fiscal arrangements which could be regulated according to the changes in the tax reference price.²² In a market where prices were moving rapidly and where there was in any case no single world price, it is almost impossible to evaluate a particular tax structure, but the Ecuadorian government was certainly not generous. Already in mid-1972 the World Bank calculated that

comparing the Ecuadorian tax system with the prevailing Venezuela or Middle East tax structures - using similar sets of assumptions as to costs and tax reference prices - the level of most taxes resulting from the Ecuadorian system is higher than the other two.²³

As world prices mounted, so did those set by Ecuador; they rose gradually from US \$2.50 in July 1972 for 28 degrees API crude, to US \$7.30 on November 10, 1973 and the ceiling of US \$13.70 set on January 1, 1974. While not exactly comparable, this rate of increase is similar to that imposed by Venezuela (which rose from US \$2.647 in 1972 to US \$14.26 at the beginning of 1974).

As Ecuador's oil revenue increased, so the question of how to use it became correspondingly more important. Here Jarrín was also active. His aim was to ensure that the bulk of funds did not simply flow into those industries (such as construction) where there was a short-term elasticity of supply at the expense of more socially valuable but longer-term projects.²⁴ Thus, he used the old technique of earmarking, but reversed its direction. His most important step was to create FONADE, which was set up in December 1973 and entrusted with all revenues stemming from a reference price of oil which was greater than US \$7.30. He also diverted the 15% profits tax which was intended for worker participation away from the workers themselves (who numbered very few) and into the health, labour and housing ministries.²⁵

It is difficult to trace out exactly the destination of oil revenue; the World Bank reported that

since some important public sector agencies do not currently report their financial operations, it is as yet impossible to fully assess fiscal performance ...similarly...the pattern of public sector investment during the period is unclear. It is known, however, that about one third of FONADE funds were allocated to a petroleum refinery at Esmeraldas. Much of the remainder has been allocated to the sizeable programme of electric power generation. In addition to these, there have been substantial increases in education and public works.²⁶

The estimates available, however, are as shown in Table 1.

Despite the roughness of the data, a number of tentative conclusions can be drawn from this table. First, one should note the importance of FONADE which, after 1973, became the largest single recipient of oil income. Not only did this involve a proportionate reduction for all other agencies but, more importantly, the division of income (which gave FONADE all revenues stemming from an oil price of over US \$7.30 a barrel) had interesting distributional effects. A change in the quantity of oil exported affected all agencies proportionately, whereas a change in the price affected only FONADE. Thus, a price cut would not significantly reduce the budgets of the central government, military etc., whereas a cut in the volume of exports might hit them severely; this made Ecuador disproportionately vulnerable to company pressure.

Secondly, the capitalisation of Cepe proved to be expensive - a necessary consequence of the speed with which it was done. Clearly, some of the funds diverted to Cepe were the foregone profits of the consortium, but much of the cost was borne in Quito. This did not really matter in 1974, when there was a budget surplus, or even in 1975 when the cutback in production seemed all-important, but in 1976 and 1977 Cepe's share of the total was seen to be considerable, and this became controversial. Indeed, after the nationalisation of Gulf at the end of 1976, the government (in July 1977) decided to reduce Cepe's share of the take by subjecting Cepe's income to a 17% royalty (of which the military was to receive 8.5% and INICEL 8.0%). This reduced Cepe's income to 23.66% while further adjustments slightly increased the share of income destined for FONADE and maintained that going to the Central Government.

Finally, there was a shift from current spending to investment, although the development and welfare ministries do appear to have benefitted from the changes at the expense of the general government bureaucracy. The World Bank's "others" category fell away sharply after 1972 and even the military budget seems, if anything, to have declined; conversely, housing and labour and social welfare at least maintained their share of a rapidly expanding total. The biggest shift, however, was from the

Table 1. Shares and totals of government revenue 1972-6. % and million Sucre

	1972		1973		1974		1975 (a)		1976 (b)	
	%	Total	%	Total	%	Total	%	Total	%T/G	%CEPE
FONADE	-	-	-	-	31.6	3,341.7	30.9	3,326	34.82	25.96
Central Govt.	46.1	442.6	48.9	1,754.5	30.9	3,272.6	24.2	2,958	27.34	21.79
Military	13.3	127.7	14.0	503.4	10.5	1,114.8	10.8	1,165	12.53	8.50
INICEL	13.2	126.3	13.5	485.5	10.0	1,057.7	10.2	1,100	12.00	8.08
CEPE	(c)		(c)		(c)		9.5	1,024	1.97	28.00
Housing	2.4	23.3	5.0	180.1	2.7	287.9	na.		2.68	na.
Health	1.2	11.6	2.5	90.1	1.4	143.3	na.		na.	na.
Labour	2.4	23.3	5.0	180.1	2.7	287.8	na.		2.00	4.70
Province of Esmeraldas	0.8	8.1	0.9	31.0	0.6	67.5	na.		na.	nil.
Univs.	3.3	32.0	3.7	132.0	2.7	288.8	na.		1.99	1.55
Others	17.2	165.0	6.5	234.2	6.9 (d)	726.5	14.3	1,541	4.65	1.42
Total	100.0	959.9	100.0	3,591.3	100.0	10,589.2	100.0	10,754	100.0	100.0

a. Whereas 1972-4 are World Bank estimates, 1975 is an IMF estimate. The main divergence between the two series of statistics is the treatment of Cepe (probably the result of differences in the way in which Cepe's 25% of the consortium was treated). Thus, the IMF estimates of Cepe's percentage in 1972-4 was (%) 0.7, 0.4 and 5.0 respectively - the last figure clearly reflecting the 25% purchase of the consortium. Equally, the World Bank's figures could not have included Cepe's equity income.

b. These figures are estimates supplied by Weekly Analysis (11 Feb.1977) and show the significance of Cepe's equity share.

c. See note a.

d. Includes 2.7% earmarked for the Ministry of Agriculture.

Sources. World Bank, IMF and Weekly Analysis.

Central Government to FONADE. Thus, at least on paper, the direction of government spending was positive from the point of view of development although these apparently determined desarrollista policies played their part in reducing the government's chances of building up a political base for itself. The overall picture portrayed here is partly borne out by World Bank figures which showed an increase in government investment of some 40% in 1973 (in real terms) and approximately 20% in 1974 compared with real GNP growth of 15% and 8% respectively.

However, this growth in spending was substitute for, rather than complementary to, a major programme of reform. In fact, many had hoped (and feared) that the new oil wealth would destroy the economic power of the Guayaquil exporters and permit the government to carve out a new political and economic base for itself through reformist-populist policies. Nevertheless, the regime lacked sufficient determination to pursue such policies in the face of strong conservative opposition; perhaps the key question, that of land reform, was decided in the conservatives' favour when the new law (of 1973) concentrated on improvements in productivity rather than redistribution. Whatever the "technocratic" justifications for this law, it failed to make any major impact on the political or social structure and politics was left to the established groupings.

1974. The Crisis

The dramatic world oil price developments of 1973-74 had their impact in Ecuador. This impact was all the greater since Jarrín had deliberately tried to link Ecuador as closely as possible to the other oil producing countries and had led it into OPEC in November 1973. In the eyes of many government ministers OPEC membership seemed to have its advantages; apart from the prestige itself, it might also strengthen Quito's bargaining position against the consortium. Certainly, the regime entered OPEC with its eyes open. As President Rodríguez Lara pointed out,

every proposal, every step was considered in detail and submitted for the consideration of every government member who was concerned with the matter, before responsibility was finally handed over to the Ministry of Natural Resources.²⁷

However, membership was even more important to Jarrín personally; he was anxious to use the oil weapon internationally to bring about changes in the international balance of power, and domestically to bring about changes in political attitudes.²⁸ OPEC membership would help Ecuadorian nationalists

ideologically, and would therefore provide backing for Cepe's gradual takeover of the consortium, and for foreign economic policies which would have been quite unthinkable only two years earlier.

Nevertheless, Ecuador's membership of OPEC was always controversial domestically, and it proved to be more so as the costs of membership became more apparent. There were always those ready to argue that Ecuador, as a small producer and a non-Arab state, was better off maintaining its own freedom of action since it had no interest in Middle Eastern conflicts and was in any case not powerful enough to play a real part in international politics. According to this view, Jarrín was suffering from delusions of grandeur; Ecuador simply was not Saudi Arabia. As a small producer, it should keep its traditional alliance with the USA, while at the same time benefitting from the changes in world price levels. Such a view was held particularly strongly within Ecuador's Foreign Ministry.

This basic conflict became increasingly important as 1974 wore on. At the beginning of 1974, Washington began its anti-OPEC offensive. At first, this focused on an attempt to split Saudi Arabia from Iran and the more "hawkish" countries; at this time, the CIA believed that there was a real chance of Saudi defection from OPEC.²⁹ Thus, on February 23rd the Guardian reported that "the American view, currently being urged on King Faisal, is that OPEC itself is in many ways irrelevant and that Saudi Arabia could go it alone". This pressure appeared to have paid off when, at the beginning of June 1974, Sheik Yamani called for a cut in the oil price to US \$9 a barrel.

As the expected price cut failed to materialise, however, Washington put increasingly public pressure on the other OPEC governments. Thus, in July 1974, the State Department "in a highly unusual move" publicly criticised Gulf Oil for paying allegedly excessive prices to Kuwait for its oil.³⁰ In the same month, US Treasury Secretary Simon publicly described the Shah of Iran as "a nut".³¹ Similarly, Quito's decision in May 1974 to order a production cutback from 250,000 to 210,000 b/d met scarcely veiled criticism from Washington; US Under Secretary of the Treasury Jack Bennet remarked that "any new reduction in oil production, by any government, at the present moment, will be clearly considered by the USA and other consuming nations as a counter-productive measure".³²

During 1974, Jarrín worked hard to keep OPEC together. Since his work took place behind the scenes and he attracted little publicity during the period, his role was difficult to evaluate. Undoubtedly, however, his efforts to avoid an open split between Iran and Saudi Arabia were very much appreciated. The decision to hold the June 1974 meeting of OPEC in Quito, the success of that conference despite Yamani's plea for a price reduction made only a few weeks earlier, Jarrín's own appointment

as President of OPEC, and the many messages of support sent by OPEC countries to Jarrín after his eventual dismissal from the government in October, all indicate that Jarrín played a vastly more important role in OPEC than might have been suggested by the volume of Ecuadorian production.

By the end of August, the American diplomatic offensive against OPEC had clearly failed. The signal of this failure was Saudi Arabia's publication of its decision not to cut its oil price but to cut its production instead.³³ Consequently, after OPEC's meeting of September 1974, Ford and Kissinger made aggressive speeches to the U.N. which appeared to be aimed at persuading the non-oil-exporting developing countries to turn against OPEC, and seemed also to threaten some form of trade boycott against OPEC members. Kissinger asserted that "The World cannot sustain even the present level of prices, much less continuing increases....what has gone up by political action can be reduced by political action".³⁴ Members of OPEC were divided over the best way to respond to these speeches. The Middle Eastern countries, presumably believing that Washington's threats were empty but having no wish to provoke a confrontation, simply wanted to ignore these statements. The Latin American countries, however - both Venezuela and Ecuador - wanted to rise to the bait in order to strengthen OPEC's unity and to stake out a position in the diplomatic battle for the loyalties of the Third World. Jarrín, who had already gone out of his way to stress that OPEC had responsibilities to the rest of the Third World, then broke his silence to deliver rhetorical attacks upon Ford and Kissinger which finally precipitated his dismissal.

This international situation was obviously important within Ecuador. There can be little doubt that the American Embassy encouraged the Texas/Gulf consortium to take a hard line against Quito in general and against Jarrín in particular. However, the state of the world, and Ecuador's, oil market made such persuasion more than usually acceptable. Ecuador's relative tax position during 1974 is extremely complicated and quite impossible to evaluate without inside information. There were various nationalisations (total and partial) in the Middle East during 1973-4, and the resulting confusion between posted prices, buy back prices, auction prices and various other forms of price was almost total. By August 1974, even the Petroleum Intelligence Weekly was reduced to remarking that "it is almost impossible to sort out the world oil price structure at the moment".³⁵

By mid-1974, however, one thing was clear. The world market had changed from a condition of deficit (brought on by the Saudi Arabian cutback) to one of surplus. On June 27th, the Guardian reported that "a substantial surplus has already started to accumulate. Storage capacity is almost exhausted. Within the next few weeks, the oil companies expect to start cutting back the rate at which they ship oil from the producer countries". As if on cue in Ecuador,

at the end of June 1974, there were various breakages in the pipeline and the repairs held up production for more than a month, testing took several days more and, at the same time, the government faced its first pressures opposed to the increases in taxation decreed by the government.³⁶

This breakdown compared interestingly with an earlier pipeline breakdown - in May 1972 - when the damage was repaired within a week.

These international conditions need to be considered alongside the condition of Ecuador's domestic oil industry in 1974. Indeed, the transformation of relations between Jarrín and the consortium from the relative harmony of late 1973 (when the renegotiated contracts had been signed with the companies) to the outright antagonism of September 1974 almost certainly owed a great deal to domestic conditions. The change began in March 1974 when Cepe's offer of oil contracts, in preparation since the previous year, attracted a derisory response - with only Kopex and YPF applying for the available acreage. Since over 30 companies had earlier expressed interest, the circumstances seemed suspicious. Jarrín blamed Minas y Petróleos for organising a boycott and on March 7th he made public a communication from Minas which made his point. In the communication, Minas claimed that it still had rights to part of the acreage (which had been its former concession area, cancelled in March 1973 following Minas' refusal to pay the higher surface taxes decreed in June 1972) and threatened to sue anybody moving into it. Minas admitted that, at the end of February, it had sent a duplicate copy of this letter to all 35 pre-tendering companies.

Since Minas had spent quite heavily in this area and had indeed found what it believed to be commercial quantities of oil, it is not surprising that Minas' letter influenced the bidding. Certainly other, undisputed, territory was also put up for contract but this was geologically less promising. It is certainly probable that the terms themselves were not particularly attractive (although considerable scope was left for further negotiation) but there is no reason for believing that Jarrín intended the offer to fail in order to justify an intensive nationalist policy. On the contrary, Colonel Jaime Dueñas, the head of Cepe at the time, had been pressing for even harder terms, presumably for tactical reasons since Dueñas was not a figure noted for his nationalism.³⁷

Certainly, there is no doubt that Jarrín believed himself to be the target of a conspiracy. Thus, in March he attacked the press for its

comments and editorials which are written by agents of foreign interests, which, though apparently concerned with national problems, always try to keep Ecuador tied to the exploitation of the great international markets.³⁸

Moreover, this experience made him even more concerned with the values of conservation and nationalisation. Thus, he declared that

we need to undertake a serious analysis of the national oil industry, in order to redirect policy towards a strict conservation of resources, we should plan in accordance with the universal theme of not exploiting hydrocarbons for the sake of exploiting them, since the petroleum which remains conserved will have greater value in the future... the oil which there is in the Ecuadorian Oriente will not remain in the bowels of the earth, as certain interested parties pretend; Cepe will exploit it on its own.³⁹

This vigorous reaction brings out an important aspect of Jarrín's political approach. Whereas others might retreat under attack, in the hope of achieving their objectives by stealth or of securing a compromise, Jarrín reacted belligerently. Convinced that his days in office were in any case numbered, he tried to achieve the maximum in the shortest time possible. His concern was as much to change the mentality and consciousness of the military and the public administration in general, as to achieve longer-term political ambitions of his own.

This attitude once more brought Jarrín into conflict with Texas/Gulf for what proved to be the decisive encounter. After the contract of August 1973, the consortium had intended to increase its output to 400,000 b/d.⁴⁰ Jarrín, however, was less co-operative than the consortium hoped. Already his Ministry was becoming concerned with the way in which the fields were being operated, since Texaco had not only stopped exploration but had also cut down its field maintenance to the absolute minimum; officials feared that the fields might become irreversibly damaged.⁴¹ Thus, in early 1974, the companies

stated with interesting optimism that the final recoverable output from their reserves was of the order of 3,400 million barrels, and that they could plan a rate of production of 320,000 barrels a day if permission was given to them to increase output from the authorised rate of 250,000 barrels daily.⁴²

Of these 3,420 million barrels, however, only 1,726 million were proved. The consortium offered to develop the rest if they were allowed to expand production. Jarrín, however, insisted that they carry out sufficient development to prove these reserves before permission could be granted.⁴³ Clearly, Jarrín's requirements would have involved considerable delay at a time when prices were at a peak and when the companies were desperate to boost output as a result of supply cutbacks and political fears

in the Middle East. It is quite likely that it was this refusal which persuaded the companies that Jarrín was an irreconcilable enemy. Nor would their attitude have changed after May 22nd, when Jarrín ordered the consortium to cut back its production from 250,000 b/d to 210,000 b/d as a conservation measure. At the end of June, by which time Jarrín had again raised taxes (after the OPEC meeting of that month, he put up the royalty from 16% to 16.67%), the companies launched their counter-offensive.

Rather than go onto the defensive, Jarrín pressed on in the hope of achieving the maximum in the limited time remaining. In June, he was able to complete Cepe's purchase of 25% of Texas/Gulf and in the same month he pushed through a decree which authorised Cepe to take gradual control of the domestic market; 100% control was to be achieved in two years. In October, when on the point of dismissal, Jarrín sent "a signed bill to the Presidency for the purchase of up to 51% stock".⁴⁴ If implemented, this would have given Cepe control of investment decisions and would have reduced seriously the danger of a company boycott - although it is more likely that the proposed measure would have induced the companies to demand full scale nationalisation and thus led Jarrín into a showdown with his conservative opponents. In any case, he departed at the beginning of October and this proposal was quietly dropped.

Eventually, therefore, Jarrín's opponents proved too strong for him, and on October 4th he was removed from the government and sent as military attaché to the London Embassy. By this time, he was opposed by a number of old politicians, whose positions had been threatened by action taken by the government over the ADA concession and the state refinery. These had connections with much of the press which, traditionally close to the private sector, in any case resented Jarrín's attacks, was mistrustful of his radicalism and afraid of a confrontation with the companies and with Washington. Similar sentiments motivated the Ecuadorian business community; quite apart from its misgivings about the development of a more powerful and efficient state, it feared the short-term economic consequences of a serious conflict with the companies. To these open influences, which had to be somewhat muted for fear of encouraging pro-Jarrín sympathies within the military, must be added the more potent but quieter pressures working within the regime and within the army. There was an Israeli military mission in Ecuador which had already proved influential; during 1974 Jarrín had several times requested but been refused permission to visit Arab members of OPEC while several army officers paid semi-official visits to Israel. Indeed, the Ecuadorian government has continued to follow its traditional pro-Israeli line, voting against the famous "Zionism" resolution of 1975. Washington's influence is difficult to discern but was surely present; in 1974, the Nixon-Kissinger foreign policy continued largely uninvestigated and the CIA's

involvement in Chile had not yet come to light. Certainly, during 1974 a number of rumours circulated within the Ecuadorian Army to the effect that Washington would cut military aid unless Jarrín were removed from his post. Washington also had natural allies within the Ecuadorian foreign ministry whose traditionally pro-American outlook had been threatened by a man from outside the department.⁴⁵ Moreover, when pressure mounted, Rodríguez Lara began to weaken; he was said to be increasingly concerned about the prestige accruing to his "Super-minister" and he certainly proved willing to dispense with him when he appeared a liability.

Overall, therefore, both domestic and foreign influences seemed to be at work in removing Jarrín. His internal position was never so secure that he could survive a major crisis, although it had earlier proved sufficient to withstand the opposition of purely domestic conservatives. Indeed, it is notable that Jarrín's dismissal was precipitated by the rhetorical attacks which he made upon the American administration. El Tiempo explained that

Jarrín Ampudia, referring to the speech given by President Ford at the General Assembly of the United Nations, said that American pressures were unacceptable and that statements of a "neocolonialist" nature had been made obsolete by events. These declarations were received with concern in conservative circles which branded them as demagogic. On the other hand, these same circles have said that the Minister had put Leftists in his ministry. (6 October 1974).

Jarrín did maintain considerable support from those officers who were naturally sympathetic to a nationalist line and who believed that Ecuador had been put "on the map" by its participation in OPEC. His most valuable support, in fact, lay within the Navy and particularly with its head - Admiral Vásquez. These supporters did not have enough strength to protect Jarrín's position in October 1974 but they did make it difficult for the regime to repudiate his policies subsequently. Moreover, Rodríguez Lara had earlier taken care to present himself as a nationalist - when he opened the OPEC conference in Quito for example. Perhaps most important, however, was the fact that Jarrín's own boldness had made retreat difficult; his successors were always willing to make a few quiet concessions to the companies, but so much had happened that these were barely enough. The full restoration of "investor confidence" would have required an open capitulation from Quito, which the companies were not strong enough to force.

Once Jarrín had resigned, the companies tried to press their advantage. They were favoured by world market conditions and in particular by the growing surplus of crude oil which had become a glut by the middle of 1975. At the same time, the weakening world price, combined with Ecuador's fixed tax reference price, increasingly forced the hand of the companies; there is no reason to doubt company claims that their Ecuadorian profits in the mid-1974 - mid-1975 period were negligible or even negative. Moreover, Washington's interest in Ecuador, while somewhat diminished after the fall of Jarrín, had not disappeared entirely. This became clear when Washington raised the ADA question just after Jarrín's resignation.

The ADA concession, as we have seen, had been cancelled in November 1972 as a result of alleged irregularities and for the next two years no firm decision was made on the future of the area. With the fall of Jarrín, however, Washington believed that the time had come to settle the matter and, late in October 1974, sent Quito a note which called for a return of the concession to ADA.⁴⁶ The initiative met with a rebuff from Quito⁴⁷ and Ecuadorian policy remained unchanged. Indeed, Washington's note appears to have stemmed from a remarkable ignorance of Ecuador. Jarrín, while a nationalist in other matters, had never been a hard-liner on ADA; even in 1972 he had recommended that compensation be paid to ADA but was overruled by the government.⁴⁸ Subsequently, he had tried to renegotiate the terms of the ADA concession with Phillips Petroleum (which had bought its way into the concession after it had been issued, and so was not concerned with its original acquisition) and in 1974 three times presented revised terms to the Council of Ministers, only to have them rejected; the regime was afraid of possible political scandal.

Washington's relations with Quito did not improve at the beginning of 1975 when it issued its Trade Act denying tariff concessions to those Third World countries which were members of OPEC. Although it appears that this law was essentially aimed at the Middle East, it certainly had its effect in Quito. Here some pressed for the withdrawal of Ecuador from OPEC, but others reacted against yet another manifestation of "big stick" diplomacy. In January 1975, Washington also made it clear that it viewed with misgiving continued loans from the international agencies to members of OPEC - even the poorer ones.⁴⁹ Nor did Washington's position in Ecuador improve when Agee's book (Inside the Company) was published in January 1975, providing an account of CIA activities in Ecuador in 1960-2, citing a number of well-known Ecuadorians as CIA agents and recounting some of the CIA's methods of putting pressure on the government.

Overall, it is likely that Washington's intransigence during the period was counter-productive. Quito was undoubtedly willing to make a number of relatively minor concessions to the companies

in order to get activity moving again, but Washington's position made it increasingly difficult to do this without admitting defeat and, despite the removal of Jarrín, Ecuadorian nationalists at the beginning of 1975 were far from being defeated.

Nevertheless, Quito was willing to make some concessions to the companies in order to try to secure a resumption of exploration. The first of these was its decision not to increase its price level in line with OPEC recommendations at the beginning of 1975. However, with world demand continuing to fall, this was not enough and further price reductions appeared to be in prospect. Thus, according to the New York Times on February 25th, "Ecuador ...is likely to cut the price of crude within the next few weeks, following several months of strong pressure by United States petroleum companies". In the same month, the Ecuadorian Finance Minister predicted serious economic consequences if the oil price was not cut. As the Quito government continued to hold out, company pressure intensified. On March 19th, representatives of Texas/Gulf met Rodríguez Lara and threatened to pull out unless three demands were met: the tax reference price was to be cut from US \$13.70 to US \$10.25, the domestic selling price was to be raised, and companies were to be paid US \$59.2m. which they said was owing as a result of local purchases by Cepe, Cepe's purchase of 25% of the consortium, and the Central Bank's delayed repayment of money which the companies had banked in Ecuador.⁵⁰

It is clear that the growing world surplus of oil was sharply changing the balance of power between government and companies. If the Ecuadorian government could not market its oil, nationalisation was an empty threat. If the companies did not need Ecuador's oil supply, they could afford to threaten to pull out, while adding to the pressure by cutting back production. In any case, the government was in no position to nationalise for technical reasons - it was still building up its own expertise. At the same time, three years of rapid economic growth had left Quito more dependant than ever upon a secure source of revenue and thus more vulnerable than ever to company pressure. In the first six months of 1975, Ecuador ran a trade deficit of US \$150m., with oil exports down to US \$213m. (from US \$430m. in the first half of 1974) and total imports up 69% from a year earlier. The oil honeymoon period was over.

These reductions in income were particularly serious because of the weakness of the government's political base. Certainly, in 1975, the civilian Right began to recover confidence. In May 1975, Camilo Ponce and Carlos Julio Arosemena (two civilian ex-Presidents) formed a Frente Cívico to oppose the Junta, in what was a deliberate carbon copy of the successful anti-military campaign in 1966. Unlike 1966, however, the fight had not yet gone from the military, among whom there were still influential nationalists. The most prominent of these was Admiral Vásquez who circulated a report on 18th May 1975 which argued that Ecuador should "act in close harmony with the marketing policy

decided by OPEC",⁵¹ and should also look for new markets within Latin America. Among other points, he argued that

It is crucial to maintain price levels and increase state participation in the profits of the companies by means of a vigorous OPEC policy which should bring supply and demand for oil into balance on the world market and guarantee the conquests which the country has already made in this matter.⁵²

Nevertheless, the nationalists could do no more than mount a blocking and delaying action, as the government gradually responded to the pressures placed upon it. Already, in March, the government had decided not to press ahead with the takeover of 51% of the consortium after the latter had threatened to pull out. Even so, the government appeared to oscillate between promising concessions to the companies and threatening them with sanctions if they did not increase their liftings. Thus, on April 14th, the government ordered the companies to maintain a level of production of 210,000 b/d and gave Cepe the right to take its 25% of this maximum figure rather than of the actual levels of production achieved. In fact Cepe found little difficulty in selling its 25% share of consortium oil, although most of its outlets were on the cheaper West Coast whereas most company oil had to take the more expensive route through the Panama Canal to the Caribbean. The contrast between Cepe's and the companies' sales was certainly marked in Ecuador, where El Universo editorialised on May 15th that

The government must use its full authority and defend the principle that contractual obligations should be carried out by Texaco and Gulf since it is alarming to hear that Cepe is selling its oil normally on the world market.

However, the majority of the government remained convinced that some further concessions would have to be made to the consortium. Their rationale for doing so was set out in a speech by the Natural Resources Minister, Admiral Salazar, given on May 26th. According to Salazar, Ecuador's proved reserves amounted to some 1,5 billion barrels, which would permit present levels of oil output to continue only up to 1981. Meanwhile, domestic consumption was increasing, cutting into the exportable surplus. Thus, concessions were needed in order to encourage a resumption of investment activity.

It would not be surprising if many of these reserve figures were found to come directly from the companies themselves, who were now interested in naming as low a figure as possible. Certainly Ecuador seemed to have "lost" a lot of oil since early 1974, when Texas/Gulf told Jarrín that reserves amounted to 3.4 billion barrels. Of course, the different figures reflected

different calculations, and 1.5 billion barrels might have been realistic under the assumption that no work at all was done on the fields. However, Ecuador's real problem was not one of "fifteen years hence", but rather of immediate liftings and the immediate balance of payments. The government itself was well aware of this, and the emphasis on long-term planning seems to have been no more than an attempt to disguise its retreat.

The question of OPEC was also important. As we have seen, Ecuador's membership of OPEC was a matter for strong conservative criticism and, in the early part of 1975, such criticism appeared to be justified. The world oil surplus increased substantially and it appeared to many that the price of oil was on its way down. Washington was continuing its diplomatic effort to bring about such a decline and the future of OPEC itself seemed in the balance. Thus, even as a small producer, Ecuador had a significant part to play in the world market. A sharp price cut, possibly coupled with a withdrawal from OPEC, would amount to a sharp psychological blow against the organisation and would put more direct pressure on Venezuela.

Rodríguez Lara, however, was extremely reluctant to take this path. He had opened the OPEC conference in Quito in the previous year and had associated himself closely with nationalistic oil policies when the political cost was low. Total withdrawal, therefore, would have been a severe, possibly fatal, blow to his credibility. At the same time, however, a continuing fiscal crisis brought more immediate threats. As a possible escape hatch, Ecuador at the beginning of 1975 sought a large low-interest loan from OPEC; this application had Venezuelan support and was initially regarded favourably by a number of other countries. By June, however, OPEC interest had lessened; it was now increasingly clear that Saudi Arabia was willing to sustain the oil price by restricting its own production and consequently, from the perspective of the Middle East, Ecuador again came to appear a small, peripheral and generally unimportant producer. Thus, at the June meeting of OPEC, no loan was offered and almost immediately afterwards Ecuador cut its tax take by 43c a barrel (on 28 degrees API crude); this fell from US \$10.84 to US \$10.41.

This price cut, however, was very much a compromise. The government claimed that it followed OPEC guidelines and both the Venezuelans and the domestic nationalists soft-pedalled their opposition. The reduction was sufficient to get exports back up towards 210,000 b/d, but was not enough to induce the consortium to resume investment; in August, Bucaram of Texaco was publicly pressing for a new tax cut.⁵³ Indeed, the government appeared willing to make further concessions to the companies later in the year.

At the end of September, the regime was able to put down a bitterly fought coup attempt, involving a Right-wing General,

the Frente Cívico and the major political parties; the precipitating factor for the coup was apparently the regime's imposition of import restrictions on a number of luxury goods, in response to the worsening balance of payments position. Under these circumstances, it is not surprising that the government renewed negotiations with the companies in September, when Admiral Salazar was replaced as Natural Resources Minister by Colonel Jaime Dueñas, an ex-head of Cepe whose differences with Admiral Jarrín had been well publicised. Accordingly, the government decided, in October, not to implement the full 10% price increase decided upon by OPEC during the previous month; this decision was presaged by Dueñas' remarks in September that, while Ecuador would remain a member of OPEC, it would "accept the decisions of OPEC as suggestions, but not as orders".⁵⁴ In fact, the final price increase was around 6% although some sections of the government wanted even less.⁵⁵ For the rest of the year, negotiations continued, but no final agreement could be reached, largely because of the increasingly obvious differences within the government itself.

1976. The Consortium Splits

By the end of 1975, the worst international storm had disappeared. By then, the survival of OPEC appeared guaranteed by Saudi Arabian willingness to cut back production, and the price increase of September 1975, together with the increase in world demand in the second half of that year, made it clear that the worst was over for the oil producers. Moreover, Ecuador had now decisively removed itself from the centre of world events - the fall of Jarrín and the price cut of July 1975 had ended Quito's brief flirtation with the Third World movement and foreign policy returned to a modified pro-American line. However, politics within Ecuador were less clearly defined; the military conservatives had increased their power considerably during 1975 but the supporters of Jarrín were still quietly influential. The decisive domestic political battle had still to be fought.

The coup of January 1976 was generally seen as a move to the Right, although the regime promised to maintain essential continuity with its predecessor and to go ahead with elections which were to have been held at the end of 1977 (and which are now scheduled for 1978). The head of the Junta, Admiral Poveda, was widely seen as pro-American and the senior army officer, General Durán, was similarly conservative. The continuing strength of the nationalists, however, could be seen in the appointment of Colonel René Vargas, ex-head of Cepe and a close friend of Jarrín, to the Natural Resources Ministry in place of Dueñas, whose re-appointment had been widely expected. As would soon become apparent, however, Colonel Vargas had views on oil

which were somewhat different from those of his superiors.

A striking feature of the first few months of 1976 was the recovery of voice and confidence by the business community, which now felt it had the opportunity of coming to terms with the regime. Businessmen were concerned with oil in two ways; on the one hand, a constant flow of oil revenue fed its way into domestic demand and profits, while, on the other, oil revenue increased the power of the state and thus the threat of unwelcome government policy. In 1973 and 1974, when manufacturing grew by 7.8% and 11.6% respectively, a general sense of wellbeing tended to quieten protest, although even then there were misgivings that the state might use its oil revenues in various unwelcome ways.⁵⁶ The anxieties and new taxes of 1975, however, although they did little to slow down economic activity (manufacturing grew at 12.5% in 1975), proved that oil abundance did not, of itself, guarantee the prosperity of the private sector.

Thus, at the beginning of 1976, a co-ordinated series of statements were put out by various heads of commercial or industrial chambers, all to much the same effect. They argued that the cut in export revenues of 1975 should have taught the government that extreme nationalism did not pay, and that a careful conservative policy was required to encourage investment in oil exploration and thus maintain the flow of oil revenue. Moreover, the private sector was equally critical of what they saw as the growing state control of the economy; and Cepe increasingly found itself as a focal point of such criticism.

Cepe's existence was not controversial. Indeed, the creation of the company had first been proposed by the military junta of 1963-6, and every subsequent government had at least played lip service to the idea before Cepe was finally set up in 1972. Moreover, there was little disagreement about Cepe's initial steps - including the takeover of a number of old coastal oilfields whose concessions had lapsed, the drafting of service contracts and the planning of a state refinery at Esmeraldas. However, as the share of oil revenue diverted to Cepe increased, and as its organisational and technical problems became more apparent, so criticism mounted.

Cepe's position was particularly important in that a state oil company was the only possible alternative to the foreign companies and thus a possible instrument for nationalisation. For this reason, Cepe was strongly defended by the nationalists and regarded with suspicion by the conservatives. The extent of this suspicion can be seen by the response to a contract signed between Cepe and ROMPETROL. This controversy was initiated by the Washington Star on 19th April 1976, which reported, à propos of nothing in particular, that Washington viewed with alarm this contract (which had initially been signed in May 1975, when it attracted little attention) since it increased Communist

influence in Latin American oil. The story appears to have been drafted as part of a carefully timed move to put pressure on the Ecuadorian government now that negotiations with the Texas/Gulf consortium were once again reaching a crucial stage. This article provided a cue for Ecuadorian conservatives to attack the government and demand the cancellation of the contract which the government eventually agreed to do. While of no great intrinsic importance, this incident illustrates the extent to which Ecuadorian conservatives were willing to follow a lead from Washington in order to attack a government which could no longer be described as particularly radical or threatening to conservative interests.

Certainly there were many serious problems with Cepe. It had expanded too fast, in too many different directions, and with too little conception of its own role. Nationalists pressed for an extension of its responsibilities into activities for which it was ill equipped (its takeover of all internal distribution in June 1976 was accompanied by widespread gasoline shortages), while conservatives seemed far more ready to criticise and attack the company than to suggest how it should be improved. Such criticism led to a defensive reaction by Cepe which resulted in further bureaucratisation and inefficiency. Essentially, for as long as Cepe was a political issue, under attack from vocal opponents and half-heartedly defended by a weak and divided government, there was very little chance that it would learn to operate effectively. However, until there could be some solution to the conflict between Quito and the consortium, Cepe, as a potential instrument of nationalisation, was certain to be at the forefront of the political stage. This impasse was only partially broken at the end of 1976 with the nationalisation of Gulf.

Indeed, the conflict between Gulf Oil and the Ecuadorian government was the major feature of 1976. It was accompanied by a growing difference in outlook between the two companies of the consortium. Texaco was more accommodating than Gulf, partly because it sold Ecuadorian oil directly to its own subsidiary and so could charge itself whatever prices were most convenient whereas Gulf had to sell on the open market. There may also have been more subjective reasons. The head of Texaco's operation, René Bucaram, had earlier worked in the government bureaucracy and continued to enjoy good relations with many of its members, some of whom seemed to derive their whole knowledge of the industry from what they were told by the companies. Accordingly, it is possible that Texaco picked up the importance of the 1976 coup and the military's gradual move to the Right more quickly than did Gulf.

In any case, for whatever reasons, even after the tax reductions of 1975, Gulf remained unhappy with its operations in Ecuador; it measured its rate of return as little better than

5% as against the 15-20% that would have been satisfactory.⁵⁷ Consequently, it was prepared to take a hard line in 1976, with the option of pulling out if its demands were not met.

The regime was apparently prepared to consider satisfying the companies, provided that this could be done reasonably cheaply. It began by trying to find out what Texas/Gulf's terms were. They were not left in doubt for long. It was reliably reported that in March the companies demanded a further fall in the tax reference price together with a further reduction in taxation. They wanted an extra 50c. a barrel profit if they were to resume the investment in their existing fields, and a further 50c. a barrel if they were to develop new areas.

Although these terms were not acceptable, further negotiations continued behind the scenes. Ostensibly, complete breakdown had taken place in March, and reports by the Petroleum Intelligence Weekly (8th March) and Platt's Oilgram (17th March) stated that the companies preferred nationalisation to their existing position. However, this did not prevent the consortium from asking in May for an increase of 10c. a barrel in the cost allowed against tax, and promising that, if this was granted, they would embark on a programme of "reconditioning" the wells in the concession area, as set out by a study drawn up in March.⁵⁸ Although this request was granted at the end of May, it was clearly not enough, and, on July 27th, the Financial Times reported that

although Texaco and Gulf have consistently denied that they would like to get out of Ecuador, it is an open secret that they have been discussing nationalisation terms with the military.

Meanwhile, the government itself was divided over the oil issue. Colonel Vargas had presented a report to the government in March 1976 which responded to the consortium's call for a US \$1.05 tax reduction by calling for nationalisation. In a detailed presentation, he explored the possibilities of nationalisation with compensation coupled with a short-term management contract with Texaco, and claimed that nationalisation could be made profitable if the oil were to be sold to other Latin American countries. The revenue thus generated could be used to finance the required re-investment in exploration. While this programme was not regarded with much enthusiasm within a cautious and conservative Junta, it was impossible for the regime to reject this position out of hand. Nationalisation, therefore, remained on the agenda; as the Financial Times put it,

though internal divergences among the military have so far prevented any direct move to oust the Junta, many people feel that its prestige has fallen so low that such a step [nationalisation] seems almost inevitable. In particular, a group

of progressive army colonels is making its influence felt in the political arena. Even if the Junta would like to remove Colonel Vargas and the head of Cepe, Colonel Luis Piñeros, for their radical attitudes, the repercussions might cause its own demise.⁵⁹

Moreover, by mid-1976, Jarrín had returned from his diplomatic post in London and, in June, he launched a strong defence of his own and Colonel Vargas' position at the University of Guayaquil. However, despite (or because of) these pressures, the regime still found itself unable to take a decision.

The storm finally broke at the end of July 1976 when Gulf, now determined to get itself nationalised, sued Arco for receiving Cepe's crude which according to Gulf, in reality belonged to the consortium (Texaco meanwhile emphasised that it had nothing to do with the dispute). The conflict went back to Decree 285 of 14th April 1975, according to which Cepe's 25% share of the consortium entitled it to receive 25% of authorised production of 210,000 b/d, and not of actual production. The aim of the law had been to free Cepe from the semi-boycott organised by Texas/Gulf in early 1975 but by mid-1976, Cepe was selling oil at a marginally better rate than the consortium and was anxious to maximise its sales.

On August 31st, Gulf went further and demanded its own nationalisation. Piñeros, the head of Cepe, immediately demanded that Gulf deposit in the Central Bank a figure corresponding to oil exports between February and August which had not been paid (although leave of 120 days was generally given for this). Gulf's move did finally unite the government and, on September 7th, Colonel Vargas announced that Cepe was negotiating for Gulf's share of the consortium. Vargas also claimed that Gulf owed US \$32m. in backpayments and further demanded that payment should be made within 30 days if Gulf was not to be confiscated.

Even at this point, conservatives still mistrusted the direction of government policy, even though the regime had obviously been forced into nationalisation by Gulf and had no particular enthusiasm for the step. Consequently the regime felt it necessary to prevent the nationalist issue spinning out of control, and was therefore determined to avoid making political capital out of nationalisation or even turning it into a political issue. Thus, it discouraged the formation of a pro-nationalisation pressure group and, in August, banned a proposed "march for the nationalisation of oil". Moreover, Colonel Vargas, who had earlier tried to attract civilian support for a nationalist oil policy⁶⁰, was kept out of the decision-making process as far as possible. In September, when the government responded to Gulf's payment of its debts by setting up a special commission to discuss compensation, Vargas was excluded - all the more remarkably in view of the fact that the commission included several

representatives from Cepe and participation from the Central Bank and the Procuraduría. Negotiations in fact continued on a low-key note until a working agreement was reached in December. According to this, Gulf would receive US \$82m. and the difference between this sum (the government's valuation) and Gulf's valuation of US \$117.5 m., would be decided upon by a group of accountants acceptable to both sides. Although there were a few loose ends which still needed to be tidied up, Gulf's assets passed under the control of Cepe which now had 62.5% of the consortium.

Conclusions

By the end of 1976, the military radicals had been defeated politically; a conservative regime, under full control, was paving the new way for elections to be held in 1978. Oil policy similarly changed; Cepe (now 62.5% owner of the consortium) reached a new series of agreements with Texaco that were expected to lead to a considerable increase in production over the next few years. New legislation was planned to end Cepe's marketing monopoly, and to restrict its activities to production and refining. When one considers broader questions, it is tempting to quote from Fitch's conclusions regarding an earlier phase of Ecuadorian history,

after more than three decades of modernisation, the basic social structure remains intact, the economy remains wedded to externally controlled markets for primary products, and the political system still lacks legitimacy and institutions capable of mobilising support on a sustained basis.⁶¹

Indeed, like the 1963-66 government, the Rodríguez Lara regime was "stranded between its adherence to reformist principles and its desire to be an accepted and 'democratic' leadership".⁶² Much, therefore, remains the same.

On the other hand, any evaluation of this period must take into account the cohesion and strength of conservative opposition. Moreover, it is clear that Washington played an important part in this, through its military connexions (and Israeli ones, which would surely not have existed but for American support), through the real economic power possessed by an oil consortium with close Embassy connexions and given the extent to which domestic conservatives were willing to follow a lead from Washington. While American support for domestic conservatives was occasionally blundering, it was often effective and did play an important part in averting the immediate threat to their interests posed by the sudden increase in oil revenue and the consequent

increase in the independence of the Ecuadorian state.

Perhaps the most interesting feature of the period, however, was not the eventual defeat of the radical challenge but rather the challenge itself and the extent to which it was successful. Although they eventually lost office, Jarrín and Vargas had helped put through major changes in the Ecuadorian oil industry. In February 1972, Cepe had not even been properly created. By 1977, however, it had taken responsibility for 62.5% of the consortium's production, was undertaking its own exploration efforts, had almost completed a major refinery and had taken a monopoly of the internal distribution system. While Cepe's own management had not inspired a great deal of confidence, the state company had at least established itself as a possible alternative to the multinationals, and there was no reason to doubt that its efficiency would increase with time.

Moreover, membership of OPEC was a new factor in Ecuador's outlook. Even though Quito has retreated from the extremely active role played by Jarrín, it has not withdrawn from membership and it is likely that OPEC's expertise and general outlook will continue to have some effect on the position of the Ecuadorian government. This influence may only be to accelerate changes that would have taken place in any event, but Jarrín's brief though important role in OPEC's assertion of Third World solidarity is likely to have long-term effects on Ecuador through its impact upon the consciousness of the younger officers.

It is also true that, in many ways, Ecuador passed through these dramatic years very successfully, with its own indecisiveness at times rebounding to its advantage. Thus, in 1975, the government's indecision and drift were probably more successful in the long run than either total intransigence or capitulation would have been. Similarly, in 1976, the Gulf nationalisation was essentially forced upon Quito, but was highly advantageous to it, both because it gave Cepe more power without a drastic increase in responsibilities, and because it made it easier to deal with Texaco once its more intransigent partner had disappeared. However, this indecision served to obscure the long-term direction of Ecuadorian policy (no doubt greatly to the relief of the participants themselves), and it may be years before this is entirely clear.

The future, however, will largely be determined by the patterns of political organisation which may be thrown up by the new oil wealth. It is unlikely that politics can long continue to be fragmented, personalist and clientelistic now that the central government is in possession of a major source of revenue over which the main social groupings within the country have little control. It is almost inevitable that some major political figure or organisation will use this wealth to build up an effective clientele whose political reliability can be assured. One possibility is that the new centre-left parties will succeed

in building up a base around the promise of a more organised "welfare" politics (on the Venezuelan pattern) with the oil revenue used to create and solidify popular organisations and with the oil industry being regarded as a source of finance for semi-reformist policies. In such an event, a modus vivendi with the companies and Washington would be likely. It is also possible, however, that if the return to civilian government expected in 1978 fails to produce any transformation to a more organisational form of politics, then a new military government will take power, and will try to carry further the policies of Jarrín and Colonel Vargas by moving towards full nationalisation, possibly coupled with a more determined form of radical-populism than we have yet seen. It must be said, therefore, that the full significance of the 1972-6 period will not be clear until the longer-term political developments have a chance to work themselves out.

NOTES

1. I wish to thank David Corkill and David Goodman for their help in the preparation of this paper.
2. Jarrín speech to OPEC assembly, 15 June 1974.
3. Interview with Admiral Jarrín, Quito, August 1977.
4. Quoted in the World Bank, Current Position and Economic Prospects of Ecuador, 1973.
5. See New York Times, 16 May 1972.
6. JuntaPlan Book 3 Part 2; Programa de Desarrollo del Petróleo. (1966?).
7. World Bank, op.cit. 1976.
8. See O. Hurtado, El Poder Político en el Ecuador. (Quito, 1977)
9. World Bank, 1974.
10. J.S. Fitch. The Military Coup d'Etat as a Political Process; Ecuador 1948-66. (Johns Hopkins; 1977). p.150.
11. Fitch, ibid; on which the rest of this paragraph is based.
12. See D. Corkill, "The Political Impact of Oil in Ecuador; the Rodríguez Lara regime; 1972-6". (mimeo, Manchester; 1977), pp.8-9.
13. Fitch, pp.179-81. He adds that "for most officers, Bucaram was important only as an indication of the failure of the civilian regime to offer any prospects for anything but a continuation of some disorganised, ill-planned and frequently corrupt politics that characterised the Velasco administration". (pp.180-1).
14. The most notable of the foreigners were Salas, a Chilean who had worked with Enap for twenty-four years, and Mariaca Bilbao who had been both Bolivian Minister of Hydrocarbons and head of the state oil company, YPFB.
15. World Bank, 1974. pp.8-9.

16. Interview with Lucho Arrauz, Quito, August 1977.
17. These included laws covering water resources, fisheries and minerals. Jarrín also played an important part in the drafting of the 1973-7 economic plan. Within the oil sector, Jarrín also controversially cancelled a refinery contract awarded by the previous government on the grounds that no feasibility study had been made.
18. Interview data.
19. Speech to the Universidad Central de Guayaquil, 6 June 1976.
20. Financial Times, 23 February 1973.
21. Interview data.
22. The best financial study of the oil industry is that of R. Sagasti "Análisis Económico de la Actividad Petrolera en Ecuador". (Ph.D. Quito; 1974).
23. World Bank, 1973. p.15.
24. Interview data.
25. See Sagasti. op.cit.
26. World Bank, 1976. p.8.
27. Rodríguez Lara. Informe a la Nación. February 1975.
28. Interview data.
29. Financial Times, 22 December 1977.
30. New York Times, 19 July 1974.
31. New York Times, 21 July 1974.
32. Quoted in El Comercio, Quito, 13 July 1974.
33. See Financial Times, 2 September 1974.
34. Quoted in the New York Times, 29 September 1974.
35. Quoted in the New York Times, 15 August 1974.
36. Jarrín speech to the Universidad Central de Guayaquil, 6 June 1976.
37. See Latin America, 19 October 1973.

38. Quoted in El Comercio, 7 March 1974.
39. Quoted in Ficha de Información Socio-Política, March 1974. pp.6-7. (Universidad La Católica, Quito).
40. El Telégrafo, 22 December 1973.
41. I discussed this question with a visiting academic petroleum engineer who told me that, although it was true that Texas/Gulf were exploiting their fields as cheaply as possible, Ecuadorian fields were such that no permanent damage was likely to result. It is possible that the Ministry's fears were somewhat exaggerated.
42. Jarrín, op.cit. 6 June 1976.
43. Interview data.
44. Weekly Analysis, 21 April 1976.
45. Jarrín recalled that, when he went to give a presentation at the U.N. in 1974, he was snubbed by Ecuador's permanent officials there.
46. Expreso, 5 November 1974.
47. El Comercio, 6 November 1974.
48. Interview data.
49. Washington Post, 8 January 1975.
50. According to Ecuadorian law, all revenue earned by Texas/Gulf had to be paid into the Central Bank in Quito, which would then return what it owed to the companies. The companies complained that the money was often returned late and that some of it was not returned at all.
51. Quoted in the Universidad Central, Documentos Fundamentales, p.16.
52. ibid. p.118.
53. El Universo, 22 August 1975.
54. El Comercio, 16 September 1975.
55. See Weekly Analysis, 7 November 1975.

56. As early as 11th February 1973, the NYT reported that "many businessmen fear that the oil resources will lead to the application of populist measures, such as agrarian reform".
57. Interview data.
58. El Tiempo, 18 May 1976.
59. 27 July 1976.
60. On March 16th 1976, Vargas met various university and other representatives and they discussed the formation of "a broad front, only loosely connected with (al margen de) ideological positions, in order to support an eventual decision by the government to take full control of oil developments in the Oriente". El Comercio, 17 March 1976.
61. Fitch. op.cit. p.169.
62. ibid. p.68.

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