

Ecuador protests and PETROECUADOR force majeure. A clear case of political risks impacting oil industry.

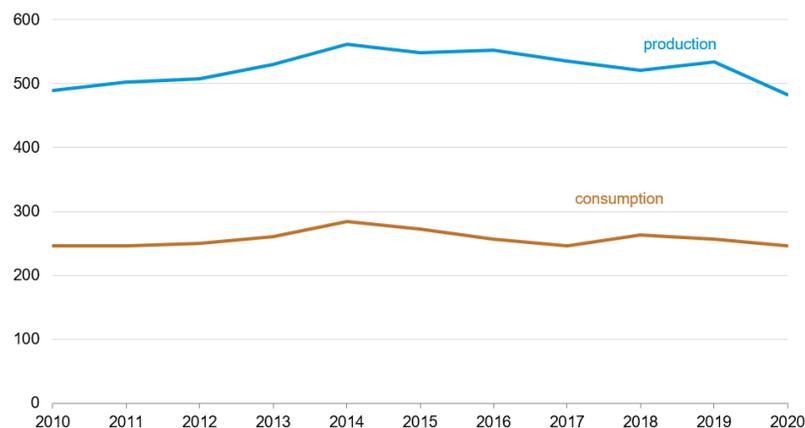
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Ecuador has been experiencing a wave of protests shaking specifically 3 indigenous provinces of Cotopaxi, Imbabura y Pichincha and including the capital Quito in the last recent days prompted by the severe consequences left by the pandemic of the covid19, impoverishment and the recent raising costs of food and fuel which has prompted the government of Guillermo Lasso to declare a state of emergency while also causing the state oil company PETROECUADOR to declare a force majeure since last Saturday 18th on all its operations due to the different roadblocks in one of the most severe crisis facing the current government while also remembering that Ecuador was one of the worst hit countries by the pandemic in South America.

Regarding the situation of the force majeure declared by PETROECUADOR, according to the official statement by the state oil company, it has been imposed on all the phases of the chain of value of production, trading and transportation causing so far the loss of around 6.975 barrels and also a halt of some drilling operations as the protesters also demand a halt of the different oil and mining projects in the country and more support to the payment of bank loans by the government as fuel prices have soared in recent months, just as Ecuador through its state oil company have been seeing their oil production drop significantly now averaging 400.000 barrels per day and with reserves of around 8.2 MMBB, as consequences of the different consequences left by the pandemic on the country impacting new projects and investments in its oil industry.

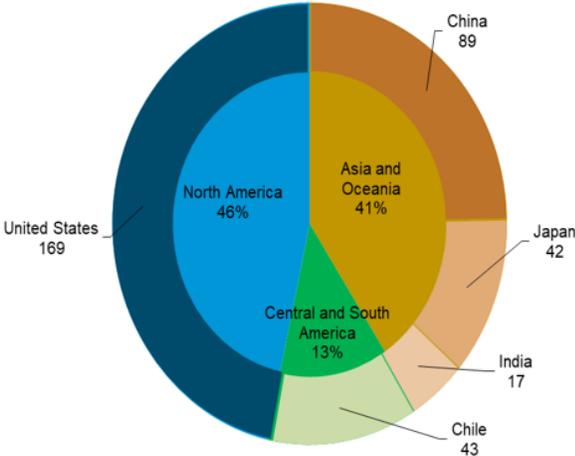
Figure 2. Ecuador' total petroleum and other liquids production and consumption (2010-2020)
thousand barrels per day



In this sense, it's important to mention that fuel prices in Ecuador have seen a sharp spike since 2020, almost doubling for diesel from \$1 (€0.95) to \$1.90 per gallon (3.8 liters) while petrol has risen from \$1.75 to \$2.55 and where as part of a list of 10 demands by the entity organizing the protests, the CONAIE (Confederation of Indigenous Nationalities of Ecuador), it is requesting the fuel rates to be slashed to \$1.50 for diesel and \$2.10 for petrol, a demand that the government has rejected so far while the administration of the rightist Guillermo Lasso seemingly has been losing popular approval ratings in the last months after it arrived to power in a country also impacted by the influence of progressive and leftist ideologies after the past government of Rafael Correa now experiencing an important acute crisis specifically hitting its oil industry.

Also speaking about the importance and criticality of these protests and the declaration of force majeure by PETROECUADOR on all its operations including exports, it's worth pointing out that Ecuador has its main destinations for its oil exports China, the U.S., Panama, exporting around 300.000 barrels in average where around 50% of the country's incomes come from oil exports revenues, in a landscape with the strong participation of the state company PETROECUADOR in partnership with foreign oil companies such as the Spanish REPSOL, one of the largest investor; PETROBRAS, the Chinese CNPC, also Venezuela's PDVSA used to have participation in operating drilling rigs before the arrival of the current government of Lasso during the former ruling of Rafael Correa, being Ecuador the 3rd oil reserve despite its currently dropping production and its recent exit from OPEC.

Figure 3. Ecuador's crude oil exports by destination, 2020
thousand barrels per day



Source: Chart by U.S. Energy Information Administration, based on Ecuadorian export statistics and partner country import statistics from Global Trade Tracker

Therefore, the events unfolding in Ecuador in general regarding the social unrests and the people demands of better wages and against rising fuel prices point out a clear trend that could spiral out of control in the rest of South America as the war in Ukraine continues sending important consequences on the prices of energy and food while the issue of force majeure declaration by PETROECUADOR represents another flashpoint and another chapter of oil facilities blockades hitting supplies similar to the case of Libya as the most recent and still ongoing where different key oil ports and fields have been blocked by protesters as the global oil and landscape continues to be impacted by shortages or interruption of supplies in moments when its mostly needed more barrels to a tight market and of record high prices while clearly representing a case of political and social risks and events impacting the oil and gas business.