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Pipelines and Politics in Ecuador

Michelle Maloney

Oil production in Ecuador has been something of a mixed blessing. While bringing economic benefits to some groups, it has brought pollution and population decline to others. Despite the many negative impacts oil development has had in Ecuador, the government has decided to facilitate an increase in production through the construction of a second pipeline, allowing for a greater volume of oil to be exported. This article will examine the potential impacts of the construction of the new pipeline, the Oleoducto de Crudos Pesados (O.C.P), by a...
environmental concerns associated with the consortium of multinational oil companies. It will begin with a brief discussion of Ecuador and its oil industry. It will then discuss the pipeline consortium, and the social and environmental concerns associated with the project. A brief discussion of transnational alliances and their significance in the processes of resistance to the pipeline will conclude this article. Its purpose is to discuss the contradictions of economic development for Ecuador, and to illustrate the different kinds of external pressures and/or support brought to bear on various Ecuadorian social actors.

Ecuador is a small country located on the Western coast of South America. It is bordered to the north by Colombia, and to the south and east by Peru. Geographically speaking, the country is internally divided into three areas: the coastal lowlands, the sierra or Andes, and the Oriente, or Amazon basin. The rainforests of the Oriente occupy 13 million hectares (Kimerling 1991:849) and are home to some 350,000 to 500,000 indigenous peoples. Government policy has consistently viewed the Oriente as a frontier land, to be explored and conquered, tamed and exploited (Kimerling 1996:6). Despite its ecological fragility, the Oriente has been the major site of oil exploration and exploitation in Ecuador for the last thirty years.

The Ecuadorian oil industry began in 1967 with the discovery of oil in the Oriente by a Texaco-Gulf consortium (Kimerling 1991:857). The government and the consortium collaborated to ensure the development of the oil industry. In the early 1970s, Ecuador’s revenue rose dramatically due to large amounts of oil exports, and high world prices associated with the oil crisis and the O.P.E.C embargo (Philip 1982:280). However, by the mid-1970s, there was a fall in world oil prices. Conflicts between multinationals, and an increasingly nationalistic oil policy (Conaghan 1988:109), including the formation of the state oil company, decreased Ecuador’s oil exports. After the return to democracy in the late 1970s, governments undertook policy changes that modified the tax code to attract multinational investment, which allowed for further development of the industry. The state oil company, PetroEcuador, currently owns and operates the existing pipeline, known as S.O.T.E (Sistema Oleoducto TransEcuatoriana). The Amazon has been divided on paper into areas known as concession blocks, which are auctioned off periodically to multinational oil companies, who explore and drill for the oil. They then pay PetroEcuador a transport fee for the use of the pipeline (Toronto Environment Alliance 2002) to transport their product from the Lago Agrio terminal in the Amazon, over the Andes, to the port of Esmeraldas, where the refinery is located. The oil industry has provided many benefits to Ecuador’s economy; indeed, it is perhaps the country’s most important export product by value. However, the industry has also brought many hardships to the people and the ecosystem of the Amazon.

Setting up operations for oil production is immensely damaging to fragile ecosystems. Exploration requires the creation of seismic grids and access roads; production demands wells, waste pits, and pumping stations. To illustrate the impacts of oil production in the region, I will relate to you the effects of Texaco’s operations in the Amazon from 1967 to 1992. Texaco was responsible for the construction of the terminal at Lago Agrio, as well as S.O.T.E. They provided minimal resources for maintenance of the pipeline and for cleanup. When a rupture occurred, it could take days for the affected section to empty itself, due to the spacing of shut-off valves (Kimerling 1991:872). Spills from the pipeline during Texaco’s control totalled 16.8 million gallons (Switkes 1994:7) – 1.5 times the amount spilled from the Exxon Valdez. Texaco was also responsible for the construction of production facilities, including wells. Their first well was located in the heart of Cofán territory (www.texacorainforest.com). When Texaco pulled out of operations in 1992, they left behind 1,000 uncovered waste pits, 20 million gallons of toxic wastewater, and 4 million barrels of drilling mud (Switkes 1994:7). The environmental impacts of Texaco’s operations directly affected the health status of the Cofán people, who were reduced in number from 3000 to some 300 individuals. These circumstances are not unique to Texaco – almost every other oil operation has had similar impacts on the people and the environment. Thus, it is apparent that Ecuador’s history with oil has been a mixed blessing – economically it has generated substantial revenues for the state, but it has had high social and environmental costs.

Despite these costs, the decision was made to construct a second pipeline and increase (in fact, almost double) national oil production. The Oleoducto de Crudos Pesados will also transport oil 503 km from Lago Agrio, over the Andes, to Esmeraldas. The O.C.P. consortium is headed by the Canadian company Encana, and
also includes Spain’s Repsol-YPF, Argentina’s Perez Companco and Techint, America’s Occidental, and Italy’s AGIP (Toronto Environment Alliance 2002). Two major factors underlie the decision to construct this second pipeline. As previously mentioned, multinationals producing oil in the Amazon must currently pay a fee to PetroEcuador in order to transport the oil to the coast for export. The companies building the pipeline will own and operate it for the next 20 years, and thus will not have to pay transport fees. Possible losses to the state were to be offset by the 500 000 jobs the construction process was to create. Given that the population of Ecuador is approximately 13.5 million, this was a considerable inducement. As it turns out, very few of those promised jobs have materialised; most have gone to foreign specialists rather than Ecuadorian workers (Drost 2002). However, at the time, the decision to build a new pipeline seemed beneficial for all. The second major factor in the decision was an I.M.F. loan to Ecuador in the year 2000. Conditions of that loan required the government to increase oil production (Drost 2002). This is consistent with IMF goals to increase exports, even non-renewable exports, to generate foreign currency for debt repayment. As the northern blocks of the Amazon were already being exploited, largely to capacity, the only way for the government to meet the terms of the loan was to open the southern Amazon to oil production. It should be noted that the oil of the southern Amazon is of a different quality than that of the north. It is a heavier grade of crude. S.O.T.E is not capable of transporting that grade of oil. As a result, a second pipeline was needed.

Financing for the pipeline was secured from a consortium of international banks, led by Westdeutshe Landesbank of Dusseldorf (WestLB). The financial consortium insisted that the O.C.P. consortium comply with World Bank Group social and environmental safeguard policies (Goodland 4). Thus, the consortium arranged for an Environmental Impact Assessment (E.I.A) to identify possible risks in the construction process, to assist with the route selection, and to suggest possible means of mitigating disruptions to peoples’ lives in the construction process. This assessment was completed in June 2001. Most recently, the consortium has set aside a $16 million “EcoFund” (Drost 2002) to be distributed to the people through local NGOs. On the surface, the O.C.P. consortium appears to be making an attempt to avoid the environmental and social problems of the past. However, things are not always as they seem. A number of social and environmental problems have come to the forefront since construction began - problems which have spurred both local and international protest.

The first major problem is with the route selected for the O.C.P. The pipeline runs parallel to S.O.T.E in the Amazon, then branches off in the Andes, crossing north of Quito, and rejoins S.O.T.E in the coastal lowlands, continuing on to Esmeraldas. This branch in the Andes is called the “northern route”; the S.O.T.E route is the “southern route”. The selected route for the O.C.P requires the pipeline to pass through 20 “medium to large sized municipalities” (Goodland 2002:12), indigenous territories (Toronto Environment Alliance 2002), as well as the Mindo-Nambillo Nature Reserve. This region is home to some 40 endangered bird species, 275 types of orchids, many butterflies, and other rare flora and fauna (Wyss 2001:1). The area is part of the Choc-Andean Corridor project, a biodiversity protected area funded by the Global Environment Facility (Goodland 2002:15). Additionally, the majority of the citizens of Mindo are employed in the ecotourism industry — an industry severely threatened by the construction of the pipeline through the cloud forest. This northern route is substantially higher in biodiversity than the southern route, raising some questions about the selection process. It turns out that the northern route was selected in 1999, more than one year BEFORE the E.I.A was completed (Goodland 2002:10). How exactly then was the route selected? Not all relevant documents are available in the public domain, but there is some speculation that economic reasons factored into the choice — it is estimated that the northern route costs $80 million less than all other alternative routes (Drost 2002). The route for the new pipeline thus appears to have been selected on an economic basis, rather than with full consideration of the social and environmental implications of running a pipeline through a seismically active area with 94 fault lines (Toronto Environment Alliance 2002), through 20 odd municipalities, and through a Global Environment Facility protected area.

A second major area of contention is with the claim that the consortium is complying with certain World Bank Group (W.B.G.) standards. Dr. Robert Goodland, a tropical ecologist who authored many of those W.B.G. standards, was hired by a coalition of German,
American, and Italian trade unions to perform an independent assessment of the O.C.P. consortium’s level of compliance (Goodland 2002:6). Dr. Goodland’s report was released in September 2002, and is quite damaging. The consortium fails to comply with 4 major W.B.G. social and environmental safeguards. The previously mentioned problems with the route selection, combined with an apparent lack of independent environmental assessment, and the failure to assess regional and sectoral impacts of the project, indicate that the consortium fails to comply with O.P. 4.01, the Policy on Environmental Assessment. Additionally, the consortium fails to comply with O.P. 4.04 by not protecting ‘critical habitats’ – including the Mindo reserve, as well as several other designated ‘protected areas’. The EIA does not include a resettlement plan for affected peoples – a violation of W.B.G. O.P. 4.12. Finally, the EIA fails to consider the effects of the project on ethnic minorities – particularly the Afro Ecuadorians of the coastal area. This is in violation of O.D. 4.2. Thus, the O.C.P. consortium is NOT in compliance with several key World Bank Group policies, as they have claimed to be (perhaps in order to retain their financing...).

The final area of contention is at the basis of the construction process. The goal behind the construction is to increase production and export heavy crude. This means that the multinationals involved will need to explore and drill for oil in previously unexploited areas of the Amazon rainforest. Indeed, the very construction of the O.C.P. has already resulted in the auctioning of a further 2.4 million ha of rainforest to multinationals (Goodland 2002:6). The effects of oil exploration in the Amazon, as previously addressed in the discussion of the Texaco case, have been very well documented in the past. Numerous studies have been published outlining the social and environmental impacts of oil production in the rainforest. Aside from the direct effects of pollution, the access roads built in the construction process also contribute to environmental and social damage; they allow for the migration of colonists into the rainforest. These colonists then contribute to further deforestation and encroach on Indian lands. Admittedly, it is possible that the corporations who are successful in their bids for concession blocks may not perpetrate the social and environmental abuses of the past. Activism in the Amazon has increased in the past three decades, making the indigenous federations of the Amazon forces to be reckoned with. However, given the irresponsible behaviour of the consortium members in the route selection process, the probable impacts of increased production are a concern. Additionally, there is the high probability that the benefits the pipeline will bring to the Ecuadorian state have been exaggerated. The state will not receive control of the pipeline for 20 years. Many estimates indicate that, in 20 years, the oil reserves of the Amazon will be entirely depleted (Drost 2002). The state would therefore receive minimal economic benefit from the construction of the pipeline, and the economy would remain dependent on an unsustainable form of development.

These factors surrounding the construction and potential impacts of the O.C.P. pipeline have spurred a great deal of national and international protest. Local protest has arisen in the Amazon from the indigenous federations (local, regional, and the national federation), from Ecuadorian environmental groups such as Acción Ecologica, and from communities along the pipeline route who are directly affected by the construction, such as the Mindo-Nambillo community. Transnational alliances have also developed to coordinate the international protest against construction of the pipeline. These allies include various environmental and human rights groups, such as Birdlife International and the Toronto Environment Alliance, who have coordinated international efforts to protest the construction of the pipeline. Originally, the strategies revolved around preventing the construction of the pipeline. Indeed, as recently as last September, efforts were made in Germany to cut off funding for the pipeline (Drost 2002). WestLB, the major partner in the financing consortium, is primarily owned by the German government, making its citizens the primary shareholders. When it became apparent, with the release of the Goodland report, that the O.C.P. consortium was NOT upholding the conditions of the loan (i.e.: compliance with World Bank standards), a massive protest ensued. WestLB, however, has recently declined to call in the loan. This was essentially the final effort aimed at protesting the construction process, as the pipeline is now well over 80% completed. International strategy has now switched to mitigating the impacts of the pipeline, and of the associated future oil development, within Ecuador.

Oil development in Ecuador has long been a contradictory process of economic
development. While bringing much needed revenue to the state, it has fostered a type of dependence on a non-renewable resource, and has caused a great deal of environmental damage. It is also not simply a regional or national process. International actors, including the IMF, the World Bank, multinational corporations, and activist groups are all heavily involved in the process of development, bringing different pressures and supports to bear on local actors. The I.M.F., for instance, imposes financial pressures that push for the further development of the oil industry. Multinational corporations do the same, through the power of foreign investment. Activist groups engage in resistance to development through their support of local actors, as well as through international protest campaigns (aimed both at Ecuadorian and international players). This article has illustrated some of the contradictions of oil development, and revealed how it is an arena in which the interactions of local and global actors can be explored.

Works Cited


