

MARKET STUDY: THE OIL AND GAS INDUSTRY IN ECUADOR

I. SUMMARY:

Although Oil has been produced in Ecuador since 1917, from small fields around Santa Elena Bay on the Pacific coast about 250 kms north of the port of Guayaquil, it has only been produced in large quantities since the late 1960's and early 70'.

Following award of concessions to foreign oil companies, there was a series of discoveries in the Oriente basin of Ecuador's eastern Amazon jungles: at Lago Agrio in 1967 by Texaco Gulf and Aguatico, Sacha and Shushufindi in 1969 and Auca in 1971.

The construction of the Trans-Ecuadorian pipeline linking Oriente fields to the crude export terminal at Balao on the Pacific Coast was completed in August 1972, making Ecuador a sizeable oil exporter.

Exploration activity in Ecuador has fluctuated widely with government attitude toward foreign companies. In 1972 Ecuadorian Petroleum Exploration Company (CEPE), was formed as a result of new oil law that led all foreign oil companies except Texaco, Gulf, and City Investing Co. to withdraw from Ecuador. This policy coincided with the rapid increase in oil prices. CEPE in 1974 acquired 25% of Texaco-Gulf combine operating Oriente fields- concession dating to 1964- then Gulf's remaining 35.5% stake in 1977, giving it a 60.5% majority stake in the venture. In 1977, CEPE built the 55,000b/d Esmeraldas refinery to process Oriente crude. Then CEPE laid a pipeline to move gasoline and diesel from Esmeraldas to Quito, installed storage and distribution facilities in Quito and laid a products line to Ambato. In addition, CEPE installed a gas processing plant at Shushufindi and a pipeline to move LPG gas to Quito. In 1989, CEPE was re-organized into PETROECUADOR with the intent to structure an integrated oil company rather than a government agency.

Falling oil prices in the 1980's and lagging production replacement forced government to pass new legislation in 1982 allowing foreign oil companies to undertake exploration under risk/service contracts. A 7th round of concession is expected to be announced during the second semester of 1993.

Ecuador joined the OPEC cartel in November 1973 and withdrew in November 1992. Petroleum reserves of Ecuador stand at 1.420 million bbl, meaning a 1.17 percent of total Latin American reserves. Crude production currently is at 340,000 b/d or 4.17% of total Latin American production. Ecuador's internal consumption of its own production is approximately 40%. For 1993 PETROECUADOR projections are of 425,000 bpd, as oil will start to flow from the areas contracted out in the mid 80's with Occidental, Conoco (Maxus) and Elf.