ECUADOR

By a Special Contributor

By South American standards, Ecuador is a relatively small country with a land area of about 275,000 km^2, rather smaller than Nevada, and possessing a population of some 13 million. It has come a long way since the economic collapse experienced in 1998-99. At that time, hyperinflation was a real threat, a number of banks collapsed and the government defaulted on its foreign bonds. President Mahauad was ousted in a bloodless coup and since then Dr Gustavo Noboa has held the reins. One of the first moves by his government in getting to grips with the chaotic financial system that had been inherited was to introduce in March 2000 a new monetary system based on the US dollar as the official currency for all economic transactions.

In that year, the economy grew by 2.3%, unemployment was lowered and the budget was in balance. In 2001, Ecuador posted economic growth of 5.4%, outperforming most of the economies in Latin America, and it managed to bring the rate of inflation down to 22% from 91% in the previous year. The economic growth was largely due to higher oil prices - oil contributed around one third of the country's total income and is Ecuador's principal source of foreign exchange revenues.

Remittances from Ecuadoreans working abroad - some 400,000 people are estimated to have left the country in the past four years - also provided a significant contribution, around US$1.4 billion according to government estimates. This year, the government's target is for GDP growth of 4.2%.

Ecuador's foreign trade in goods provides more than half of its GDP and with 38% of exports destined for the US, its dollar currency has clear advantages. However, in adopting the dollar as the national currency, the government can no longer print money, foreign investors, having been hit once, are reluctant lenders, and the government is running into problems in meeting its debt repayment obligations. Balancing the budget, therefore, is becoming increasingly difficult.

There are hopes that the International Monetary Fund will provide loans of up to US$1.7 billion but the government must convince the IMF that it can implement the necessary financial discipline. With more than half of Ecuadoreans living below the poverty line and 40% of the urban population without permanent jobs, efforts to curb public spending are not proving easy. Last year, government proposals to increase the rate of VAT had to be abandoned and this year plans to raise electricity prices have been postponed. Also, plans to raise some US$380 million through the privatisation of 17 state-owned electricity companies have met with widespread opposition and, with 2002 an election year, the government must tread warily.

On the positive side, oil revenues continue to buoy the economy and a new oil pipeline, scheduled to open in September next year, is expected to lift oil exports by at least 50%. The US$1.1 billion project, approved by Dr Noboa in February last year, was expected to create around 50,000 jobs during the construction phase, and boost government revenues by some US$150 million annually. Last year, Ecuador produced an estimated 20.9 Mt of oil, a 1.4% increase on 2000, and domestic consumption amounted to 5.6 Mt.

In the non-oil minerals sector, mining activity is largely limited to gold production in the Zaruma-Portovelo gold district. Minera Bira SA is the largest formal producer but there are numerous artisanal operations and total annual gold production has been of the order of 4,000 kg, produced mostly by Bira.

Exploration activity in Ecuador over the past 12 months has been principally concerned with gold and copper. Early this year, Corriente Resources Inc. of Canada, in conjunction with Geospectrum Engineering, produced an inferred resource of 218 Mt at a grade of 0.7% Cu and 0.25 g/t Au for the Mirador copper-gold porphyry property in southeast Ecuador. The deposit remains open at depth and Corriente is giving priority its development. Separately, at the Panantza project, also in southeast Ecuador, Corriente has estimated a resource of 148 Mt at 0.8% Cu and 0.1 g/t Au. At the Warintza copper-molybdenum property, drilling has delineated a zone of high-grade secondary copper mineralisation 30-60 m thick and overlying a central mineralised core. The zone measures some 350 m by 800 m at surface and averages more than 0.5% Cu, and in excess of 1% within the blanket of secondary mineralisation. There are further targets to the east and west within a cluster of porphyries that can be traced over a distance of 4 km.

The deposits lie within an area of 230 km^2 in the Zamora region where Vancouver-based Corriente has an exploration option with BHP Billiton which made the original discoveries. Under the option terms, Corriente can earn up to a 70% interest by spending a minimum of US$2.5 million over two years. Also, under the terms of the option agreement, Lowell Mineral Exploration is conducting the exploration on behalf of Corriente and may take an equity interest in Corriente's rights to any resultant joint ventures. At various stages of the exploration programme, BHP Billiton may reacquire a 40% interest by providing financing through to production, or maintain its 30% interest, or dilute to a 15% net profits interest.

Another Canadian company, IAMGOLD, was active during the year on two projects. In respect of its wholly-owned Retazos project in the Zaruma-Portovelo gold district, where it had previously outlined two large copper-gold porphyry systems, an agreement was signed in October 2001 with Rio Tinto whereby the latter can earn a 55% interest in the Filon porphyries by spending US$4 million on exploration, with the possibility of increasing this interest to 75%. A core drilling programme was begun in November last year. Elsewhere, at the Quimsacocha project, where drilling on the property by a previous owner had intersected high-grade gold-bearing veins associated with enargite-pyrite mineralisation, IAMGOLD has conducted a geophysical survey and planned to begin a 1,200 m core-drilling programme in March 2002.

A number of other foreign companies were active and new mining legislation, approved in April 2001, is expected to attract further foreign investors to the mineral exploration sector.