



THE NEW HEAVY CRUDE PIPELINE IN ECUADOR

Fueling A Second Oil Boom in the Amazon

The Ecuadorian Government's plan to build the new Oleoducto de Crudos Pesados (OCP) has been repeatedly delayed for 10 years---mostly due to the country's economic and political instability and the project's perceived risks.

However, on June 7, 2001, amidst widespread controversy and protest, the Noboa Administration gave the green light to the OCP Consortium, Ltd. to begin construction of the \$1.1 billion pipeline. The project, which is scheduled to break ground in August 2001 and be completed by mid-2003, will double Ecuador's oil production capacity. Already, it has begun fueling a second oil boom in the Ecuadorian Amazon. The



Planned OCP Pipeline Route

OCP Ltd is a consortium formed by 7 multinational corporations: Occidental Petroleum (USA), Alberta Energy (Canada), Kerr McGee (USA), AGIP (Italy), Perez Companc (Argentina), Repsol-YPF (Spain) and Techint (Argentina).

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Ecuadorian government estimates that more than \$2 billion in new oil production and exploration will be made over the next five years to fill the pipeline's capacity.¹ Much of the heavy crude reserves that would flow through the pipeline are likely to be found in such pristine and protected areas as the Yasuni National Park, Limoncocha, Pañacocha and the Cuyabeno Wildlife Reserves.

In February 2001, OCP Ltd. signed a 20-year concession contract with the Ecuadorian government for the ownership, construction and operation of the heavy crude pipeline.

This project is the first of its kind to be executed under new regulations in Ecuador that allow the private ownership and operation of hydrocarbon facilities. This law, known as TROLE II, was part of the economic bail out package stipulated by the International Monetary Fund and the World Bank in response to Ecuador's nearly \$16 billion external debt.²

The Pipeline's Controversial Route

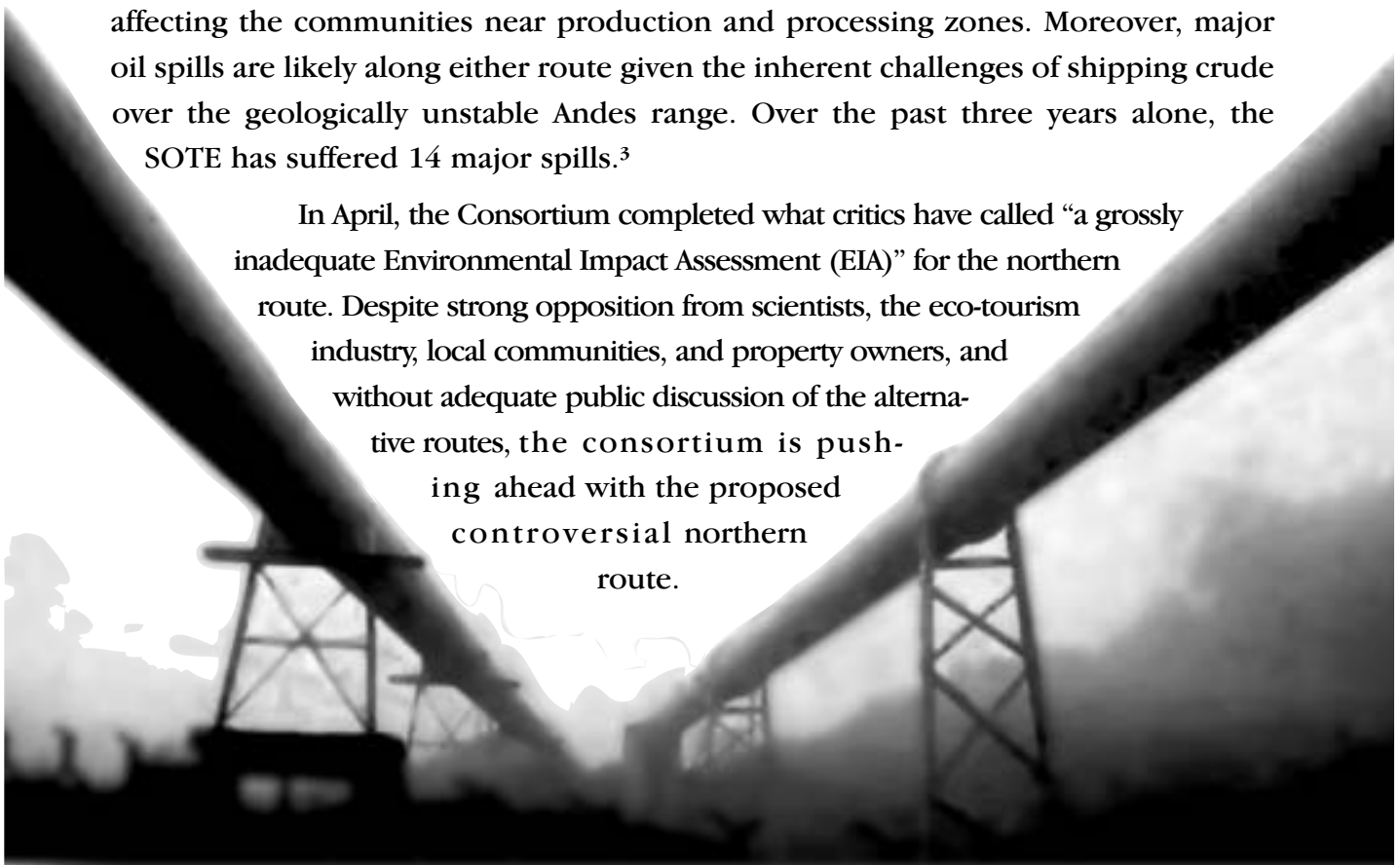
The 298-mile (506 km) pipeline is projected to deliver between 390,000 and 450,000 barrels per day (bpd) of heavy crude from oil concessions in the country's eastern rainforest region, known as the *Oriente*, to refineries in Esmeraldas on the Pacific Coast. From there, the crude is shipped to international markets via an off-shore loading facility at Balao.

Starting in Lago Agrio, the OCP would run parallel to the existing pipeline (SOTE-Sistema Oleoducto TransEcuatoriana) until just east of Papallacta. From this location, the OCP would split from the SOTE and follow a route North of Quito until La Union, where it would merge again with the SOTE before reaching the Pacific Coast.

The controversial northern route would traverse the ridge tops along steep mountain terrain through a region of high biodiversity and tourism activity. The route traverses several pristine protected areas including the Mindo Nambillo Cloud forest reserve.

A less controversial route exists which closely follows Ecuador's existing SOTE pipeline and crosses primarily agricultural lands. While a southern route would spare the ecologically endangered Mindo region, a second pipeline paralleling the SOTE would still threaten river systems and local communities in its path as well as affecting the communities near production and processing zones. Moreover, major oil spills are likely along either route given the inherent challenges of shipping crude over the geologically unstable Andes range. Over the past three years alone, the SOTE has suffered 14 major spills.³

In April, the Consortium completed what critics have called “a grossly inadequate Environmental Impact Assessment (EIA)” for the northern route. Despite strong opposition from scientists, the eco-tourism industry, local communities, and property owners, and without adequate public discussion of the alternative routes, the consortium is pushing ahead with the proposed controversial northern route.



KEY PLAYERS

Percentage Ownership by OCP Ltd. Consortium Members

Alberta Energy Ltd. (Canada)	31.4	Percent
Repsol-YPF (Spain)	25.69	
Perez Companc (Argentina)	15	
Occidental Petroleum (USA)	12.26	
Agip (Italy)	7.51	
Techint (Argentina)	4.12	
Kerr-McGee Corp (USA)	4.02	

Financial Advisor: J.P. Morgan Chase

Financing Structure: Project Finance, \$900 million 17-year loan by Westdeutsche Landesbank (Germany)

Lead Arrangers of

Line of Credit: Citibank and Deutsche Bank

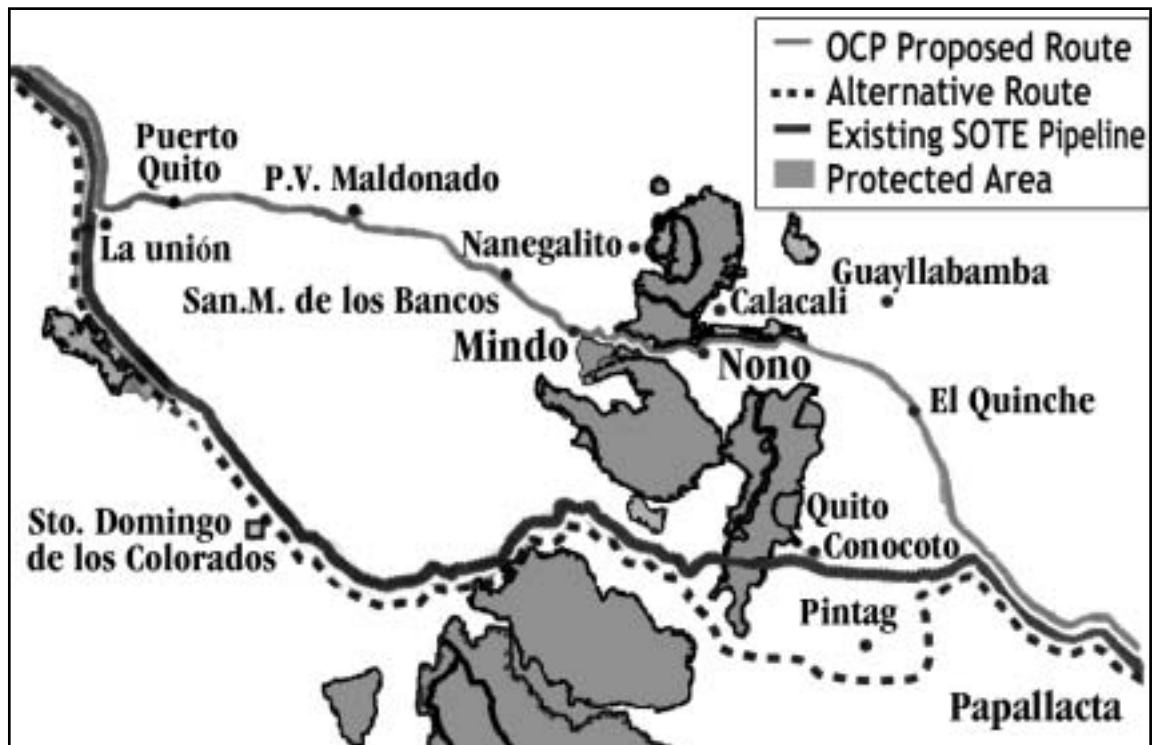


OCP's Financial Backers

The pipeline contract awarded by the Ecuadorian Government to the OCP Consortium is a 20-year BOOT concession (Build Own Operate Transfer). On June 10, 2001, the Consortium moved ahead to secure project financing through a \$900 million, 17-year loan awarded by Germany's Westdeutsche Landesbank. This Bank is planning to syndicate the loan to a group of other major banks.

In terms of financing the line of credit for the individual consortium members, Deutsche Bank and Citibank became Lead Arrangers for a \$200 million line of credit to Pecom Energia SA, a unit of Perez Companc SA for the contract's down payment to the Ecuadorian Government. The one-year credit line gives the necessary financial backing to Perez Companc, the least financially stable member of the consortium to participate in OCP's project finance deal. The letter of credit was syndicated to the following banks: Bank Boston, BEAL and BNP Paribas, as arrangers, and BLADDEX, Hypovereinsbank and Vereins-und Westbank, as participants.⁴

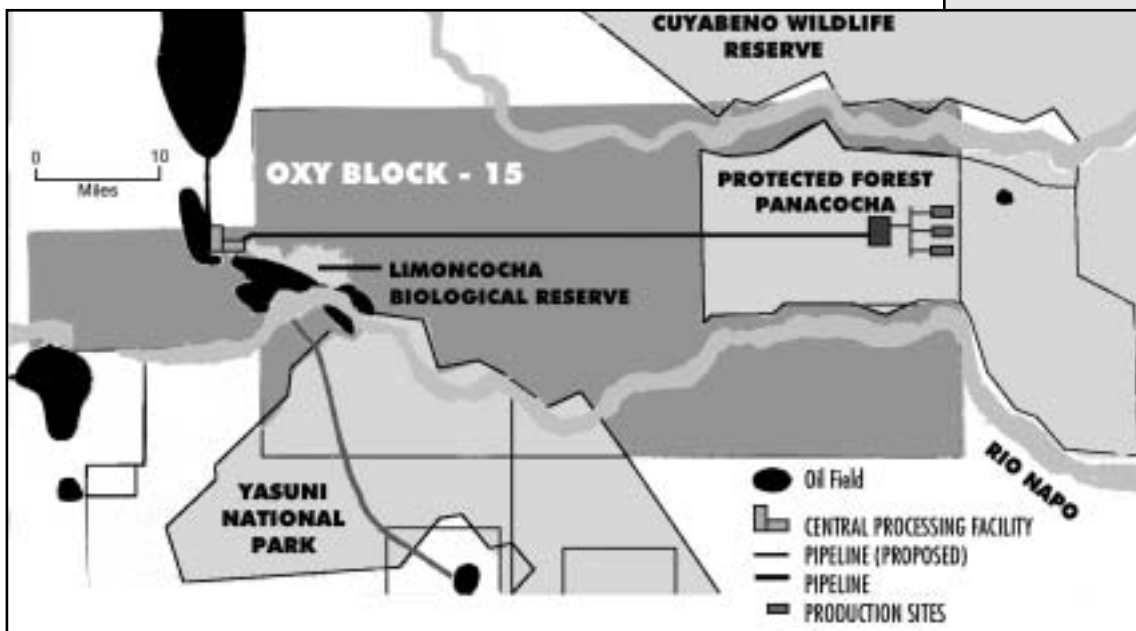
P e r e z Companc was invited to join the OCP consortium as a result of its discovery last May of approximately 300 million barrels of new proven oil reserves in Block 31 in the *Oriente* basin in eastern Ecuador, which Perez operates. Block 31, encompasses nearly 200,000 hectare (500,000 acres) in the heart of the Yasuni National Park.



Occidental Petroleum: The Behind the Scenes Leader

Occidental Petroleum's (OXY) Ecuador unit has maintained operations in the Ecuadorian Amazon since 1985 in an area called Block 15. It was the first company to begin exploratory drilling in Ecuador's protected areas such as the Limoncocha and Cuyabeno Wildlife Reserves.

To increase crude production, OXY plans to invest \$485 million over the next four years to develop Block 15---the Edén Yuturi field, which includes the Limoncocha and Indillan fields (70 percent of this investment is scheduled to be in place in the next 2 years). Oxy estimates potential production of 45,000 bpd and is planning to drill at least 32 new wells and undertake additional exploration activities in the field in the block. The company is also planning a feeder pipeline to link its wells to the OCP near the town of Lago Agrio.⁵



Occidental's Block 15

This year, OXY is planning seismic testing and exploratory drilling inside Pañacocha, a 56,000 hectare (140,000 acres) reserve abound with flooded forests and black lagoon systems and described as one of the rarest and most magnificent regions of the Ecuadorian Amazon. The area is an important biological corridor connecting the Yasuni Park and Cuyabeno Wildlife Reserve and is home to jaguars, ocelots, nine species of monkeys, more than 500 species of birds, and a large concentration of endangered pink river dolphins. Due to the slow moving aquatic systems found in Pañacocha, an oil spill would permanently linger spreading slowly through the flooded regions.

Energy Minister Accused of Shady Dealings

In early 2001, Pablo Terán, Ecuador's Minister of Energy and Mines, found himself faced with the prospect of a congressional impeachment. At the core of this threat were allegations that his private interests in the OCP contract had influenced him to choose the OCP Consortium over the other bidder, Williams Co., in awarding the \$1.1 billion contract to build the pipeline.

But in mid-February, Terán was acquitted after convincing the Congress that the attacks against him were politically motivated to obstruct the OCP's progress. Terán's opponents lament the decision saying that OCP Ltd.'s contract to build the pipeline would be the "swindle of the century."

One question that arose in the

impeachment hearings was regarding the inflated cost of the pipeline project. Originally, Williams and OCP each presented bids around \$550 million. Several months later, when the contract was awarded to the OCP Consortium, the price tag had doubled to \$1.1 billion. The official reason was that at Terán's insistence, the size and capacity of the pipeline was increased by 100,000 bpd over the original bid. In addition, the

Ecuadorian government had stipulated that the pipeline trench be used to install a fiber optic telecommunications line.

His backeres represented the country's metals association Fedimetal. Incidentally, the metals industry stands to receive US\$500mn from the OCP project, according to Fedimetal's President Ramiro Garzon.⁶

He also stood accused of awarding 26 concessions covering 90,000ha (225,000 acres) in the Cordillera del Condor area of southeast Ecuador to Grupo Odin, a mining company in which he reportedly has shares.

The Debt Spiral:

Doubling Oil Production to Pay External Debt

The construction of a heavy crude pipeline is the government's answer to rescuing Ecuador's fledgling economy which has been plagued by record levels of external debt and commercial bank failures. Through a program called Apertura 2000, the government plans to double oil production and exports and privatize oil infrastructure in order to attract foreign investments to its recently "dollarized" economy. This project is being touted to both the government and international creditors as the principal instrument for the country's economic recovery. It is also one of the major stipulations of the Government's structural adjustment agreement with the IMF for making good on the country's debt payments.

Up to now, Ecuador's pipeline capacity bottleneck and accessibility have been the major impediments to expanding the country's oil production and bringing privately held exploration blocks into production (see Map of Oil Blocks). The OCP would enable the transport of heavy crude oil from five of Petroecuador's major oilfields in the *Oriente* (Shushufindi, Sacha, Auca, Libertador and Cononaco) as well as from the concessions held privately by the seven consortium members. Another stated justification for the OCP is to designate the existing SOTE to transport light crude, leaving OCP to transport heavy crude. The current system of mixing the two devaluates the state's higher-priced light crude by more than \$450 million annually.⁷

The new capacity also makes the upcoming auction of new oil exploration concessions in the Southern Amazon region --known as the 10th Round--more attractive to investors.

Since the 1970s when Texaco built Ecuador's first pipeline, the SOTE, the country's external debt has spiraled exponentially, from \$217 million prior to 1972, to nearly \$16 billion in 2001.

More Oil More Debt

What is the connection between oil and debt? Have the past 30 years of oil revenues reduced poverty and improved the standard of living in Ecuador? How are oil revenues spent?

Currently Ecuador has the highest per capita debt of any country in South America at nearly \$1100 per person.⁸ According to the UN 1997 Poverty Report, the unemployment rate quadrupled and the percentage of people living in poverty almost doubled in the period between 1970 and 1990.⁹

Experts have described this paradox as follows. Oil revenues have increased the credit worthiness of Ecuador before international creditors. Corruption, lack of transparency, little public participation in decision-making, and financially unsound investment decisions are seen as the key factors behind Ecuador's over-borrowing. In addition, the highly unstable oil prices throughout the past decade forced Ecuador to default on a number of loan payments, further worsening the country's debt burden.

Sources within Petroecuador (the state-owned oil company) have revealed that of the \$2.4 billion in petroleum revenues earned by Ecuador in the year 2000, \$1.3 billion went to external debt payments, and \$1 billion was paid for the bail out of failing commercial banks, leaving less than \$100 million for Ecuador's domestic spending.¹⁰

Meanwhile, the quality of life for Ecuadorians, especially those who live in oil producing regions or near refineries continues to worsen. These communities are experiencing first-hand the serious environmental and social impacts of oil production including the highest rates of cancer and other degenerative diseases in Ecuador.



Mindo: Biodiversity Hotspot on the Brink



The battle to defend the breathtaking cloud forest of the Mindo-Nambillo region has become one of the main focal points for local and international protest given that the OCP's route is slated to cut through the dramatic ridgeline of this rare and threatened region. Its defenders, residents of twenty-five communities along the route, make their living primarily from eco-tourism, recreational activities, and scientific research. These communities consider Mindo a recognized epicenter of unparalleled biodiversity and endemism and are demanding that the pipeline route be changed to follow the existing SOTE.

Twenty-five miles northwest of Quito on the Western Slopes of the Pichincha Volcano, Mindo is home to an array of threatened and endangered Andean habitats including subtropical *Chocó*, Montane Cloud Forest, and *Paramo* at its highest reach. The *Chocó* has one of the richest biota in the world, with an exceptional number of species and a high degree of endemism in plants, reptiles, amphibians, butterflies and birds. The fragile terrain is extremely steep and highly susceptible

to landslides. It is also in the range of pyroclastic flows--shockwaves of hot debris and gas ejected during eruption--of one of Ecuador's most active volcanoes.

The region forms part of the first "Important Bird Area" of South America--designated by Birdlife International, one of the largest confederations of conservationist organizations in the world, and the Corporación Ornitológica de Ecuador (CECIA). It has also been designated as an Endemic Bird Area of the Northern Central Andes, boasting more than 450 bird species--46 of which are threatened



by extinction including the black-breasted puffleg hummingbird. There are 30 mammal species found in the area, including the rare spectacled bear, the puma, the Jaguarundi, and the white-faced Capuchin monkey. Almost 70 percent of the amphibians found in the region are endemic and of these, more than half are currently endangered or on the brink of extinction.¹¹

The Mindo region encompasses 600,000 ha (1.5 million acres) in the equatorial Andes, 84,694 ha of which are in public and private reserves. Their reserve status however, does not protect them from being the choice route for an oil pipeline. The OCP is slated to pass directly through the Mindo Nambillo Cloudforest Reserve and the adjacent primary and secondary forests, also affecting the Mindo River Basin, a major source of drinking water for surrounding communities. Given the pipeline's proposed route along the ridge tops, an oil spill could seriously affect one or more river systems in the region.

Because of its natural beauty and high levels of biodiversity, Mindo is a mecca for eco-tourism, often compared to Galapagos in splendor. Several community members and private groups--both national and



international--have set up reserves in hopes of protecting the fragile ecosystems and species therein. The pipeline is a direct threat to this burgeoning eco-tourism industry, which has the potential to generate up to \$600 million over the next 20 years.

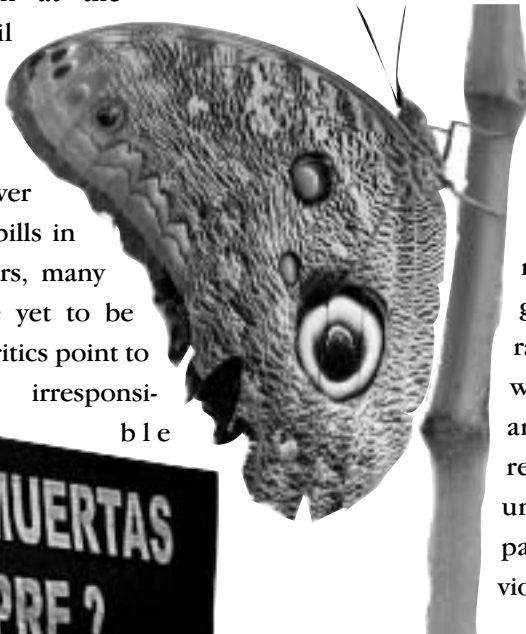
Despite promises from the OCP Consortium and government agencies to use state-of-the-art construction technology and the 'highest environmental standards' throughout the Mindo region, local communities and environmental groups point to the track record of environmen-

River Systems Affected in the Event of a Pipeline Spill¹³

1. The Cinto River (with tributaries Cristal, Verde, and Saloya)
2. The Mindo River (with tributaries Nambillo and Canchupí)
3. The Blanco River where the Mindo and Cinto meet, which in turn flows to the Guayllabamba and Emeraldas Rivers

tal destruction at the hands of oil companies. Ecuador's SOTE pipeline has suffered over 14 major oil spills in the past 3 years, many of which have yet to be cleaned up. Critics point to years of irresponsi- ble

oil exploitation in Ecuador and raise serious concerns about the current operations of OCP consortium members, whose elaborate EIAs and mitigation plans are rarely followed elsewhere in Ecuador and who have remained largely unaccountable for past damages or violations.



Endangered and Vulnerable Species Found in Mindo¹²

Endangered: *Gallinago imperialis*, *Oreomanes fraseri*, *Oreothraupis arremonops*, *Grallaria gigantea* and *Penelope ortoni*.

Vulnerable endemic birds in the Chocó area: *Odontophorus melanonotus*, *Semniornis ramphastinus*, *Andigena laminirostris*, *Cyanolyca pulchra*, and *Haplophaedia lugens*.

Non-endemic species, at-risk of being endangered: *Tigrosoma fasciatum*, *Accipiter collaris*, *Oreatus isidorei*, and *Ampeloides schudii*.

In critical danger of extinction: *Eriocnemis nigrivestis* (the black breasted puffleg hummingbird).

North American migratory birds found in Mindo: *Catharus ustulatu*, *Dendroica fusca*, *Wilsonia canadensis*, *Dendroica cerulea*, and *Empidonax virescens*.

KEY CONCERNS

Adverse impacts on protected areas in the Amazon from the doubling of oil production

The OCP will necessitate an increase in oil exploration and production throughout the Ecuadorian Amazon, especially in those blocks belonging to the OCP consortium members (Blocks 10, 15, 7, 21, 31,

duction in Ecuador is 150,000 barrels per day. In order to reach the production target of 390,000 to 450,000 barrels per day, hundreds of new oil wells, service roads, and flow lines would be needed, some of which will be sited in sensitive areas.

In addition, processing and refining facilities will be required near protected areas in order to transport the crude to the coast.

These activities potentially threaten protected areas such as Yasuni National Park, Cuyabeno Wildlife Reserve, and the Limoncocha and Pañacocha Biological Reserves.

To date, there has been inadequate assessment of the reality that the majority of the heavy crude deposits needed to fill the pipeline over its 20-year life lie beneath national parks, wildlife reserves, and indigenous territories.

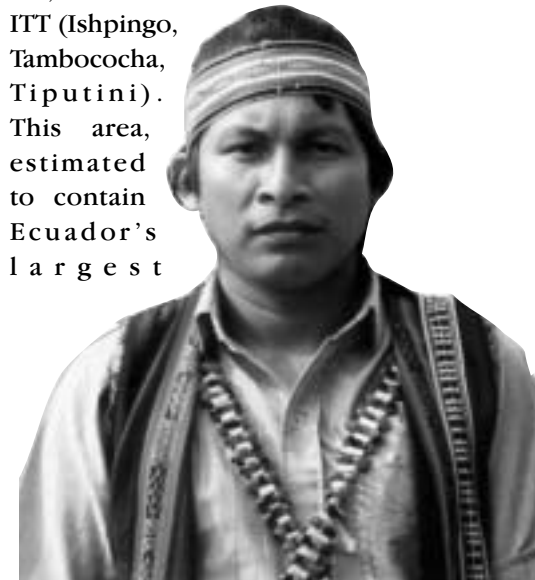
Boom in oil exploration in Ecuador's frontier forests

According to Petroecuador estimates, known heavy crude reserves are expected to run out

within 10 years after the OCP pipeline begins operation. Thus, this project would fuel the search for additional oil reserves in the southern Ecuadorian Amazon. Within the next year, the government intends to hold the "Tenth Round," where Amazonian Exploration Blocks 22, 25, 26, 29, 30, 32, 33, 34, 35, 36 and 37 would be auctioned. The eleven blocks

cover 2.4 million hectares of Ecuador's last remaining frontier forests and the ancestral territories of isolated indigenous peoples. The region, which has so far been untouched by oil development, falls entirely on the territories of Achuar, Shuar, Huaorani, Quichua, Shiwiar, and Zapara indigenous communities---many of whom have vowed never to permit oil development.

Of particular concern is Block 20 on the Ecuador-Peru border, known as the ITT (Ishpingo, Tambococha, Tiputini). This area, estimated to contain Ecuador's largest



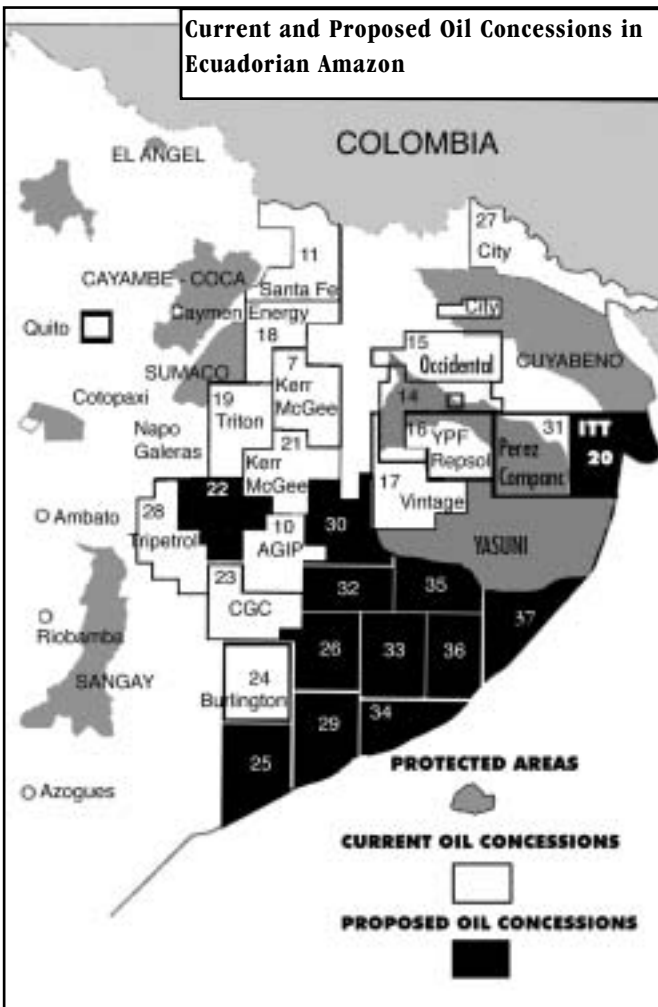
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reserves of heavy crude, falls within the boundaries of Yasuni National Park---a designated World Biosphere Reserve.

The real threats of the 10th Round to the last vestiges of pristine and culturally sensitive areas of the Amazon has led national and international organizations to call for a moratorium on all new oil exploration blocks.

Colombia's Violence Spills Over to Ecuador

The violence that for many years has plagued Colombia's oil infrastructure has now reached Ecuador.

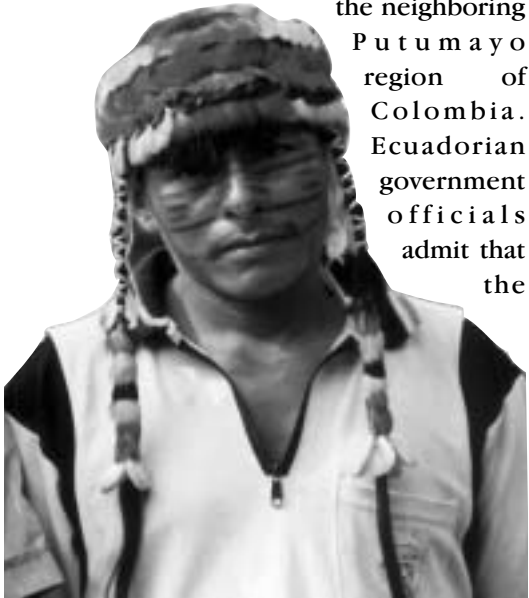


16 & CITY). To date, petroleum activity in these blocks has been limited to mostly exploration due to a lack of carrying capacity and infrastructure to transport the crude.

With the advent of the pipeline, more than \$2 billion in new investments is expected in the next 3 to 5 years to boost crude production. Current heavy crude pro-

Since Fall of 2000, Ecuador's SOTE and the OTA pipelines (the latter is pipeline between Ecuador and Colombia) have been bombed at least five times, causing major oil spills, killing over 20 civilians, and interrupting production.¹⁴

In addition, the Ecuadorian province of Sucumbios, which shares a border with Colombia, has begun to see the spillover effects of the civil war raging in the neighboring Putumayo region of Colombia. Ecuadorian government officials admit that the



Government intends to hold the "Tenth" to be auctioned covering 2.4 million frontier forests and the ancestral territories.

US-backed Plan Colombia could inspire even more violence in Ecuador against US oil companies and recently sought military aid from the US to defend against possible attacks on Ecuador's oil installations.

Recent incidents of oil related violence in Ecuador include the following. In late 2000, 10 oil workers were kidnapped from a petroleum field belonging to Repsol-YPF. In early 2001, one of the workers from the US was killed when the company failed to arrange his ransom in time.

In January 2001, the SOTE was dynamited near the town of

Santo Domingo, about 130km west of Quito. According to Petroecuador, up to 10,000 barrels spilled into the nearby Toachi River, which flows out to the Pacific Ocean. The pipeline also suffered two bomb blasts last December, the second killing five people and injuring nineteen people.

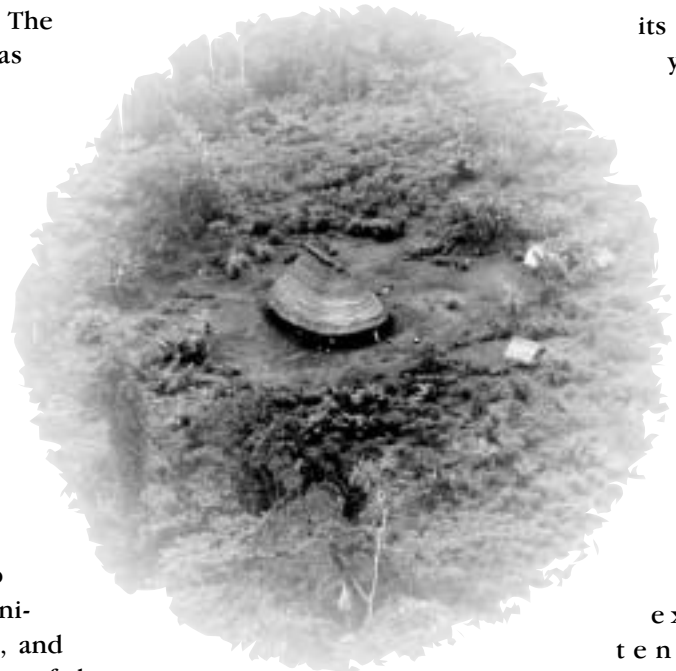
The nearly one thousand guerrilla bombings in Colombia that have plagued OXY's Caño Limon pipeline since it came online, have resulted in oil spills of more than 2.4 million barrels. The fear is that as Ecuador becomes more embroiled in the region's conflict, the OCP could suffer a similar fate. In the context of the regional conflict, the OCP poses serious risks to forest communities, oil workers, and fragile ecosystems of the Ecuadorian Amazon.¹⁵

The military, which already maintains a heavy presence in the oil producing regions of Ecuador and has set up checkpoints on all major roads in the Oriente, is expected to increase presence in the region in response to the border conflicts. Traditionally, the Ecuadorian military has provided security for oil installations, often taking orders directly from the companies themselves and restricting access of campesinos and indigenous peoples to their own communities.

The Toxic Legacy of Oil in Ecuador

Frequent Pipeline Spills

Where the existing SOTE pipeline ascends 13,000 feet out of the lowland Amazon rainforest over a narrow pass through the Andes is a region of heavy rainfall. In this stretch, rain saturates the steep unstable soils, causing frequent landslides that have ruptured Ecuador's pipeline dozens of times over its 30-year



existence. Due to a combination of a wet climate and frequent earthquakes typical in these parts, SOTE has spilled millions of gallons of crude--some estimate nearly double the amount spilled by the Exxon Valdez, since the 1970s. The OCP pipeline will also pass through this area and inevitably will face the same earthquake and landslide risks.

Affected Communities on the Coast

Increasing oil production threatens communities living near refineries and processing facilities in the coastal province of Esmeraldas. The communities in Esmeraldas, the majority of which are Afro-

Ecuadorian, have some of the highest rates of cancer and respiratory, skin and stomach illness in all of Ecuador as a result of the constant air, water and land contamination produced by the refineries.

Affected Communities in the Amazon

From the early 1970s through early 1990s, Texaco extracted more than 1.5 billion barrels of oil from the Amazon rainforest using substandard technology where drilling wastes were dumped on a daily basis into the environment. As a result, over 350 contaminated sites exist today which continue to pollute the drinking water of nearly 30,000 people. Thousands are suffering from diseases including cancer and dermatological conditions. In 1993, the affected communities filed a class action lawsuit in a federal court in New York. The case has not yet been resolved.

Petroecuador and other private companies continue to operate with many of the same substandard practices that have won the country its poor reputation. While environmental laws do exist, they are vaguely written and the respective government agencies have little will or power to enforce them.



Social and environmental impacts due to the influx of 5,000 construction workers in rural areas

Ecuadorian officials state that the pipeline will generate 5,000 direct jobs and some 50,000 indirect jobs for the country. Although such an influx of jobs may occur during the two-year construction stage, the Minister of Energy and Mines has also confirmed that only 300-400 of these jobs would be long-term, requiring high-skilled workers recruited nationally or internationally.

In the short term, however, the entrance of up to 5,000 construction workers in small rural communities along the pipeline route is likely to have serious social impacts. In other pipeline projects of this magnitude such as Brazil's Urucu-Coari pipeline and the Bolivia-Brazil pipeline, labor camps near small communities, especially indigenous communities, have caused serious social impacts including:

- Shortages in supply of local food and medicine--- in particular shortages caused by over fishing and illegal hunting of wild animals;
- Disturbing traditional hunting grounds---animals driven away by construction noise and activity;
- Sexual assault or harassment of local women;
- Increased prostitution---including child prostitution---and related spread of sexually transmitted diseases;
- Increased colonization and settlement of areas along the pipeline route especially once pipeline construction is completed;
- Increased contamination of local drinking water supplies and spread of disease due to the waste stream from labor camps—especially poor management of sanitation ponds;
- Increased deforestation and the exploitation of natural resources as a result of access to intact areas; and
- Increased violence and criminal activities.

Ruptures from Ecuador's SOTE pipeline have spilled over 16.8 million gallons of oil over its 30 years of operation.¹⁶

Growing Opposition

Exploding Popular Protest

The controversy surrounding the OCP has united a diverse array of stakeholders including local landowners, campesinos, students, local authorities, environmental groups, conservation organizations, scientists, eco-tourism operators, indigenous organizations, and concerned citizens. From communities in the northern oil-producing region of the Oriente, to coastal communities living alongside the refineries, to the streets of Quito, voices of concern and opposition are growing. In spring of 2001, controversy around the OCP hit the national and international stage as demonstrations, caravans, occupations of government offices, congressional hearings, and tours of fragile ecosystems along the pipeline 'right of way' challenged the project. This opposition is growing despite government attempts to silence public debate.

Groups began to take action in the Spring of 2000 when Techint, the consortium member in charge of construction, trespassed through a private reserve in the Mindo Nambillo cloudforest and cut down a number of trees in order to demarcate the pipeline route for the OCP. This work was carried out without any prior permission from the government or the property owners. Furthermore, it suggests that Techint was fairly sure nearly a year before the contract was awarded that the OCP consortium would win the bid over Williams Co. The courts fined the company \$13,000 for their action. Since then, protests against the project--especially its proposed northern route---have escalated.

On April 11, a few days before the Environmental Impact Study for the OCP was to be delivered to the Ministry of Energy and Mines, concerned Ecuadorians rallied outside Congress in Quito and delivered a letter calling for more stringent enforcement of the legal requirements for the public consultation process in relation to OCP's Environmental Impact Assessment (EIA).

A month later, several thousand irate Ecuadorians gathered at the final public hearing for the OCP, where the Minister of Energy and Mines and OCP Ltd. delivered the results of the EIA. The protestors, denouncing the pipeline's crossing through the northwestern Pichincha province, were able to effectively force the project officials off the premises and shut down the meeting.

The EIA was deemed inadequate by a team of local and international scientists specializing in Ecuador's biodiversity recruited by OCP Ltd. to evaluate aspects of the environmental assessment. Team member Paul Greenfield, an internationally known ornithologist, stated: "The EIA's final version doesn't adequately incorporate important scientific information presented in our study. For this reason, the real ecological importance of this area isn't known. Endemic and threatened species that live in the forests of the area face serious dangers of extinction."

In late April, a commission was formed under the auspices of the local authorities from the Amazonian provinces of Sucumbios and Orellana, to closely monitor the OCP construction process. Local government authorities defined the commission's activities and enlisted the Frente de Defensa de la Amazonía (Amazon Defense Front) to oversee its proceedings with support from the Centro de Derechos Económicos y Sociales (Center for Economic and Social Rights) and the Institute for Science and Interdisciplinary Studies (ISIS). The commission will share information about impacts and respond to new



Growing Opposition

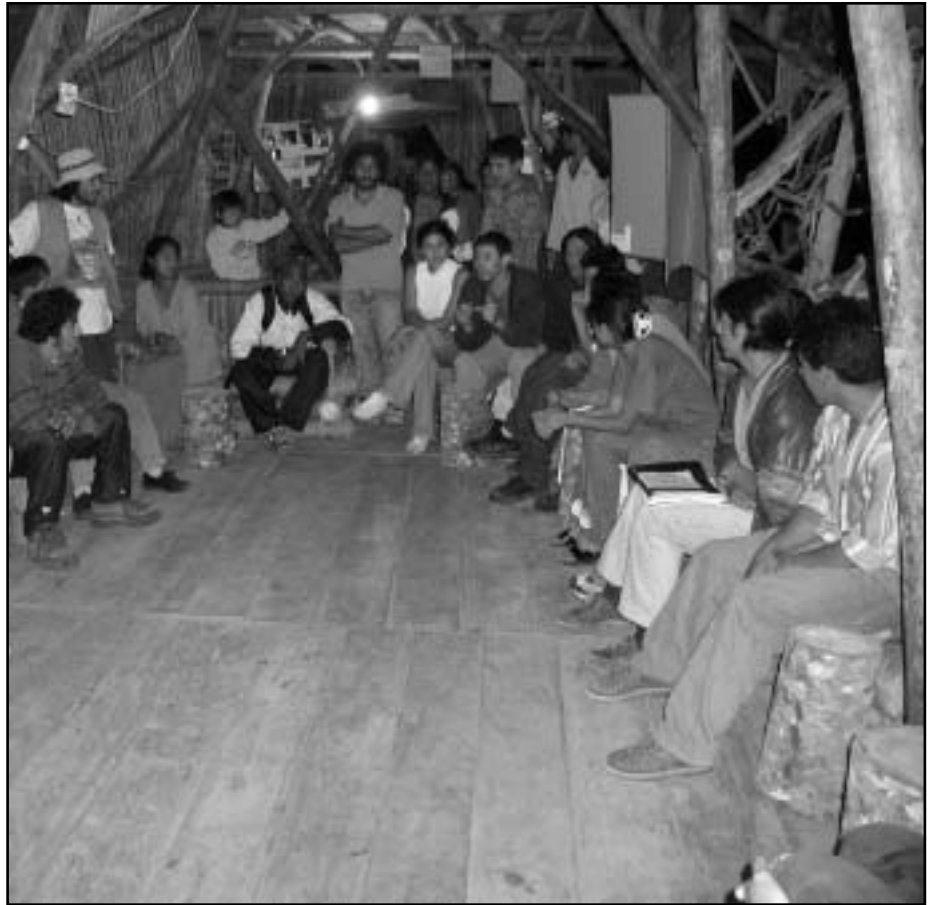
Continued

developments. The commission has demanded a copy of all related project documents for review and analysis and is considering bringing a legal action calling for the nullification of the OCP contract on grounds that the government had failed to uphold citizen rights to informed consultation.

Protests are expected to continue, especially in the northwestern province of Pichincha where local residents have vowed to blockade construction crews. Meanwhile, Accion Ecológica, an Ecuadorian grassroots NGO completely opposed to the construction of the OCP, has led ongoing workshops for affected communities highlighting the likely impacts of increased oil drilling and the deceptive and manipulative tactics oil companies have traditionally resorted to in the region.

Accion has also organized sit-ins and demonstrations, produced video documentaries, radio ads and numerous handouts highlighting the ecological risks to protected areas such as the Yasuni National Park and Cuyabeno Reserve.

El Comité Pro Ruta Menor Impacto, (the Committee for the Route of Least Impact), a coalition of dozens of national and international ornithologists, scientists, environmental and conservation groups, eco-tourism professionals, government officials, and landowners are adamantly opposed to OCP's route through the Mindo region. The Comité has led a successful media campaign in Ecuador in efforts to raise public awareness on the issue. Members of the Comité have also placed banners and signs along the main highways in the region and are engaged in on-going debates with the OCP Consortium and with the Ecuadorian government agencies involved.



Legal Battles Emerge

One key point of contention is the lack of constitutionally mandated prior public consultation. Until mid-April, when the EIA was completed, none of the affected communities had been consulted about the project or informed about its impacts. Yet, the contract which stipulated the route, was signed in February.

In May, Acción Ecológica along with CONAIE, the national indigenous organization of Ecuador and the Syndicate of Petroecuador Engineers and Professionals filed a lawsuit with the Constitutional Court to annul the OCP contract. The court dismissed the lawsuit several weeks later, at the same time the Ministry of Environment and Ministry of Energy and Mines approved the OCP's EIA. The case is being appealed.

A second lawsuit was filed in early June by ranchers, local conservation organizations and campesinos from the town of San Miguel de Los Bancos requesting an injunction to stop the construction of the OCP through Mindo. The plaintiffs have argued that the Ecuadorian government and OCP Consortium failed to adequately consult with affected communities and thus were in violation of the Ecuadorian Constitution which mandates prior consultation.

A third legal challenge is expected to be filed in the coming weeks by affected communities in the northern Ecuadorian Amazon who would bear the brunt of increased crude production. One major concern is the plan to construct a refinery in the Amazon in order to process the heavy crude so that it may be transported through the pipeline.

International Outcry

Outside Ecuador, a world-wide campaign is gaining momentum in support of the affected communities. In May 2001, a coalition of international environmental groups including World Rainforest Movement, Greenpeace, The International Ecotourism Society, Friends of the Earth, Rainforest Action Network and Amazon Watch sent a letter to JP Morgan Chase, Citigroup and Deutsche Bank, calling on the financial institutions to refrain from disbursing or making additional loans to the pipeline project. In addition, the groups urged the banks to refrain from further financing of new oil production facilities in pristine and culturally sensitive areas of the Ecuadorian Amazon.

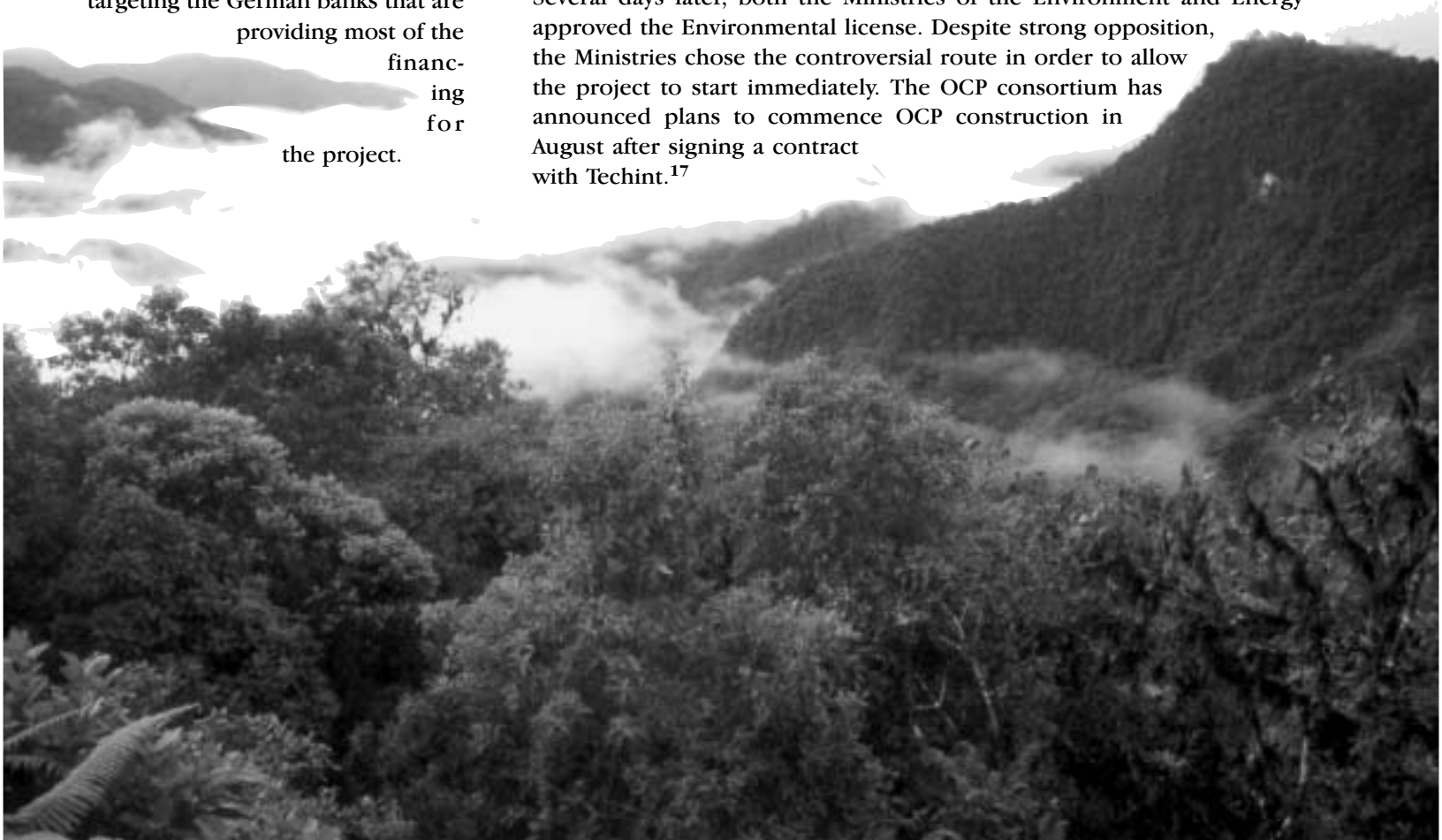
Groups in Germany have also begun campaigning in Europe, targeting the German banks that are providing most of the financing for the project.

Despite strong opposition, the Ministries chose the controversial route in order to allow the project to start immediately.

OCP Project Status

In mid-April, the OCP consortium and Entrix delivered the completed 1500-page EIA for the pipeline to the Ministries of Environment and Energy. The Government allotted just 27 days for the review and public comment period. Groups including Fundación Natura, Acción Ecológica, El Comité Pro Ruta Menor Impacto, CDES and ISIS each put out critiques of the EIA. All agree that the impacts of the project have not been adequately evaluated for a project of this magnitude in areas of such fragility and high ecological importance. After intense pressure, the Minister of the Environment found the initial EIA deficient identifying a list of 72 points that would have to be addressed before approval could be granted.

In early June, the consortium re-submitted the corrected EIA. Several days later, both the Ministries of the Environment and Energy approved the Environmental license. Despite strong opposition, the Ministries chose the controversial route in order to allow the project to start immediately. The OCP consortium has announced plans to commence OCP construction in August after signing a contract with Techint.¹⁷



A CALL TO ACTION



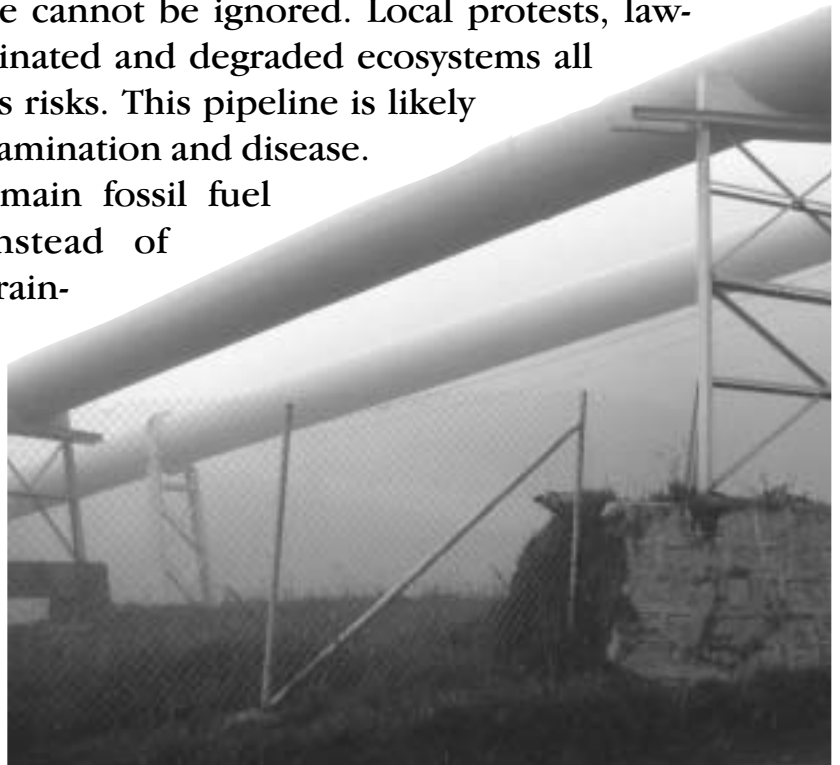
Investors are urged to refrain from financing the OCP pipeline and to end all lending to oil projects in culturally and ecologically sensitive areas.

Those concerned are invited to support local organizations and communities who are defending the last vestiges of Ecuador's pristine rainforests. Ecuador's increased oil exports are primarily destined for consumption in the United States while it is North American and German oil companies and financial institutions that are at the core of financing the project.

The environmental and social costs of tapping Ecuador's heavy crude cannot be ignored. Local protests, lawsuits, bombings, oil spills, and contaminated and degraded ecosystems all are evidence of this project's enormous risks. This pipeline is likely to destroy fragile areas and spread contamination and disease.

It will increase reliance on oil--the main fossil fuel responsible for climate change. Instead of expanding oil development into intact rainforest, we call upon the Ecuadorian government to consider economic alternatives based on permanent protection of its forests and biodiversity.

We urge financial institutions to phase out all lending to fossil fuel projects in ecologically pristine and culturally sensitive areas and instead invest in accelerating the transition to clean renewable energy.



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Ecuadorian Government Decision-Makers

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END NOTES

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