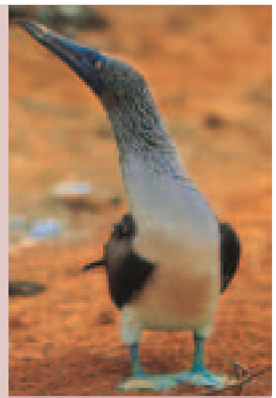
INSIDER VIEW

Ecuador



MONDAY, MARCH 11, 2002

Recovery opens door to investors

HAVING STABILIZED THE ECONOMY THROUGH DOLLARIZATION AND OVERCOME THE DEVASTATING EFFECTS OF EL NIÑO, ECUADOR'S MAIN OBJECTIVES ARE NOW MODERNIZATION AND PRIVATIZATION. TELECOMMUNICATIONS, ELECTRICITY, WATER, AND TRANSPORT INFRASTRUCTURE, AS WELL AS MINING, ARE POTENTIALLY PROFITABLE SECTORS RIPE FOR DEVELOPMENT

ECUADOR, with over 13 million inhabitants, is situated on the equator in the northwest corner of South America, and its 109,500 square miles cover Pacific coast lowlands, Andean valleys and mountains, and Amazonian rain forests. Its main exports–cacao, shrimps, natural flowers and bananas (of which Ecuador is the world's number one exporter)–were consolidated and superceded economically in 1972 by the discovery of oil, which helped finance expanded public services, state enterprises, infrastructure and import-substitution manufacturing. However, the country's reliance on the export of primary products such as oil, bananas, and shrimp, left it highly vulnerable to fluctuations in world market prices.

ATPA renewal and expansion remains vital to Ecuador's still fragile economy

Indeed, by the 1980s, the promising economy had stagnated due to falling oil prices and the effect of 'El Niño' on agricultural production. By the late 1990s, oil had dropped to its lowest price in a decade, banana exports had fallen from $1.3 billion to $900 million and shrimp from $800 to $250 million a year. In 1999 the economy virtually collapsed as hyperinflation and non-fulfillment of long delayed tax, judicial, public pension and educational reforms all took their toll. The country defaulted on its Brady and Eurobond payments and deposits were frozen at a cost of $2 billion dollars. This prompted the removal of President Jamil Mahuad in an indigenous military coup in January 2000, succeeded by the then Vice-president Gustavo Noboa.

President Noboa's most important reform was the dollarization of the economy, with a fixed exchange rate of 25,000 Ecuadorian sucres to the dollar. In April 2000, the Noboa government signed an agreement with the International Monetary Fund for a one year stand-by agreement and in September 2000, it concluded negotiations with the Paris Club of official creditors for a one-year rescheduling of $880 million in debt and arrears. As a result, the country's economy was stabilized and the GDP rose to 5.4% in 2001, compared with 2.3% the previous year and a drop of 7.3% in 1999.

The Noboa administration now aims at reforming public finances and sustaining long-term dollarization, ideally by acquiring foreign investment to generate fiscal surpluses, build up a macroeconomic stabilization fund and make progressive reductions

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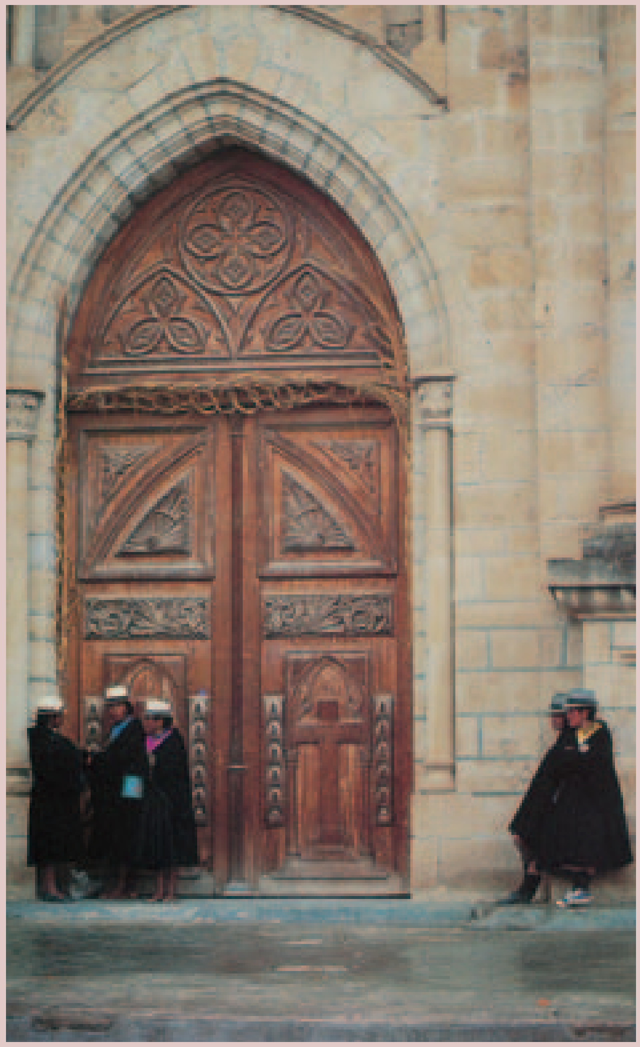

ECUADOR is hoping its high-earning industries (agriculture, textiles and oil) and a new IMF agreement consolidate the country's recovery.

FACTS & FIGURES

POPULATION
13,183,978
(July 2001 est.)

AREA
109,500 square miles. Slightly smaller than Nevada

CURRENCY
The US dollar has been the country's currency since April 2000

CAPITAL
The Ecuadorian capital is Quito

GDP
$37.2 billion (2000 est.)

GDP GROWTH
0.8% (2000 est.)

RESOURCES
Natural resources include: petroleum, fish, timber, hydropower

INDUSTRIES
Petroleum, food processing, textiles, metalwork, fishing, mining

U.S. presence rejuvenates key local industries

HANGING BY A THREAD Ecuador's textile sector is particularly dependent on the renewal of the ATPA agreement.

ECUADOR HAS strong political and social links with the U.S., on whom it relies for trading and financial support. Its efficient and competitive agricultural market is largely dependent on the U.S., which is the number one client for the country's exports of natural flowers (70%), shrimp (60%) and bananas (of which Ecuador is the leading world exporter). Crude oil, coffee, cocoa, sugar, fish, plywood and gold are other important exports to the U.S., and total purchases for 2000 were $1.8 billion, or 38% of the total, and 10% increase from the previous year.

In turn, the U.S. supplies Ecuador with corn, wheat and technical equipment such as generators, turbines, motor vehicles and parts, pumps and domestic appliances. Imports from the U.S. totaled $932 million in 2000, a 1% increase from 1999.

Dollarization has imposed a fiscal discipline previously unknown in Ecuador, helping to reduce inflation and stabilize the general situation. Currently the country is hoping for a renewal and expansion of the Andean Trade Preferences Act (ATPA) to give the reviving economy an added boost. The ATPA, which expired in December 2001, was set up ten years ago to grant preferential duty free access to certain products from Ecuador, Colombia, Bolivia and Peru with the aim of providing alternatives to coca production and restricting the illegal drug market that flourishes in the Andean region. Last November, the U.S. House of Representatives approved an expanded version of the law, planned to last until 2006, which would increase benefits for textile and clothing and add canned tuna–a leading export–to the list of eligible goods. The bill is now due to be passed by the Senate.

One source of dollar income that has suffered badly since the September 11 terrorist attack has been the remittance of private funds from hundreds of thousands of emigrants residing in the U.S. In 2000 an estimated $1.36 billion was sent home, the second most important source of foreign exchange after oil exports. But the 2001 figures are due to show a sharp drop.

The U.S. presence is increasingly felt in various local spheres. On the retail front a number of U.S. franchises are developing in the new Ecuadorian malls, where many North American products are marketed. The sector provides many additional opportunities for investment as U.S. products are very popular, and anything 'gringo' is regarded as good. Several U.S. cargo companies, meanwhile, service the two international airports in Quito and Guayaquil, and major carriers include American and Continental.

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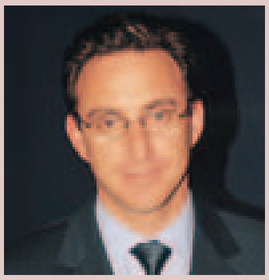
to the public external debt problem. With confidence partially restored in the economy, there have been positive signs of international assistance. The IMF handed out $95 million to Ecuador in December 2001 and a new agreement is anticipated for 2002. It is also hoped that the U.S. Congress will re-extend the recently-expired Andean Trade Preferences Act (ATPA), which granted preferential duty-free access to the U.S. market for certain products and helped to increase output, generate jobs and create a more diverse export base.

Ecuador's largest foreign currency earners after oil (which represents 20% of the GDP) are remittances from emigrants mainly based in the U.S. and from tourism. Agriculture and textiles were also high earners, while inflation stood at 22.4% in 2001 compared with 91% the previous year. The consumer price index in turn rose 0.67% in December 2001 as opposed to 2.5% in 2000 and the situation is now considered "normal inflationary process." Though unemployment officially decreased to 10.5%, poverty is an increasing problem. Only 40% of homes have running water and sewage systems.

Quicentro shopping complex set to repeat success

THE QUICENTRO shopping complex clearly demonstrates the importance of American influence in the country's expanding retail business. Located in the heart of the Ecuadorian capital Quito, and given a state-of-the-art design by a U.S. company, Quicentro is one of the first grand-scale commercial centers to open in Latin America. Its unprecedented success has prompted the opening of a second mall-style development called San Marino in the Pacific coastal port of Guayaquil, Ecuador's second largest city.

"The commercial sector is now at a peak moment," says Quicentro Shopping Director General Michel Deller, "and retail is 'the' business opportunity." Mall construction is among Ecuador's most potentially lucrative businesses and Mr. Deller believes that now is the ideal time to invest. "The situation today is totally different from 1999," he explains. "The country has learned from its earlier crisis and the economy is benefitting from the stabilizing effects of dollarization, which rules out the possibility of future devaluation." Inflation is expected to drop to a single digit figure in 2002, and low labor costs and an educated work force add to the attractions of investing in Ecuador. "People are used to operating in a risk situation, so they find working in a stable environment very easy," he adds. "Ecuadorians have a unique will to progress and succeed."



MICHEL DELLER
Director General of Quicentro Shopping

The top seller among the 60 commercial chains in Quicentro's 200 retail outlets is the U.S. brand Tommy Hilfiger. Mr. Deller is looking for foreign investors to promote and sell such renowned American brands. Incentives are there to succeed, as concessionary rights to owners are contingent on their administering and improving their stake, in addition to ensuring the business is always making a profit.

SHOP TILL YOU DROP Quicentro Shopping is revitalizing the fortunes of Ecuador's retail sector through its malls in Quito and Guayaquil.

Guayaquil offers opportunities equally as exciting as those to be found in Quito. "It's an investor's dream, ideal for commerce," says Mr. Deller of the lively and impulsive coastal city of two million inhabitants. Plus points are its low building costs, creative work force and a prosperous, forward-looking local council that is always eager to promote business interests. In addition to the San Marino Shopping Mall, Mr. Deller cites the success story of La Boutique Pierre Cardin in the Hotel Colon, whose international fame has enticed various businesses, including a top Miami commercial center, to open exhibitions there.

Ambitious development plans given green light

THROUGH FONDO DE SOLIDARIDAD AND CONAM, ECUADOR IS OPENING THE DOOR TO FOREIGN COMPANIES WITH THE VISION TO INVEST IN THE COUNTRY'S FUTURE

THE ECUADORIAN government has launched a process of modernization reforms and two key institutions, Fondo de Solidaridad and Conam (Consejo Nacional de Modernización del Estado) are involved with putting these policies into effect. Conam, created in 1993, is a state-run organization responsible for transferring state-owned companies into private ownership.

"I see Ecuador as a very sick person who has made a sudden unexpected recovery," says its Conam president Ricardo Noboa, whose task has been made easier by an economic revival which has seen the country go from a negative growth of 7% in 1999 to a positive growth of 1.5% in 2000 and drop from 90% to 22% inflation over the same period.

Though there has been some political and social discord, confidence is largely restored and positive international attention has increased with countries, as exemplified by Canada's interest in the newly-opened up telecommunications network. The OCP (Heavy Crude Pipeline) and Mazar dam are two of the country's largest private developments and

MORE THAN A PIPE DREAM The OCP pipeline, set for completion in 2003, is a key private development.

it is hoped large sums will be invested in electricity, depending on the success of negotiations being carried out with distributors. The water and postal services are also in the process of modernization and are looking for foreign investors.

Ambitious plans to convert Ecuador into a communications hub for the whole continent still need to be further developed. "We have to improve port and airport infrastructure first," admits Mr. Noboa, though private investments are planned for Quito and Guayaquil airports and concessions have been granted for four Pacific ports.

Fondo de Solidaridad is the first shareholder in businesses representing the state and its function is to administer companies until they are privatized. Director General Luis Burbano Davila is optimistic. "If we all pull together, we could see an important growth by 2003," he says. "The construction of the new OCP pipeline alone shows we could reach record low inflation figures of 11-13% soon."

Other plans include an improved road infrastructure, large scale hydroelectric projects and the long-delayed exploitation of gas oil, for which a National Council of Modernization concession has been pending for 30 years. "We act as state shareholders in areas such as telecommunications, where we own 100% of the shares of principal phone companies; we also have 100% shares of hydro and thermo power companies and between 44 and 99% of shares of 19 electricity distributing companies," explains Dr. Burbano.

Fondo de Solidaridad is committed to helping reduce crime and poverty. Investment-generated funds of around $200 million a year, representing 20% of the country's social budget, goes into programs for "free maternity", school meals, health, drinking water and cultural and educational programs.

Diversification is an important factor in an economy which is largely dependent on oil revenue. Dr. Burbano would like to see other key products given bigger shares. However, the banana sector has recently become static, the shrimp industry is still suffering from the early virus problem, and while the fresh cut flower market is developing impressively, it is hampered by transport costs and consumer demands.

LUIS BURBANO DAVILA
Director General of Fondo de Solidaridad

Specialized bank offers helping hand

WITH ITS POLICY OF HANDING OUT MICRO-CREDITS TO ITS CLIENTS, BANCO SOLIDARIO HAS ENABLED THOUSANDS OF ECUADORIANS TO START UP PROFITABLE BUSINESSES AND HELP REVITALIZE A TROUBLED ECONOMY

THE STRUGGLE against poverty is a constant problem for the Ecuadorian authorities. Particularly active in this field is the privately-funded Banco Solidario, which has assets of $40 million and has handled a total of 40,000 customers over the past five years. The bank grants small credits averaging $1,000 to financially-restricted purchasers with the simple aim of giving them a hitherto unobtainable property or business purchasing opportunity.

Executive President Santiago Ribadeneira Troya believes that to continue the positive growth obtained after dollarization, Ecuador needs to concentrate on activities where it has a clear economic advantage, such as in its large agro-industrial capacity.

"Businesses connected with agriculture have seen themselves converted into the world's number one: bananas, cacao, shrimp, flowers," he points out. "And not by quantity but by quality."

Ecuador's magnificent geographical location has helped–only Kenya is similarly placed to provide such products. "The challenge is to use this environment to create an increasingly profitable business," he adds.

Careful measures are needed to revitalize and create confidence in the banking structure. "If opportunities are handled right, the banking system will be the first beneficiary," says Mr. Ribadeneira. At present, stricter controlling processes are still required and many banks are simply not ready, representing a high risk to their shareholders. Most banks have a capital structure and interests have to be invested for them to capitalize effectively. Current investment remains low as many countries still have doubts about Ecuador, not least because of its relatively small economy.

Banco Solidario is solid and has survived the crisis for three clear reasons. Firstly, it had overseas partners who provided back-up in the near-catastrophic period of the late 1990s. Secondly, its passive structure is based on installment deposits with no current or deposit accounts. ("So no one rushed to our bank in the moment of crisis to withdraw funds," claims Mr. Ribadeneira.) Lastly, all assets are liquid with a genuine flow of funds: average installments are of 120 days and payments made fortnightly or monthly. To get his or her next loan, the borrower must have paid off the previous one.

Because of Banco Solidario's customer-friendly system, clients have been loyal and more inclined to invest even in times of crisis. "Specialized banks like ours have access to real opportunities, and other banks need to analyze their own particular needs, as sooner or later the foreign banks will be here in competition," says Mr. Ribadeneira.

Of his overall achievements he claims "we have converted a

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SANTIAGO RIBADENEIRA TROYA **Executive President of Banco Solidario**

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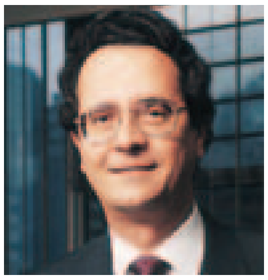
social problem into a business and this has had a clearly visible effect on reducing poverty." Banco Solidario's micro-credits have indeed opened up a wider range of possibilities to those financially stretched members of the population who work in modest jobs or operate small businesses on a low income. According to Banco Solidario, 60% of the adult working population has no access to the financial system. Mr. Ribadeneira wants to improve their quality of life by offering them an affordable and reliable loan system and a chance to buy their own home by quotas, an infinitely more practical deal than that of the country's traditional profit-oriented money-lenders who charge up to 50% interest and offer no benefits at all in return.

"Banco Solidario was set up without any form of government handout," says Mr. Ribadeneira. The shareholders are all private and include national and international non-governmental organizations. "We have developed a very innovative business model and are now aiming to extend our network throughout the country by building partnerships with NGOs, particularly in agriculture-related projects."

Energy surge in the pipeline

THE KEY ENERGY SECTOR IS TO SEE FUNDAMENTAL CHANGES IN THE COMING YEARS AS NEW LAWS PAVE THE WAY FOR PRIVATE INVESTORS AND THE NEW OCP PIPELINE BOOSTS ECUADOR'S PRODUCTION CAPACITY



RODOLFO BARNIOL ZEGERA Executive President of Petroecuador

THE ENERGY and mining sectors are vital to the economy of Ecuador. Oil, in particular, is the base of the country's economy and, in December 2001, proven reserves were estimated at 2.1 billion barrels, with crude production around 415,000 barrels per day during the first ten months of 2001, according to the U.S. Energy Information Administration. Oil accounted for 14.6% of the GDP in 2000, and this figure has now risen to 20%. As the oil sector is mainly controlled by the state company, Petroecuador, the authorities are now looking to attract foreign investment to develop the country's largest oil fields and boost production. The Minister of Energy and Mines, Pablo Teran, explains that, "the legislative reforms that introduced the dollarization of the economy, which was a fundamental structural change, also included a new law for the oil and gas sector which opens up the door to private investment. Now, any private company can come and develop a project in the oil sector."

One very important project will help the country boost its production and find new markets. The heavy crude pipeline project (OCP in its Spanish acronym) will, according to Mr. Teran, "have a huge impact on our economy because, until now, our oil sector was limited by the transportation capacity. We had only one pipeline, the Transecuatoriano, which was used at full capacity and this limitation prevented investors to come and exploit new fields." The minister adds that, "this pipeline, whose capacity will be of 450,000 barrels a day when it is fully operational, will very quickly be able to transport as much as 390,000 barrels a day." Construction of the OCP pipeline began in June 2001 and is expected to be completed by late 2003.

The national petroleum company, Petroecuador, is a major player in the national oil sector. It is divided in three main subsidiaries, Petroproducción, Petroindustrial and Petrocomercial, and its governing council includes representatives of the main ministries of the country–Energy, Economy, Defense, Industry, and the Presidency. The company is currently looking for international investment to enhance production and implement new projects. By increasing the participation of new strategic partners it hopes to obtain the required capital to increase its production of crude oil from 230,000 barrels a day–around 56% of the national produc-

THE MINISTRY OF ENERGY AND MINES is digging deep in its efforts to attract private companies to Ecuador.

tion–to 330,000 barrels a day. Its executive president, Rodolfo Barniol Zegera, believes that the ecuadorian oil sector "is about to register a tremendous development and offers new opportunities to foreign investors."

The company invests around 60% of its resources in developing its infrastructure and modernizing its equipment. A substantial part of this investment also goes to environmental projects. "We routinely upgrade industrial installations, inspect underwater pipelines and carry out periodic quality control checks," says Mr. Barniol Zegera. Petroecuador has set up a specific department whose mission is to oversee the environmental aspects of the operations and "develop better relations with the local communities."

The policy of liberalization has also brought changes to other energy sectors apart from oil. In the electricity field, for example, where the percentage of shares of operating companies up for sale has risen from 39 to 51, there are 17 businesses being sold for a total of $1.6 billion with 1,600 megawatts ready for installation once these sales are finalized.

In the mining sector, traditional special privileges (regalías) have been eliminated in order to transform it into a normal business, covering items like income tax and a concessionary rent. Ecuador also has a large dry gas potential to generate electricity for domestic use. The gas-producing company, Energy Development Corporation Ecuador, is already drawing gas from two of its eight wells in the Gulf of Guayaquil, one of 20 million cubic feet per day and the other of 29 million cubic feet.

Agricultural diversification transforms sector

CARVING OUT A SUBSTANTIAL MARKET SHARE IN THE COMPETITIVE BANANA, SHRIMP, AND FLOWER SECTORS IS NO MEAN FEAT AND IS TESTAMENT TO THE QUALITY OF ECUADOR'S AGRICULTURAL INDUSTRY

THANKS TO Ecuador's enviable climate and geographical location, agriculture is the second most important industry in the country after oil, accounting for 32% of all exports. After dropping 9.3% in 2000 it increased by 5.8% in the first half of 2001. Recovery had been delayed by high lending costs, low worldwide commodity prices and loss of competitiveness due to dollar-based wage increases.

PICK OF THE BUNCH **Ecuador's is the world's leading exporter of bananas, mainly to the United States.**

Ecuador is the world's number one exporter of bananas, which represent 18% of the country's total exports and feed 12% of the population, even though production dropped 30% in 2001 due to low international prices. Its main export destination is the U.S. where sales have been steadily increasing.

Shrimp account for 7% of all exports, a value of $285 million. The U.S. is again the main recipient, importing 60% of Ecuador's total shrimp exports. The 1999 'White Spot' virus scare has now been resolved, quality has improved and, after an inevitable fall, production is rising again.

Ecuador is also one of the world's biggest flower producers, especially roses, and their quality and variety are rich. The flower sector produces 4% of total exports and the States once again are the leading recipients. Finally, cacao, at 100,000 tons a year, represents 1% of all exports.

As general food production of dairy produce, beef and seafood has dropped, there has been a need to diversify into non-traditional sectors. A family-run business called Confiteca is leading the way. Originally established in 1964 as a small consumer-oriented chewing gum company, Confiteca eventually expanded into the production of candies, sweets, chocolates, lollipops, toffees and nougat and became the leader in the country's confectionery market.

Investment in assets and technology in the 80s established Confiteca's reputation for dynamism and efficiency and today it owns several manufacturing confectionery companies as well as having a notable presence in 29 countries. Its main target area is Central and Latin America, especially Colombia and Peru where it plans to set up a strong network. "At present we have 380 people in Peru, 200 purely in sales, and 20 small offices and 200 employees in Colombia, all devoted to selling," says Director General Gonzalo Chiriboga. "We want to show that it is possible for a small company like ours to expand. In our business there aren't so many players. On the Latin American level, we have staff who are closely involved with the business. Our products are very well received."

GONZALO CHIRIBOGA CHAVES **Director General of Confiteca**

Mr. Chiriboga wants to form alliances with suppliers willing to share the same interest in his product. "To have a good strategic ally, you need to create credibility," he says. "Our company does well as we never ask for favors from the state. At the same time we try to win the customer's confidence." Confiteca also works very hard to maintain its leadership, develop a brand and obtain recognition from its clients. "Investing in publicity is as important as investing in machines," says Mr. Chiriboga.

In order to make timely decisions in each market, Confiteca is gradually decentralizing. Its sales force is capable of store-to-door distribution of consumer goods in Ecuador and only highly qualified staff are employed. "All overseas sales supervisors must speak other languages and have a university education. We contract staff not just as representatives in a country but as people who can fit into the role of director there. We like to install staff overseas who are capable of seeing our products made there and continue to develop and grow. And we are always trying to find new ways of doing things well," explains Mr. Chiriboga.

Telecoms liberalization down the line

HAVING SUCCESSFULLY STREAMLINED ITS TELECOMS LEGISLATION, ECUADOR IS NOW LOOKING TO OPEN THE SECTOR TO PRIVATE OPERATORS

THE ECUADORIAN government is currently finalizing opening of the telecoms market. The predominantly state-run system is looking to attract private companies willing to invest in the development of a modern telecoms network in order to encourage greater efficiency and progress. Presently organized by Conatel, the National Telecommunications Council, and Senatel, the National Telecommunications Secretariat, Ecuador boasts three public phone companies. Two of these are state-owned–Andinatel, which covers the mountainous Andean zone, and Pacifictel, which covers the Pacific coast–while the third, Etapa, is municipal and operates in the country's third largest city, Cuenca. Together they manage 1.3 million fixed lines.

Ecuador aims to grant three 15-year concessions for local wireless networks to help develop a telecommunication infrastructure in a country where less than 10% of the population has a phone line. Existing mobile operators are Otecel, a subsidiary of the U.S. company Bellsouth, and Conecel, operating in conjunction with Mexico's Telmex. The Andean nation, which tried to sell its state-owned telephone companies twice in the 1990s, hopes this time to open the sector by inviting private companies to compete with state industries, pushing the public companies toward greater efficiency and competitiveness.

In an exclusive interview, the Director of Senatel, Carlos del Pozo Cazar, outlines his vision of Ecuador's telecommunications future.

The telecoms sector is opening up to new operators. What opportunities does this bring for investors?

First of all, companies opening up here will be looking for a valid legal framework to guarantee that their business will function properly and is profitable. For now, our penetration rate is one of the lowest of all Latin America. There are practically no public phones. We want to raise the present fixed line penetration rate from 10% fixed lines to 15% or 20%. As for mobile telephony, the two private firms who at are operating at present manage 797,000 cellular lines. Wireless technology and internet clearly offer many opportunities.

Ecuador's two main operators, Andinatel and Pacifictel, are now looking for strategic alliances. Past attempts to privatize them failed and Ecuador remains largely unknown to the rest of the world. How are you spreading the word on the opportunities the sector offers?

By creating publicity campaigns, attending international congresses and contacting American and European companies. We are also using e-mail promotions to embassies and foreign political representatives. International institutions such as the IMF and the IDB (Inter-American Development Bank) are also helping us.

What is the relationship between Senatel and Conatel?

It's one and the same family. Conatel is the Directive Council and Senatel has an executive function. Employees working for both institutions have one clear objective: to open up the telecommunications market. We have speeded up the bureaucratic process. Taking out a license used to take 18 months, and now we can do it in 30 or 40 days.

With more investors, market competition will be tougher. Is this healthy?

I'm completely in favor of the open market. The more investors the better. To attract them, we must make tariffs attractive. International calls are being lowered so businessmen can communicate worldwide at a reasonable cost. After 2003 we'll look again at the basic rate.

What about cooperation with the U.S. market?

We provide the system and would like them to be of U.S. standard. U.S. investors are accordingly welcome to bring their own technology.

Operator looks to broaden horizons

IN AN ATTEMPT TO REACH PROJECTED PENETRATION TARGETS, INCREASE EFFICIENCY, AND UPDATE TECHNOLOGY, ECUADORIAN TELECOMS OPERATOR PACIFICTEL IS HOPING TO SET UP A STRATEGIC ALLIANCE WITH AN OVERSEAS COMPANY

MAINLY covering Ecuador's west coast area, Pacifictel is one of Ecuador's two national telecommunications companies. In view of the country's recently improving economic status, and the promise to liberate the country's telecoms sector, Pacifictel is now looking to find a strategic partner.

"A few years back, Ecuador touched bottom with frozen deposits and three digit inflation figures, but now the country is rising again," says Pacifictel's Executive President Antonio Saenz Fernandez, referring to the economic crisis of the late 1990s. "The banking system has finally been streamlined, giving it a more solid framework than it had before dollarization."

He regards the telecoms sector as one of Ecuador's most important developing areas and wants to take advantage of the dynamic technology that has emerged over the past three years and of the more competitive prices available now. "When cellular phones first came out they cost $1,000," he recalls. Today, telecommunications are competing in an increasingly open market and some companies may have difficulty keeping up due to the wide variation of bands and frequencies that exist.

ANTONIO SAENZ FERNANDEZ Executive President of Pacifictel

Ecuador has two leading companies in the fixed line business: Andinatel and Pacifictel. "At Pacifictel we have around 650,000 clients and applaud the government decision to open up the market and not leave us waiting around until 2003, like other less fortunate countries," says Mr. Saenz. "It would have been cosy but unprogressive to continue in our old protected state, developing slowly and quietly without the hassle of competing with new players. I think we have responded to the new situation in a responsible way. From now on, any company wanting to come and start up a phone company can do so and we feel we're technologically prepared to cope with this situation."

Three to four years ago Pacifictel lost out on chances to be privatized. Now its priorities have changed. "It's time for strategic alliances," says Mr. Saenz. In accordance with government recommendations, Pacifictel has decided to look for international companies to manage operations.

Pacifictel aims to increase its 680,000 fixed lines by an additional 220,000

Pacifictel currently has 680,000 fixed lines and has signed contracts for 220,000 new lines, of which 70,000 will be to cover analog lines changing to digital. Penetration is 10.5% and the short-term target is 12-14%. Guayaquil, where Pacifictel is based, has a continuous and unpredictable population growth and people need more phones and services.

Various national and international projects are now under way. The largest and most ambitious is the link with the 4,536 mile Panamerican underwater cable which uses fiber optic lines and connects with Chile, Colombia, Venezuela and Panama. Among local projects are a Guayaquil fiber optic loop, with the last mile in copper, and an inland loop to Quito, currently handled by Pacifictel at a cost of $23 million and soon to be contracted to the Chinese state company ZTE.

Pacifictel is particularly eager to begin strategic alliances with international operators such as U.S.-based Telecon, Spain's Telefonica and Mexico's Telmex, all of whom have already seen the local set up and are interested in collaborating. Mr. Saenz believes his company's credentials speak for themselves. "We don't need a state budget or any loans since we rely on and live off our own cash flow," he says. "We are independently run, use the latest technology, have top consultants and represent a credible and safe investment. We are also making advances in ADCL technology and have our own internet firm for which we're looking to arrange a flat rate. Soon we hope to have a PCS band and perhaps GNS technology." Mr. Saenz sees the battle between fiber optic and copper resurging in telecom technology with copper making a comeback after recent years of devaluation. "There is a good marriage now between these two elements," he says. He is also proud of his company's dynamic and independent attitude towards the new economy. "We never let the grass grow under our feet. Instead we went out and found clients on our own."

In order to reach its new projected penetration target, Pacifictel need to take a good look at tariffs. "We've been left behind," says Mr. Saenz. "Ecuador produces $11 per phone line compared with Colombia's $22 and Venezuela and Argentina's $33 which means we only produce half of what Colombia does and a third of what other South American countries produce." From 1997 to 2000 the rate of the national currency, the sucre, rose from 4,500 to 25,000 sucres to the dollar, which forced the reduction in tariffs. Now the aim is to return to international tariff levels and produce realistic rates compared with those of other countries.

Pacifictel is governed by a general council of shareholders under an administrative directorship headed by the Fondo de Solidaridad. "We report to the directors for control of the company," explains Mr. Saenz. "There is no political influence."

Investment closes the technology gap

ANDRES PEREZ ESPINOSA Executive President of Andinatel

ECUADOR'S LEADING TELECOMMUNICATIONS COMPANY, ANDINATEL, IS URGING INVESTORS TO SEIZE THE DAY AND TAKE FULL ADVANTAGE OF THE CURRENT POTENTIAL OF THE SECTOR

ANDINATEL is the largest and most successful telecommunications firm in Ecuador. It pays the most taxes, makes the largest profit in the Fondo de Solidaridad, the public institution that holds a majority share in all state companies, and has an annual growth of 85%. At present, it is looking for an international partner to help it bid for the new wireless license up for auction, which it regards as an essential step for survival.

Like its coastal zone competitor Pacifictel, with which it is anxious to avoid price wars in their respective areas of concession, Andinatel has invested over the past 18 months in network digitalization and optical networks for data transmission.

"Ecuador suffered tremendously from economic instability," says Executive President Andrés Perez Espinosa of the recent economic crisis and recovery in his country. "In 1998 we had very little acquisitive power. Then, just when things looked hopeless, the dollarization saved the day. We hoped it would re-establish a rhythm of growth and development and, lo and behold, it did."

> Andinatel's target is to increase its customer base to 900,000 by April

Mr. Perez is strongly in favor of the modernization and privatization steps being taken by Ecuador and sees both as important in helping the country recover. "My origins are in the private sector, and I've been President of the Quito Chamber of Commerce on more than one occasion," he says. "It's been a long, slow process, which is bad in some ways but good in others, as we've taken steps carefully and cautiously."

One fear has been that in some sectors, for example electricity, privatization will cause a surge in prices. In the telecoms sector the state monopoly has been transformed into two separate companies, Andinatel and Pacifictel, both still under government supervision, yet acting within a private framework.

Mr. Perez feels that Andinatel is well equipped to face the imminent liberalization of the market. "Technology and internal administration have changed a lot. We have better personnel and an improved culture of service to the customer. This new desire to move forward is diametrically opposed to the earlier 'laisser faire' attitude. In the old days, a line took six months to repair. Now it is done in 48 hours. All the staff here are aware of these changes. These are what have made us into Ecuador's top money-making business."

Andinatel wants to increase its current 650,000 customers to 900,000 and, by April, have at least 900,000 lines. "This, with the help of our new state-of-the-art technology and widened sphere of operations, will bring us more income, more growth, more expansion," says Mr. Perez. "It also allowed us to increase our tariffs in October without losing clients. Our customers have accepted the new rates because we give them what they ask for: customer care, quick repairs, solid administration and transparency in business transactions."

In spite of the recent price hike, Ecuador's telecoms tariffs are still nowhere near as high as those of other Latin American countries, such as Colombia and Peru. "Our rates are too low and unprofitable," says Mr. Perez. Before raising them again, however, Andinatel has to ensure its services are not just good but will continue to improve. "We have approached the quality level of our neighboring countries, and by the middle of the year hope to be even better. Within our current scale of rates the commercial tariff is higher than the residential tariff which is subdivided into two other branches, including a 'popular' one."

The company is now looking for a strategic partner that will consolidate the advances made so far and help to provide the latest technology. "Up to now we have progressed in a controlled manner and now we are looking to conclude an alliance with a major international partner. I don't think we're equipped to enter a really competitive market on our own. As long as Andinatel and Pacifictel are government property, we are restricted to the domestic market. If we get a key partner to administer both companies, we will be able to expand internationally. We may be big fish here but we're small fry on an international scale."

The company is also keen to close the technology gap, especially with regard to fiber optics. "In addition to the Guayaquil-Punta Carnera link by Pacifictel, which was fairly small, larger loops–such as Tulcan-Guayaquil–are being put into effect. "All these new extensions are being done with fiber optics," says Mr. Perez. "This is how we'll survive in the new telecoms world."

He feels U.S. investors should be more aware of the great business potential Ecuador offers and put aside possible doubts about the political, legal and commercial transitions still taking place. A closer look at the status of his company should convince them of its viability. "You cannot fail to be impressed by the quality of our staff and development potential," says Mr. Perez. "Any investor who takes the risk will undoubtedly be rewarded by excellent returns on his investments. We are still a young company with lots to do in many spheres. The moment is ripe."

Sports firms jump on World Cup bandwagon

THE EUPHORIA THAT FOLLOWED ECUADOR'S QUALIFICATION FOR THIS YEAR'S SOCCER WORLD CUP HAS HELPED TO CONSOLIDATE THE SUCCESS OF LOCAL SPORTS COMPANIES SUCH AS MARATHON

WHEN ECUADOR qualified for the World Cup on November 7th, 2001 by drawing 1-1 with Uruguay, the national celebrations knew no bounds. For the first time in its sporting history Ecuador was going to participate in soccer's most famed event, which this year takes place in Korea and Japan in June and July. Colombian-born coach Hernan Dario Gómez, who forged the players into a real team, is now a national star and the country hasn't seen such excitement since their long-distance runner, Jefferson Perez, won a gold medal in the 1996 Olympics.

RODRIGO RIBADENEIRA
Director General of Marathon Sports

As the forthcoming great event is heralded throughout the country, its impact and meaning go far beyond the boundaries of the sport itself, for soccer is the single unifying factor in this multi-ethnic land through which Ecuador's inhabitants relate to each other on totally equal terms. A new national identity has been created and a boost given to a country that has felt itself for so long to be in the shadows. The qualification has actually put Ecuador on the map for many people. Now thanks to its talented soccer team, Ecuador's name–at least in the world of sport–has spread far and wide.

"Soccer represents 60% of our business in this country," says Rodrigo Ribadeneira, Director General of Marathon Sports. His company, which officially sponsors the national team, provides 60% of the country's sportswear and its brand name is the local equivalent of Nike or Adidas.

Marathon was launched two decades ago when the real explosion of sports fashion began and is today a veritable Ecuadorian flagship in this sector. With a turnover of $65 million, it exports the remaining 40% of its sportswear to Andean countries. Recently it opened retail shops in Peru, where it intends to consolidate over the next four years, and is now looking to penetrate Colombia.

"In the 20 years I've been running this business, I've been able to give Ecuadorians the chance to obtain products similar to those they bought abroad," says Mr. Ribadeneira. "This is why it's expanded so much here. The country is soccer-crazy."

FLYING THE FLAG **Soccer fans celebrate the World Cup qualification of Ecuador, sponsored by Marathon Sports.**

Marathon's support for the national squad goes way back. "We were right behind our team even when they barely won a match in eight years," says Mr. Ribadeneira. "The world cup decision has helped the country's self-esteem incalculably."

The business now has 75% of the market cornered and Marathon Sports intends to dedicate itself to maintaining its position in the soccer market. It is also looking into other sports it can market and support by means of international licenses. "My son is finalizing an agreement with the American NBA to buy a license to sell in Ecuador and export to different related companies," says Mr. Ribadeneira. This will be advantageous to the company as it means outside brands and technology can then be brought in, and the products manufactured locally and distributed throughout the country.

Marathon employs 1,200 people of whom 600 are in the retail and wholesale business. The rest are in manufacturing, which gives work to more Ecuadorians. "Our licenses also allow us to sell our products in many countries and this will mean more jobs," explains Mr. Ribadeneira. He expects this figure of 600 to expand to 800 in the next few years.

Mr. Ribadeneira also feels Marathon has a social function to promote well-being in the country and help people to get on in life. His interests include promoting the Tin Delgado soccer school in El Chota, where young future champions can be seen on TV sporting Marathon shirts.

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FOR FURTHER INFORMATION PLEASE CONTACT SUMMIT COMMUNICATIONS AT:
1040 FIRST AVENUE #395, NEW YORK, NY 10022-2902.
TEL: (212) 286-0034 - FAX (212) 286-8376
E-MAIL: info@summitreports.com