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China, Petroecuador sign oil supply agreement

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LOS ANGELES, July 24 -- Ecuador's state-owned Petroecuador, eyeing an advance payment of $1 billion, has signed an agreement to sell 3 million bbl/month of oil to PetroChina International Co. Ltd. over a 2-year period.

Under the contract, Ecuador has agreed to export 2.88 million bbl/month of Oriente and Napo crude, with the $1 billion—representing 28% of the total value of the oil PetroEcuador will export—serving as an initial payment.

Altogether, the contract envisages sales of 2.16 million bbl/month of Oriente crude and 720,000 bbl/month of Napo crude, with a further option that allows Petroecuador to deliver 5% more or less than the stipulated amount.

Petroecuador said revenues from the prepayment will be used for investment in the oil sector and for public works. The state firm also said the price of each oil shipment will be decided according to market conditions.

Diego Borja, Ecuador's minister of economic policy coordination, last week said Ecuador had asked China not to resell the oil to either Peru or Chile, which already buy much of Ecuador's exported oil.

However, Borja said China has not been restricted from selling the oil anywhere else, including California, long a market for Ecuadoran crude.

The agreement is one of several in recent months in which China has extended loans in exchange for secure supplies of crude oil. Indeed, China has signed half a dozen such agreements since February, for a total of $46 billion, to secure long-term energy supplies.

In addition to the $1 billion heading to Ecuador, these agreements include:

• Feb. 17—China Development Bank (CDB) lends $15 billion to Russia's OAO Rosneft and $10 billion to OAO Transneft, in return for supplies from East Siberian oil fields over 20 years.

• Feb. 18—CDB finalizes an agreement to extend a $10 billion line of credit to Petroleo Brasileiro SA (Petrobras) for 100,000-160,000 b/d of oil to be sold at market prices.

• Feb. 21—China gives $4 billion in financing to Venezuela's Petroleos de Venezuela SA, which has increased shipments to China to reduce the country's traditional reliance on sales to US markets.

• Mar. 13—Angola confirms receiving another $1 billion loan from Beijing, bringing to $5 billion in oil-backed loans since 2002.

• Apr. 17—China National Petroleum Corp. enters into a $5 billion financing deal with Kazakhstan's KazMunaiGaz and also will jointly buy oil company MangistauMunaiGas.

Ecuadoran President Rafael Correa said the negotiation with Petrochina will have favorable conditions for his country and that the advance payment will help to ease liquidity problems.

In a television interview, Correa said his country experienced liquidity problems in June and July after repurchasing 91% of its 2012 and 2030 Global bonds.

In addition to the $1 billion advance, Quito is also negotiating with Beijing on a separate $1 billion credit with a 4-year maturity.

While the financial terms of the agreement are considered generally favorable to Ecuador given its economic circumstances, analyst BMI said “the country might yet struggle to meet its supply obligations” since the agreement has taken Petroecuador's contracted commitments to nearly 100% of its output.

Ecuador, which is the fifth-largest producer of oil in South America after Venezuela, Brazil, Argentina, and Colombia, produced 486,000 b/d of oil in May. Petroecuador produces 280,000 b/d, or just over half of Ecuador’s total output of 485,000 b/d.

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