

## Strong Ecuadorian Support in Certain Quarters for Foreign Mining: An Axis of Economic Growth?

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### Issues

What do the people of Ecuador truly think about foreign mining? Do they embrace foreign mining interests just as multinationals are gaining renewed interest in the region? Will foreign mining interests thrive in Ecuador?

### Key Insights

RIWI's new study of more than 6,500 randomly selected Ecuadorians 14 years of age and older with access to the internet shows: Educated and relatively affluent Ecuadorians – a statistically equal proportion of men and women – are somewhat more positive than negative about foreign mining. Foreign mining is seen as a net positive on Ecuadorians' personal lives, as a net positive in terms of the impact of foreign mining on their local communities, as a strong generator of employment, and foreign mining is seen as a net positive force for the country. In one important area of study, there is a statistical tie: Ecuadorians are split evenly on the impact of foreign mining on the environment. Ecuador's constitution emphasizes ecosystem rights (i.e., the rights of nature<sup>3</sup>). Before overall conclusions can be reached, this survey needs to be supplemented by face-to-face interviews with persons most affected by mining, persons who may or may not have been reached by the RIWI survey. Understanding the views of the most marginalized members of society is essential in this context.

### Context and Current View

Mining activity by multinationals operating inside Ecuador has emerged slowly over the last 15 years and the exploitation of mineral deposits has not had major economic significance for the country relative to oil production<sup>4</sup>. In March 2015, Ecuador rebranded itself as a mining-friendly jurisdiction, signaling that incentives and tax benefits would attract \$5 USD billion worth of investment over the ensuing five years<sup>5</sup>. This came on the heels of a 2014 amendment to a 2009 mining law, which now allows for private investment under a service-contract framework, so as to reduce the tax and royalty burden for foreign miners. In the past year, the government created a Ministry of Mines to focus on the development of the mining industry. On May 6, 2016, the Minister of Mining, Javier Córdova, announced the formation of a geological research network composed of representatives of the public sector and mining leaders, aimed to assist the consolidation of the country as a new mining destination for foreign investments in the coming years.

"Mining is no longer a four-letter word in Ecuador," Mr. Lucas Lundin, Chief Executive Officer of Lundin Gold (TSX: LUG), told attendees at the Prospectors and Developers Association of Canada (PDAC) conference in Toronto on March 7, 2016<sup>6</sup>. Other observers, including the Economist Intelligence Unit, have forecasted that foreign direct investment will rise as

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<sup>3</sup> Articles 10 and 71–74 of the Ecuadorian Constitution recognize the inalienable rights of ecosystems to exist and flourish, gives people the authority to petition on the behalf of ecosystems, and requires the government to remedy violations of these rights. For more detail, see: <https://therightsofnature.org/wp-content/uploads/pdfs/Rights-for-Nature-Articles-in-Ecuadors-Constitution.pdf> (accessed May 10, 2016).

<sup>4</sup> See, e.g. R. de la Torre and J. Carcelén. June 10, 2015. "Mining 2015." *Latin Lawyer*. Online (accessed May 12, 2016): <http://latinlawyer.com/reference/topics/46/jurisdictions/32/ecuador/>

<sup>5</sup> N. Mordant and S. Taylor. March 4, 2015. "Ecuador, seeking investment, buffs up mining sector image." *Reuters*. Online (accessed May 10, 2016): <http://www.reuters.com/article/mining-pdac-ecuador-idUSL1N0W51BD20150304>

<sup>6</sup> P. Koven. March 8, 2016. "PDAC 2016: Ecuador turning a corner as Lundin plots big gold mine." *Financial Post*. Online (accessed May 10, 2016): <http://business.financialpost.com/news/mining/pdac-2016-ecuador-turning-a-corner-as-lundin-plots-big-gold-mine>; See also:

the Ecuadorian government increasingly promotes foreign mining<sup>7</sup>. Will such vocal optimism<sup>8</sup>, even by the most influential of miners such as Mr. Lundin, run up against geo-political headwinds in the region that may potentially manifest in public opposition to mining across Ecuador? Given the multinationals' duty to proactively consult the public in Ecuador about mining activities, supportive public sentiment is critical if the Andean nation wishes to leverage the economic benefits of foreign mining on which Ecuador's political leadership remains bullish. On May 4<sup>th</sup>, the country's minister of strategic sectors, Rafael Poveda Bonilla, met with BHP's vice-president of copper exploration, Jean de Rivieres. According to a report in *oilprice.com*, Minister Bonilla made his case for why Ecuador holds both high-potential geology and a legal framework to accelerate development. "Watch for deals coming on exploration and development projects from BHP and beyond," wrote Mr. Dave Forest of *oilprice.com* in his May 5, 2016 brief.<sup>9</sup>

"We want mining to constitute the axis which will allow us to improve living conditions for communities and 15 million Ecuadorians," Minister Poveda told the PDAC Conference on March 2, 2016. Are Minister Poveda and the bulls correct? Has Ecuador's general population embraced foreign mining? Given the risks to mining posed by public opposition, RIWI set out to answer these questions by deploying its proprietary survey technology and algorithms that capture the random and true, anonymous opinions all across the Andean nation.

## Methodology

RIWI's measurement of citizen opinion employed the same question design and peer-reviewed, patented methodology<sup>10</sup> as RIWI's prior data-gathering initiatives on the perceptions of the extractives industry in 14 other nations (not including Ecuador), from a 2014 study previously done by RIWI in conjunction with the World Bank Institute<sup>11</sup>.

## Results of the Sentiment Analysis

### Employment

The Internet survey found a strong statistical relationship between Ecuadorians who feel the positive impact of foreign mining on employment and views favoring the benefits of foreign mining generally ( $p < 0.001$ , Chi-Square). This is consistent with the nation's laws that ensure that 80% of the mining labour must be Ecuadorian nationals. Among those who feel the employment benefits are very positive, 53% percent feel the impact of foreign mining on the country is also very positive, and 8% feel the effect is positive. However, 11% feel that, despite beneficial effects on employment, the overall impact on the country is negative or very negative.

### Environment

Similarly, a positive view of the impact of foreign mining on the local environment mirrors a positive view of the impacts of foreign mining on one's own personal life ( $p < 0.001$ , Chi-Square). Among those who feel the benefits of foreign mining on personal life are very positive, 52% percent feel the impact of foreign mining on the environment is also very positive, and 23% feel the effect on the environment is positive. However, 12% of this group who consider effect on personal life to be positive, feel the impact on the environment to be negative or very negative. Overall, despite the dissenters, this is good news for the government, whose Mining Minister said at EXPOMINA 2016 on May 6th: "The [government's] commitment is to develop environmentally responsible mining and working for the benefit of the communities within the area of influence."<sup>12</sup>

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<http://www.lundingold.com/i/pdf/presentation/BMO-Global-Metals-Mining-Conference-March-2016.pdf> (Lundin Gold, BMO Global Metal Mining Conference, February 28-March 2, 2016. Hollywood, Florida (accessed May 12, 2016);

<sup>7</sup> Country Forecast: Ecuador. *Economist Intelligence Unit*, April 2016.

<sup>8</sup> See, e.g., June 19, 2015. "The Untapped Mineral Wealth of Ecuador." (accessed May 13, 2016): <http://raregoldnuggets.com/blog/?p=1251>: "To this day, the Andean nation remains largely unexplored, but this recent discovery may change that. Should Ecuador make the appropriate moves to develop their mining sector, we won't be surprised to see it among the top-ranking mineral producers of the world!"

<sup>9</sup> D. Forest. March 4, 2016. "Will Ecuador's Mining Sector Return To Its Golden Days?" *Oilprice.com* (accessed May 10, 2016): <http://oilprice.com/Finance/investing-and-trading-reports/Will-Ecuador-Mining-Sector-Return-To-Its-Golden-Days.html>

<sup>10</sup> N. Seeman. *Nature* 528, 309 (17 December 2015) doi:10.1038/528309a; N. Seeman et al. *J. Affect. Discord.* 190, 115-121; 2016; Seeman, N., et al. 2010. Assessing and responding in real time to online anti-vaccine sentiment during a flu pandemic. *Health. Q.* 13, 8-15; N. Seeman et al., 2010. Autism and the measles, mumps, and rubella vaccine: Need to communicate. *J. Part. Med.* 2, e18.

<sup>11</sup> The World Bank Institute partnered with RIWI Corp. in January 2014 to gather information about global citizen's views on the mining and oil/gas industries and their impacts. The RIWI initiative targeted a broad public audience and successfully collected over 16,000 complete responses in just one month of inquiry. The report revealed perceptions about the sector's influence on issues such as country, community, environment, and economy: <http://openinggovernment.com/extractives/>. It includes data from: Australia, Canada, Chile, Colombia, Ghana, India, Indonesia, Mozambique, Senegal, South Africa, Tanzania, Tunisia, Uganda, and Zambia.

<sup>12</sup> Minerandina International. Ecuador: Announcement of the Minister of Mining. <http://www.minerandina.com/en/ecuador-announcement-of-the-minister-of-mining/> (accessed May 26, 2016)

## Preliminary Implications for Foreign Mining

The RIWI data show that broad population sentiment in Ecuador currently does not present a significant barrier to foreign mining interests. In fact, young people in key cohorts, including those aged 18-34, tend to be much more supportive than other groups toward foreign mining, suggesting that broad-based population support could rise still further. These data are valuable but need to be supplemented. As in any opinion survey, the majority of respondents are neutral, so that the percentage favoring mining is only 10% higher than those opposed. For this reason, face to face interviews need to be conducted, especially with those who will be most affected by foreign mining and who, perhaps, will profit least from mining revenues. Mining companies need to be pro-active in order to get such people on board and to be prepared to recompense loss of land, damage to environment, or destruction of traditional ways of life.

Engaging prior population sentiment is important given that social consultation processes on mining activities to be conducted, and the requirement to obtain an environmental licence, are required by law before entering into any activity essential for compliance. Non-compliance with this duty to consult may lead to a suspension of mining activities, including cancellation of a concession contract<sup>13</sup>.

The RIWI survey samples everyone who has access to the Internet and is, therefore, limited to the more educated and the more affluent members of Ecuadorian society. The survey may not, for instance, adequately sample indigenous populations historically opposed to large-scale mining operations<sup>14</sup> although they may be represented by the 20-25% who hold negative views. Opposition to Ecuadorian mining is known to exist<sup>15</sup>, but this opposition does not appear to be shared by the everyday Ecuadorian public most of whom do not foresee any impact, positive or negative, of foreign mining. Ecuador's political leadership is pursuing an economic policy of embracing foreign mining that is more or less consistent with the will of the majority of its people. This trend toward support for foreign mining is aligned with pragmatic geo-political realities the country faces: Under President Correa, despite an historic clear preference for state-run initiatives, progress in developing state-led mining is increasingly unlikely given the government's increasing public debt as a percentage of GDP<sup>16</sup>. Following the devastating impact of a 7.8 magnitude earthquake that hit the country on April 16th, President Correa signalled to the global community that it could not pay for the wreckage, coming as it did during a period when the country was already suffering from lower oil prices and depleted reserves. On April 20th, Mr. Correa said the country was in a position where it needed to raise sales taxes to 14% from 12%, and to further add a one-time levy on millionaires to rebuild the ruined cities.

Ecuador, the smallest member of the Organization of the Petroleum Exporting Countries, has just \$133 million USD in its treasury, one of the lowest levels in at least a decade, according to its central bank. International reserves at the start of the year had fallen to \$2.3 billion USD from \$4.2 billion USD in August, and external debt had doubled to over \$27 billion USD since 2009, according to Observatorio Fiscal, a Quito-based organization that tracks government finances. The withering scenario led the International Monetary Fund this month to project that the economy would contract 4.5% this year and 4.3% in 2017, the worst performance in South America after Venezuela<sup>17</sup>. Given this state of affairs, it is easy to make sense of the RIWI data that signal the employment, community and country benefits of foreign mining in Ecuador.

Figures A, B and C highlight the sentiment of young people in Ecuador, those 34 years of age and under, in order to showcase leading indicators of where sentiment toward foreign mining is heading over the coming years.

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<sup>13</sup> R. de la Torre and J. Carcelén. June 10, 2015. "Mining 2015." *Latin Lawyer*. Online (accessed May 12, 2016): <http://latinlawyer.com/reference/topics/46/jurisdictions/32/ecuador/>

<sup>14</sup> M. Alvaro. *Wall Street Journal*. July 11, 2013. "Ecuador Indigenous Groups Plan Suits Against Mining Activity".

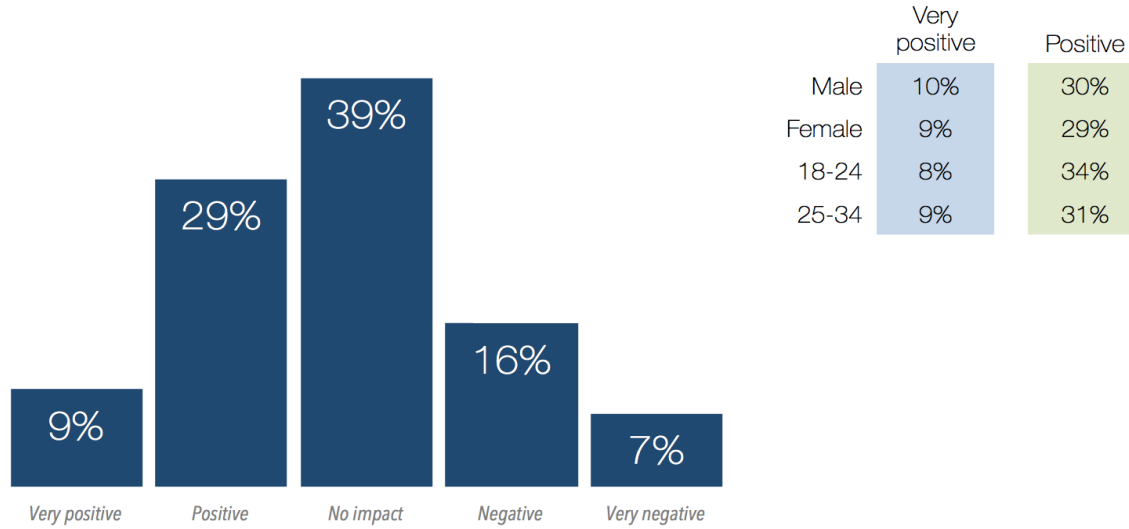
<sup>15</sup> See, e.g., <http://miningwatch.ca>; <http://www.yestolifenotomining.org/in-the-name-of-poverty-eradication-the-terrible-costs-of-ecuadors-extractivist-policies/>; <http://www.ecuadorreview.com/in-depth-ecuador/investigations/ecuadors-dirty-gold-is-transported-to-the-us-on-commercial-flights/>; <http://www.vtcynic.com/ecuador-trip-sparks-activism-at-uvm/>; <http://moneymorning.com/2015/06/01/insatiable-china-gold-demand-is-ruining-ecuadors-tribal-lands/>

<sup>16</sup> Country Forecast: Ecuador. *Economist Intelligence Unit*, April 2016.

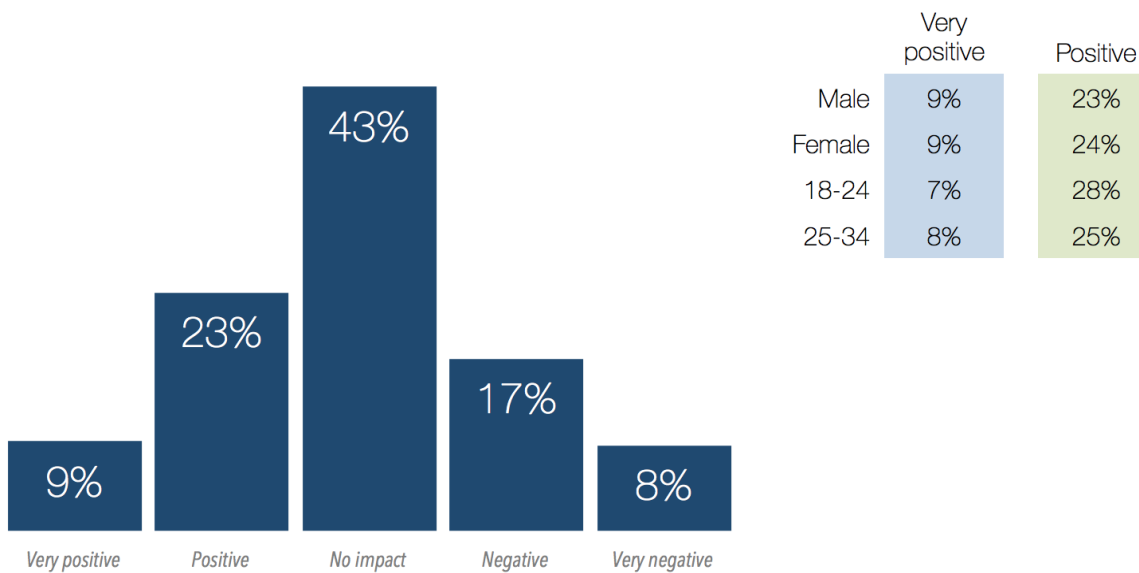
<sup>17</sup> S. Schaefer Muñoz and R. Dube. April 20, 2016. *Wall Street Journal*. "Ecuador Is Hard-Pressed to Pay for Earthquake Recovery". Online: <http://www.wsj.com/articles/ecuador-is-hard-pressed-to-pay-for-earthquake-recovery-1461193642>



**Figure A:** In your community, what impact does the foreign mining industry have on employment?  
 N=6,573, April 11-April 28

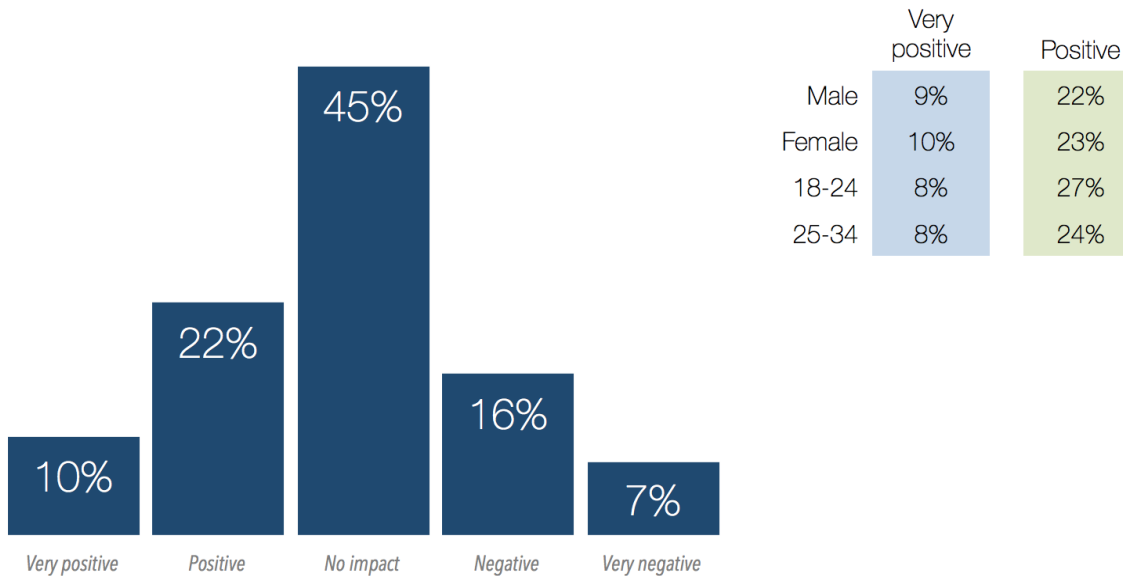


**Figure B:** What impact does the foreign mining industry have on your local community?  
 N=6,706, April 11-April 28





**Figure C: What impact does the foreign mining industry have on your own life?**  
 N=6,741, April 11-April 28



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To learn more about RIWI, or to ask about issues examined in this study, please contact: Ms. Sheila Penton, Assistant to the CEO, at: [sheila@riwi.com](mailto:sheila@riwi.com). RIWI offers bespoke country, multi-country and global studies to assess what people truly think anywhere in the world.

RIWI Corp. (CSE: RIW) is a global survey technology company that captures citizen and consumer opinion in all countries. RIWI’s patented approach – Random Domain Intercept Technology™ – works by targeting Web users, anywhere in the world, who are surfing online by typing directly into the URL bar. When these users make data input errors by typing in websites that no longer exist, or by mistypes on non-trademarked websites that RIWI owns or controls, RIWI invites these random users, filtered through a series of proprietary algorithms, to participate in a language-appropriate survey. Participation in any RIWI survey is voluntary and anonymous. More detail on the global RIWI survey system, which collects no personally identifiable information and whose technology and data in more than 200 countries have been described in *Nature*, may be found here: <http://riwi.com>. RIWI Corp. is listed on the Canadian Securities Exchange (CSE) <http://thecse.com/> under the symbol RIW.

The “Margin of Error” is based conservatively on a sample size of +/- 1.2% for a completed random respondent set of 6,500 Ecuadorians 14 years of age and older. Our survey completion response rate from the non-incentivized, random, non-panel respondent set of online Ecuadorians for this study was 47% of all those exposed randomly to the RIWI platform in Ecuador, and who thereafter opted in to complete the study. For statistical FAQs about RIWI’s proprietary all-country survey technology, please visit: <https://riwi.com/riwi-faq/>. For why RIWI is unique in the world on issues such as randomization, scale, intellectual property, anonymity, and global access, even in non-permissive environments, please visit: <https://riwi.com/why-we-are-unique>. The online population in Ecuador was 43.1% of the Ecuadorian population as of March, 2014.