



Ecuador Shakedown

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Latin America: Ecuador's leftist leader, Rafael Correa, a U.S.-trained economist, presumably knows there's no free lunch. With one exception: when there's a U.S. oil company to shake down and U.S. tort lawyers to help.

Ecuador's government is part of a trifecta supporting a \$16 billion lawsuit against Chevron Corp. on behalf of 30,000 rain-forest dwellers supposedly suffering from pollution created by the multinational.

There's pollution all right, but it's not Chevron's. It's the doing of Ecuador's inefficient state oil company, which has operated without Chevron's investment since 1992, creating the same toxic mess that state-owned firms from Mexico to Russia to Cuba to China do.

So blaming San Ramon, Calif.-based Chevron, or Texaco, the company it bought in 2000, makes zero legal sense. But the lawsuit goes on anyway because it's a deep-pocket target.

In America, the suit was laughed out of court several years ago. But in the fruity logic of the country once famed as a "banana republic," it still has legs. Ecuador already seized \$1 billion in Occidental Petroleum assets and has had few investors to bilk since.

How better to make up for it than by bringing in environmental activists and their radical lawyers to recycle an old case into a shiny new model for even more shakedowns of U.S. companies?

It started when Chevron bought Texaco, a company with a 33% minority partnership investment with PetroEcuador, in 1991. Texaco pumped Ecuador's oil in the 1960s when no one else would. It paid Ecuador \$24 billion in taxes and royalties for its effort.

The partnership ended in 1992, and Chevron settled environmental claims with a \$40 million cleanup. With that, it got a clean bill of health from Ecuador's government in 1998.

But without the \$24.5 billion in taxes and royalties that Texaco had paid to the Ecuadorean government for the oil, PetroEcuador rapidly let the place become an environmental mess.

Enter radical nongovernmental organizations seeking to "save" the rain forest, along with their U.S. tort lawyers. Suddenly Chevron, the long-gone investor, became the biggest target available.

For Ecuador, it was an especially welcome idea. Correa won the election promising huge spending for poor indigenous groups. Past governments hadn't bothered to develop Ecuador's hinterlands after Chevron left, and most of the infrastructure Chevron put in had gone to seed. Correa, a socialist, can no longer attract capitalist investment and relies on handouts from Hugo Chavez's Venezuela.

Correa went for broke on the Chevron shakedown, saying: "I call on the world to see the barbarity committed by this multinational." He brought in Hollywood actress Daryl Hannah to shill for him.

Meanwhile, Ecuador's congress changed laws to negate past settlements and to fix the case against Chevron. With a group called Amazon Watch looking to make a name for itself and an army of American tort lawyers looking for a payday, it became a plateful of trouble as colorful as anything on Carmen Miranda's head.

The lawsuit looked like a handy way to force a big oil company to pay for the roads, potable water and sewer systems that are the government's job, and which had been promised to angry voters in the past election.

A look at the claims shows that: Ecuadorean activist Richard Cabrera, in an April 1 report filed in an Ecuadorean court, absurdly claimed that Chevron owes the Amazon Defense Fund \$1.7 billion for environmental impacts, \$480 million for a new Ecuadorean health care system, \$428 million to rebuild Ecuador's potable water system, \$375 million for infrastructure projects, and another \$8 billion to the activists for "unjust enrichment."

What this really does is force Chevron to fund the government without even getting its oil. In this way, Ecuador and its left-wing allies take profits rather than property, a tactic that will surely become the envy of more conventional petrotyrants, who merely "nationalize" foreign oil companies.

For the rest of us, it's bad news. Oil companies take big risks to invest in foreign countries and often encounter the threat of expropriation when oil prices rise.

To let failed, rapacious governments like Ecuador's pursue companies like Chevron is surely an incentive for other radical tyrants. It's nothing but a \$16 billion shakedown of Chevron. If these activists succeed, all that's left will be even less oil and investment in it than there is now.