

Ecuador at Risk: Drugs, Thugs, Guerillas and
the Citizens' Revolution

Douglas Farah

Glenn Simpson

Senior Fellows

International Assessment and Strategy Center

Ecuador at Risk: Drugs, Thugs and the Citizens' Revolution
By Douglas Farah and Glenn Simpson
International Assessment and Strategy Center¹

Table of Contents

<u>LIST OF ACRONYMS USED</u>	3
<u>INTRODUCTION: THE RISE OF RAFAEL CORREA</u>	4
LESSONS FROM THE PAST NOT LEARNED	9
THE TIES THAT BIND ECUADOR AND COLOMBIA	10
THE ANGOSTURA BOMBING: A CHASM OPENS	12
STRAINED RELATIONS WITH THE UNITED STATES AND THE WELCOMING OF IRANIAN BANKS	14
<u>THE RISE OF RAFAEL CORREA IN TIMES OF CHAOS</u>	17
HISTORICAL CONTEXT TO THE "CITIZENS' REVOLUTION"	17
A FAMILY AND A LIFE STORY	18
THE ECONOMIC STORM BREWING	20
THE MANIPULATION OF THE INTERNATIONAL DEBT	21
CORREA AND THE INDEPENDENT MEDIA	25
JUDICIAL CORRUPTION	29
CORREA AND INTERNATIONAL BUSINESS CORPORATIONS: THE END OF INTERNATIONAL COMPLIANCE?	31
<u>THE FARC IN ECUADOR: THE EARLY DAYS</u>	34
THE POLITICS OF THE FARC IN ECUADOR	40
THE FARC AND THE CORREA CAMPAIGN	47
THE FARC'S MILITARY STRUCTURE ON THE ECUADORAN BORDER	53
THE IMPORTANCE OF LAGO AGRIO (NUEVA LOJA) AND THE BORDER REGION	55
THE ROLE OF OLIVER SOLARTE AND TIES TO THE CORREA CAMPAIGN	60
THE GROWING MEXICO CONNECTION	62
SEMI-SUBMERSIBLES AND THE PACIFIC ROUTE	63
THE CCB, THE DEATH OF RAÚL REYES AND THE UNRAVELING OF THE FARC	67
THE OSTAIZA CONNECTION	68
<u>THE CHALLENGES AHEAD</u>	73

¹ Research for this paper was conducted over a four-month period, including three weeks in Ecuador visiting the border regions and Quito. It is based on interviews with Ecuadoran officials, academics and military personnel, as well as interviews with police and military intelligence officers in Mexico, Colombia and the United States. Farah also interviewed senior deserters of the Revolutionary Armed Forces of Colombia (FARC) who worked in Ecuador for significant periods of time.

List of Acronyms Used

ALDHU	Asociación Latinoamericana de Derechos Humanos (Latin American Association for Human Rights, a group whose senior leadership had close ties to the FARC).
AP	Alianza País (National Alliance, the party of President Rafael Correa).
CCB	Coordinadora Continental Bolivariana (Continental Bolivarian Coordinator, the FARC's primary coalition of front groups that supports its aims).
FARC	Fuerzas Armadas Revolucionarias de Colombia (Revolutionary Armed Forces of Colombia, a self-declared Marxist-Leninist movement that is the oldest insurgency in Latin America.)
GIAC	Grupos Armados Ilegales Colombianos (Illegal Colombian Armed Groups, a term used in the region to describe the FARC, paramilitary organizations and drug trafficking alliances.)
OECD	Organization for Economic Cooperation and Development
PCCC	Partido Comunista Clandestino de Colombia (Clandestine Communist Party of Colombia, the FARC's clandestine political structure).

Introduction: The Rise of Rafael Correa

When Rafael Correa assumed the presidency in Ecuador in January 2007, it was widely hoped his administration would use its strong mandate to end a decade of debilitating political and economic turmoil. The chaos and corruption had led to the collapse of the nation's political and judicial institutions and discredited the traditional ruling class. From 1997 until Correa's election, Ecuador had six presidents, none of who served a full term in office.² The economy and banking sector had collapsed, wiping out two decades of GDP growth and leading Ecuador to adopt the U.S. dollar as its official currency.

By Ecuadoran standards Correa's mandate was stunning. A novice on the national political stage, he won 56 percent of the vote while his political coalition, *Alianza País* (National Alliance) fielded no congressional candidates. Rather, the U.S.- and European-educated economist staked his political survival on convoking a constituent assembly that would bring "rapid, radical and profound change" to Ecuador and amassing almost unchallenged power for himself and the office of the president.³

² Abdalá Bucaram was removed by the Congress in 1997, succeeded by Fabián Alarcón, his congressionally-designated successor. In August 1998 Jamil Mahuad was elected, and forced to resign in January 2000 in the midst of economic collapse. His vice president Gustavo Noboa assumed the presidency. In January 2003 Lucio Gutiérrez won the elections and was removed by congress in April 2005. His vice president, Alfredo Palacios, ended the term and oversaw the elections won by Correa.

³ For a comprehensive look at Correa's rise to power see: International Crisis Group, "Ecuador: Overcoming Instability?" Latin America Report Number 22, Aug. 7, 2007.



Figure 1: President Rafael Correa

The changes he proposed were largely of the traditional left, advocating a strong executive, a strong state role in the economy, heavily redistributive tax policies, and an end to the U.S. military presence at its Forward Operating Location in the coastal city of Manta.⁴ But perhaps his most important promise was to end the traditional bickering and corruption that had characterized the prior governments and to usher in a new era of "clean hands," honesty and accountability.

In the 2007 referendum on whether to hold the assembly to rewrite the nation's constitution, Correa's backers favoring the measure won an astonishing 82 percent of the vote.⁵ In the elections for the Assembly, Correa's forces won 70 percent of the

⁴ The FOL was established in 1999 in response to the closing of the US Southern Command bases in Panama. The purpose of the FOL was to establish a platform for surveillance flights to help interdict the flow of cocaine along the Pacific coast of Colombia and Ecuador. It was staffed by about 15 people. In 2008 the FOL supported 822 counternarcotics missions, leading to the interdiction of 29 metric tons of cocaine. The 10-year lease was allowed to lapse when it expired in 2009, as Correa promised.

⁵ In order to convoke the assembly Correa resorted to tactics that were widely agreed to be unconstitutional, including the dismissal of 57 members of Congress on grounds they had violated campaign laws. However, the moves were largely tolerated because almost every major political upheaval over the past decade was the result of constitutionally questionable activities. For a more complete view of this argument see: César Montúfar and Adrián Bonilla, "Two Perspectives on Ecuador: Rafael Correa's Political Project," Inter-American Dialogue Working Paper, August 2008.

seats and proceeded to fundamentally remake the nation's constitution, which was overwhelmingly approved on Sept. 28, 2008. As part of the reforms, new presidential elections were held on April 26, 2009. Correa won in the first round, defeating former president Lucio Gutiérrez, and beginning a new four-year term.

In his second inaugural address Correa promised to "deepen democracy and radicalize this revolution," reiterating his "revolutionary" commitment to carry out "deep, rapid transformation, in peace, as we postulate for this citizens' revolution."⁶

It is not hard to understand the appeal of radical change in a country that had become Latin America's most unstable for more than a decade. After a relatively smooth transition from military rule to civilian government in 1979, the country enjoyed 17 years of comparative stability under five democratically elected presidents. As in much of the hemisphere, the transition resulted from a pact between the military leadership and the civilian political elite that excluded most of the country's indigenous population and, while observing some of the trappings of democratic governance, left much to be desired. It unraveled with astonishing speed and consequences.

As Adrián Bonilla, a respected Ecuadoran academic noted

It is important to note that politics in Ecuador rarely corresponded to the country's legal norms. Breaks from democratic norms have been frequent since 1979, the year the country passed from military to civilian rule...The work of the Supreme Court was obstructed, sessions of Congress were violently suspended, suspected subversives were summarily executed, and the president was kidnapped. In short, the country was clearly not governed democratically.⁷

César Montúfar, another noted political observer, describes the political collapse that gave rise to Correa.

In the ensuing turmoil (after 1995), flouting the Constitution and the law to suit special interests became an everyday occurrence. The executive and legislative branches became mired in conflict, obstructionist tactics and blackmail. Justice and oversight institutions became politicized and the armed forces were frequently called upon to arbitrate the constant squabbling...Key democratic institutions like Congress, the justice system and political parties lost face and credibility. Angry rejection of the political system became widespread. As parties became acutely fragmented, new local leaderships rose to fill the void. That was the state of affairs in Ecuador when the presidential elections of October 2006 were called.⁸

⁶ "Correa Se Muestra Decidido a Radicalizar su Revolución," Associated Press, July 22, 2009.

⁷ César Montúfar and Adrián Bonilla, op cit., p. 1.

⁸ César Montúfar and Adrián Bonilla, op cit., p. 1.

There is no question that Correa remains the single most popular political figure in Ecuador, widely viewed as a strong and charismatic leader, a workaholic with few of the personal vices that have afflicted his predecessors. However, since taking office Correa has faced multiple challenges that have threatened his once unassailable public standing. The Correa-appointed head of a special investigative commission lamented that the commission had detected the influence of drug traffickers "in politics, in the Church, military, justice, civil society and even the media, that are all part of the package of delinquent activities...If drug traffickers have their own judges, their own police, then own military officers, then we are co-responsible."⁹

The pressing challenges to the Correa administration include:

- Credible charges that his campaign received funds generated by the sale of cocaine from the Revolutionary Armed Forces of Colombia (*Fuerzas Armadas Revolucionarias de Colombia-FARC*);
- Strong evidence that senior members of his government have supported the armed insurgency that has been designated a terrorist organization by the United States and European Union;¹⁰
- Evidence that members of his inner circle had direct contact with transnational drug trafficking organizations tied to the FARC;
- Strong indications that the judiciary remains deeply corrupt, including the freeing of important drug traffickers who have been caught escorting loads of cocaine;
- Persistent accusations from his older brother (who ran his presidential campaign's finances) that members of his inner circle are engaged in extensive corrupt business practices;
- Strong indications that the Correa government has illegally manipulated the international bond markets to benefit itself and the Venezuelan government;
- Increasing drug trafficking and organized crime, largely but not exclusively attributable to the FARC that have led one government commission to lament that Ecuador is on the verge of becoming a "narco-state;"¹¹

⁹ Interview with Francisco Huerta Montalvo, director of the Comisión de Transparencia y Verdad: Caso Angostura. See: "El Cartel Nuestro De Cada Dia," Vistazo (Quito), Oct. 22, 2009.

¹⁰ FARC Terrorist Indicted for 2003 Grenade Attack on Americans in Colombia," Department of Justice Press Release, September 7, 2004. accessed at: http://www.usdoj.gov/opa/pr/2004/September/04_crm_599.htm; Official Journal of the European Union, Council Decision of Dec. 21, 2005, accessed at: http://europa.eu.int/eurlex/lex/LexUriServ/site/en/oj/2005/l_340/l_34020051223en00640066.pdf.

¹¹ Francisco Huerta Montalvo et al, "Informe Comisión de Transparencia y Verdad: Caso Angostura," Dec. 10, 2009.

Lessons from the Past Not Learned

Many of the underlying issues of structural corruption, drug trafficking, money laundering and the presence of the FARC predate the Correa administration by many years. Ecuador's geographic position has also made it a vulnerable and attractive crossroads for transnational non-state armed groups. It has a porous and difficult to patrol border with Colombia (with a decades-long internal conflict among several different groups and home to the world's cocaine trade) and an equally-difficult border with Peru, (with its Marxist-led insurgency and coca cultivation problems). Ecuador's decision to adopt the U.S. dollar as its official currency in 2000 also created numerous new vulnerabilities for the state and advantages to criminal organizations.

These factors, taken together with the changing internal situation in Colombia and the expanding influence of the Mexican drug cartels have, over the past three years, helped turn Ecuador into an important and growing center of operation for transnational organized criminal gangs. This poses a significant threat not only to the Ecuadoran state but all of Latin America and the United States.

After decades as a transit route for cocaine and a secondary money laundering center, Ecuador is emerging as a key meeting ground for multiple transnational criminal and terrorist organizations and an important part of a pipeline that moves not only cocaine but human cargo, weapons, precursor chemicals and hundreds of millions of dollars a year.

It is clear that the FARC, both before and during the Correa administration, maintained its regional "diplomatic" headquarters in Quito, Ecuador, and was operating its Latin American support network from there, making little effort to hide its activities. For at least a decade the FARC, and other non-state armed groups originating in Colombia have also, used the southern region of Sucumbíos as an important rearguard area for rest, medical care and logistical operations. Many of these pressing transnational issues remain relatively low priorities for the Correa government and many have grown markedly worse over the past two years. Among the most worrisome developments are:

- The significant growth of FARC drug trafficking networks through Ecuador, driven by the guerrillas' increasing dependence on the cocaine trade for financing and the Colombian military's success in pushing the rebels out of the center of the country toward the border regions with Ecuador and Venezuela. Of particular concern is the FARC's 48th Front, which handles most of the organization's drug trafficking business.
- The increasing reliance of the FARC on its Ecuadoran supply lines for precursor chemicals, food, medicine and weapons, and the size and permanence of the FARC base camps in Ecuador.

- The growing presence in Ecuador of Mexican drug trafficking organizations, who now do business directly with the FARC in Ecuadoran territory, delivering cash (dollars) and chemical precursors in exchange for cocaine.
- The growing presence of Russian and Chinese organized crime groups in Ecuador, drawn in part because Ecuador lifted visa requirements for almost every country in the world, allowing almost any foreign national to stay in the country for 90 days as a tourist.¹²
- The growing role of Ecuador as a money laundering center for multiple transnational criminal organizations including some such as the FARC that are also designated terrorist organizations. This is facilitated by Ecuador's use of the dollar as the official currency, eliminating the need to exchange currency in most cases, and Ecuador's weak anti-money laundering laws and enforcement and nonexistent anti-terror financing laws.
- The official presence of Iranian financial institutions at the invitation of the Correa government, that have been placed on United Nations and U.S. sanctions list.
- The increasing unwillingness to honor international law and arbitration in the rapidly growing number of international disputes in which the Correa administration is engaged.

The Ties That Bind Ecuador and Colombia

It is an inescapable reality that Ecuador's fate and future are closely tied to those of its neighbor and largest trading partner, Colombia. Historically the two nations have maintained a close relationship. Since its independence Ecuador has viewed Peru as its primary external threat in the region, and in fact fought several wars with Peru over territorial disputes.

But the relationship is changing. Colombia's internal conflict has spilled over into almost all facets of Ecuador national life, including the economy and politics. Colombia's conflicts, particularly with the FARC, but also with the right-wing paramilitary United Self Defense Forces of Colombia (*Autodefensas Unidas de Colombia-AUC*) and other, newer criminal organizations have had deep and lasting repercussions in Ecuador. All of these repercussions have been negative, from the use of cocaine money for political and judicial corruption, to increased violence in the form of kidnappings and protection rackets (*vacunas*), to humanitarian crises.

In the past decade Colombia's internal conflict, in turn, has been and remains inextricably linked to the United States, which has strongly supported the Colombian government, military and police in its counter-drug and counter-insurgency battles. Since 2000, the United States has given Colombia almost \$6

¹² "Ecuador to Waive Visa Requirement for Foreign Tourists," Xinhua News Service, June 11, 2008.

billion, making it the largest recipient of U.S. aid outside of Israel and Egypt.¹³ During the same time Colombia has remained the staunchest U.S. ally in Latin America, and recently agreed to allow U.S. forces access to seven bases in Colombia, in part to make up for the closing of the Manta FOL in Ecuador. The Colombian decision infuriated Ecuador, Venezuela and Bolivia, and drew expressions of concern from Brazil and Chile.¹⁴

As noted, the porous 365-mile Colombia-Ecuador border, much of it covered with triple canopy jungle, is both remote and hard to control for both nations. The problems for Ecuador have been compounded by the relative success of the Colombian government's military campaign against the FARC and negotiations with the AUC. The FARC has been weakened militarily and has lost control of broad swaths of territory in the center of Colombia, including supply lines, areas of coca cultivation and cocaine trafficking routes. As a result, the insurgency has become increasingly reliant on the border region for logistical support and for moving its illicit product to market for sale.

This overlap of conflicts and territories in part explains the increasingly acrimonious relations between Ecuador and Colombia, and by extension the relationship between Ecuador and the United States. Ecuador has traditionally viewed itself as a victim of the internal Colombian conflict, of which it wants no part. Ecuador maintains some 11,000 troops in the border region (an increase of three thousand in the past six months), at an estimated cost of \$100 million a year, money the government argues it desperately needs to combat poverty. The expense, according to Ecuadoran officials, is on top of the millions of dollars it spends on caring for refugees from Colombia's conflicts.

Because Ecuador produces almost no coca (despite its border region being adjacent to areas in Colombia that grow tens of thousands of acres of the leaf), the government argues it suffers all the consequences of the Colombian conflict with none of the international support or benefits Colombia receives. Of particular concern to the Ecuadoran state is the aerial fumigation by the Colombian military (with U.S. support) of the coca fields on the border, which, the officials say, harms legitimate crops in Ecuador and has raised numerous health concerns among the inhabitants.¹⁵

The Colombian government takes a significantly different view of the bilateral situation. The Uribe administration has increasingly viewed Ecuador as a willing supporter and enabler of the FARC, unwilling to seriously challenge the insurgency's

¹³ The counter-drug and counter-insurgency aid figures come from the Center for International Policy, and its studies of Plan Colombia, accessed here: <http://www.ciponline.org/colombia/aidtable.htm>

¹⁴ "Colombia-US Base Accord Reached," BBC World News, Aug. 15, 2009.

¹⁵ For a more complete look at the Ecuadoran perspective see: Hernán Moreano, "Entre Santos y Traquetos: El Narcotráfico en la Frontera Colombo-Ecuatoriana," FLACSO, 2008.

operations in Ecuadoran territory while allowing the rebels a vital rearguard area. Colombian officials believe that Ecuadoran political and intelligence structures, particularly under the Correa government, were knowingly blind to the FARC's drug trafficking activities and political support network in Ecuador. Correa's alliance with Venezuelan president Hugo Chávez, who has been more overt in his support of the FARC, is also viewed as a demonstration of Correa's unwillingness to really tackle the problem of the insurgents.

The Angostura Bombing: A Chasm Opens

This was the context for the international event that has helped define the Correa government. On March 1, 2008, the Colombian government launched an aerial bombardment into Ecuadoran territory in a successful attempt to kill a senior FARC commander who had been safely ensconced in a hard camp in Ecuadoran territory for several months. The bombing of the jungle camp in Angostura, about one mile inside Ecuadoran territory, killed Raul Reyes, the FARC's second-in-command and member of the 7-member General Secretariat. Another 22 other people also died in the attack, including an Ecuadoran citizen.

Correa was not informed in advance of the military action because the Colombian military feared the Ecuadoran forces were so infiltrated with FARC informants that they could not be trusted. Correa felt his Colombian counterpart had humiliated Ecuador internationally, attacked a friendly country, and then lied to him when the two finally did discuss the incursion, several hours after it was over.

The raid had immediate consequences, many of which are still being felt. Not only did the attack violate Ecuadoran national sovereignty, but subsequent investigations revealed an extensive FARC network in Ecuador that led to some of Correa's closest advisers and the possible financing of his 2006 presidential campaign, revelations that Correa angrily disputed.¹⁶

Many of the revelations were contained in the 600 gigabytes of data found in the computers and hard drives in Reyes' destroyed camp. Immediately following the raid the original hard drives were turned over to Interpol for examination. Interpol found the computer data had not been modified, falsified or forged by Colombian officials.¹⁷ Correa and Venezuelan president Chávez, who was also badly hurt by the computer revelations of his extensive support for the FARC -- far more comprehensive and overt than that of the Correa government -- have continued to

¹⁶ For a more comprehensive look at the attack and the consequences, see: Douglas Farah, "What the FARC Papers Show Us About Latin American Terrorism," The NEFA Foundation, April 1, 2008, accessible at: <http://www.nefafoundation.org/miscellaneous/FeaturedDocs/nefafarc0408.pdf>.

¹⁷ Juan Forero, "FARC Computer Files are Authentic, Interpol Probe Finds," Washington Post, May 16, 2008.

insist the files were fabricated by Colombian intelligence, despite the fact that much of the information there has now been corroborated by other information.

In response to the attack Correa broke diplomatic relations with Colombia, imposed new tariffs on trade and publicly and repeatedly attacked Colombian president Alvaro Uribe for the incident, saying Uribe had "told bald faced lies to the President of Ecuador." He also firmly denied any knowledge of the contacts of his senior officials with the FARC, although he did fire his minister of security and other officials named in the FARC files. At the same time the Correa government launched a legal offensive against the Uribe administration, with lawsuits filed in several international forums.¹⁸

As his ties with Colombia have soured, Correa has moved to strengthen his already-cordial ties with Venezuela's Hugo Chávez and his self-styled Bolivarian Revolution, seeking to establish 21st Century Socialism. This alliance has not led to the same level of overt hostility toward the United States as that of Chávez and Bolivian president Evo Morales, another close ally of Chávez. Morales and Chávez have cut off cooperation with the Drug Enforcement Administration and both expelled the respective U.S. ambassadors from their countries.¹⁹ In addition, there are often personal strains between Correa and Chávez and the Ecuadorans have come to increasingly view the Venezuelans as ideological fellow travelers but unreliable allies.²⁰

Toward the end of 2009 Ecuador and Colombia took cautious steps toward reestablishing full diplomatic relations, as Correa recognized that the Ecuadoran economy was being hurt far more by the tiff than was the Colombian economy. In addition, Correa desperately needed to continue to purchase electricity from Colombia as his own hydroelectric power production plummeted.

Progress was sidetracked in October when a judge in the border state of Sucumbíos issued an arrest warrant for Colombia's top military official, Gen. Freddy Padilla, for his role in ordering the bombing of Angostura. He had issued an earlier arrest warrant of Colombia's then-defense minister Juan Manuel Santos. Few thought the judge was acting independently of the Correa administration, and Colombia officials refused to meet with the arrest warrants in effect. The warrants were lifted a few weeks later when the political necessity of cancelling them became apparent to the Ecuadoran government. Following the lifting of the warrants, in November the two

¹⁸ For a more comprehensive look at the actions taken and the Ecuadoran response, see: "Enemigos Intimos," *Revista Semana* (Colombia), Aug. 7, 2009

¹⁹ Venezuela and the United States exchanged ambassadors at the beginning of the Obama administration, but relations with Bolivia remain downgraded.

²⁰ Author interviews in Ecuador and Colombia. This hostility is also alluded to in the Reyes computer documents, where the FARC commanders note several times that there is tension between Correa and Chávez.

sides exchanged charges d'affaires, in a move toward reinstating ambassadors.²¹ In December 2009 Colombian and Ecuadoran military intelligence officials met for the first time in more than a year to exchange information about the situation on the border.²²

Strained Relations with the United States and the Welcoming of Iranian Banks

However, the thaw in relations between Ecuador and Colombia in 2009 did not extend to the United States. Neither did the diplomatic moves halt the warming relations of Ecuador with Iran. In 2009 Correa expelled two U.S. diplomats, alleging that they were interfering in the internal affairs of Ecuador by seeking to influence who was named as chief of the police anti-narcotics unit.²³



Fotos: Presidencia de la República del Ecuador
Figure 3: Venezuelan President Hugo Chávez (left), Ecuadoran President Rafael Correa (center) and Bolivian President Evo Morales (right) at a joint summit.

²¹ Hannah Brodie, "A Step Forward in Colombia-Ecuador Talks," Center for International Progress, Nov. 5, 2009, accessed at: <http://justf.org/blog/2009/11/05/step-forward-colombia-ecuador-talks>

²² Author interviews in Ecuador and Colombia.

²³ The two were Mark Sullivan, listed as the Embassy's first secretary and publicly identified by Correa as the CIA station chief, and Armando Astorga, a DHS attache. See: "Ecuador Says Expelled Diplomat was CIA Chief," Agence France Presse, Feb. 26, 2009.

In December 2009 the official report on the Angostura bombing concluded that the United States had played a direct role in guiding the aircraft that bombed the Reyes camp as well as providing munitions and intelligence support from the FOL in Manta. The U.S. Embassy strongly denied the allegations, saying "Manta's FOL was not involved by any means, neither with the Colombian raid in Angostura nor in giving intelligence information."²⁴

The relationship remains formal but distant, and U.S. officials, particularly the ambassador, have found it increasingly difficult to get appointments with senior Ecuadoran officials. Both U.S. and Ecuadoran officials agreed overall cooperation has been sharply reduced in the aftermath of the closing of the Manta FOL, the disbanding of several specialized and vetted units the U.S. worked with, and the expulsion of the diplomats.²⁵

Following Chávez's example, Correa has moved rapidly to expand Ecuador's ties to Iran, Russia and China. After initially declining to do so when first elected, Correa last year had Ecuador join the Chávez-led Bolivarian Alternative for the Americas (*Alternativa Bolivariana de las Americas-ALBA*), a regional group of nine countries promoting "socialist solidarity" as an alternative to cordial relations to the United States and its "neo-liberal" economic policies.²⁶

In addition, Iranian president Mahmoud Ahmadinejad attended Correa's inauguration in January 2007, largely at the insistence of Chávez, who has worked hard with both sides to forge a relationship, in part as a way to antagonize the United States.²⁷

While the diplomatic relations with Iran are often dismissed as more of an annoyance than a threat, the relations among key financial institutions in both countries raise more ominous questions.

Ecuador's central bank has entered into a series of agreements with Iranian banks that are sanctioned by both the United States and the United Nations, and has opened diplomatic relations with the Ahmadinejad government. The banking relationships appear to be part of an Iranian offensive in Latin America to open

²⁴ "U.S. Denies Involvement in Colombia's 2008 Raid Against FARC camp in Ecuador," Xinhua news service, Dec. 12, 2009.

²⁵ Author interviews in Quito and Washington.

²⁶ "Chávez Announces Ecuador's Official Entry Into ALBA," Granma International (Cuba), June 4, 2009. The other members of ALBA are: Cuba, Bolivia, Nicaragua, Dominica, St. Vincent and the Grenadines, and Antigua and Barbuda. Honduras joined the alliance but withdrew following the ouster of president Zelaya.

²⁷ For a look at the dynamic among Ecuador, Venezuela and Iran, see: César Montúfar's July 10, 2008 presentation to the Woodrow Wilson International Center for Scholars, titled "El Acercamiento Diplomático entre Ecuador e Irán: Gesto de Afirmación Soberana o Tibio Alineamiento Geopolítico?" Montúfar stated that Ecuador's relationship with Iran "passes through Venezuela and depends on the degree of closeness or distance that Ecuador wants in its relationship with Chávez."

financial institutions that will allow the government in Tehran to bypass international sanctions.²⁸ The moves have prompted serious enough concern in Washington that the U.S. ambassador has twice been sent to Ecuador's foreign ministry to protest the relationships, démarches that were ignored and that exacerbated tensions between the two countries.²⁹

The primary banking relationship is between the Export Development Bank of Iran (EDBI) and the Central Bank of Ecuador, according to an agreement signed in November 2008, but not made public until almost a year later.

The heart of the deal is for EDBI to deposit some \$120 million in Ecuador's state bank, to be used to foment export and import activity between the two countries.³⁰ This sum seems unusually high for legitimate commercial activity since total trade between the two nations has never exceeded \$2.3 million, a peak reached in 2003. In 2006 and 2007, Ecuador registered zero exports to Iran and imports of \$27,000 and \$16,000, respectively.

This prompted particular concern because the month before reaching the agreement with Ecuador's central bank, EDBI was sanctioned by the Treasury Department's Office of Foreign Assets Control (OFAC) and designated a proliferator of weapons of mass destruction. The sanctions mean it is illegal for any U.S. citizen or entity to deal with the bank and denies the bank access to the U.S. banking infrastructure, and all assets in the United States are frozen. EDBI was sanctioned for "providing financial services to Iran's Ministry of Defense and Armed Forces Logistics (MODAFL)," in an effort to "advance Iran's WMD programs."³¹

There is a further complication. According to the "Protocol of Cooperation" between the Central Bank of Ecuador and EDBI, Iran was also willing to take an unusual step in the agreement. Point 6 of the agreement states that:

*EDBI manifests its readiness to establish a branch of Banco Internacional de Desarrollo (BID) in the Republic of Ecuador.*³²

The BID is reportedly a Venezuelan bank, which the EDBI would have no influence over, including where it opened branches. In fact, BID, sanctioned at the same time as the EDBI, is wholly owned (all 40,000 shares) by Bank Saderat, an Iranian bank

²⁸ Among those warning of the dangers of Iran's expanding Latin American financial network is Robert Morgenthau, district attorney for Manhattan. See: <http://noticias.aol.com/articulos/a/closer-us-oversight-of-iran-venezuela/n20090908215509990004>

²⁹ Author interviews.

³⁰ "Banco Iraní Que Despierta Dudas se Asocia con el Central," Hoy (Ecuador), Sept. 7, 2009.

³¹ "Export Development Band of Iran Designated as a Proliferator," U.S. Department of Treasury, Oct. 22, 2008.

³² Document in possession of the author.

under U.S. and UN sanction.³³ The BID was sanctioned because it was deemed by the Treasury Department to be acting on behalf of EDBI.³⁴ According to an OFAC statement:

*Bank Saderat has been a significant facilitator of Hizballah's financial activities and has served as a conduit between the Government of Iran and Hizballah, Hamas, the Popular Front for the Liberation of Palestine-General Command, and the Palestinian Islamic Jihad.*³⁵

Even staunch Correa allies were baffled by the president's insistence on forging ahead with a relationship that offered no visible benefits to Ecuador. The most plausible explanation seemed to be that Correa was intent on angering the United States and showing his independence.

The Rise of Rafael Correa in Times of Chaos

This paper is not intended to be a complete overview of Ecuador and its role in the Bolivarian Revolution. Rather, its more limited purview is the examination of the nation's role in the region's conflicts, particularly in Colombia. It also examines Ecuador's growing importance as a center of transnational crime, the lack of a functioning judicial system, and the rule of law, as President Rafael Correa, who governs from an unprecedented (in modern history) position as a democratically elected president in near absolute control of the three branches of the state.

Historical Context to the "Citizens' Revolution"

The country of Ecuador came into existence in 1830, following the collapse of the initial Bolivarian dream of a united country comprised of what today are Venezuela, Colombia, Ecuador and Panama. Internal fighting within the government of Simón Bolívar led to the collapse of the federation after only eight years.

The tiny nation on South America's northern Pacific coast lived through several decades of turmoil following its independence, with regional differences between the port city of Guayaquil and the mountain capital of Quito helping to feed the traditional feuds between Liberal and Conservative armies. There were few periods of stability and occasional democratic governments interspersed among decades of chaos, secessionist movements and military rule.

³³ Documents of the founding of BID in Caracas in possession of the author.

³⁴ "Export Development Band of Iran Designated as a Proliferator," U.S. Department of Treasury, Oct. 22, 2008

³⁵ See Sept. 8, 2006 OFAC announcement, viewed at:
<http://www.ustreas.gov/offices/enforcement/ofac/actions/20060908a.shtml>

After more than a decade of military rule, Ecuador became one of the first countries in the hemisphere to return to civilian rule in 1979. A founding member of OPEC (although Ecuador left the organization in 1992 and rejoined in 2007), the nation depends on oil exports of 505,000 barrels a day for about half of its export earnings. But it has a diversified economy and is also a major exporter of bananas and shrimp.³⁶

As noted above, Correa rose to power with virtually no political experience, having served briefly as minister of economics in the two years before seeking the presidency. His rise was made possible in large part because of the collapse of the traditional political parties and the deep-seated disenchantment with the political elites, who were widely viewed as irredeemably corrupt and incompetent.

Due to the economic collapse of 2000, when private banks in the hands of a small group of businessmen appeared to profit at the expense of the national economy, the country's faith in its institutions reached a crisis point. The collapse reduced the 1999 GDP to the same level it had been 22 years earlier, and 16 of the nation's 40 banks failed. Most depositors lost a significant portion, if not all, of their savings. As an International Monetary Fund working paper noted:

*The destruction of wealth in the wake of the crisis and the concomitant loss of jobs set off the largest emigration wave in Ecuador's history. The financial and social debacle played out amidst accusations of corruption, which triggered increasing social unrest, undermined the government's credibility, and ultimately saw President Jamil Mahuad replaced in January 2000.*³⁷

In the aftermath of the economic collapse and the decision to move to a dollarized economy, the political upheaval continued, with successive elected presidents being forced from office by popular unrest or Congressional fiat. After Vice President Alfredo Palacio assumed the presidency following the removal of Lucio Gutiérrez in April 2005, the clamor grew for a fundamental change to the nation's constitution in order to create a more viable political system. Correa was little known outside his hometown of Guayaquil, but his fiery oratory, his call for a complete break from the past and his promise to convene a constitutional assembly eventually carried him to victory. Using a play on his last name, he promised to give "correazos" or beatings with a small whip, to the corruption that plagued the country.³⁸

A Family and a Life Story

³⁶ "Ecuador," The World Factbook, Central Intelligence Agency, 2009.

³⁷ Luis I. Jacome, "The Late 1990s Financial Crisis in Ecuador: Institutional Weakness, Fiscal Rigidities, and Financial Dollarization at Work," IMF Working Paper, WP/04/12, Jan. 2004, p. 5.

³⁸ Details of Correa's official biography can be found here:
http://biografiasyvidas.com/biografia/c/correa_rafael.htm

Correa's life story is an important part of understanding not just how he governs internally but how he manages his international relations, particularly the relations with the United States. His extensive education abroad, including his years studying in the United States, might make him appear to be an unlikely revolutionary and strong anti-American force on the continent.

A seminal event in Correa's life occurred when he was 5 years old. His father was arrested in the United States for carrying a small amount of cocaine, and spent three years in a U.S. prison. Shortly after returning to Ecuador, his father committed suicide. The experience deeply marked Correa's worldview, although how much it has directly affected his thinking is a subject of much debate in Ecuador. In his early adulthood Correa began his political formation with the Liberation Theology teachings of the Catholic Church, which taught the theology of a "preferential option" for the poor and that capitalism leads to oppression of the poor.³⁹

After graduating from Catholic University in Guayaquil with a degree in economics, Correa spent two years on a mission with the Salesian religious order, working in rural development projects with indigenous communities in the Cotopaxi province. This experience, according to friends and officials who have worked with him, was also formative in his political life. In 1991 he earned a Masters in economics from the Catholic University of Leuven in Belgium, followed by a second Masters from the University of Illinois in 1999 and a Doctorate in economics from the same institution in 2001. During his time in Illinois and also in Ecuador he has taught economics.⁴⁰

Correa is consistently described as a micro-manager who is devoted to his family and is given to working 16-hour days. During his campaigns he emerged as an energetic speaker and strong leader, in sharp contrast to his immediate predecessors, who were seen as weak and beholden to multi-national corporations and the traditional Ecuadoran elite. His older brother Fabricio, a businessman, managed the finances of the 2006 campaign and other members of his family have played important, though largely informal, roles in his government.

Working without a strong political party and relying on a coalition of social movements and regional allies, Correa has governed in a mode of "permanent campaign" in order to keep his popularity high and overcome the institutional weakness of the nation. As Montúfar notes, this approach of constantly whipping up the population to campaign-style action:

³⁹ For a more detailed look at Correa's comments on his childhood, see: "Ecuador's Correa Admits Father was a Drug Smuggler," Reuters, April 14, 2007; Andres Oppenheimer, "Childhood Tragedy May Affect Correa's Policies," Miami Herald, Aug. 9, 2009; Greg Palast: From Ecuador: Good and Evil at the Center of the Earth: A Conversation with Ecuador's New President," March 5, 2008, posted at: <http://www.gregpalast.com/a-quechua-christmas-carol/>

⁴⁰ See: http://biografiasyvidas.com/biografia/c/correa_rafael.htm

...builds on the anti-political discourse of his candidacy and works by polarizing issues as a prelude to a confrontation with traditional power holders. A key component of the strategy is constant confrontation of political parties, local governments, private banks and corporations, the media and multilateral lenders. From the government's perspective, political initiative is the sole prerogative of a president who must do battle against the 'mafias of the past.' Correa sees himself as representing the public against the oligarchy, the embodiment of a state that must be strengthened in order to defend the public against the criminals who plundered it from within.⁴¹

The model has yielded immediate results, concentrating power in Correa's hands with no other branch of government or institution free of his dominance or able to offer checks and balances of any importance. As a result, Correa has fundamentally restructured Ecuadoran politics, with the presidency as the axis around which all important decisions revolve. It has allowed him to confront multi-national lending agencies and investors to demand better terms, and he has defaulted on a \$30.6 million payment on the nation's foreign debt, arguing that "food before debt" was a moral imperative and that previous loans were contracted in "illegal and illegitimate" ways.⁴²

The Economic Storm Brewing

Although the move was popular internally, the long-term impact is likely to be significantly detrimental, particularly when coupled with the nation's declining oil revenues, rapidly-expanding social spending and shrinking foreign investment.⁴³ The results have been bordering on catastrophic.

In large part because of lack of new foreign investment due to the uncertain investment climate, oil production fell 4.9 percent from November 2008-November 2009, and is expected to continue to decline. As The Economist recently noted: "To finance its budget, the government is likely to have to borrow more than \$4 billion this year. Since defaulting on a third of its foreign debt in December 2008, it has scoured the world for cash, without much success. It was late in paying legislators' salaries last month."⁴⁴

In addition, the country has been facing rolling electrical blackouts since the end of 2009, in part because of a severe drought and in part because Correa has failed to attract significant new investment in the energy sector. The mega deal for the

⁴¹ César Montúfar and Adrián Bonilla, op cit.

⁴² Tyler Bridges, "Ecuador's President Refuses to Make 'Illegal' Foreign Debt Payment," McClatchy News service, Dec. 12, 2008.

⁴³ For a more complete look at Ecuador's economic situation, see: "Ecuador: Troubled Finances," Economist Intelligence Unit, March 16, 2009.

⁴⁴ "Ecuador's President: Smile Turns to Frown," The Economist, Jan. 14, 2010.

Chinese construction of the Coca-Codo-Sinclair hydroelectric dam has stalled as Correa publicly complained of feeling "mistreated" by the Chinese Export-Import Bank in negotiating the financial terms, saying even the International Monetary Fund had not treated Ecuador that badly.⁴⁵

Correa has also demanded, and in many cases received, significant concessions from international oil companies doing business in Ecuador. Among the concessions Correa demanded from Chinese, Brazilian and French companies is that they switch their Production Service Agreements to service contracts, that they maintain their current level of investment for several years, and they withdraw from the World Bank's International Center for Settlement of Investment Disputes (ICSID).⁴⁶

These conditions are part of the Correa administration's growing push to withdraw from international arbitration hearings, and Ecuador officially withdrew from the ICSID Convention on July 6, 2009, as will be discussed in detail below.⁴⁷ At the time of its withdrawal, Ecuador had some \$12 billion in outstanding claims against it. The action is a major stumbling block to the nation's ability to attract new direct foreign investment or be deemed a nation that complies with international business norms.⁴⁸

However, there is another ongoing investigation that shows the Correa government has perhaps even more serious problems with international investors.

The Manipulation of the International Debt

While official corruption and the departure from rule of law is most glaring in relation to the FARC and drug trafficking, there are more complex indicators that Ecuador's government may be involved at the highest levels in questionable or even flatly illegal activities in the international debt market.

There is now substantial evidence that the Correa government has for several years engaged in an audacious and profitable scheme to manipulate the international debt

⁴⁵ The dam, the largest infrastructure project planned in Latin America, is to cost \$2 billion, and China is negotiating to extend a loan of \$1.7 billion to finance that. See: "Ecuador Feels 'Ill-treated' in Loan Talks With China," EFE News Service, Dec. 2, 2009, accessed at: <http://blog.taragana.com/business/2009/12/02/ecuador-feels-ill-treated-in-loan-talks-with-china-5542/>

⁴⁶ International Petroleum Finance, "IOCs Cut Spending as Bolivia, Ecuador Move Further Left, Sept. 8, 2008.

⁴⁷ "Ecuador Submits a Notice Under Article 71 of the ICSID Convention," ICSID News Release, July 9, 2009. accessed at: <http://icsid.worldbank.org/ICSID/FrontServlet?requestType=CasesRH&actionVal=OpenPage&PageType=AnnouncementsFrame&FromPage=Announcements&pageName=Announcement20>

⁴⁸ For some of these opinions, see: "Impact of Ecuador ICSID Exit," Inter-American Dialogue, June 30, 2009, accessed at: <http://www.latinbusinesschronicle.com/app/article.aspx?id=3502>

markets by manufacturing crises: loudly threatening to skip debt payments and selectively defaulting even as it trades its own debt through intermediaries.

"The market widely suspects that Ecuador has purchased large quantities of its own bonds in the wake of each of these self-created events, leading to questions of market manipulation," American lawyer Timothy B. DiSieno reported in a letter to investors last year.⁴⁹ Among the principal beneficiaries of these machinations has been Venezuela, led by Correa ally Hugo Chávez.

While the outlines of the alleged scheme first came to light in 2007, many important elements of the affair can only now be understood. Among the new elements of the long-running scandal is the alleged role played in the trading by a US-based Ecuadorian bank that is now under investigation by American bank regulators for possible money-laundering violations.

Court documents also show that the Miami-based institution, Pacific National Bank (PNB), is allegedly under the sway of an influential Correa relative and close advisor named Pedro Delgado, who has a history of financial troubles in Ecuador but is leading the administration's drive to seize millions of dollars in assets from its political opponents.⁵⁰ Federal regulators have also received allegations from a former PNB president that another Correa relative -- his niece and former personal secretary Cassia Delgado -- moved a large sum of money of unknown origin through an account at the bank.⁵¹

The alleged bond manipulation scheme exploded in a serious scandal in Ecuador in the spring of 2007 but the controversy subsided from public view after a criminal investigation into the matter in Quito went nowhere.

When the Correa government's then-finance minister, Ricardo Patiño, was censured by the national congress on July 14, 2007 for his "illicit associations," Correa responded to the congressional vote by simply reassigning Patiño to a different post. The politician remains highly influential. On Jan 21, 2010, Correa announced he was appointing Patiño as his new foreign minister.

⁴⁹ Memo to Holders of Ecuador's Sovereign Bonds Maturing in 2012 and 2030, May 6, 2009, Bingham McCutcheon law firm. The allegations of ongoing market manipulation have also been aired on a website created by investors in Ecuadorean debt. "What we do not understand is why no one is blowing the whistle on this international crime," the group complained in May of 2009. See http://ecuadordefault.com/home/index.php?option=com_content&view=article&id=17:ecuador-government-commits-fraude-by-manipulating-bond-prices&catid=1:latest-topic

⁵⁰ In a series of articles in late September and early October of 2009, the Ecuadoran newspaper Hoy (www.hoy.com.ec) revealed that Delgado has been the subject of claims for unpaid debts in excess of \$20,000 and played a controversial role in the prosecution of fugitive banker Nicolas Landes Guerrero.

⁵¹ Carl Wolf v. Pacific National Bank, US District Court for Southern District of Florida, 09-21531, page 13, para 46.

Meanwhile, the Correa government continued in 2008-2009 to issue a series of public statements announcing its intention to default on its sovereign debt, or conversely pledging to meet periodic interest payments.

Since Ecuador's cash situation has never been so dire as to force it to skip these payments, the threats and a selective default by the government in December 2008 have been interpreted by a number of market experts as primarily designed to influence the prices of a handful of issues of Ecuadorean government bonds.

Moreover, during this same period, according to documents from government investigations, media accounts, and statements by investors and their lawyers, Ecuadoran banks and other entities linked to the governments of Ecuador and Venezuela were quietly trading in these same bonds and in derivatives linked to them.

The events of 2007-2009 closely resemble a proposal to the Ministry of Finance by New York investment firm Abadi & Co. that is in the possession of the authors. "Our preliminary analysis tells us that Ecuador should use the threat of a moratorium to obtain a reduction of its debt," states the Abadi proposal, which lays out a complex plan to sell insurance against the default of the government's own bonds, and then to eventually buy up the underlying debt at a discount.

The scheme was explained in simpler terms at a Feb. 12, 2007, meeting between Patiño and financier Carlos Abadi that was secretly videotaped.⁵² In essence, Abadi explained, Patiño needed to make dire predictions that the government would fail to make its interest payments at the same time that Abadi & Co. sold insurance to investors against just such an event.

"The only way that you would gain...would have to be that I scare them," said Patiño.

"Exactly," replied Abadi.

Shortly after the meeting, the government declared that it would miss a \$135 million payment on its 2015 bonds. Yet on Feb. 16, Patiño disclosed that the payment was made on time. Records of the Finance Ministry's transactions with the London office of Citigroup show that even as Patiño's Finance Ministry was making its dire predictions, it had actually ordered the payment to be made, indicating the threat was false when it was made.⁵³

⁵² The source of the tape is unknown, but both Abadi and Patiño have confirmed the meetings took place. Abadi claimed the plan was never put into action, while Patiño explained that he was trying to expose the machinations of the debt markets.

⁵³ The records show that the Ministry of Finance made the arrangements with Citigroup on Feb. 12. These records were turned over to the Ecuador congress by the Central Bank of Ecuador.

On the tape, Abadi claims the gains for Ecuador would be \$150 million. His own firm, he added, would make \$50 million. "We can claim that it was for professional services rendered, it would never be known that we made gains of \$50 million," he states.

It also now appears that Ecuador never intended to force a restructuring of its debt in 2007 because of the problems it would create for its ally Venezuela.

"We understand that Venezuela is highly exposed to the risk of an Ecuadorean moratorium," Abadi & Co. wrote in their 2007 memorandum. Such a restructuring "could expose Venezuela to a loss in excess of \$6 billion," the firm warned. Instead, the memo advised, Ecuador would be wise to wait to impose a moratorium and force a restructuring in 2008.

In fact, Ecuador waited to make its move toward a forced restructuring until December 2008, when the nation deliberately defaulted on \$3.2 billion in bonds -- destroying its credibility in international markets while also destroying the market price of its existing bonds.

The default amounted to a partial moratorium designed to force a debt restructuring upon creditors, as laid out in the Abadi proposal. This had the desired result in June 2009, when creditors agreed to sell the bonds back to Ecuador for 35 cents on the dollar.

While the original investors in those bonds took a huge loss on the deal, someone else made good money: many of the bonds changed hands around the time of the default at about 20-25 cents on the dollar. That someone included an Ecuadorean government-controlled bank, Banco del Pacifico, which allegedly bought some \$680 million worth of bonds at just 25 cents on the dollar.⁵⁴

That means that Banco del Pacifico netted more than \$60 million in just four months when the bonds rallied to 35 cents on the dollar amid the government buyback agreement -- which Banco del Pacifico presumably knew about since it is part of the same government. There are other technical indications that Ecuador engaged in a surreptitious bond-buying spree.⁵⁵

Some investors have alleged that the 2008-2009 bond purchases were conducted through a US-based bank, Pacific National Bank, which is 99% owned by Banco del

⁵⁴ Ecuador habría comprado su deuda, El Comercio, Dec. 11, 2008

⁵⁵ Ecuador Weekly Report, June 1-5, 2009, Analytica Securities C.A. The firm noted that Ecuador only bought about one-third of the bonds in the buyback, "which would confirm that Ecuador had already retired much of the debt through repurchases through proxies before the auction. If not, the government would not have been able to claim credibly that after the auction it now controls over 80% of the bonds.

Pacifico.⁵⁶ PNB is currently operating under close scrutiny by federal bank regulators, who in September 2009 ordered the bank's management to cease unspecified legal violations.⁵⁷

The former president of PNB, Carl Wolf, alleges in legal complaints that in 2008 he learned of plans by the Correa government to use PNB for banking activities prohibited under US laws.⁵⁸ Wolf also claims he was pressured to put on the bank's payroll a former Ecuador government banker named Luis Villacis Guillen, who was indicted for fraud by the government of Ecuador in 2001 and arrested by the US Immigration and Customs Service in 2004 for violating his visa.⁵⁹ At the urging of Correa, Villacis was recently granted amnesty by Ecuador for his previous involvement with Banco del Pacifico.

Wolf also alleges in late 2007 he discovered suspicious activity in a PNB account controlled by a former Correa secretary named Cassia Delgado, who is also Correa's cousin.

"Wolf closed this account because the deposits were suspect, since they far exceeded Delgado's reported income and Delgado refused to divulge the source of the funds," the legal papers say. Wolf also alleges that PNB was under the improper influence of another Pedro Delgado, who also lives in Florida and is described in recent Ecuadoran media accounts as a key campaign adviser to Correa. A set of Delgado emails from 2007 show that he runs a US consulting firm called Consulmax, has been extensively involved in helping the Correa administration in its banking policies, and maintains ties to other key Correa banking advisors.

Correa and the Independent Media

This style of permanently being on the campaign trail rather than focusing on institutional development, also requires a constant set of new enemies against whom to mobilize his followers, and Correa has consistently responded to negative reports in the private press by attacking the messenger rather than seeking to verify the truth of the allegations. This strategy has proved costly and embarrassing in

⁵⁶ Ecuador Weekly Report, June 1-5, 2009, Analytica Securities C.A. The newsletter reported that bondholders "apparently traced Ecuador's purchases of Globals 2012s and 2030s on the secondary market in the weeks before the Modified Dutch Auction to a branch of an Ecuadorian bank in Miami. The money trail suggested, to bondholders present at least, that market manipulation was part of the explanation of Ecuador's successful debt strategy..."

⁵⁷ Consent Order 2009-137, US Comptroller of the Currency, Article XII, P. 18.

⁵⁸ See *Wolf v. Pacific National Bank* (2008-65973-CA-01), 11th Judicial Circuit of Florida (Miami-Dade), and *Carl Wolf v. Pacific National Bank*, US District Court for the Southern District of Florida 09-CV-21531-FAM).

⁵⁹ The Villacis case is described at great length in his Petition for Writ of Habeas Corpus in the Southern District of Florida, civil docket 1:05-cv-20695-MGC.

many cases, including the reports of his brother Fabricio's corrupt practices and the high level contacts of his government with FARC guerrillas. Both cases will be discussed in detail below.

One of the primary enemies singled out by Correa for constant attack, in addition to foreign investors and lending agencies, is the non-state news media. Like his Bolivarian counterparts in Bolivia, Nicaragua and Venezuela, Correa quickly identified the independent press -- often owned by traditionally powerful families -- as one of the few poles of power the government could not easily monopolize.⁶⁰

"One of the biggest enemies on the road (to Latin American liberation) is the media that is on the side of reactionary forces that have long dominated our region," Correa said. "We must confront and defeat this power that is so great and that operates with impunity."⁶¹

Correa regularly derides the press as corrupt, acting in the service of the oligarchy and in need of regulation. He has publicly threatened to shut down TeleAmazonas, one of the largest TV stations in the country, and had it suspended from broadcasting for three days in December 2009. He also has used tax law to take over two private television stations that drew 40 percent of the country's news audience.⁶² In addition to taking over all the radio and television airwaves every Saturday to broadcast his free-flowing talk show, modeled on a similar program run by Chávez for the past several years, Correa has also started up a government newspaper and other media directly under the control of the government.

Press freedom advocates have expressed concern about the ambiguity of provisions in the new constitution that leave the door open for severe censorship. In addition, the government has backed (although it has not yet passed the Congress) a law that would give the presidency discretion to shut down news outlets with no due process. An analysis of media content carried out by the Committee to Protect Journalists found the contentious relationship between the Correa government and the media was largely the result of government attacks and that, while the media was often critical of the Correa administration, it was seldom inflammatory.⁶³

In response to the attacks, several important newspapers simultaneously ran special sections every day for a two-week period, highlighting past investigative stories on corruption and human rights abuses they could not have printed under the pending law.⁶⁴

⁶⁰ See: Country Human Rights Report, 2008, Ecuador, U.S. Department of State, Feb. 25, 2009, accessed at: <http://www.state.gov/g/drl/rls/hrrpt/2008/wha/119158.htm>

⁶¹ "Chávez y Correa, Frente Común contra la Prensa," El Pais, May 24, 2009.

⁶² "Attacks on the Press in 2008: Ecuador," Committee to Protect Journalists, February 2009.

⁶³ Author interviews and "Attacks on the Press in 2008: Ecuador," op cit.

⁶⁴ Author interviews with newspaper editors. By mid January 2010, Correa's party in congress, in defiance of the president's wishes, reached an agreement with the opposition on a bill that

Many of the high profile clashes between Correa and the media have not been over the veracity of the news that is reported, but over the fact that Correa did not like the content. One of the issues that has been a growing bone of contention is the ongoing attacks of Fabricio Correa, the president's older brother and campaign finance chief, against the president, which have been covered extensively by the press.

On taking office, and in keeping with his campaign promise, Correa announced that his family would not be allowed to bid on government contracts. Yet Fabricio, registering his companies in Panama, obtained \$167 million worth of road building and oil service contracts with his brother's administration. When the *Expreso* newspaper of Guayaquil, Correa's hometown, broke the story, the president reacted furiously, claiming the allegations were part of the media campaign against his administration. The president was eventually forced to demand the contracts be rescinded, once it was clear that they existed as the stories reported. He then launched his own attack on his brother, alleging Fabricio had become "unbalanced by greed."⁶⁵

From there, the scandal has spread, as Fabricio counter-attacked, labeling the president's inner circle "Pink Cabal" and presenting boxes of documents to the nation's attorney general, allegedly demonstrating that the president's chief of staff took bribes, that his legal adviser had significant conflicts of interest and that numerous other members of Correa's inner circle were actively participating in widespread corruption. He went so far as to mock his brother's political identity as a leftist, saying, "I love these revolutionaries, that is why I call them pink. They are red on the outside and white on the inside. They are pseudo-communists (*comunistoides*) on the outside but inside they live just the same."⁶⁶

In addition, Fabricio has regularly taken his brother to task for failing to deliver on his promise of ending corruption, and has become one of the favorites of the fragmented opposition to the government.

The attacks have begun to take a significant toll on the president, as reflected in recent polls, which show his approval ratings dropping from 72 percent to 42 percent over the course of 2009.⁶⁷ The perception that Correa was ushering in a new era of accountability and "clean hands" has eroded significantly, in part because Fabricio was so directly tied to his brother's campaign and many of his allegations,

significantly weakened some of the most controversial aspects of the bill. Correa called the softening of the bill "sickening" and it was not clear at the conclusion of this report what the outcome would be.

⁶⁵ "Family Fallout: An Unexpected Foe for Rafael Correa," *The Economist*, Oct. 15, 2009.

⁶⁶ "Fabricio: Yo No Soy Oposicion," *Hoy*, Oct. 14, 2009. The clamor for Fabricio to become the symbol of the opposition grew so loud that he had to publicly declare he was not a member of the opposition, but rather simply a concerned older brother.

⁶⁷ "Ecuador's President: Smile Turns to Frown," *The Economist*, Jan. 14, 2010.

while not proved, have not been effectively rebutted either. While there have been promises of investigations into Fabricio's charges, so far this promise has been empty.

Correa also launched a public broadside against the first reports that senior members of his administration had not only maintained contacts with the FARC, but had actively sought a relationship with the insurgents and that the rebels gave Correa's campaign money that almost certainly derived from drug trafficking. According to journalists attempting to report on the information, Correa did not allow the army, police, attorney general, courts or any other government office turn over any records, including those that were supposed to be public, greatly complicating the journalistic process of informing the public on a matter of significant public interest.⁶⁸

The reports, initially based on information from the Reyes computer and verified by other sources, centered on several major actors in the Correa administration. The most important were Gustavo Larrea, the minister of the newly-created super ministry of national security, and his deputy, Ignacio Chauvín. Other important figures were retired Gen. René Vargas Pazzos, who Correa named as ambassador to Venezuela, retired Col. Jorge Brito, a government adviser and hero of the 1981 war with Peru, and Juan de Dios Parra, the politically connected head of the Latin American Association for Human Rights (*Asociación Latinoamericana de Derechos Humanos -- ALDHU*), a non-governmental organization that politically supported the FARC.⁶⁹

When the press succeed in reporting on these numerous ties (later ratified by the Angostura commission, appointed by the president) Correa reluctantly took action. He dismissed both Larrea and Chauvín, recalled Vargas Pazzos from his ambassadorial post in Caracas and annulled the government's decades-old government authorization for ALDHU to operate in Ecuador. However, while taking those actions, apparently to placate an increasingly angry public, Correa took several other little noticed steps. The most significant was dismantling the specialized, 100-member Police Intelligence Unit (*Unidad de Inteligencia Especializada -- UIES*), the unit that had investigated Chauvín and Larrea.

The names of undercover operatives were made public and the unit's leader, Maj. Manuel Silva, was removed from his command and charged with turning over information to the U.S. CIA. Chauvín was granted provisional freedom, along with three policemen who police investigations had linked protecting drug trafficking shipments of the Ostaiza brothers, who in turn were linked to the activities of

⁶⁸ Author interviews in Quito, Ecuador, October 2009. Also, Powerpoint presentation on the investigation and its results, prepared by El Comercio, a newspaper that broke many of the stories, titled: "Las Conexiones de las FARC en Ecuador," in possession of the author.

⁶⁹ Francisco Huerta Montalvo et al, op cit; "Las Conexiones de las FARC en Ecuador," op cit.; author interviews in Ecuador and Colombia.

Chauvín and the FARC. Perhaps most importantly, the cases of Chauvín and the policemen were moved from the city of Guayaquil to the town of San Lorenzo on the Pacific coast near the Colombian border, where it is far easier for the FARC to intimidate and bribe judicial officials.⁷⁰

There are other indications that the promise of ending corruption remains unmet. A recent ranking of 12 Latin American countries found that Ecuador, Bolivia and Venezuela had the least transparent budgetary processes on the continent.⁷¹ And a recent government-appointed commission to investigate the March 1, 2008 bombing of Angostura (the Angostura commission) found the administration of justice was so deeply flawed that it posed a risk to national security. The commission found that penetrating and corrupting the judiciary was one of the highest priorities of the FARC and organized criminal groups operating in Ecuador.

Judicial Corruption

As demonstrated by the above actions, the judiciary in Ecuador is almost universally seen as corrupt and, in recent years, increasingly compliant with the wishes of the executive. As the opening lines of the Administration of Justice section of the high-level commission appointed by President Correa to investigate the Angostura bombing noted:

Ecuadoran justice is a coffer of immorality that has made it one of the institutions with the least credibility in the country, says a report issued in 1997...It seems that in the past 10 years things have not changed in relation to the administration of justice. It is known to those who administer justice how things operate to change sentences to make them less severe, how cases are intentionally riddled with errors so they cannot proceed etc...This is the perception of the majority, that the judicial system cannot be trusted to carry out its institutional responsibilities...In the structures of organized crime, penetrating the judicial institutions is seen as one of the primary objectives, and this penetration is not difficult to achieve, if, in addition to the lack of training one adds the ethical and economic vulnerabilities of the system...Given that the infiltration of the judicial system is a strategic objective (of organized crime), that branch of government has to be clear that what is at stake is the security of the country itself.

The document lists multiple cases where cocaine was seized by Ecuadoran police or military forces and none of the arrested served significant jail time, noting dryly that

⁷⁰ : "Las Conexiones de las FARC en Ecuador;" author interviews in Ecuador and Colombia.

⁷¹ "Ecuador, Bolivia y Venezuela Son Los Peores en Transparencia Presupuestaria," EFE, Nov. 15, 2009.

"the operations that capture the drugs are not adequately correlated to the administration of justice."⁷²

Among the cases cited in the report and by judicial experts are those that go directly to the heart of the Correa government and will be explored more fully in the section dealing with the FARC in Ecuador. Of particular concern are the cases directly related to the FARC and drug trafficking.

According to the Angostura commission report, "there are around 50 cases, identified by the armed forces itself, under investigation for not complying with authorized procedures, carrying out business with illicit irregular forces, and maintaining unauthorized contacts. Every day more cases of complicity are added, involving cases of trafficking in drugs, weapons, precursor chemicals and fuel."⁷³ Among those named in the report as particularly close to the FARC is Lt. Col. José Hidalgo Obando, who on numerous occasions did not arrest FARC patrols on the Ecuadoran side of the border. Despite the fact that those under his command reported his permissive attitude and he was tried, "the judicial process was annulled on Oct. 1, 2008, and the reports of his actions rest in the archives of the armed forces."⁷⁴

Also of particular concern is the case of several recently retired military officers arrested in early October as part of a police operation dubbed "Operation Anniversary" (*Operación Aniversario*) that netted 8.3 tons of refined cocaine, with a street value of more than \$400 million. According to police reports, the drugs were manufactured by the 48th Front of the FARC, moved through Ecuador on trucks from the border region to Quito, where Mexican drug trafficking organizations then moved the product to the United States.

At the time of the drug seizures, the largest in Ecuadoran history, police also arrested Telmo Castro, an army intelligence officer who resigned his commission two months before the bust; and a former sergeant, Rodrigo Guamán. Both were armed and escorting a truck with military license plates carrying 557 kilos of cocaine hidden in the doors and false panels of the vehicle.

Investigations showed Castro had properties worth almost \$700,000 despite receiving a salary of \$1,200 a month. However, despite this and the physical presence of the former officials at the drug bust, within two weeks the court of Sucumbíos province freed one of the suspected ringleaders and moved to free the two retired military officials.

⁷² Francisco Huerta Montalvo et al, "Informe Comisión de Transparencia y Verdad: Caso Angostura," Dec. 10, 2009, p. 94.

⁷³ Francisco Huerta Montalvo et al, op cit., pg. 126.

⁷⁴ Francisco Huerta Montalvo et al, op cit., pg. 127.

Only the investigations of leading newspapers into the liberation process, which was underway, forced the government to stay the release of the others. The police publicly protested the move to free the implicated. "It is either for fear of the FARC or there is a lot of money in the middle of the case," one senior official told the Hoy newspaper.⁷⁵

Another case of interest shows how deeply the FARC has managed to penetrate the Ecuadoran judicial system for many years, and how some of those relationships are still relevant in the Correa administration.

On Nov. 1, 2003, Nubia Calderón, the FARC's main political representative for Latin America, was arrested on a bus using a false identification card and carrying tens of thousands of dollars in a suitcase. She had already been fully identified as a FARC operative by Ecuadoran intelligence officials. No prosecutors showed up to file charges when she appeared in court, and within four days she was freed.

A few months later, in an effort to have the case closed definitively, she presented the judge a letter dated Dec. 8, 2003, attesting to the fact that she was an "honorable person of unblemished character, worthy of trust and respect by all who have had the opportunity to deal with her." The letter was signed by Gen. René Vargas Pazzos, who was later named ambassador to Venezuela by Correa. Nine months after the letter was delivered, judge Daniel Méndez in Lago Agrio, Sucumbíos, ordered the case closed and all the money returned to Calderón, who had the money collected by her boyfriend Franklin Aisalla. Aisalla was killed in the Angostura bombing with Reyes.⁷⁶

Correa and International Business Corporations: The End of International Compliance?

The battle between Ecuador and the US company Chevron regarding the oil firm's liability for pollution in the Amazon basin has been much-publicized but also profoundly politicized, making the truth of that affair elusive. While Chevron claims its legal rights have been abused by the Correa administration and the Ecuadoran judiciary, the multi-billion dollar controversy predates the Correa government by many years and has brought in many outside players.

Far less noticed is that numerous other companies have found themselves under legal siege in Ecuador since Correa took power. These episodes show that while

⁷⁵ "Operación Aniversario: Empieza la Liberación de Implicados en Narcotráfico," Hoy, Oct. 21, 2009, p. 10. See also: "Las Pistas de la Droga Llevan a Solarte," El Comercio, Oct. 13, 2009; "Detenidos por Narcotráfico Pueden Quedar en Libertad," Hoy, Oct. 14, 2009.

⁷⁶ The most complete account of Calderón's case can be found here: Arturo Torres, El Juego del Camaleón: Los Secretos de Angostura, Eskeletra Editorial, Quito, 2009, pp. 63-105.

Correa's rhetoric may sometimes single out the *yanqui*, his government is happy to pick costly fights much closer to home.

A good example is the troubles of the respected Brazilian construction firm Odebrecht, which was expelled from the country by Correa in 2008 for alleged overcharges. Brazil and Ecuador are generally on friendly terms, but the expulsion sparked a sharp diplomatic chill.

The further announcement by Ecuador in December 2009 that it would seek to suspend repayment of a \$243 million Brazilian government loan for an Odebrecht project prompted Brasilia to recall its ambassador from Quito. "The nature and form of the measures adopted by the Ecuadorian government do not correspond to the spirit of dialogue, friendship and cooperation in the relations between Brazil and Ecuador," the Foreign Ministry said.⁷⁷

Ecuador's move against Odebrecht abrogated some \$700 million in contracts, according to the company, which competes successfully in some of the most transparent markets in the world including the United States.⁷⁸ Two executive orders signed by Correa directed "the seizure of Odebrecht assets by the Armed Forces, the termination of all of the infrastructure agreements entered into by Odebrecht in Ecuador and the revocation of the visas or expulsion of several Odebrecht employees and officers," the company said.

"In short, [Ecuador] violated the rights of Odebrecht, a foreign investor that has made important contributions to the economic and social development of Ecuador, a country in which it had been operating for 23 years." Added the company: "Odebrecht is an international construction company and is willing to demonstrate, especially to the Ecuadorian people, that it has operated with the usual technical quality and good faith..."⁷⁹

Odebrecht's problems may be related to the fact that Brazil does not have a bilateral treaty with Ecuador requiring arbitration of investment disputes, making Brazilian companies highly vulnerable to legal attacks.⁸⁰ As in Bolivia and Venezuela, radical populist attacks on foreign companies are extremely popular, and the Bolivarian regimes need a steady supply of new targets that can be branded as enemies.

But by the time Odebrecht's troubles had started in 2008, the Correa government had suffered repeated legal setbacks in international courts and dispute resolution forums for its attacks on foreign companies protected by treaties.

⁷⁷ <http://article.asp?CategoryId=14089&ArticleId=321154aht.com/>

⁷⁸ Odebrecht's US contracts include helping to rebuild New Orleans and the Miami subway.

⁷⁹ Odebrecht defends its rights and reputation against arbitration filed by Hidropastaza, Press release, May 5, 2009

⁸⁰ <http://arbitrationlaw.blogspot.com/2008/10/update-on-odebrecht-vs-ecuador.html>

Ecuador is currently the subject of at least ten arbitration cases before the World Bank's International Center for the Settlement of Investment Disputes (ICSID).⁸¹ The panel has largely sided with companies seeking to uphold their contracts with Ecuador, prompting the Correa government to announce in June 2009 that it is withdrawing from the organization altogether. Again, the beneficiaries of these decisions have often been companies from countries that are on more friendly terms with Ecuador than the United States, including Spain.

The biggest setbacks for the Correa government involve its attempts to unilaterally rewrite its oil contracts with foreign petroleum companies, including Chevron and Occidental Petroleum. While those cases have yet to be decided, two similar disputes suggest the way things have been going for Ecuador.

In one case, involving the oil firm City Oriente, the normally staid ICSID couldn't hide its disdain for the arguments advanced by Ecuador. "Respondents have cited no Ecuadorian Laws, doctrine or jurisprudence in support of their arguments, but only the opinion of a lawyer," the panel complained in a 2008 procedural ruling. Worse, the lawyer's opinion "refers to facts which are completely different to those that gave rise to these arbitration proceedings, where the case is precisely the opposite," the usually reserved panel observed.⁸²

That effort by the Correa government was better than its initial handling of the City Oriente case in 2007, when it simply refused to show up. At the time, the government in Quito was pursuing a different strategy: Arrest warrants for three City Oriente executives.⁸³ Ecuador, soundly defeated in the 2008 procedural ruling, proceeded to settle its case with City Oriente privately, on undisclosed terms.

The ICISD handed out a very similar thrashing on May of 2009 in Ecuador's dispute with the oil company Perenco, enjoining the Correa government from effectively confiscating the firm's property. The ruling explicitly referred back to the City Oriente dispute and approved of its outcome.⁸⁴

In November 2009, the ICISD held a confidential week-long hearing in Paris on the bitterly-contested arbitration between Occidental and Ecuador. A ruling which goes the same way as the Odebrecht, Perenco and City Oriente cases would raise serious concerns about whether the Correa administration -- determined to maintain its popularity by waging battles against multinational corporations -- will be tempted to adopt a radical new stance of outright rejection toward international law and arbitration.

⁸¹ El Comercio, October 1, 2009.

⁸² Decision of Revocation of Provisional Measures, ICSID Case No. ARB/06/21, p. 8, para. 34.

⁸³ Decision on Provisional Measures, ICSID Case No. ARB/06/21, Nov. 17, 2007, p. 9 para 36

⁸⁴ Decision on Provisional Measures, ICSID Case No. ARB/08/6, May 8, 2009.

The FARC In Ecuador: The Early Days

The elasticity of the Ecuadoran judicial system, both on a national and international level, are part of what makes it attractive for outside criminal groups. Among the plethora of transnational challenges facing the country, the primary threat is the FARC.

The FARC is the oldest guerrilla army in the Western Hemisphere and one of the oldest in the world. The group was founded by less than two dozen men in 1964 from the remnants of the Liberal Party militias in Colombia that fought in "*La Violencia*," the vicious civil war of the 1950s between the Liberal and Conservative parties in Colombia. Leaders of the FARC, who declared themselves Marxist-Leninist, formed a largely rural force that for most of the next three decades were not among the largest or most feared non-state armed groups that appeared in Colombia throughout the 1960s to the early 1990s.⁸⁵

Over time, the FARC and various other insurgent groups grew in different parts of Colombia. These included the Chinese-backed Popular Liberation Army (*Ejército Popular de Liberación-EPL*), the Cuban-backed National Liberation Army (*Ejército de Liberación Nacional-ELN*) and the M-19 nationalist movement. The EPL and M-19 movements negotiated peace settlements with the government in the early 1990s, while the ELN remains a fighting force but has lost most of its military strength and political following.

⁸⁵ For a more detailed look at the FARC and Reyes documents, see the following papers: Farah, "What the FARC Papers Show us About Latin American Terrorism," NEFA Foundation, April 1, 2008; Douglas Farah, "The FARC in Transition: The Fatal Weakening of the Western Hemisphere's Oldest Guerrilla Movement," NEFA Foundation, July 2, 2008; Douglas Farah, "The FARC's International Relations: A Network of Deception," NEFA Foundation, Sept. 22, 2008; Douglas Farah, "Lessons Learned From the Campaign Against the FARC in Colombia," NEFA Foundation, Nov. 16, 2008

Figure 4: FARC
Flag



The FARC continued to grow, reaching a peak of about 18,000 combatants in the 2004 period. Unlike most rebel groups, the original founders of the group have lived long lives and retained significant influence over the group. Their leaders, until the killing of Reyes, were more likely to die of old age in the hills than in combat. Jacobo Arenas, the founder of the FARC, died in the jungle hills in August 1990. His successor and long-time second-in-command, Manuel Marulanda (AKA “Sure-shot”) died in March 2008 of a heart attack. Both were in their 70s when they died.⁸⁶

Reyes was the first member of the general secretariat since the FARC's founding to be killed by Colombian government forces. Two days later a second member of the FARC secretariat was killed, this time by his own bodyguards, and data from his personal computers was also recovered. The assassination of Iván Rios (aka Manuel Muñoz Ortíz) at the hands of his own security detail, was widely viewed as a sign of deep internal stress within the FARC. The assassins cut off Rios' hand and presented it, along with the computers and other data, to a Colombian military unit.⁸⁷

⁸⁶ For a more detailed look at the evolution of the FARC and the role played by Arenas and Marulanda, see: Alfredo Molano, “The Evolution of the FARC,” NACLA Report on the Americas, September/October 2000, accessed at: <http://www.icdc.com/~paulwolf/colombia/molano.htm>

⁸⁷ <http://news.bbc.co.uk/2/hi/americas/7284222.stm>

The FARC's survival has been possible in part because the FARC was not as dependent as most other non-state armed groups on external sources of financing, most of which evaporated with the end of the Cold War. Instead, the group established a strong nexus with criminal activity, including drug trafficking, kidnapping and extortion, allowing it to finance itself following the collapse of the Soviet Union and its Marxist bloc.

One of the ways the FARC managed its transition to a drug trafficking entity was to help move the cultivation of the coca leaf, the raw material for making cocaine, from its historic cultivation centers in Peru and Bolivia to Colombia. New varieties of the coca leaf, able to grow in more humid climates, were introduced, in order to move the cultivation to Colombia, largely in areas where the FARC was the primary political and military force. This shift in cultivation strategy was one of the factors that greatly increased revenue streams of the FARC.

In recent years the internal dynamic of the Colombian conflict have changed radically. From 1997-2004, as the FARC stepped up its involvement in the cocaine trade, four significant things happened.

The first was the FARC became a much improved fighting force, using its money to import new weapons, foreign trainers and recruit a new generation of fighters by offering salaries higher than the army could afford to pay. The size of the FARC forces doubled in those years, from about 9,000 combatants to 19,000.

In 1997 and 1998 the FARC inflicted a string of 18 consecutive defeats of the army, regularly mobilizing units of 1,500 to 2,000 troops to attack military outposts manned by a few hundred men.⁸⁸ The FARC had also used its drug revenues to rearm with sophisticated Soviet bloc weapons, and were consistently able to outgun the military.⁸⁹

In addition, the FARC had begun to exchange technology and methodologies with other terrorist groups, including Spain's ETA and the Provisional Irish Republican Army, greatly increasing its operational capabilities, particularly in the field of explosives.⁹⁰ Much of the upgrading of the FARC's military capabilities came during 1999-2002, when the FARC was granted a safe haven the size of Switzerland in order to carry out the ultimately unsuccessful peace talks.

The second major shift came as coca cultivation grew in Colombia under FARC protection, beginning in the mid-1990s. The cultivation drew thousands of migrants to coca growing regions in search of work and land. Many of the areas of cultivation are near the Ecuadoran border. For the first time in its history, the coca growers

⁸⁸ Author interviews with current and former Colombian military and police officials.

⁸⁹ Douglas Farah, "Colombian Rebels Tap E. Europe for Arms; Guerrillas' Firepower Superior to Army's," Washington Post, Nov. 4, 1999, p. A1.

⁹⁰ For a more complete look at the FARC's relationships with other groups, see: Douglas Farah, "The FARC's International Relations: A Network of Deception," op cit.

gave the FARC a peasant base in territory where the government exercised almost no real control.

The third was that the army, riddled with corruption and mired in internal conflict, for the first time found itself facing defeat by the FARC. Historically rather than fight the rebels the army had relied on paramilitary groups allied with large landowners to carry out the brunt of the fighting, a strategy that led to massive human rights violations including attacks on the civilian population carried out with impunity. The paramilitary groups by the mid-1990s were as involved in the drug trade as the FARC, and the military had become penetrated at very senior levels by drug traffickers, and could do little to confront the FARC's rapid expansion.

Dismayed by the situation, a new generation of generals assumed control of the military and realized the war, after almost 40 years, had turned against them. In an effort to understand their own institution, the new leadership in 1998 commissioned a broad survey of its officer corps to determine morale, capacity and analyze the general breakdown of the institution.⁹¹

The army, air force and navy leadership seldom spoke to each other and often failed to coordinate operations. Intelligence gathering was minimal and the primary work of the army was patrolling streets or guarding stationary targets such as power lines, bridges and dams.

Offensive, intelligence-driven operations were almost unheard of, in part because so little intelligence was being gathered. Rather than being debriefed after capture, FARC rebels were almost always executed or put in jail to rot. There were virtually no clandestine operations being run, and even the basic configuration of the FARC high command and order of battle were little understood, despite the conflict having dragged on for decades.⁹²

The restructuring coincided with the initiation of Plan Colombia, the \$6 billion U.S. aid program to combat drug trafficking. Some \$4.5 billion over the past decade has been focused on the military and police, including extensive aerial eradication programs to destroy coca plantations.

The combination of the radical restructuring of the military, a new strong emphasis on intelligence gathering and sharing, and outside aid greatly enhanced the military's operational capabilities and a counter-offensive against the FARC with devastating results.

⁹¹ Author interview, Gen. (r) Jorge Enrique Mora, commander of the army (1998-2000) and Chairman of the Joint Chiefs of Staff, 2000-2002.

⁹² Information on the state of the Colombian military was gathered in a series of interviews with six current and past senior military and police officials, all who held senior commands at in the period under discussion.

This led to the fourth and crucial factor that has most affected Ecuador. The Colombian military's relatively rapid success in clearing the center of the nation of FARC presence and establishing government presence there, often for the first time in the nation's history.

The FARC, having grown to some 18,000 combatants, now can field less than half that amount and controls far less territory than it did even five years ago. In 2002, the FARC had a significant presence in 400 municipalities and was present in 23 of the nation's departments (states). In 480 of the nation's 1,100 townships, the mayors could not be physically present because of death threats from the FARC.⁹³ Now the rebel presence has been reduced to only 100 municipalities and 17 departments and all 1,100 mayors live in the municipalities where they were elected.

The military offensive not only led to the death of Reyes and other senior commanders, but successful operations also weakened the FARC and sapped the morale of the organization. The most severe blow to the FARC was the dramatic July 15 army rescue operation that freed 15 of the FARC's highest value hostages. These included former presidential candidate Ingrid Betancourt and three American contractors.⁹⁴ The holding of the hostages had been of great political and psychological value to the rebels. Not only did it prove the group could capture and hold senior political figures and U.S. citizens, but the negotiations for the freedom of these hostages had given the FARC new opportunities to establish contacts with a host of governments, and a pretext for maintaining a political infrastructure in Venezuela.

These blows of the deaths of the leadership and the hostage rescue, taken together, have significantly weakened the FARC military and lowered morale within the organization. As evidence, intelligence analysts and officials point to two main indicators: the increasing desertions of senior-level FARC commanders who have been in the rebel movement for years, and the growing complaints in intercepted FARC communications about hunger and the lack of basic necessities, such as boots and clothes, among the rank and file combatants.

⁹³ Author interview, Gen. Oscar Naranjo, commander of the Colombian National Police.

⁹⁴ Chris Kraul, "15 Hostages Freed as FARC is Fooled in Cunning Operation," Los Angeles Times, July 3, 2008, accessed at: <http://www.latimes.com/news/nationworld/world/la-fg-hostages3-2008jul03.0.3051652.story>



Figure 5: FARC Leader Manuel Marulanda (left) and his Second-in-Command Raul Reyes (right) during 2002 peace talks with the government. Both are now dead.

The result has been that FARC's long-standing use of Ecuador as a rearguard area for rest, medical attention, diplomatic outreach and resupply has changed from being a convenience to a vital lifeline for the FARC's survival.

As the following maps show, between 2002 and 2008 the FARC lost most of its corridors that allowed it to move drugs from coca growing regions and processing centers in the southern part of the country toward the north. While a 2009 map is not yet available, FARC territory shrank even further last year. What are left are the east-west corridors of access to Ecuador and Venezuela. Under constant harassment, the guerrillas (as well as other armed groups, including remnants of the paramilitary organizations that have maintained their drug trafficking structures), have become increasingly ensconced in the border region.

As the FARC has come under military and economic pressure, two of its fighting fronts have become increasingly important to the maintenance of the guerrilla units. The 48th Front is responsible for most of the organization's drug trafficking infrastructure, money collection and medical supplies. The 29th Front is responsible for importing weapons, manufacturing explosives and other munitions, and other

logistical operations. Both of these fronts operate on the border with Ecuador, and will be examined in some detail below.

One of the unintended consequences of the Colombian attack on the Reyes camp in Ecuador is that, given the international outcry in its aftermath, it will be very difficult to repeat without igniting a regional war. Rather than being at great risk, those using the border areas are now safer in many ways than they were before.

Another consequence of the Colombian attack was the shutting down of all information sharing between Colombian and Ecuadoran police and military intelligence units for more than one year. While sharing has begun again on a limited basis, the level of cooperation is far from optimal and the level of trust on both sides remains extremely low.⁹⁵

The Politics of the FARC in Ecuador

The FARC's extensive relationships inside Ecuador did not begin with the government of Rafael Correa, although close allies of his in the government have been tied to direct support activities of the FARC.⁹⁶ The significant FARC infrastructure in Ecuador dates back at least to 2003, when the organization made its first significant push to achieve some level of international recognition among Latin American political parties and broad leftist networks that continued to operate even after the end of the Cold War.

Because Colombia and Ecuador share a 365-mile border, defined by the San Miguel River and other waterways that are bordered on both sides by thick jungle, it has been a FARC sanctuary for decades. It has traditionally been a region where the border was little more than a line on the map, with little impact on daily life. It was also a region where irregular forces on all sides of the Colombian conflict could escape the fighting. In addition, in the 1970s and 1980s Ecuador also had a spate of small armed movements, some of them allied with groups in Colombia, and the country was known as a safe haven for those facing political persecution elsewhere.

Changes began as the FARC moved into cultivation of the coca leaf and large-scale cocaine production in the late 1990s. The Colombian side of the river hosts some of the areas of most intense coca cultivation in the country (see maps below), including the departments or states of Putumayo and Nariño. Because of this, the region has been -- and continues to be -- prized by all sides in Colombia's conflict, and home to some of its most violent fighting among the FARC, paramilitary groups and other

⁹⁵ Author interviews in Ecuador and Colombia.

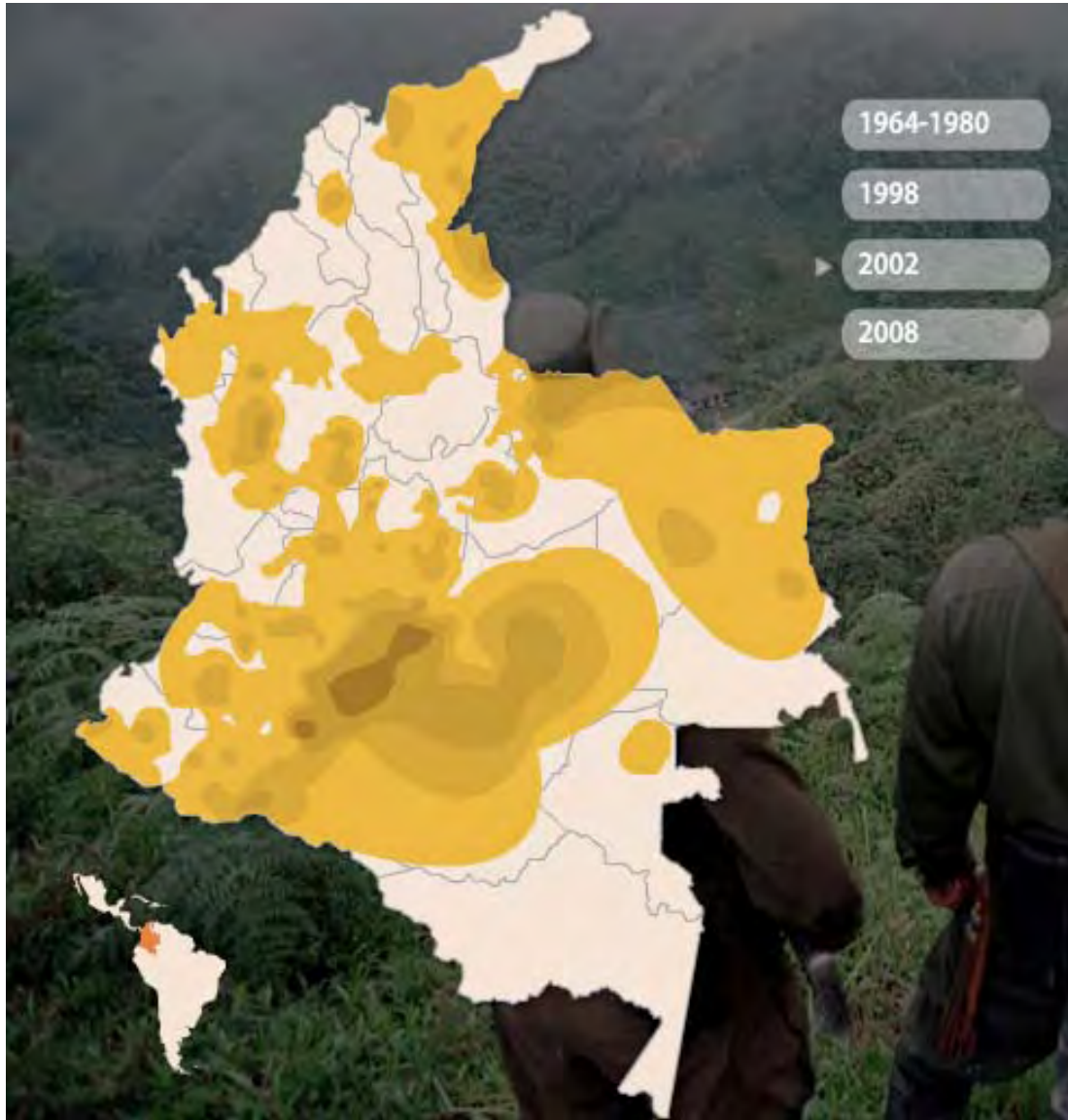
⁹⁶ These include Correa's minister of national security, Gustavo Larrea, given the alias "Juan" by the FARC, and Larrea's vice minister, José Ignacio Chauvín. Chauvín in turn has been tied to Raul Reyes of the FARC, as well as an important drug trafficking network led by Edison Ostaiza. For details see: "Los Redes Alrededor de Ostaiza y Chauvin," *Hoy*, Sept. 9, 2009; and Arturo Torres, [El Juego del Camaleón: Los Secretos de Angostura](#), Eskeletra Editorial, Quito, 2009.

non-state armed actors. As is clearly visible by comparing the maps of the FARC's territorial presence in 2002 and 2008 and the coca cultivation map, the FARC controls the vast majority of the coca growing territory on or near the Ecuadoran border.

By 2003, following the collapse of peace talks with the Colombian government, the FARC launched an international diplomatic offensive in order to win regional support for its position that it should be recognized as a "belligerent force" and removed from the U.S. and EU list of terrorist organizations. Another goal was to promote a "humanitarian agreement" in which the FARC would exchange its kidnap victims for FARC prisoners being held by the Colombian government.

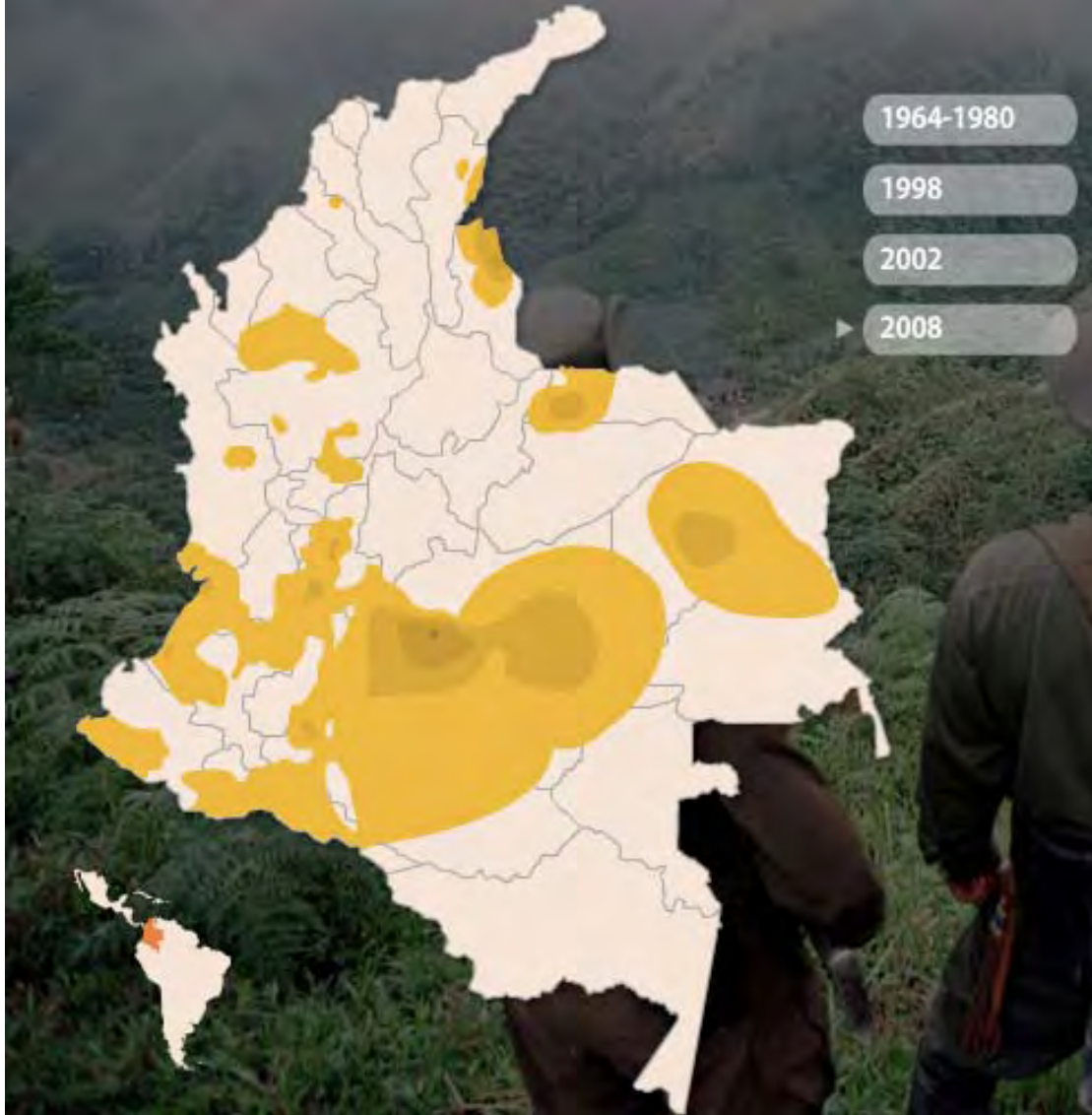
FARC Territorial Presence 2002

Figure 6: Source, International Crisis Group



FARC Territorial Presence 2008

Figure 7: Source: International Crisis Group



The FARC's work in Ecuador was coordinated by a senior member of the FARC's International Commission named Nubia Calderón de Trujillo, who used the aliases "Esperanza" and "Ana Maria." A Feb. 11, 2004 internal communiqué signed by the FARC high command officially noted the "Readjustments in the Work Plan of the International Commission," among them, "Esperanza is now responsible for the work in Ecuador, Peru and Bolivia."⁹⁷

Calderón was responsible not only for the diplomatic representation of the FARC, but for procuring safe houses, enrolling the children of senior FARC commanders in school and setting up meetings for other senior FARC representatives. She was in Angostura when it was bombed, but managed to escape, although badly wounded. She eventually made her way, with the help of senior Ecuadoran officials, to the Nicaraguan embassy in Quito, where she was granted political asylum.⁹⁸

A May 9, 2003 e-mail from Reyes to FARC senior commander Manuel Marulanda shows that the FARC had already been investing in safe houses in Ecuador by that time. The person referred to as is senior FARC commander Simón Trinidad.

The note states that:

At this time there are good opportunities to talk with different people in the government and allied friends. They have offered guarantees so Ricardo can enter the country. Do you authorize Ricardo to enter the country, and if so we can take advantage of the trip and talk to some people...

According to Ricardo, they are offering 120,000 dollars for our property on the beach and 45,000 for the house that you ordered we buy with him. As you know, these properties are in his name, and to sell them he will have to sign the documents. I asked Ricardo if we were earning money with these sales, or if we are trying to sell them to save our investments, but I don't have an answer yet. I won't authorize any sales without your permission.⁹⁹

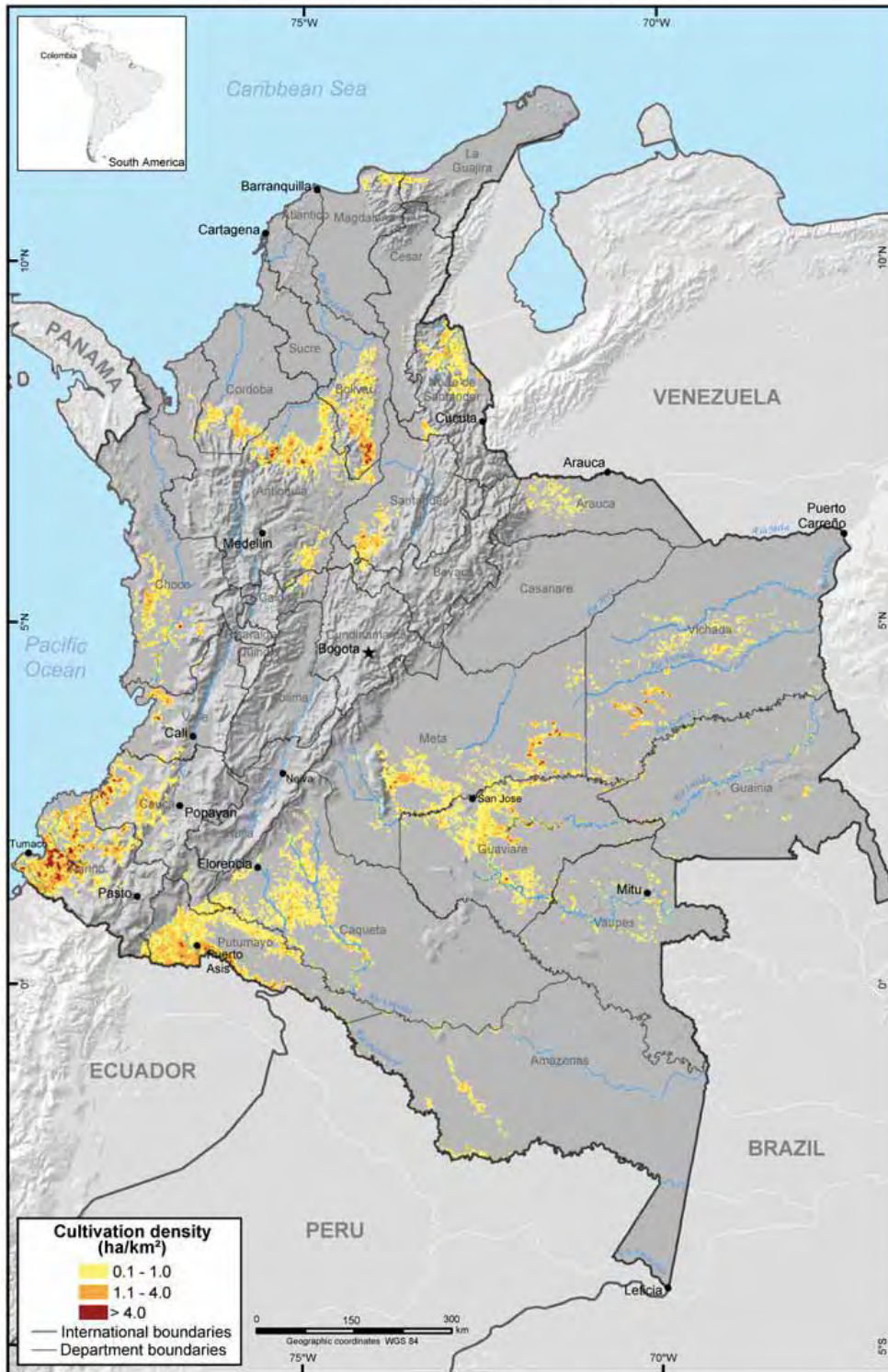
But it was not all smooth sailing. The FARC had held high expectations that the government of Lucio Gutiérrez, who took office in January 2003 after running on a strong leftist platform, would befriend the insurgency. There are hints in the Reyes documents that the guerrillas also financed his campaign, but the amount of help is not specified. Rather, Reyes warns of the risks of giving to other Ecuadoran candidates, noting that "we gave to others and they did not respond."

⁹⁷ Document in possession of the author. Unless otherwise noted, the Reyes computer documents cited are taken from the official dossier presented by Colombian President Alvaro Uribe to his Ecuadoran counterpart on its Ecuadoran counterpart on March 29, 2008, and titled: "Documentos Computadores Alias 'Raúl Reyes' Para Difusión Ecuador."

⁹⁸ Torres, op cit., pp. 162-3 and author interviews in Ecuador and Colombia.

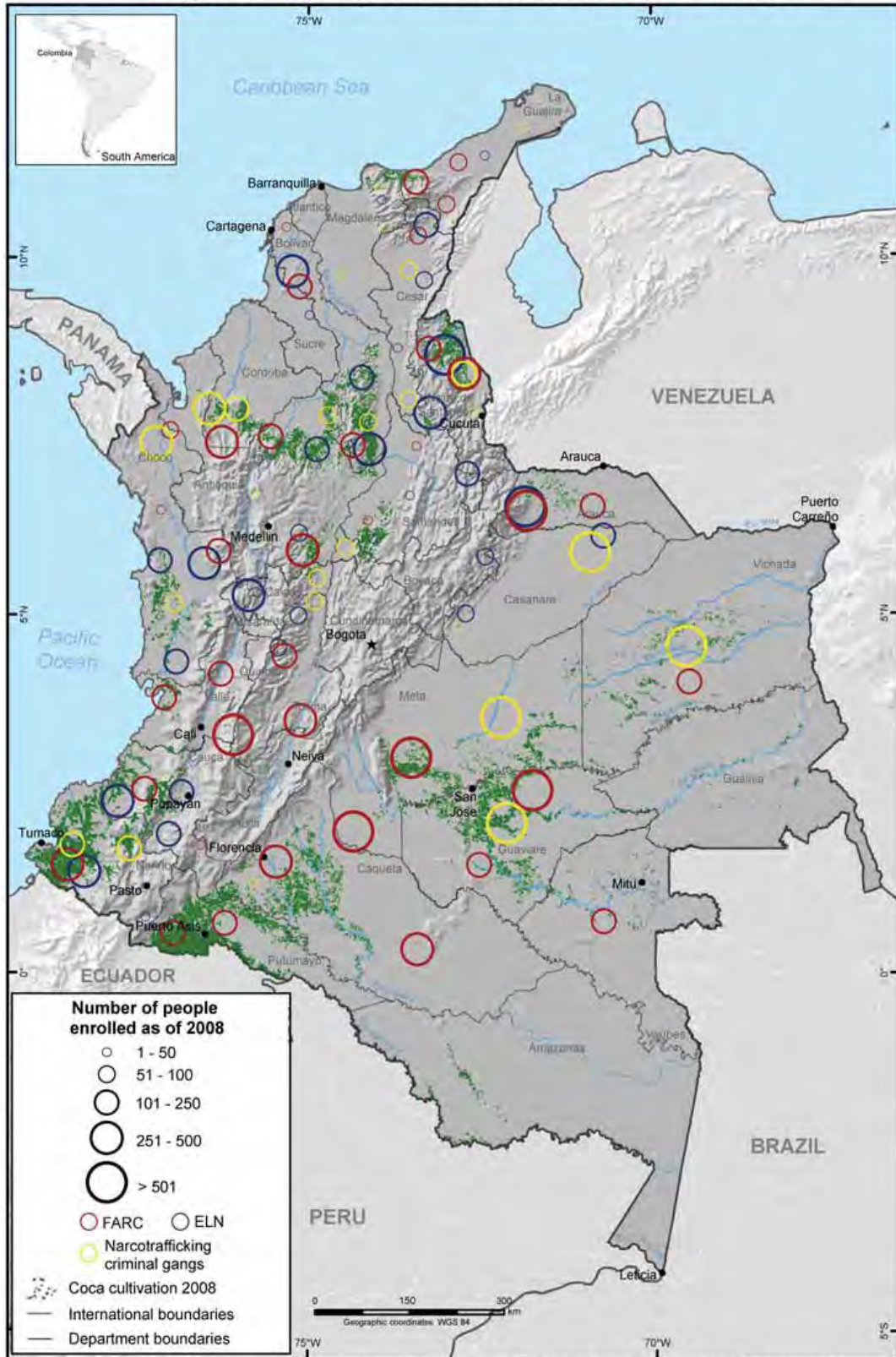
⁹⁹ "Documentos Computadores Alias 'Raúl Reyes' Para Difusión Ecuador," op cit.

Coca cultivation density in Colombia, 2008



Source: Government of Colombia - National monitoring system supported by UNODC
The boundaries and names shown and the designations used in this map do not imply official endorsement or acceptance by the United Nations

Illegal armed groups and coca cultivation in Colombia, 2008



Sources: for coca cultivation Government of Colombia - National monitoring system supported by UNODC; Ministry of Defence and National Police for number of persons enrolled in armed groups. The boundaries and names shown and the designations used in this map do not imply official endorsement or acceptance by the United Nations.

Instead of befriending the FARC, however, Gutiérrez moved rapidly to consolidate a strong relationship with the United States, leading FARC leaders to denounce him as a traitor.

Gutiérrez also authorized one of the few successful operations against a FARC leader in Ecuador -- the January 2004 arrest of the FARC's chief financial officer known as Simón Trinidad, but whose real name is Juvenal Ovidio Ricardo Palmera Pineda. A joint Colombian-Ecuadoran operation captured Trinidad in Quito, where he was using a false Ecuadoran identification card. He was later extradited to the United States, where he is serving a 60-year sentence for conspiring to hold three U.S. intelligence contractors hostage.¹⁰⁰

The FARC and The Correa Campaign

The FARC leadership's deep disillusionment with Gutiérrez may explain in part their eagerness to see Correa elected. There are indications that Gutiérrez was willing to aid the Colombian and U.S. governments in capturing further senior FARC officials. It is worth noting that following 9/11 the United States began to apply new pressure across the region for governments to break their ties and tolerance for the insurgent group. This message was reinforced following the downing of a U.S. aircraft in Colombia in 2003 and the capture of three U.S. contractors, the same three that Trinidad was convicted of holding hostage and who were freed in the 2008 rescue operation.

As the FARC's internal position in Colombia weakened and the importance of the border region with Ecuador grew, Reyes, a long-time leader of the FARC's diplomatic branch, moved permanently to the border region and began spending more and more of his time on the Ecuadoran side. He also sent his children to school in Quito, until they graduated from high school and moved to Havana, Cuba.

A short note to Reyes dated Dec. 30, 2004 reported secret Ecuadoran information as a warning, noting briefly that "Friendly Ecuadoran officials let me know that the Ecuadorans know the location of Reyes."¹⁰¹

As the election time drew closer, the Reyes e-mails reflect a growing interest in the outcome and felt that either of the major candidates could be helpful. In an Oct. 4, 2005 e-mail Reyes wrote that he had a "very interesting meeting with the

¹⁰⁰ Although found guilty of conspiracy to hold hostages, four attempts by the U.S. government to win a conviction on charges of drug trafficking all ended in mistrials. Venezuelan President Chávez reportedly paid for a least a portion of Trinidad's legal defense. See: Maite Rico, "Los Papeles de las FARC Acusan a Chávez," *El País*, May 10, 2008.

¹⁰¹ "Documentos Computadores Alias 'Raúl Reyes' Para Difusión Ecuador," *op cit.*

Ecuadoran delegation, at a time of political confrontation, where both contenders offer to build bridges where currently there are rivers."¹⁰² Reyes goes on to note that "we have the people who can help them on the border region, and despite the risks to ourselves we can help orient people to vote for the selected candidates. But be careful, they are picking us up on both sides of the border. The most complicated issue is financial help...because the elections are on top of us and there is not time to consult the entire secretariat. However, it is to our advantage to give whatever small thing we can, as we did with those who did not reciprocate."

On Oct. 9, 2006, Calderón wrote to Reyes to request a meeting with Gen. René Vargas, who was at the time a senior officer of the state petroleum company, Petroecuador, and later Correa's ambassador to Venezuela.

On Oct. 11, 2006 another member of the FARC secretariat, Ivan Ríos weighed in enthusiastically on helping the Correa campaign.

Comrades of the secretariat, warm greetings. I agree with the need for solidarity with our Ecuadoran friends that are working in Correa's campaign. His position relating to the FARC is valuable. It could be the beginning of the FARC as a belligerent force. I agree we should help guide the campaign in the border region. We need to act quickly, as the elections are very soon. Comrade Raúl should tell us where the Caribbean Front and the Jose Maria Front should send the money.¹⁰³

The next day, formal notification of the FARC's agreement to give the money was sent to members of the secretariat by Marulanda, the top commander:

The Secretariat is in agreement of giving help to the friends in Ecuador. My proposal was \$20,000, Jorge [Briseño] proposes \$100,000 and offers to put up \$50,000. He authorized me to get it from Joaquín and get it to you. Comrade Alfonso is also in agreement...If you can get the money on loan from another front while we get the money together to reimburse you, so much the better. You can tell our friends immediately and before it is too late, the amount of the help, and based on this they can begin to work on getting a loan that we will be able to pay.

At the bottom of a Nov. 21, 2006 letter to the secretariat, Reyes gave a breakdown of the \$100,000 he said went to Correa's campaign: "Of the \$100,000 given to the Correa campaign, the Eastern Bloc gave \$50,000 and the Southern Bloc gave

¹⁰² This appears to be a reference to Leon Roldós, another, minor candidate for the presidency who, according to several media reports, sent emissaries to meet with the FARC, hoping to be the favored candidate. RCN, a major Colombian radio station, broadcast a special edition on July 13, 2009, reading documents from the Reyes computer that discuss the visits of Roldós' emissaries. Similar allegations appeared in a major Spanish newspaper. See: Maite Rico, "El Dinero Perdido de las FARC," El País, Aug. 2, 2009.

¹⁰³ "Documentos Computadores Alias 'Raúl Reyes' Para Difusión Ecuador," op cit.

\$20,000. The other \$30,000 is owed by the other five blocs, and they owe it to the 48th Front."¹⁰⁴

While Correa has strenuously denied any financial help from the FARC, further evidence of the transaction was later found in a video captured in another FARC camp more than a year later.

The video, captured by the Colombian military in May 2009 and made public in July by the Associated Press, shows Jorge Briceño (AKA Mono Jojoy), the FARC's top military commander, reading a statement announcing the death of the FARC's senior commander, Manuel Marulanda, to an assembly of combatants.

He then goes on to read Marulanda's last statement of Marulanda to the troops he had lead for more than four decades. Among the points the commander made was how badly the FARC had been hurt by the death of Reyes and the exposure of the information contained in his computers, including the information about the "help in dollars we gave the Correa campaign and subsequent conversations with his emissaries, including some agreements, as we all now know, that were very compromising regarding our ties to our friends."¹⁰⁵

Correa decried the video as a "set up" aired to hurt the image of Ecuador and his presidency, and reiterated his vow that he had not taken FARC money for his campaign.¹⁰⁶

But there are serious indications that the Correa administration, if not Correa himself, was moving to accommodate the FARC's interests, particularly in the transition between Correa's election and his taking office.

A Jan. 5, 2007 note from Reyes to his chief, Marulanda, made clear what the FARC was hoping to obtain.

At the end of the month we are expecting a visit from Col. Brito, the emissary of Rafael Correa. Our idea is to normalize communications with his government, coordinate the next exchanges of prisoners and reach bilateral agreements. For example, request that when they capture our troops in Ecuador they be turned back over to us, and not be turned over to any Colombian authority, among other items. You can help guide us on this.

The Bi-national Commission is being strengthened, made up of members of the PCCC [Clandestine Communist Party of Colombia, the civilian wing of the FARC] and Ecuadoran friends, so we can denounce the violations of Ecuadoran

¹⁰⁴ "Documentos Computadores Alias 'Raúl Reyes' Para Difusión Ecuador," op cit.

¹⁰⁵ A summary of the video and the relevant part of the tape can be seen here:

<http://www.caracolradio.com/nota.aspx?id=846873>

¹⁰⁶ Eduardo Garcia, "Ecuador's Correa Says FARC Video is a Set up," Reuters, July 18, 2009.

*sovereignty by [Colombian President] Uribe's troops, and show the damaging effects of fumigation [the aerial spraying of glyphosate to kill coca plants].*¹⁰⁷

A June 27, 2007 note from Iván Márquez to Reyes contains the first full descriptions of a fateful meeting that would lead to Reyes' death. In it, Márquez lays out the plans for the meeting of the biggest FARC front group, which was planning to meet in Quito at the end of February 2008. The meeting of the Bolivarian Continental Coordinator (*Coordinadora Continental Bolivariana--CCB*) was to be a coming out party of sorts for the FARC. The CCB was billed as a coalition of progressive forces, when in fact, it would be driven and controlled by the FARC.

The note said that several members of the CCB could be meeting directly with Correa, but added, "I am not so sure. Anyway, their lobby with our friends from *Alianza Pais* (Correa's party) is indispensable to meeting our goals."

The goal, Márquez wrote, was to get the Correa government "institutionally linked" to the CCB so that "he makes it his own." Another goal was to organize a "type of anti-imperialist carnival" of protests in front of the U.S. Embassy.

In fact, the proposed meeting, which did occur at the end of February 2008, was an attempt to tie Correa publicly and unequivocally to the FARC through the CCB.

According to documents in the Reyes computer, the CCB was created in August 2003, and by December had an anthem, a flag, a newspaper called "Bolivarian Mail," letterhead stationery and a logo. "The CCB is work of the FARC, the Bolivarian Movement composed of the José Maria Córdoba and Caribbean blocs," a Dec. 7, 2003 FARC document said. The document said "Comrade Alfonso," referring to Alfonso Cano, who is now the FARC's commander-in-chief, had been informed of each of the steps taken, and that the first executive meeting had been held "in one of our camps" to "lay out the specific tasks and responsibilities for the activities that are currently underway. Among our tasks is the creation of a Bolivarian movement, the establishment of the CCB in each country, etc."¹⁰⁸

The CCB soon established a significant presence across Latin America, attracting the sympathy of numerous leftist political organizations and NGOs, many committed to 'non-violence'. According to a March 11, 2005 report on the CCB's activities in 2004, there were already active groups in Mexico, Dominican Republic, Ecuador, Venezuela, and Chile. International brigades were operational in the Basque region of Spain, as well as Italy, France and Denmark. Work was underway in Argentina, Guatemala and Brazil. The number of organizations that were being actively

¹⁰⁷ Documentos Computadores Alias 'Raúl Reyes' Para Difusión Ecuador," op cit.

¹⁰⁸ Documents provided by Colombian officials, in possession of the author.

coordinated by the CCB was listed at 63, and there were "political relations" with 45 groups and 25 institutions. The CCB database contained 500 e-mails.¹⁰⁹

The FARC made little effort to hide its pleasure with Correa's election or the direction in which he was taking Ecuador. In an unusual act, on Sept. 30, 2007, following the election of the constituent assembly, Reyes videotaped a congratulatory message from the FARC to the president and the people of Ecuador.

This overwhelming victory, with support of more than 70 percent of the people and the victory of Rafael Correa in the past elections, are part of the inexorable triumph of a people who have said yes to profound changes with the desire to build a new country in peace, with justice and on the road to socialism. We are convinced that this new constitution is the beginning of the countdown, the beginning of the end of inequality in a brother country."¹¹⁰

Meanwhile, the contacts with Correa's inner circle continued apace.

A Jan. 18, 2008 letter from Reyes to the Secretariat is the clearest statement of those relationships, and appears to indicate a willingness of the Ecuadoran officials to change their military command structure on the border to accommodate the FARC's wishes.

We met with the minister of national security of Ecuador, Gustavo Larrea, who we will call 'Juan' from now on. On behalf of president Correa he brought greetings for comrade Manuel and the Secretariat. He said the following:

- 1. The president is interested in formalizing relations with the FARC, carried out by 'Juan.'*
- 2. They are willing to coordinate social activities with the people who live on the border and exchange information to control paramilitary delinquency in their national territory.*
- 3. They are willing to change the commanders of the military and police to get rid of those hostile to the communities and civilians there, and ask that we help them by providing information.*
- 4. They reiterate their decision not get involved Colombia's internal conflict by supporting the government of (Alvaro) Uribe. They believe the FARC is an insurgent organization of the people with political and social programs they can understand.*
- 5. They ask if politically we are interested in being recognized as a belligerent force. They share the same idea as Chávez on this.*
- 6. They will sue the state and government of Colombia before the International Court for the damages the aerial spraying has caused.*

¹⁰⁹ March 11, 2005 e-mail from Iván Ríos to Raúl Reyes, provided by Colombia officials, in possession of the author.

¹¹⁰ Torres, op cit., p. 117.

7. *Next year they will cancel the gringo license to operate the Manta base.*
8. *They propose strengthening their commercial and political ties with Asia, particularly China, Vietnam, and North Korea.*

The letter goes on to discuss ways the FARC and Correa could cooperate on the Humanitarian Exchange, and the threat that Uribe, “representing the interests of the White House,” poses to the region. Correa’s emissary also offered “documents and protection” to a FARC representative in order to establish better relations in Ecuador.

“We established methods of communication and left open the possibility of meeting again in a month or two to follow up and further discuss these issues.”¹¹¹

On Jan. 28, 2008, Reyes wrote another note to be hand delivered to Xavier Garaicoa, the solicitor general (*procurador general*) of Ecuador, showing another close connection to Correa's inner circle.

*From our trenches we send you a Communist, Bolivarian and brotherly greeting while wishing you every success in your job as solicitor general, named by President Rafael Correa, an office we are sure you will use to serve the people of Ecuador. We have received with satisfaction your message of solidarity with our organization, in benefit of the Colombian people and thank you for your offer to use your good offices on our behalf.*¹¹²

Among the final e-mails Reyes wrote was a Feb. 28, 2008 missive to other members of the secretariat:

I will summarize the recent conversation with the emissary of president Correa:

1. *He asks to speak personally with the Secretariat in Quito. He offers safe passage guarantees and transportation for the border to the meeting site.*
2. *He would like an answer in the shortest possible time, including a date.*
3. *He asks if we would prefer (the security arrangements) be handled by the military or his ministry for state security.*
4. *He wants to discuss with the FARC the Humanitarian Accord, the policy on borders, a political solution, Ingrid (Betancourt), and the role of Chávez. He wants to coordinate with us on border issues.*
5. *He wants to explain the purpose of Plan Ecuador, with which he hopes to mitigate the harmful effects of Plan Colombia (the U.S.-backed effort) on the border region.*
6. *For Plan Ecuador he asks us for training courses on how to organize the masses along the border, who would then be placed by the government in a position to*

¹¹¹ "Documentos Computadores Alias 'Raúl Reyes' Para Difusión Ecuador," op cit.

¹¹² "Documentos Computadores Alias 'Raúl Reyes' Para Difusión Ecuador," op cit.

coordinate with the FARC on the border. Some of these people are part of our clandestine party or (our group) led by the 48th Front (of the FARC).

The document says the FARC leaders explained that any decision would have to be made collectively and would take time, but that “we made clear our interest in contributing to the ties of brotherhood along the border.” Reyes also notes that, “per our conversations with the emissary, the relationship Chávez-Correa is not at its best. In addition, Uribe is constantly calling Correa to get help in working out his difficulties with Chávez.”

Reyes then adds a cautionary note:

"I am still worried about a strike against us if we accept the invitation (to visit Correa), given the high concentration of intelligence services and the corruption of that country, where the government remains very weak."¹¹³

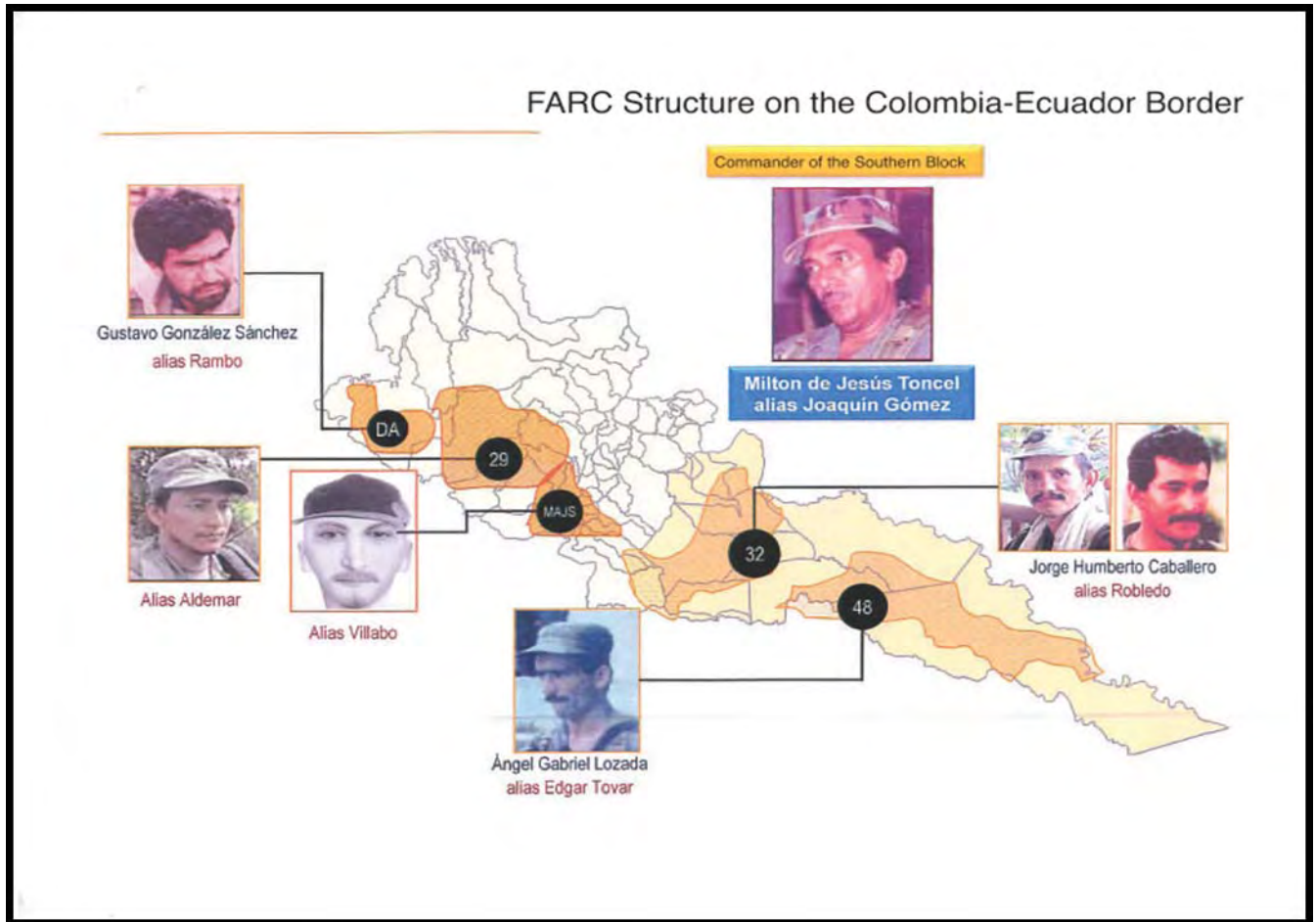
The next day Reyes was dead.

The FARC's Military Structure on the Ecuadoran Border

The two most important fronts of the FARC operating along the Ecuadoran border are the 48th and 29th, both of which form part of the Southern Bloc, commanded by Milton de Jesus Toncel, AKA Joaquín Gómez.¹¹⁴ According to U.S., Mexican, Colombian and Ecuadoran intelligence, the 48th Front, commanded by Ángel Gabriel Lozada, AKA Edgar Tovar, is responsible for moving more than 200 tons of cocaine a year, largely through Ecuador. His front has multiple, high-priority jobs that explain why Reyes, one of the most trusted and longest serving members of the FARC secretariat, resided in the area and was in constant physical and radio contact with Toncel and Lozada. The 48th Front abuts the border near several small towns on the Colombian side, and is in close proximity to the departmental capital of Lago Agrio (officially known as Nueva Loja, but seldom called that). The logistical importance of Lago Agrio, an oil production center settled originally in the 1960s by oil workers, will be discussed in detail below.

¹¹³ Documentos Computadores Alias 'Raúl Reyes' Para Difusión Ecuador," op cit.

¹¹⁴ The FARC is commanded by a seven-member secretariat, dispersed across the country. Militarily it is made up of five blocs and a varying number of fronts within each bloc. The Colombian military intelligence states the FARC has 62 fronts, down from 66 three years ago, and that its combat strength has dropped from 18,000 to about 8,500 . For the most complete look at the FARC's military structure, see: http://wapedia.mobi/en/FARC-EP_Chain_of_Command_Gomez_replaced_Raul_Reyes_as_a_member_of_the_secretariat_following_Reyes'_death.



The 48th Front is not only responsible for moving the cocaine through Ecuador, but also for storing the cocaine produced by other fronts, including the 29th, for transportation and sale, as well as for receiving payments for the cocaine shipments.

Another primary responsibility of the front is to ship in, from Ecuador, the precursor chemicals for making cocaine, including a product called "white gasoline," a waste product from the oil refining that occurs in the region, similar to kerosene. Because it is viewed as a waste product, it is not illegal and is often sold to the FARC, and is vital in the cocaine refinement process. A third important responsibility is to procure medical supplies for the fighting fronts, as well as access to medical care for the more severely wounded who need to be evacuated to the Ecuadoran side of the border. Last, but certainly not least, the 48th front protects access to vital rest and recreation areas for combatants on the Ecuadoran side, including discothèques, bars and relatively cheap brothels.¹¹⁵

¹¹⁵ The description of the different responsibilities of the 48th Front come from debriefing senior FARC deserters who belonged to the front for several years, as well as briefings from Colombian, Ecuadoran, U.S. and Mexican intelligence officials.

While the 48th Front handles most of the cocaine, the 29th Front, to the north, is responsible for acquiring weapons and munitions from Ecuador. This is made easier in some cases, particularly the acquisition of different types of explosives, because the region is oil producing and explosives are often used for legitimate purposes. However, the FARC is increasingly using homemade land mines as a way to attack and slow down the Colombian army, and much of the materiel for the mines is acquired in Ecuador. In addition, the FARC maintains a large munitions factory for making mines, grenades and other items on the Colombian side of the San Miguel River.¹¹⁶

The Importance of Lago Agrio (Nueva Loja) and the Border Region

One of the regions of Ecuador most affected by the Colombian conflict and the presence of both FARC and paramilitary groups is the jungle province of Sucumbíos and its capital, Lago Agrio.¹¹⁷ Long a known haven for FARC commanders, the town of some 15,000 sits near the San Miguel River, the border with Colombia. The muddy brown waters flowing through the dense triple canopy jungle can be crossed in a matter of minutes by dugout canoes with outboard motors, leaving hundreds of miles of the border impossible to adequately patrol.

The Reyes camp was located a few miles downriver from Lago Agrio and was 1.5 miles inside Ecuadoran territory. In October 2009, the Colombian government officially notified the Ecuadoran government that the FARC continued to maintain at least a dozen camps, housing about 1,800 troops, in the Lago Agrio region.¹¹⁸

Among the numerous refugees from Colombia seeking safety from the multi-pronged conflict in Colombia, there are also FARC sympathizers and family members actively encouraged to cross the border in order help with supply lines and serve as messengers and lookouts. Several thousand of these people were granted Ecuadoran identification cards as part of a program pushed by Ignacio Chauvín, a key official in the Correa government who also served as one of the main points of contact for the FARC. The NGO who let the effort was ALDHU, later shown to be one of the main front groups of the FARC.

"We can't check everyone, we try to do what we can, but have FARC sympathizers or members gotten accredited as refugees? Of course," said one refugee worker. "Most

¹¹⁶ This information comes from debriefing senior FARC deserters who belonged to the front for several years, as well as briefings from Colombian, Ecuadoran, U.S. and Mexican intelligence officials.

¹¹⁷ While the town has been formally renamed as Nueva Loja, everyone refers to it as Lago Agrio, meaning "Bitter Lake," named for Bitter Lake, Texas, the home of the Texaco oil company which began oil exploration in the region in the 1960s.

¹¹⁸ "FARC Tendría Decena de Campamentos en Ecuador," La Hora Ecuador, Oct. 25, 2009, p. B1.

of them are legitimate, but some are sent for other purposes. There is little we can do about it."¹¹⁹

The Angostura commission report enumerated the problems centered on Lago Agrio and its periphery, noting that

*The logistical structure of the FARC's 48th Front, aided by a network of militia members "transplanted" to the border region; the institutional weakness of the Colombian government in the area; the infiltration of guerrilla units and columns; the construction of laboratories for making drugs in Ecuadoran territory; a border population that is 85 percent to 90 percent Colombian; the limited logistical capacity of the government forces, mean that not only our borders but our national sovereignty are threatened.*¹²⁰

A three day visit by the author to the region in October 2009, found that many of the conditions that make border areas valuable remain, despite a concerted effort by the governments on both sides of the border to reassert control.¹²¹ In the past two years, the Ecuadoran government has established a permanent army presence of several thousand soldiers to compliment the traditional naval (riverine) and police contingents at a cost of several million dollars a year. The Colombian government has retaken control of San Miguel, the main town on the Colombian side of the river, and its environs from the FARC.

While the government presence has made it more difficult for the FARC, paramilitaries and other drug trafficking organizations to operate with complete ease, it appears to have done little to significantly diminish the level of these groups' activities in the town.

Several anomalies are clearly visible in the town and on the border region. In the town of a few thousand, whose residents are mostly poor, there are several very large shopping centers, primarily selling clothing and cellular telephones, in addition to very large numbers of Chinese made motorcycles and outboard motors.

The amount of stores and merchandise is far out of proportion to normal business in a town of that size and economic scale. A second glaring anomaly is the number of full-service pharmacies -- dozens within a few blocks of each other -- enough to supply a city many times the size of Lago Agrio. A third anomaly is the number of private doctors who operate in this small town, most who have signs outside their windows advertising 24-hour service and cell phone numbers to call for medical attention any time. Given the lack of generally available health care, and the dilapidated public hospital most people are forced to use, such convenient medical service does not seem directed at the general population.

¹¹⁹ Author, interview, Oct. 20, 2009.

¹²⁰ Huerta Montalvo et al, op cit. pp. 91-92

¹²¹ Author visit to Lago Agrio, Coca, San Miguel and other town Oct. 21-24, 2009.

In fact, it is an open secret in Lago Agrio that the FARC and other Illegal Colombian Armed Groups (*Grupos Ilegales Armados Colombianos*-GIAC, in the language of the region), use the town as a resupply base for food, medical supplies and attention.

Given Ecuador's dollarized economy (the Ecuadoran Sucre was abolished in 2000 following a collapse of the Ecuadoran banking and financial systems), and the fact that most drug transactions are carried out in dollars, it is probable that many of the businesses in Lago Agrio and the surrounding area are used to launder and hold cash for the FARC and other criminal groups. The dollarization effectively removes the need to exchange money obtained from drug trafficking and other illicit transactions into another currency.

The long-standing Ecuadoran policy of tolerating the presence of some Colombian non-state armed actors, under specific and limited conditions, has not changed. These conditions are essentially that the Colombians not wear uniforms, do not carry guns or carry out violent attacks on the Ecuador side of the border.

In exchange, the combatants are given access to a large number of bars, brothels and cheap hotels that cater to them located in zones just outside the center of Lago Agrio. One city official who recently tried to shut down a popular brothel was promptly executed and his body left in the street as a warning to others.

"Fear has led authorities to not want to talk about or confront the FARC," said a local political official. "Everyone is afraid of the consequences. We know that if you shut down a brothel or a bar you will get threats, and those threats are often followed through on, so the danger is very real."¹²²

The Angostura committee found out just how real the threat was, despite its high profile presidential mandate. Its members secretly interviewed an Ecuador community leader, who described the local GIAC structures. Both the meeting and the content of the meeting were kept secret.

Nonetheless, "a few days after the meeting, [the informant] was killed by unknown gunmen. The actions speak for themselves, painting a picture of a border where Ecuadoran peasants and indigenous inhabitants have been displaced, being replaced in some cases by 'displaced people planted by the FARC,' who facilitate drug trafficking and the activities of non-state armed groups."¹²³

What has changed is the relationship of the Ecuadoran military and the FARC on the ground in this border region. As described in numerous interviews, the relationship has grown closer in recent years. The causes are multiple, but the overall tolerance and creation of a permissive environment is based on the unquestionable reality

¹²² Author interview, Oct. 20, 2009.

¹²³ Montalvo et al, op cit., p. 94.

that if the FARC wanted to wreak economic havoc in the region it could do so with ease.

Lago Agrio and the surrounding area is the center of Ecuador's economically vital oil industry. Hundreds of miles of unguarded, above-ground pipelines and pumping stations crisscross the region. It would cost the Ecuadoran government tens of millions of dollars a year to protect their oil infrastructure, funds they do not have and expenditures the state can avoid by simply not antagonizing the FARC.

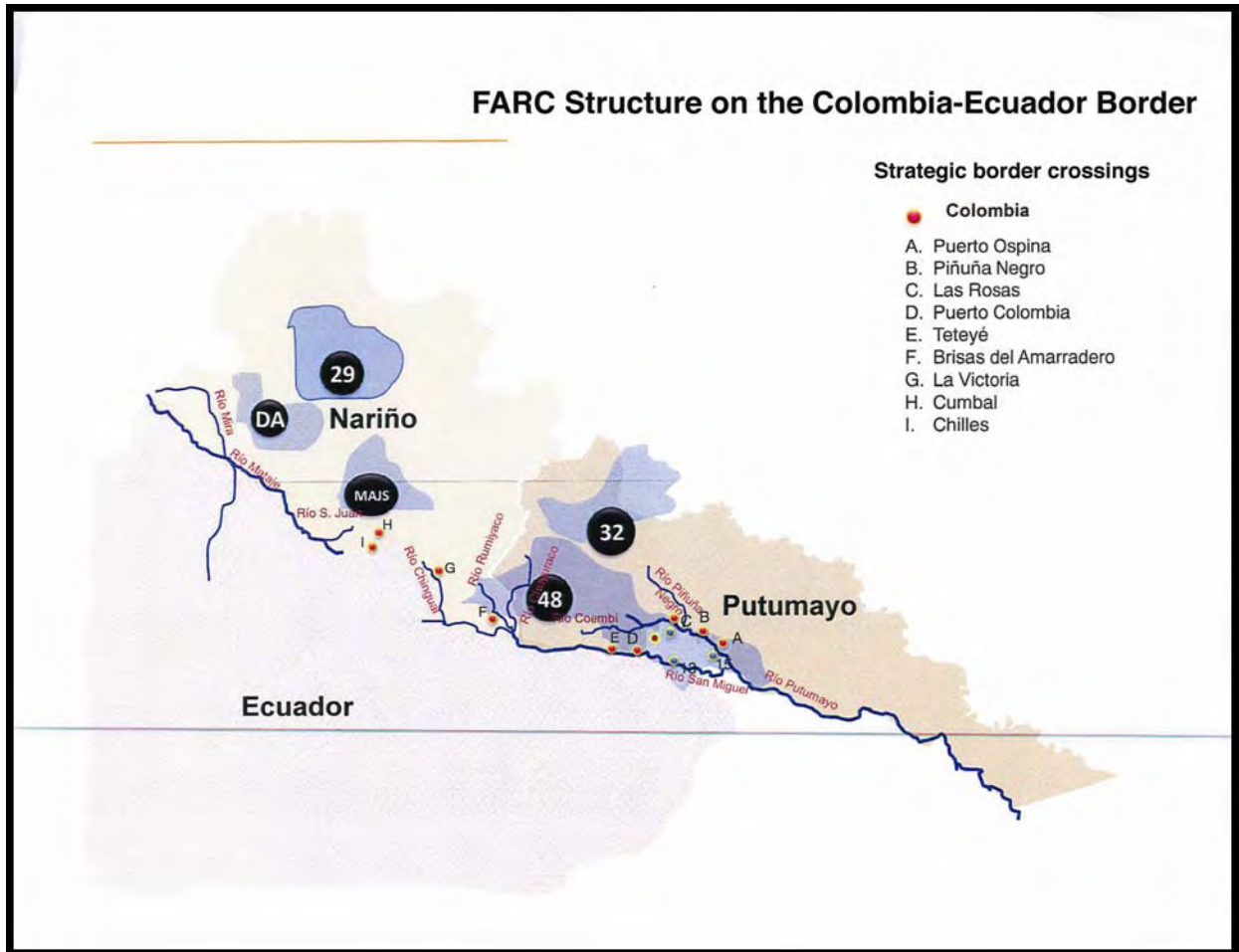
The basis for the growing closeness was two-fold: First, there was a common interest in attacking paramilitary groups that were entering Ecuadoran territory to hunt down and execute FARC members. Second, was the FARC's increased need for precursor chemicals, primarily *gasolina blanca* from the Ecuador side, where the product was relatively easy to obtain due to the fact that it is an oil producing region and the main storage tanks are in the Lago Agrio vicinity.

After allowing the FARC to retaliate against the paramilitary groups operating in the area, senior Ecuadorian military commanders then entered in to more direct economic relationships with FARC that have significantly increased the flow of cocaine across the border in the Lago Agrio region.¹²⁴

The Angostura committee found that a Colombian citizen, Marcial Eduardo Campaña, violently drove Ecuadoran farmers from a region near an ecological reserve and then "built, in the middle of the inhospitable jungle, a complex to house 60 people. This place became a great center for warehousing precursor chemicals, drugs and weapons. It was a meeting point for the FARC and drug traffickers of various nationalities."¹²⁵

¹²⁴ Author interviews in Lago Agrio region and debriefings of senior FARC desertors.

¹²⁵ Montalvo et al, op. cit., p. 93. This information was confirmed independently by a high-level FARC deserter who had been to the center.



There is a high cost to Ecuador for the Colombian military presence on the border. In order to keep the FARC from resupplying itself through Ecuador, virtually no legal commerce is allowed between the two countries in areas where legal crossings are allowed. For example, the two-lane paved road and cement bridge over the San Miguel River, once a thriving point of trade, is now virtually abandoned. Only a handful of vehicles cross the bridge every hour.

"Since the Colombian army took control a couple of years ago they don't allow us to take anything to Colombia to sell," said one resident. "They think it all goes to the FARC. But it is killing us. This is the road for legal commerce. If the FARC wants something, they aren't going to take it across the bridge by the police checkpoint. They are going to smuggle it across the river like they always do."¹²⁶

Despite some increased state presence in the Lago Agrio region, the border remains a desolate place where the state is seldom seen. Of particular concern are the villages that are directly on the river that is the border. According to a recent private study by an NGO affiliated with the Catholic Church, almost none of the schools on

¹²⁶ Author interview, Oct. 19, 2009.

the border have teachers, academic materials, electricity, running water or sanitation facilities.

"One can honestly say that there has been zero investment of the state on the border," said the author of the report. "They won't build roads or do anything because they say the irregular forces from Colombia will take advantage of any infrastructure. But if help doesn't come, then what are these people supposed to live off of? They will live off of crime or whatever the irregular groups ask them to do, because they have no alternative. In the end, if we have problems of guerrilla cells, crime etc. it is our own fault."¹²⁷

The Role of Oliver Solarte and Ties to the Correa Campaign

Ecuadoran, Colombian and Mexican intelligence services, as well as FARC deserters who worked with him, say a Colombian known as Oliver "The Fat Man" Solarte (whose real name is Olidem Romel Solarte) is the FARC's drug czar. He is in charge of not only aggregating the drug loads from different fronts, but for directly negotiating the sale of cocaine to different buyers.¹²⁸ Although he does not officially have standing as a senior FARC commander, Solarte is reported to be the single most important person in the organization's drug trade through Ecuador.¹²⁹



Figure 8: Oliver Solarte, the FARC's point man for cocaine trafficking in Ecuador

Using the Ecuadoran riverside hamlet of Puerto Nuevo as his base of operations, described as "the heart of drug trafficking in Ecuador," Solarte reportedly controls three large HCL labs, two in Colombia and one in Ecuador. Each is capable of

¹²⁷ Author interview, Oct. 19, 2009.

¹²⁸ Colombia's deputy defense minister, Sergio Jaramillo, took the unusual step of identifying Solarte by name at a regional drug trafficking conference. See: Eduardo Castillo, "Official Links Mexican Drug Gangs, Colombia Rebels," Associated Press, Oct. 7, 2008.

¹²⁹ The information on Solarte comes from extensive debriefings with senior FARC deserters who worked directly with Solarte, as well as a review of intelligence files in Colombia and Mexico, and a review of the extensive, though fragmented, public information on his role with the FARC's cocaine trade. The author's sources corroborated much of the excellent reporting in Arturo Torres' [El Juego del Camaleón](#), op cit. See also: Juan Forero, "Ecuadoran Town a Hub For Drug-Running Rebels," The Washington Post, May 20, 2009.

housing 40 workers and, depending on the availability of the coca leaf, precursor chemicals and security situation, can work around the clock, with different shifts of workers.

In order to retain control of the town and its environs, Solarte has brought his family over to buy up or take possession of property, giving himself a built-in security network of trusted family members who can notify him of any attempt to arrest him. Unlike most senior FARC operatives, Solarte has a wife and two children that live among the different safe houses he has in the Puerto Nuevo area. He also reportedly owns a small supermarket and a disco in the town.

Puerto Nuevo is one of a string of hamlets that have grown in both size and sophistication in recent years, due mostly to the influx of Colombians seeking refugee status. Colombian officials have aerial maps of the region going back several years, showing each year how more towns are settled just inside Ecuador, and how existing hamlets grow. "These towns have no real commerce," one Colombian intelligence official said. "They have a few houses, a few bars and a few whore houses. What real peasant would build a town like that?"

In addition to serving as a safety net, Solarte's relatives reportedly handle the main FARC bank accounts in Lago Agrio, and hold title to many of the properties that he controls. One of those renting a property to Solarte, according to the Angostura commission, was Gen. René Vargas, who served as Correa's ambassador to Mexico.¹³⁰

Besides his handling of the flow of drugs to the outside world, Solarte is the FARC's main regional contact with the Ecuadoran military and judicial officials, and is the one who sends money to pay the bribes to free any member of the FARC who is captured or is having legal difficulties in Ecuador. "If anyone is picked up, Solarte has the lawyers all ready and they call and get them out before the prison door closes," said one former FARC operative. "All they have to tell the judge or police is: 'Oliver sent me.' His word is the law there."

Solarte also manages two clinics for the FARC in Lago Agrio, and one in Quito for the most seriously injured combatants.

Originally a common criminal captured by the FARC in about 1995, Solarte reportedly pled for his life, with the promise of using his criminal connections to help the FARC in the drug trade. Over time, and as the Ecuadoran border region grew, so did Solarte's power and importance.

Described as overweight and ruthless Solarte, originally from the town of Mocoa, 70 miles north of Lago Agrio, is also in charge of collecting the money from the cocaine buyers, often on behalf of other fronts of the FARC. He maintains numerous money

¹³⁰ Huerta Montalvo et al, op cit., p. 105.

counters to count the bills when they are delivered. One FARC deserter who worked with Solarte described how the money was taken to safe houses or jungle laboratories in large plastic bags, then dumped on a large tarp to be counted, bundled and divided among the different FARC leaders.

Solarte's ties to the Ecuadoran military were not cheap, but they have been extremely useful. One FARC deserter intelligence officials say was present at the meeting, described how an Ecuadoran general arrived at one of Solarte's homes on the border in order to warn the the FARC operative of an impending Ecuadoran military sweep of the zone. The military had orders to go house to house in order to confiscate weapons and arrest anyone in possession of weapons. Thanks to the general's warning, the FARC was able to hide its guns and the general received a bag with \$15,000 in cash.

The Growing Mexico Connection

Among Solarte's most important tasks has been to nurture and manage the growing relationship between the FARC and Mexican drug trafficking organizations, particularly the Tijuana cartel.¹³¹ This is a change from the traditional FARC way of operating, which was in alliance with major Colombian-led drug trafficking organizations, particularly the Northern Valley Cartel (NVC) during the years it was led by Juan Carlos Ramirez (AKA *Chupeta* or "Lollipop").¹³² While the FARC had become a major cocaine producing group, it generally acted as a wholesaler to other Colombia groups that maintained international trafficking structures. The FARC would piggy back their drugs onto those loads, and reap a significant, though reduced profit.

At the same time, Mexican drug cartels could not extend their reach to South America, which was under the control of powerful Colombian organizations. Over the years the Colombian organizations increasingly relied on Mexican organizations to move the drugs from Mexico or Central America northward, but did not allow the Mexicans to enter the South American market as direct purchasers.

Several factors explain the shift, which has accelerated over the past three years. The first is the demise of traditional, large Colombian cartels. With the demise of the NVC, the elimination of the Medellín and Cali cartels, and the fragmentation of other drug trafficking organizations, the FARC emerged as the premiere drug producing organization. However, as noted, the FARC does not have international, autonomous

¹³¹ The information of the Mexican connection comes from debriefing a senior FARC deserter directly involved in the trade, and Colombian Mexican counter-narcotics officials.

¹³² It is interesting to note that Ramirez rose to prominence as a member of the Diego Montoya organization, which strongly supported the right-wing paramilitary groups fighting the FARC. However, Ramirez, who lived in Brazil for several years before his arrest in Sao Paulo in August 2008, became a primary supplier of cocaine to the 48th Front.

transnational trafficking structures. Ramirez, before his arrest, helped broker a series of meetings among the FARC and different Mexican organizations.

Those relationships have since blossomed, allowing the Mexican cartels increasing access to FARC cocaine production. While Solarte is the primary gate-keeper of which potential buyers have access to FARC hierarchy, on the Mexican side of the business the gatekeeper is a Mexican from the Tijuana cartel. One FARC informant said the Mexican used the nickname, "Cachi."

Intelligence officials said Cachi was the nickname of Jefferson Ostaiza, discussed below, who was the primary drug liaison between the Mexican organizations and the FARC. Both sources said senior Mexican traffickers from the Tijuana and other cartels brought their own security details, were usually heavily armed and carried a satellite telephone and computer to stay in touch with their home bases. Through Cachi and Solarte, they have regular access to the 48th Front's military commander, Edgar Tovar.¹³³

The way it worked was this. The Mexicans would come in through Guayaquil or Quito to Puerto Nuevo, but they came with Cachi's permission. That is where everyone comes, because it is under Solarte's control. They all pass through Lago Agrio on the way. There is a partnership among the Mexican organizations and FARC commanders. The level of trust has grown. If they [(the Mexicans)] need coke, they can take it and pay later. The money always comes in. The money is mostly in \$100 bills, but some of it is in smaller bills, some of it is Colombian pesos, some if it is Euros. But mostly it is \$100 bills. They would dump the money in a big pile on a plastic tarp and we would have to count it for hours.¹³⁴

Mexican officials say the relatively small Tijuana cartel has been able to establish its presence in Ecuador at the expense of the larger Sinaloa and Gulf cartels because the larger organizations are engaged in a bloody war in Mexico for territory, market share and with the state. This has limited their ability to project strength and vie for market share in Ecuador.

Semi-Submersibles and the Pacific Route

According to Mexican law enforcement officials, the Mexican organizations are taking full advantage of the shift in cocaine trafficking routes to the Pacific, a route that allows them to increasingly use semi-submersible ships to move multi-ton loads of cocaine in ways that are very difficult to detect. While cargo containers, tuna boats and other traditional methods are still in use, Colombian and Mexican officials now estimate that more than half of the cocaine leaving Colombia (and a

¹³³ The account is based on a detailed debriefing by a senior FARC deserter and interviews with Colombian and Mexican counter-narcotics officials.

¹³⁴ Senior FARC deserter, in interview with author in Colombia.

large majority of the drugs leaving through Ecuador), are now shipped via this newer method.

Semi-submersibles, or fast-moving boats that ride just above the waveline, have been used for the past decade and are almost impossible to detect by radar or overflying aircraft. In the past two years the drug traffickers have made significant technological strides in manufacturing the vehicles, increasing their range, safety and carrying capacity. There has been a corresponding increase in their use by drug trafficking organizations.

The vessels are now able to travel from the Colombian and Ecuadoran launching sites on the Pacific, all the way to Mexico, or at least El Salvador and Guatemala, without refueling. If more fuel is needed it is often provided by fishing boats sent to a meeting point, easily located with GPS technology. The boats can carry up to 10 tons of cocaine, but average between 5-6 tons per shipment.

While it used take 90 days to manufacture the boats, it now takes about 35, as the technology for building the fiberglass-hulled vessels has improved and the drug traffickers are now able to prefabricate and standardize construction. The average cost per vessel is about \$1 million, and they are often sunk after one trip, a part of doing business.¹³⁵

¹³⁵ Author interviews with Colombian, U.S. and Mexican intelligence officials. Interestingly, the first attempts by the Colombian drug traffickers to move to this type of shipment came in 2000, when the cartels were found to have plans to construct a Russian submarine, and had acquired most of the necessary parts. The groups then moved to homemade semi-submersibles, a technology pioneered and likely copied from, the Tamil Tigers of Sri Lanka. While few of the crafts are built in Ecuador, many are built near the border region in Esmeraldas and launched almost immediately into Ecuadoran waters.



Figure 9: Semi-Submersible Detected by U.S. Coast Guard

Admiral James Stavridis, when he was head of the U.S. Southern Command, responsible for Latin America, described semi-submersibles as

....a new and dangerous threat technology, vessels that can carry drugs, terrorists or weapons of mass destruction to our shores.

In ever-increasing numbers, these stealthy, pod-like vessels depart expeditionary shipyards nested deep in the dense jungles and estuaries of the Andes region of Latin America. Carefully ballasted and well camouflaged, they ride so low in the water that they are nearly impossible to detect visually or by radar at any range greater than 3,000 yards. Loaded to capacity with tons of drugs they plod steadily and generally unobserved at less than ten knots toward designated drop-off points.¹³⁶

¹³⁶ Admiral James Stavridis, "Semi-Submersibles: An Emerging Threat in the Americas," Air & Space Power Journal, July 1, 2008.



Figure 10: Semi-submersible ready to be launched.

The owners of the semi-submersibles are fully aware of two factors that favor the use of the vessels, in addition to the low visibility of the crafts. The first is that no Central American nation has the naval capacity to interdict the semi-submersibles, so the risk is small on that front. The second is that the United States cannot interdict the craft in the territorial waters of another nation without explicit and time-consuming permission, virtually guaranteeing they will at least have time to dump the drugs before being seized.

While many of the vessels drop their loads along the Central American coast, with GPS locators so go-fast boats or fishing boats can pick up the loads easily and then move them by land, some of the craft make it all the way to the port of Lázaro Cárdenas in Mexico.

Mexican officials are also seeing a significant expansion of ancillary cartel operations in Ecuador, particularly illicit human trafficking. Because it has one of the most lax visa policies in the world, Chinese, Indian and African human smuggling networks are increasingly stashing their human cargo in Ecuador because it is the easiest place to stop. From Ecuador, the smugglers move their cargo through Central America to Mexico, then to the United States.

Ecuador has also become increasingly attractive as a money laundering center for Mexican cartels and other transnational criminal organizations, as it has been for the FARC. Because Ecuador's official currency is the dollar, and the restrictions on moving large quantities of money in and out are lax and relatively unenforced, Ecuador (along with Panama and El Salvador, also dollarized economies) has proved enticing. Another attraction is the significant bank secrecy laws in Ecuador, advertised by different offshore banking centers as among the most stringent in the

world.¹³⁷ A recent university study in Ecuador estimated that \$500 million to \$1 billion a year was laundered through Ecuadoran financial structures.¹³⁸ Law enforcement officials estimate the amount to be significantly higher, while other academics believe the amount of money that actually stays in the Ecuadoran financial structure is negligible and therefore does not distort the overall economic picture.

One of the indicators of the growing illicit business between Mexico and Ecuador is the large increase -- 45 percent from 2006 to 2009 -- in the number of business visas being requested by Ecuadorans that would allow them to reside in Mexico. Most of those applying do not have the requisite legal business partnerships in Mexico that would allow for such a visa.¹³⁹

In addition, Ecuadoran officials have requested assistance from Mexico in identifying the source of funds for several Mexican investors in Ecuador, particularly in the tourism sector, a usual favorite for money laundering because so much of the business dealings are in cash.

The CCB, the Death of Raúl Reyes and the Unraveling of the FARC

As discussed above, one of the FARC's primary front groups is the CCB, founded with the help of Venezuelan president Hugo Chávez. The decision to hold the second general congress of the CCB in Quito played a direct role in the Colombian government's decision to launch the attack on the Sucumbíos camp to kill Raúl Reyes. The meeting, which drew representatives of ETA and other small armed groups in Latin America, acted as a catalyst that led to investigations of the close ties of senior officials in the Correa government to the insurgent group, and, through those relationships, to international drug trafficking organizations. The most important unresolved question in the face of the overwhelming evidence that such alliances existed and perhaps continue to exist, is whether Correa himself knew of the ties.

The CCB congress, which the Reyes documents show the FARC monitored closely, was held in Quito Feb. 24-27, just days before the Angostura bombing. Colombian officials grew increasingly alarmed when their human intelligence sources reported a series of international delegations attending the CCB flew to Lago Agrio, then trekked into the jungle to meet with Reyes in a show of international solidarity with

¹³⁷ See, for example: http://www.panamalaw.org/ecuador_banking.html, which boasts that "Ecuador is not signing any OECD (Organization for Economic Co-operation and Development) tax treaties and is not even giving lip service to the OECD. This means they have no intention of sharing any information regarding taxes at all ... Your privacy will be protected in Ecuador better than almost any other country."

¹³⁸ Carlos Espinoza, "Una Amenaza Silenciosa: El Narcotráfico en Ecuador," *Polémica* magazine, Universidad San Francisco de Quito, July 2009.

¹³⁹ Interview with officials of the Secretaría de Gobernación, Mexico.

the FARC. One group of Mexicans filmed a video of Reyes giving a fiery address to the CCB, a video that was played when the CCB congress opened in Quito.¹⁴⁰ The Angostura committee noted that this "revolutionary tourism" should have been detected and stopped by Ecuadoran authorities.¹⁴¹ The Mexicans killed in the camp with Reyes were part of a CCB delegation that had been invited to meet with Reyes.

Given the indications that the Reyes camp had been established and utilized for several months and served as both a command and control center and a tourist destination for various designated terrorists, Colombian intelligence pressed its human intelligence sources for the exact location of the camp and the sleeping quarters within the camp. Because of the canopy cover in the area, aerial photography was of little use, although electronic intercepts helped locate the camp's location. When Reyes' presence was confirmed there, Colombian president Uribe gave the order to attack without notifying Correa. Colombian officials feared that, given the Ecuadoran military's seeming tolerance for a high volume of visitors to the camp without taking any measures to shut it down, any joint operation would be compromised.¹⁴²

The Ecuadoran government says that the president was unaware of the CCB's meeting in Quito, and was not informed by his intelligence services of the camp or the confirmed presence of Reyes in it. Rather, they portray the whole episode as a plot by a handful of officials sympathetic to the guerrillas that has been overblown in an effort to damage Correa's national and international image.

The Ostaiza Connection

The main protagonist in the structure linking the Correa government to the FARC and drug trafficking is Ignacio Chauvín, the former under secretary for political affairs in the Ministry of National Security. Chauvín is currently charged with drug trafficking in Esmeralda province, but is not in prison. He continues to be embroiled in a scandal surrounding the multiple irregular rulings that have been handed down in his drug trafficking case, whittling the charges and potential jail time down at each step, changing venues illegally and raising serious questions of judicial corruption. The attorney general recently announced an investigation against several lawyers and judicial officials for dragging the case on, perjury and other crimes.¹⁴³

¹⁴⁰ In 2009 the CCB officially became the Continental Bolivarian Movement (*Movimiento Continental Bolivariano - MCB*) at its Third Congress, held in Caracas, Venezuela in December 2009. See: <http://www.conbolivar.org/>

¹⁴¹ Huerto Montalvo et al, op. cit., p. 36.

¹⁴² This explanation was provided by senior Colombian intelligence officials.

¹⁴³ "Chauvin: Caen Jueces, Ahora tras los Fiscales," Hoy (Quito), Jan. 5, 2010.

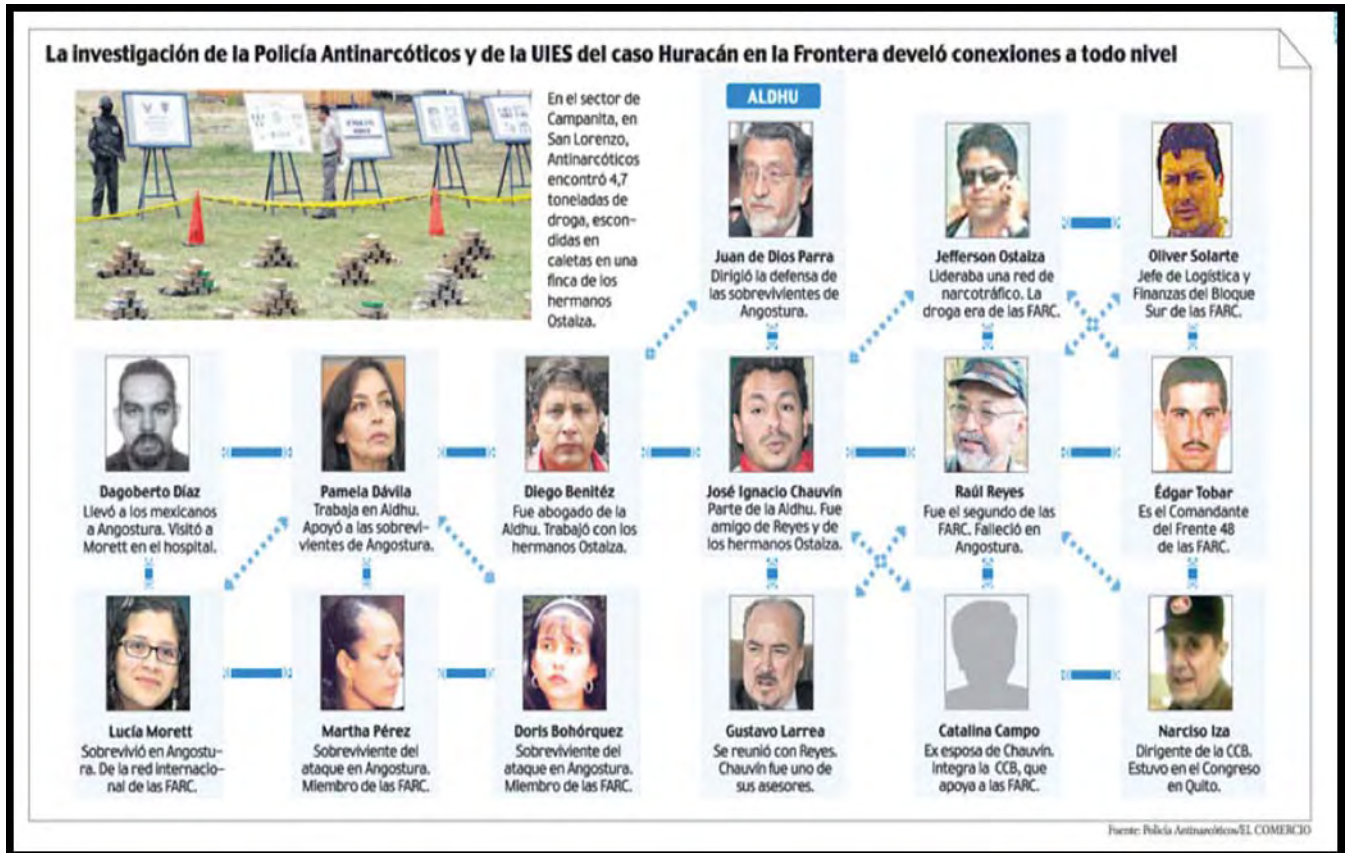


Figure 11: Chart from El Comercio newspaper showing the relationships among drug traffickers, FARC and its front groups, and Ecuadoran government officials.

Chauvín, a 34-year-old political activist, was the leader of the Simón Bolívar Brigades (*Brigadas Simón Bolívar-BSB*) before taking the senior government position. The BSB mainly operated on the Ecuadoran side of the Colombia-Ecuador border. The Angostura commission described him as "strongly tied to drug trafficking and the FARC guerrillas, acting under the guise of a human rights activist. With the support of Juan de Dios Parra he became a leader and activist in ALDHU, concentrating his efforts in the Colombian-Ecuadoran border, particularly the provinces of Sucumbíos (Ecuador) and Putumayo (Colombia). There he developed relationships with guerrillas such as Freddy Castillo, one of the men closest to Oliver Solarte, who in turn is one of the most wanted men for his trafficking in drugs, weapons and precursor chemicals on behalf of the FARC."¹⁴⁴

¹⁴⁴ Huerta Montalvo et al., op. Cit., p. 105.



Figure 12: José Ignacio Chauvín (left) and Juan de Dios Parra.

The Angostura commission described the BSB as "nothing less than an arm of the CCB, which in turn is the political arm of the FARC."¹⁴⁵ The committee noted that "The CCB was born as an international political project of the FARC, with a strategy of creating a regional support structure through ideologization, creating chapters in each country in an effort to build support for insurgent, anti-imperialist causes, including its own cause."¹⁴⁶ While denying ties to drug trafficking, Chauvín acknowledges visiting Reyes at least seven times between December 2007 and the end of February 2008, when Reyes was killed. Colombian and Ecuadoran officials suspect Chauvín, who remained inexplicably incommunicado for hours after the attack and has not given a coherent account of where he was, had left the Reyes camp just hours before it was bombed.¹⁴⁷

Working closely with Chauvín to get the CCB congress organized was Juan de Dios Parra, a Chilean national, and the organization he led, the Latin American Association of Human Rights (ALDHU). Parra and Chauvín, in turn, were both close friends and collaborators of Gustavo Larrea, who Correa chose to take the super-ministerial portfolio of minister of national security, an office designed to coordinate various other ministries. Larrea, a former head of ALDHU, personally brought Chauvín into the ministry.¹⁴⁸

¹⁴⁵ Huerta Montalvo et al., op. Cit., p. 105

¹⁴⁶ Huerta Montalvo et al., op. Cit., p. 106.

¹⁴⁷ Author interviews.

¹⁴⁸ By far the most comprehensive public information available on the relationships of Chauvín, Larrea, and Parra through ALDHU, as well as their relationship to different drug trafficking organizations can be found in the outstanding series of reports by a five-person investigative team of

Larrea is identified in the Reyes documents as a primary contact for the FARC under the codename "Juan." As described above, according to the FARC documents Larrea, who had access to the nation's most classified intelligence, offered to change the police and military commanders in the border region in order to keep the FARC from being harassed in the region. Larrea has admitted meeting Reyes but says that, unlike the Angostura commission report alleges, he did not meet the FARC commander in Ecuador. Rather, he contends, his contacts were aimed at trying to get the FARC to release kidnap victims.

But Chauvín had other close friends that proved to be the direct nexus between the FARC and the transnational cocaine trade.

These were the Ostaiza brothers (Édison, Miguel and Jefferson), whom Colombian, to whom Ecuadoran and Mexican officials tied major purchases and transshipment of FARC cocaine to Mexico. In a series of raids in 2007 and 2008, Ecuadoran police confiscated several multi-ton loads of cocaine belonging the 48th Front of the FARC. The ring was said to be run by the Ostaiza brothers (Édison and Miguel are in prison and Jefferson remains a fugitive).

According to Ecuadoran reports, the primary front company the Ostaiza brothers used to launder their drug proceeds with the FARC was "Jooamy EMA," a company created on Dec. 14, 2006. It was through that company that Brito, Chauvín and others were most closely tied to the Ostaizas. The police investigation of the company began with "Operation Green Hurricane" in October 2007, when 3.7 tons of cocaine were seized, and investigators slowly unraveled the tangle of relationships in the company. Chauvín admitted a friendship and frequent business and social meetings with the Ostaizas, but said he was unaware of their ties to drug trafficking.¹⁴⁹

Also tied to the Ostaiza brothers, according to Ecuadoran and Colombian reports, was Col. (ret) Jorge Brito, a national hero for his role in the brief 1981 conflict with Peru and a well-known supporter of Correa. According to Fabricio Correa, the president's brother, Brito offered the campaign money from the FARC, which Fabricio says he refused.¹⁵⁰

the El Comercio newspaper. Much of the information here is derived from those series of reports after verification with other sources. See: "El Narcotráfico Pretendió Inmiscuirse con el Gobierno," El Comercio (Quito), Jan. 11, 2009; "Los Coqueteos Con el Poder Ahora Pasan la Factura a la ALDHU," El Comercio (Quito), Feb. 8, 2009.

¹⁴⁹ For a more complete account of the operation, see: "De Angostura a la Multinacional del Narcotráfico," Hoy (Quito), March 1, 2009.

¹⁵⁰ Huerta Montalvo et al, op. cit., p. 115. There is more corroboration for the charge that Brito delivered the FARC money to the Correa campaign. Following the death of Reyes, Ecuadoran officials found a hand-written notebook that was originally thought to be the personal diary of Reyes. However, the document was, in fact, the notes of Julio César Vizuete an academic who said he had

Another prominent government official who appears related to the Ostaiza brothers is Gen. (ret). René Vargas Pazzos. who, as mentioned above, was named by Correa to the important post of ambassador to Venezuela, and in 2003 wrote a letter of reference for Nubia Calderón, a senior FARC commander.

Given the significant ties of those close to Correa to both the FARC and its related drug trafficking organizations, a question of primary importance is what did the president himself know and when did he know it. There can be little doubt, in part because of the admissions of Chauvín and others that corroborate the contents of the Reyes document, that senior members of Correa's government sought to curry favor with the FARC and very likely took money from the rebels.

In the best light, as Ecuadoran officials argue, the Correa government was simply engaging with the FARC in an effort to help free hostages on humanitarian grounds as part of an effort toward regional peace. In this interpretation, Larrea, Chauvín and the others who secretly sympathized with the FARC went far beyond the mandate approved by Correa without informing the president and without his authorization.¹⁵¹

But the Reyes documents, other documents, and testimony from FARC deserters show the negotiations between the Correa government and the rebels were at least perceived by the FARC to be from the highest level. The FARC clearly believed its contributions to the Correa campaign were known to the candidate, and that in exchange there would be certain policies enacted that would allow the FARC significant access to Ecuadoran territory.

Another interesting factor is Reyes' apparent disillusionment with Larrea, Chauvín and others in the Correa administration. The disillusionment seems not to stem from a failure of the Ecuadoran officials to fulfill their end of the bargain, but rather because the officials grew increasingly greedy in their involvement in the drug trade.

The primary evidence of this is a hand-written notebook found by Ecuadoran officials in the Reyes camp. After initially declaring the notebook to be the personal diary of Reyes, it was discovered the document was in fact the notes of Julio César Vizúete an academic who said he had interviewed Reyes 13 times and written down the thoughts and statements of the FARC leader. In his notes, quoting Reyes, he names Brito as the middleman in taking money to the Correa campaign.

interviewed Reyes 13 times and written down the thoughts and statements of the FARC leader. In his notes he names Brito as the middleman in the deal.

¹⁵¹ This theory has currency even with those who are not that close to Correa, such as Col. Mario Pazmiño, who was head of military intelligence at the time of the Angostura bombing. "They are still lying to the president," he said, and said that intelligence regarding the location of the Reyes camp was not passed up the chain of command. See: "Al Presidente Correa Lo Siguen Engañando," *Semana* (Bogotá), July 12, 2009.

But over time Reyes, according to the document, grew increasingly angry with the Ecuadorans, buttressing the claims by Correa loyalists that, despite the representations made by Larrea and others, Correa did not deliver what the FARC wanted.

"Trusting Correa was suicide," the document quotes Reyes as saying on Feb. 9, 2008. "All the money we gave his campaign didn't help us worth a damn." Further on, Reyes reportedly claims that Larrea and Chauvín are "traitors" because "they are only interested in doing business with the product (*la merca*, slang for cocaine). Nacho [short for Ignacio] Chauvín is another fraud, he has failed us and is only working on doing deals with the Ostaizas." On various occasions he accuses Chauvín, Larrea and others of acting as double agents, of being protected by the CIA in their drug dealings, and of being spies who passed on FARC secrets to Colombian intelligence.

The document, whose author is in prison for helping the FARC, contains many musings on the distrust Reyes feels, and the premonition that he would soon be dead. It also portrays a leader who is deeply conflicted by how deeply the FARC has become entrenched in and reliant on the cocaine trade for survival but who is unwilling and unable to withdraw from the business. He also appears desperate to finalize the hostage release in Ecuador in order to strengthen not only Correa, but his own internal position in the FARC as well.¹⁵²

The notebook, released by the Ecuadoran government, is interesting because it clearly corroborates much of the information in the Reyes computer, but seems to exonerate Correa from direct knowledge of events.

The Challenges Ahead

The challenges facing Correa and his administration are enormous, and how Correa will navigate them is unclear. Correa himself seems at times ambiguous on how democratic a path he will pursue.

Ecuador, long off the international radar screen, is rapidly becoming a major global crossroads where transnational criminal organizations meet and do business with little fear of having their activities disturbed or detected. Multiple factors, from Ecuador's geographic location on the Pacific coast and proximity to Colombia and Central America, to the dollarization of its economy and its extremely lax visa policies have played a significant role in this development. In addition, the collapse of most government institutions, including the judicial system, has led to a significant breakdown in the rule of law.

¹⁵² Document in possession of the author.

In addition to problems of drug trafficking discussed previously, Ecuador has become increasingly attractive for Russian organized criminal groups, both for weapons sales to the FARC and to launder money, often on behalf of Mexican drug trafficking organizations. The permissive environment, lack of functioning institutions, easily-corrupted judiciary, porous borders and ineffective or nonexistent anti-money laundering efforts have also made Ecuador attractive to a host of Latin American criminal organizations, particularly for money laundering activities.

Chinese triads, particularly those involved in smuggling human beings, have greatly increased their presence in Ecuador, largely because their illicit cargo can enter without visas. According to a senior U.S. official, in every major case of non-Mexican and non-Central American illegal immigrants entering the United States in the past year the migrants have transited Ecuador. This includes East Africans, Southeast Asians and Central Asians.¹⁵³

But at the heart of most of these challenges, as the Angostura report noted on multiple occasions, is the deep entrenchment of the cocaine trade and narco money, and with it, a violent non-state armed actor seeking the violent overthrow of a democratically elected government in a neighboring country. This is an issue that Correa has largely chosen to ignore, and, when forced to acknowledge, has chosen to obfuscate and minimize.

But as Huerta Montalvo, the head of the Angostura committee and a friend of Correa said:

We are running around like spoiled children, fighting amongst ourselves and thinking we are making a revolution. But we are missing the deeper problem...I wouldn't dare say (Ecuador) is a narco-state, but there is infiltration at every level of society and disturbing complicities. There is a de-institutionalization that goes beyond what we cover in the report.¹⁵⁴

There is no question, as noted earlier, that the Colombian conflict has taken a heavy toll on Ecuador. To confront the FARC and other groups that have their roots in Colombia is a costly proposition in a time of scarce resources. But not confronting the armed group is more costly. Again, as Huerta Montalvo said:

The guerrillas kidnap, and that is a crime against humanity. They use gas canister bombs against civilians, and that is terrorism. They are tied to drug cartels, and that is narco-terrorism. I believe...we should not fear words, because if we do, sooner or later we will have to take actions.¹⁵⁵

¹⁵³ Author interview.

¹⁵⁴ "El Cartel Nuestro de Cada Día," op cit.

¹⁵⁵ "El Cartel Nuestro de Cada Día," op cit.

Yet Correa's actions have been ambiguous. While attacking the bearers of bad news regarding the ties of his government officials to the FARC, and to drug trafficking, he has distanced himself and the government from those individuals under investigation. However, while distancing himself, he has also appeared to retaliate against those carried out the most significant operations against the government officials, including reshuffling vetted units that worked with U.S. agencies after the units led to investigations of Correa allies.

There is a reasonable possibility that Correa, on a personal level, was seeking to engage the FARC solely to facilitate the release of hostages and other humanitarian reasons. However, given his closeness to Chávez, the declared support of the Bolivarian revolution for the FARC, and Correa's apparent reluctance to publicly condemn the FARC's well-documented human rights abuses, it is not clear he views the organization as either dangerous or criminal. Also, given his well-known penchant for micro-managing issues, he almost certainly knew, or could have known of the meetings of senior officials of his government with FARC commanders in Ecuadorian territory.

At best it shows extremely poor judgment by the president to surround himself with people who maintained contacts with non-state armed actors and met with them repeatedly on national territory and did not communicate that fact, or the contents of the discussion, to the nation's commander in chief. At worst it shows a complicity in the dealings or a willful ignorance of the behavior and actions of his subordinates.

The question of Correa's knowledge of the FARC financing for his campaign also remains unresolved. There is ample evidence that the FARC, at the very highest level, decided to fund his campaign and collected at least \$100,000 and mobilized its supporters in the border region to vote for him. There is some evidence that the money was accepted, although it is not conclusive. What remains unknown is whether Correa, as a candidate, knew or had reason to know of the contribution.

There are also significant challenges in the areas of governance and democracy. The Correa government, wrestling multiple challenges on many fronts, has chosen to concentrate most of the power in the hands of the president, arguing that this is necessary to give the country a chance to re-institutionalize. This is a dangerous strategy, given the nation's new constitution and Correa's own autocratic governing style. It is unlikely that a system of clear checks and balances, and centers of power outside of the executive, will be allowed to emerge.

While not pursuing the Bolivarian revolution with the same degree of authoritarianism and anti-American fervor as Chávez in Venezuela, Ortega in Nicaragua and Morales in Bolivia, Correa has clearly cast his lot with this profoundly anti-democratic group and process. His visceral desire to attack and silence the media that opposes him and to publicly insult those who challenge him indicates he harbors a dangerous *caudillismo* tendency that bodes ill for democracy.

However, as of yet, Correa, outside of his attempts to silence TV stations and publicly humiliate his antagonists, has taken none of the formal actions that Chávez, Morales and Ortega have taken to criminalize the political opposition, exert direct control over the military, or tamper with voter registrations.

Correa's willingness to host Iranian banks despite international sanctions against them, his ties to Chávez and Ahmadinejad, his overt hostility to the United States,¹⁵⁶ his expanding ties with Russia and China at the expense of U.S. global interests, and his seeming lack of interest in tackling organized crime, combine to ensure that relations with the Obama administration are likely to remain rocky.

Correa has publicly justified his warming relationship with Russia and decision to purchase Russian weapons as necessary to counter U.S. aid to the Colombian military and modernize the Ecuadoran military.¹⁵⁷ However, as with many issues related to Correa, the visit ended inconclusively. Russia publicly expressed its desire that Ecuador recognize the independence of Ossetia and Abkhazia, the two breakaway republics from Georgia, and said they expected Correa to take the step while visiting Moscow in October 2009. Correa promised to study the proposal, but has not acted on it, and, as Russian newspapers reported, also received no Russian credits.¹⁵⁸

No issue is more immediately pressing for Ecuador than negotiating the dual relationships with Colombia and Venezuela. Colombia's Uribe and Chávez are in permanent confrontation. But Correa seems to recognize that, despite his ideological kinship with Chávez, his economic and social stability rest much more on his relationship with Uribe. This dependence has been demonstrated in recent months as Correa has been forced to buy electricity from Colombia to avert an even more severe energy crisis than he is already facing.

There is little doubt that for Ecuador to move forward in combating transnational threats posed by the FARC, transnational criminal groups and Mexican drug cartels, it must unite with Colombia to face the common threats.

Huerta Montalvo of the Angostura Commission has said that the myth that Ecuador is an island of peace in a turbulent region, and only a transit country for the drug trade, "is now a thing of the past. What the Angostura investigation has shown is that the axis of everything is drug trafficking."

¹⁵⁶ A recent example is Correa's unsubstantiated public charges that right-wing extremists were plotting to overthrow his government by funding parts of the indigenous movement. The indigenous movement, which strongly supported Correa during the elections, has broken with him over proposals to allow mining on their territories, as well as have the state take over water rights. See: "Ecuador Prez: U.S. Extremists Plot to Destabilize," Associated Press, Jan. 2, 2010.

¹⁵⁷ Javier Mozzo, "Ecuador to Seek Defense Deals with Russia," Reuters, Oct. 10, 2009.

¹⁵⁸ "Ecuador Seeks Closer Ties With Moscow," Euronews, Oct. 29, 2009.

Asked what could be done to improve the situation, Huerta Montalvo answered:

*"Accelerate the normalization of relations with Colombia, understanding that we both have the same problems. We are brothers in the same drama, and we have to unite...We need a continental alliance, and Hugo Chávez and others have to decide whether or not drug trafficking and terrorism are crimes against humanity. We have to confront the problem, not leave it as a taboo."*¹⁵⁹

Without a united front on the most vital issues of national security -- narcotics trafficking, terrorism, transnational crime and the corruption that enables them -- little progress can be made against non-state armed groups that are truly transnational in reach and wealthier than any single state. The challenge to Correa is to carry out his "citizens' revolution" within a democratic framework while dealing collectively with transnational challenges that could consume Ecuador.

¹⁵⁹ "El Cartel Nuestro de Cada Dia," op. cit.