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NotiSur writers

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In the days immediately after his party's overwhelming win in an election to name members of an assembly to rewrite the national Constitution (see *NotiSur*, 2007-10-12), Ecuador's President Rafael Correa announced plans to heavily tax private companies extracting oil and pressured banks to reduce interest rates. The taxes on petroleum companies would take 99% of additional profits beyond the price of oil at the time the companies signed their contracts with the government. Correa also announced Ecuador's intent to rejoin the Organization of Petroleum Exporting Countries (OPEC).

99% of "extraordinary" profits to generate US$700 million

High petroleum prices motivated Correa to announce the elevation of taxation in a way that surprised the Ecuadoran press and oil companies. He made the decision through an executive decree, reformulating a "50/50" deal that had previously been in effect. The decree modified Article 2 of the "Reglamento de Aplicacion de la Ley 42," which established that, "The participation of the state in the excesses of sale prices of petroleum not agreed upon or unforeseen in participation contracts...corresponds to at least 50%."

Correa tacked an extra 49% to the 50% figure, which his government says is legal under the contracts signed and does not constitute a "nationalization" of petroleum resources. Correa has rejected calls to nationalize the country's natural resources, as has been done in Venezuela and Bolivia, saying that the laws in effect allow Ecuador to get an adequate share of its resource wealth.

With the new regime, the government hopes to collect US$700 million annually, said Mines and Petroleum Minister Galo Chiriboga. Under the 50/50 distribution, the national treasury had collected about US$200 million in the first year that the law had been in effect. Correa called the increase "just and constitutional." Chiriboga referenced other calculations that foresaw an increase in revenue of US$830 to US$849 million. The revenue is set to go to three funds: the Fondo de Estabilizacion Petrolera (FEP), the Fondo de Ahorro y Contingencias (FAC) and the Cuenta Especial de Reactivacion Productiva (Cereps). The FEP serves as a reserve for when oil prices fall and is used for foreign debt payments and social spending; the FAC is a savings fund and Cereps is used for productivity stimulus.

According to the government understanding of the contracts, at the moment companies signed contracts to extract Ecuadoran crude, a reference price was fixed at an average price of US$17 per barrel. The reference is adjusted annually for US inflation and most recently was calculated at US$24 per barrel for private oil companies.

The price of Ecuadoran crude bordered on US$64 per barrel in the first week of October. The difference between that and the baseline price of US$24 per barrel was divided half and half between the state and the companies, but now the companies will only get 1% of that "excess."

The decision was made as four companies expressed their intention to renegotiate their contracts. Chiriboga says dialogue remains open, claiming that the foreign corporations would not decide to leave the country.

The Energy Ministry says the state has a total of 20 contracts with foreign petroleum countries. Ecuador is South America's fifth-largest crude exporter, with about 500,000 barrels produced per day. The oil sector is the most important one for the economy and government financing, with 35% of the federal budget coming from petroleum. Companies like Petroleos de Brasil (Petrobras), Repsol YPF, City Oriente, Ciadi, CNPC and Tarapoa have contracts that last into at least the next decade, with some set to be in effect until 2022 or 2024.

A spokesperson for private petroleum companies, Rene Ortiz, said the new scheme would damage dealings between them and the government, saying the arrangement, "put the companies in the position of economic inviability."

Sources from the Spanish-Argentine Repsol YPF, however, said the effect of the tax scheme on their accounts would be "very small, insignificant," since it only had an impact on extraordinary profits.

Ecuador to rejoin OPEC

On Oct. 8, Chiriboga confirmed Correa's decision to return Ecuador to OPEC, which Ecuador left in 1992 when quotas limiting national production frustrated the government (see *Chronicle*, 1992-09-24). He said the return could be formalized at a meeting of the group in Saudi Arabia in November. Ecuador's return to the group would "strengthen that organization," said Chiriboga.

Currently, OPEC gathers together 11 countries and controls 43.3% of world production of crude oil. Venezuela, ruled by Correa ally and socialist leader Hugo Chavez, is the only member of the group in the Americas.

OPEC officials said that Ecuador had never been formally removed from being a plenary member, and all that was required from Ecuador to rejoin was US$4.2 million in back dues.

Correa calls on bankers to reduce rates

In another effort to give the government a greater role in Ecuador's economy, Correa has also been pressuring banks to reduce the interest rates they charge. On Oct. 10, government representatives met with representatives of the Asociacion de Bancos Privados de Ecuador (ABPE) to talk about a decrease in the rates on the local finance markets.

Maria de Lourdes Andrade, Correa's representative, said the Ley de Instituciones Financieras, recently reformed in the Congress, had not allowed a decrease in interest rates and that the Asamblea Constituyente should reform the laws around rates when it is convened later this year.

Another member of the government delegation, Roberto Andrade said about the Ley Financiera, "in general terms the rates have not had the [lowering] effect as we had been hoping."

The Banco Central says the maximum conventional rate--above which criminal penalties for usury kick in--is currently at 13.04%, although simple accumulation on microcredit reaches 50.86%. The maximum rate for housing is 14.08%, and subsistence microcredit has a maximum of 48.21%.

ABPE spokesperson Cesar Robalino said, whether one likes it or not, "there is a law that is in effect [and] it is working. The markets are working and the prices are subsiding" slowly but in a sustained manner.

"When one sees the averages [of interest rates], one sees a drop, although not a catastrophic drop...because that is how things work," said Robalino.

Although he is riding high on a huge win in the Constitutional Assembly and ever-increasing oil prices, Correa may not have all the support he appears to hold. Roger Burbach, director of the Center for the Study of the Americas (CENSA) and a visiting scholar at the Institute of International Studies at the University of California, Berkeley, speculates that Correa's unwillingness to nationalize the country's non-renewable natural resources may, in the long run, put him at odds with grassroots movements in Ecuador.

Burbach says, "There is already a steady drum beat by the indigenous and popular movements to have the Constituent Assembly take over all multinational mining interests. In early June, the local populace in the gold-mining southern highland province of Azuay, backed by environmental and human rights organizations, blockaded major highways, demanding the expropriation of the mining companies, many of which are controlled by transnational corporations that have polluted local rivers and aquifers."

He said Alberto Acosta, who will be president of the Constituent Assembly, met with the protesters and told them the mining concessions could not be annulled outright. "This is a task of the Constituent Assembly," he said. "It can establish a legal framework that will enable us to revise all the concessions." On Oct. 22 a national mobilization will take place that will call upon the assembly to nationalize all foreign mining interests in the country, reports Burcbach.

Alejandro Moreano of the Andean University worries that "that all of the interests involved in the Movimiento PAIS (Correa's party organization) may not back the tough steps needed to end neoliberalism and bring the banks and multinationals under control. This will depend on the strength of popular mobilizations as the assembly undertakes its work." For his part Correa has repeatedly denounced the private banks in Ecuador for their exorbitant profit-taking and high interest rates. And he has expelled Ecuador's World Bank representative for meddling in the country's affairs and has virtually terminated the country's relations with the International Monetary Fund (IMF).

[Sources: El Mercurio (Ecuador), 09/20/03; Associated Press, 08/09/07; The Financial Times (London), 08/29/07; www.telesurtv.net, 04/20/07, 08/09/07, 08/14/07, 08/24/07, 09/10/07; BBC News, 09/21/07; Bloomberg, 09/07/07, 09/25/07; www.counterpunch.org, 09/05/07, 10/01/07; El Nuevo Herald (Miami), 07/24/07, 10/03/07, 10/05/07; El Comercio (Ecuador), 03/27/07, 07/26/07, 10/04/07, 10/05/07, 10/08/07; El Universo (Ecuador), 04/17/07, 04/25/07, 04/26/07, 06/13/07, 07/26/07, 10/01/07, 10/04/07, 10/05/07, 10/08/07; Spanish news service EFE, 10/10/07]