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Ecuador hike royalties on oil companies, pressures banks to cut interest rates

by LADB Staff
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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

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