Plan C: Redistribution of wealth in order to not exploit the Yasuni and to save the indigenous peoples of voluntary isolation.

For the Center of Economic and Social Rights – CDES[1]

Challenging poverty in our country does not depend on the exploitation of the Yasuni-ITT since it is the result of an unjust structure of income distribution. This economic structure produces a highly concentrated economy where most of the produced resources will end up enriching a small and elite percentage of the population, while the majority of the population will improve their living conditions in a slow and limited way.

It is not possible to overcome underdevelopment without affecting the excessive concentration of wealth. It is possible to generate greater economic resources but if significant changes are not made in the income distribution structures, the benefits of economic growth will always be significantly less for the poor. Although economic stability can improve the living conditions of the population, this contribution is only moderate compared to what can be achieved by more decisive policies of social equity.

For these reasons, the president Rafael Correa has claimed that the problem lies in poor income distribution: *"Poverty (in Ecuador) is not the consequence of lack of resources, but rather it is basically the result of inadequate systems, perverse systems (...) we are in one of the countries that are world champions of inequality"*
In spite of this, the national government is currently promoting a new discourse about "the fight against poverty", which omits the need to inquire into other mechanisms for achieving a better distribution of wealth. Instead, Correa´s government argues that it is necessary to obtain new oil resources in order to counteract the economic crisis.

This new discourse involves a situation in which we have to choose the lesser of two evils. It creates a false dichotomy that says: we can have oil extraction or greater poverty for the country. This argument seeks to justify the extractive operations in Yasuní, which (according to official information)[2] is considered to be one of the most bio-diverse areas in the world and is a home for indigenous people of voluntary isolation. The oil activity in this territory involves threats to the environment, and even more disturbing, this activity threats the lives and inalienable rights of the indigenous peoples in isolation, who depend on this region for their survival.

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[2] www.yasuni-itt.gob.ec

With this unilateral decision, the government would be abandoning the revolutionary Yasuní-ITT initiative, which proposed to leave the oil in the earth in exchange for financial compensation from the international community, equivalent to half of what the country would lose by not executing the oil extraction. This initiative challenges the general logic of the market, which tends to prolong the production in an indeterminate and unsustainable way, as if this was the only possible way to achieve certain social and development goals.

Subsequently, we move from Plan A (which seeks the preservation of Yasuní promoted by social movements, and widely accepted by the government of Rafael Correa), to Plan B (which involves the government's intention to start oil operations). Our current proposal is the implementation of a Plan C, which claims that it is better to advocate for other alternatives: transforming unfair structures of distribution of wealth whereas not exploiting the Yasuní area while retaining the income equivalent to the oil resources of the area and investing this in public policies that combat poverty (which is the main argument of the government)

It is worth noting that although the official discourse has emphasized that the exploitation of Yasuní is done in order to obtain resources for the "development" of Ecuador and for the "transformation of Ecuador´s productive model"¨, the government does not mention (or at least advertise) that the main concern is the vulnerability of the economy in front of the possibility of external shocks that could affect Ecuador´s capacity to obtain foreign currency in order to maintain economic liquidity. It is also important to clarify that one can clearly see that the need for liquidity in the economy will be prolonged if background measures involving dollarization and the adoption of regional strategies of independence from the world powers are not taken.

In 2012 the balance of payments in Ecuador was a loss of about 581.9 million dollars. Our proposal considers increasing the resources that come from the largest and wealthiest economic groups, whom currently pay relatively insufficient taxes. Furthermore, these taxes are a significant source of outflow of foreign currency. The SRI[3] reported that in 2012, 22 billion dollars went out of the country, of which 2.23 billion were sent to tax havens. This amount of money represents much more than the annual expected incomes of $ 730 million dollars that would be obtained by the exploitation of the Yasuni. In addition, the need to find foreign income in the country does not exclude the need for wealth redistribution in order to achieve a more fair and equitable society.

Economic Growth and Poverty

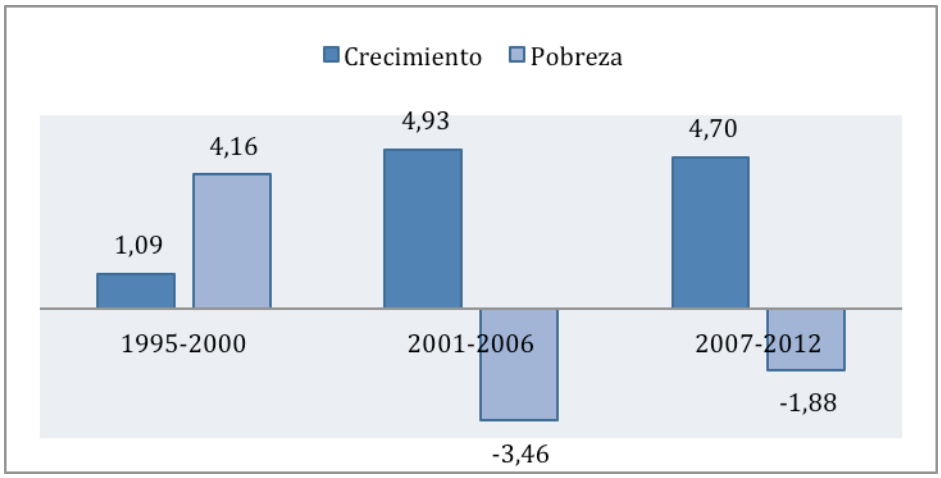
According to a CEPAL publication, regardless of the political character of the government (left, center, or right), during the last decade the entire Latin American region grew economically and improved performance in a variety of social indicators; Ecuador was not an exception. (2013) However both the country and the region are far from achieving poverty eradication. Currently the social achievements have been attained slowly due the limitations of the model; therefore, it would be required to sacrifice several generations to achieve a basic or fair condition of health, education, social welfare, and unemployment and poverty reduction.

[3] Servicio de Rentas Internas (SRI): Internal Revenue Service (IRS).

After the most severe economic crisis in Ecuador, which occurred in the late twentieth century and whose worse year occurred in 1999, the national economy gradually stabilized, and as a result the conditions of social welfare began to improve moderately, however, the economy was always under the restrictive conditions of the market.

Thus, in the period of the crisis, between the years 1995 and 2000, the country had a low average economic growth per year that reached 4.16%; this growth was substantially higher between 2001 and 2006, maintaining an average annual growth of 4.9% and during the period of the government of Rafael Correa, between 2007 and 2012, it grew at a rate of 4.7% per year.

Average annual economic growth
and the average annual reduction of poverty



*We used the statistics of urban poverty by income, because we have no other comparable time series between 1995 and 2012
** We are using the geometric average growth rate to consider that the increase is exponential. The reduction (or increase) of poverty are expressed as the arithmetic mean of the difference in the period beginning and ending.
Source: ECB bulletins and Urban Employment and Unemployment Survey

In this period of economic crisis, poverty rose from 43.6% in 1995 to 64.4% in 2000, meaning that poverty increased on average 4.16% per year. However, in the following periods of higher economic growth poverty declined: going from 54.9% in 2001 to 37.6% in 2006; therefore, there was a reduction in poverty of 3.46% per year; while in the third period, poverty was 36.7% in 2007 and it decreased to 27.3% in 2012, which equates to a reduction of 1.88% per year.

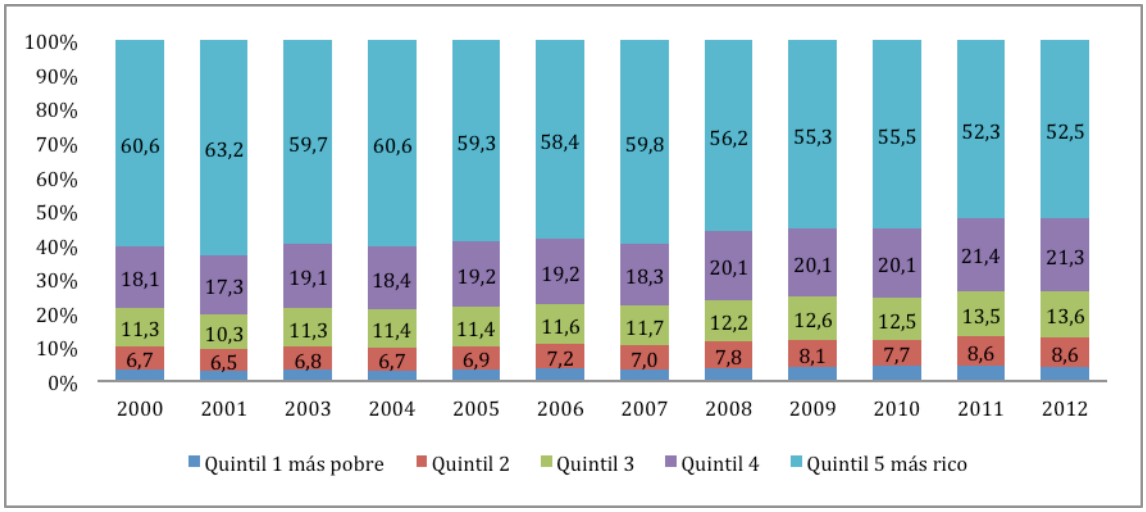
We must not forget that, after an economic crisis, the recovery is a fast process; which probably is the reason why poverty reduction was slower during the last period of government. It is also important to consider the drop of remittances sent by Ecuadorian migrants as a result of the economic crisis in several industrialized countries since 2008. But, beyond other hypotheses about the causes that limited better results during the last period, we can conclude with greater certainty, that poverty reduction was above all, insufficient.

Between the last two periods there are substantial differences. Among others, here we note that between 2001 and 2006 the incidence of poverty declined basically due to an expansion of the labor market (more job openings and / or higher wages) and also due to the great effort that migrants made to send money to their families; whereas between 2007 and 2012, the majority of the unearned income the families obtained were by the means of distributive transferals; such as, an increase in the national spending in health, education and services.

These transfers were also conducted through a time of tax redistribution: only during the time of the Correa government were ten fiscal reforms implemented. Furthermore, oil companies were forced to change the oil production sharing contracts to service contracts, which offered greater economic benefits to the state. These reforms helped to increase the incomes from the public sector and the availability of resources for productive and social investment.

The best results were achieved through the reduction of the income gap by social strata, although it is still highly inequitable. Between 2000 and 2006 the income of the top 20% of the richest population declined 3%, while between 2007 and 2012 the income of the richest 20% dropped by almost 7%. This group of the richest population is losing its share to other economic classes, particularly to the middle and upper-middle class, but this has not resulted in a significant benefit for the working class. For example, in 2012, the top 20% of the richest population captured 52.5% of the total income, and in contrast, the bottom 20% of the low-income population only obtained 4.1% of the total income.

Income gap for social strata



Source: Urban employment and unemployment survey- INEC

With all the limits that were mentioned, social inequality decreased during the period of the Correa government because of redistributive reforms. The effects are modest but it is always important to reduce poverty and inequality. Nevertheless, currently these reforms are in danger: the priority of a progressive tax policy (or progressive, that is, oriented so that those that have more pay more) has been changed to a regressive policy, which supports the alleged need to create an attractive environment for foreign investment.

This trend is surprising since the government itself has seen how redistributive reforms have given good results for the majority of the population, although they are still very far from having exhausted its potential for redistribution, moreover, it is clear that they were insufficient.

There is still much to be done, because the social conditions remain unacceptable and no structural changes have been achieved: more than 8 million Ecuadorians still live under poor conditions with unmet basic needs (UBN), this population represents 60% of the country. The structural underemployment and unemployment in Ecuador has not been significantly reduced, which borders at 51% and 4% respectively; the index of real wages of the last years is not enough to equate to the purchasing power of the 1980s; functional illiteracy is 14%; and 14 children out of 1,000 die each year[4]

ACCUMULATION OF CAPITAL IN A FEW ECONOMIC GROUPS

The current economic growth was insufficient to achieve positive social outcomes; however, large companies based in Ecuador showed high rates of profit. This money goes into the hands of their wealthy owners and the consequence of this is a highly concentrated local economy.

The income and means of production are highly concentrated in the hands of the few. According to the latest economic census information, larger companies represent 10% of all businesses in the country but account for 95.8% of all sales that were made in 2010. Different sectors of the market are controlled by few companies and in some cases can reach levels that are similar to the control of a monopoly.

[4] Sources in respective order: CPV 2010 INEC, Urban employment and unemployment survey INEC 2012 (unemployment rate and underemployment rate), BCE 2011, Vital Statistics INEC 2010 (childhood mortality rate, 14.8%)

Examples of domestic market control in the economy of Ecuador (market share)

Sector	Market Control	Remaining Market
Agro industrial-food merchants (supermarkets)	50% (La Favorita Corporation) 31% (El Rosado Corporation) 10% (Megasantamaría)	9% (other)
Oil Production	92,22% (two companies)	7,78% (other)
Meat Production	62,16% (Pronaca)	37,84% (other)
Milling Industry	71% (five companies)	29% (335 companies)
Dairy Products	61% (five companies)	39% (436 companies)
Personal Care Products	76% (two companies)	24% (88 companies)
Textile Production	61% (nine companies)	39% (1 493 companies)
Communication Services	42,15% (Conecel/Claro) 31,88% (Otecel/Movistar)	25,97% (other)

Source: National Economic Census 2010, INEC, SENPLADES.

Those who control the market are large companies that belong to economic groups linked to a few families of the privileged sections of the population. These groups not only have more control of the market, but also have the power to impose conditions in the production and circulation of the economy, and thus have the ability to set higher rates of returns on their investments.

Power influences:

(a) In consumers: because companies can set the quality and prices of goods and services offered, such as telecommunications companies Movistar and Porta;

(b) In producers: who cannot compete or are subordinated to larger firms. For example, farmers in the absence of other markets are forced to sell their produce at low prices, for example, in the case of agribusiness Pronaca;

(c) In workers: when these companies make intensive use of capital, a higher proportion of workers are displaced. In addition, multinationals are more likely to implement strategies of tax evasion in order to declare less income and thus lower profit, and use these claims as justification to pay their workers less;

(d) In the state: because their power allows them to evade tax controls and avoid paying taxes that might be used to invest in public and social services or to promote or implement productive investments that benefit the entire country.

The tax authority of Ecuador (SRI) shows some strong evidence of the large effect these groups have on the economy. The income of the 110 largest economic groups in the country is equivalent to 62% of the GDP. These revenues increased 9% between 2011 and 2012, reaching a total sum of more than 40 billion dollars.

Income of economic groups

Year	Income (in millions)	GDP income as %	GDP
2011	36.703,9	60,1	61.121,5
2012	40.048,7	62,4	64.186,1

Source: SRI

Only the 10 largest economic groups (including Banco del Pichincha, Andes Petroleum, Eljuri, La Favorita, and Banco de Guayaquil) in 2012 had revenues of over 12 billion dollars.

The economic power of the country is closely related to those that have control of the multinationals. In this regard it is worth mentioning that among the 110 strongest economic groups, there were 408 companies registered as foreign; half of these are companies are based in tax havens, which allows them to avoid the tax authorities.

Economic groups' contribution to the State.

Although economic groups increased their relative weight in the national economy, their taxation decreased in relation to the sales, ie, they paid a smaller proportion of taxes in relation to the increase of their profits. In 2011, the tax burden was 2.14% while that for 2012 was 2.01%. This means a reduction of 6.18% in taxes even though their incomes rose 9%. However, the lower burden of income tax was offset by an increase in the tax burden of remittances which went from 0.45% in 2011 to 0.86% in 2012.

Direct tax burden on the 110 largest economic groups

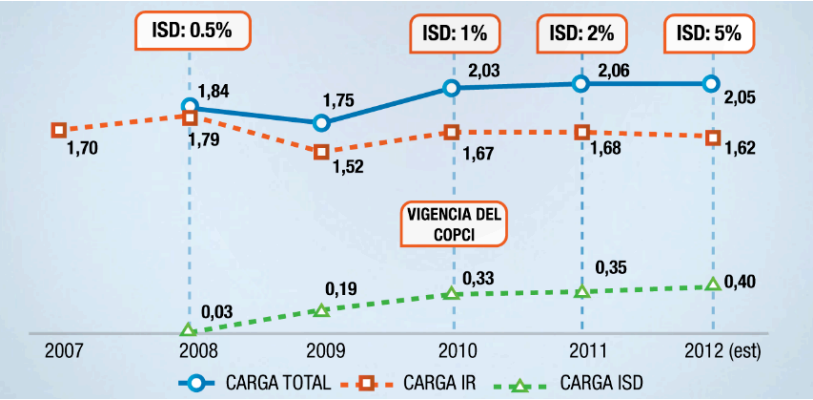
Tax	Rate		Change
	2011	2012	
IR	2,14%	2,01%	-6%
ISD	0,45%	0,86%	91%
IAE	0,07%	0,06%	-11%
Total Rate	**2,66%**	**2,94%**	**10%**

*IR (Income Tax), ISD (Remittance Tax), IAE (Tax on assets abroad)
Source: SRI

This regressive income tax does not emerge from a mere fluctuation of market costs that could hypothetically reduce profits. Rather, it is primarily because there is a public policy designed by the state, aimed at reducing the tax burden on the business sector.

The Minister of Production, Richard Espinosa, announced that the Government is working on reducing the tax burden of the corporate sector with the intention to increase investment and thereby promoting the change of the productive model. (El Ciudadano, July 6th, 2013) Furthermore, he announced that the tax burden on the total sales of all companies decreased from 2.06% in 2011 to 2.05% in 2012.

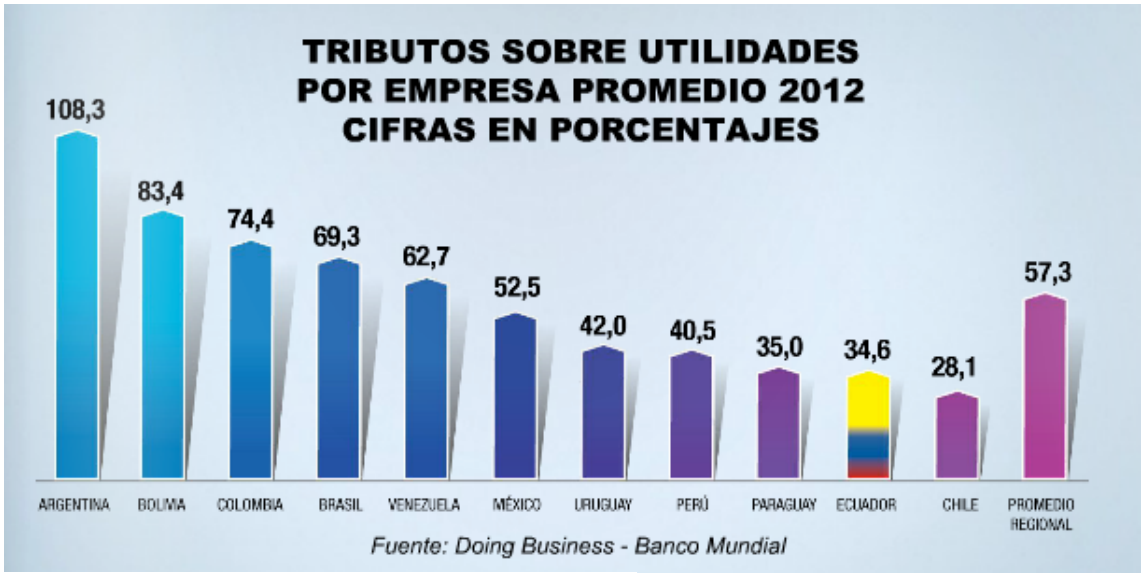
Direct tax burden on companies- Direct income/ total sales (2007-2012e) *



*ISD (Remittance Tax), IR (Income Tax), COPCI (Organic Code of Production, Trade, and Investment)
Source: Ministry of Production Coordinator

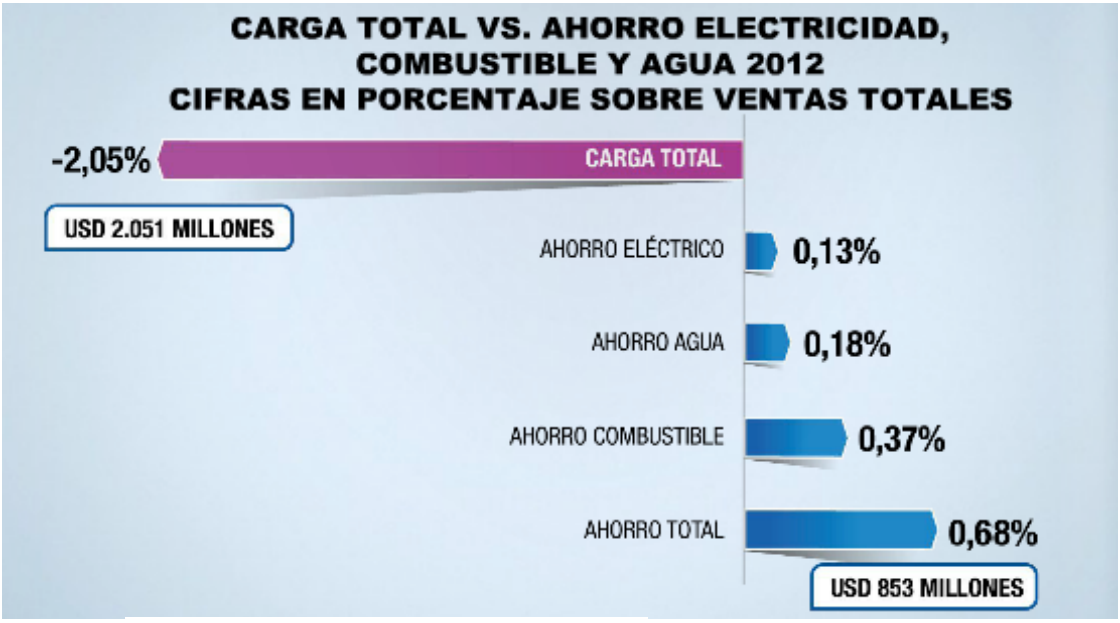
In 2010, after the adoption of the Code of Production, Trade and Investment (COPCI), the reduction of the income tax for companies was established; thereby decreasing from 25% to 22%. As a result, Ecuador is currently one of the countries with the lowest taxes on profits,

surpassed only by Chile. Ecuador is behind other countries considered "neoliberal" such as Colombia, Mexico and Peru. Last year the average tax rate on profits in Ecuador was 34.6 percent, when the average for the region was over 57 percent.



Source: Ministry of Production Coordinator

There are a set of public policies that has succeeded in reducing the tax burden on wealthy economic groups. Among other incentives, the Correa government has reduced the rates paid by companies for the consumption of publicly subsidized utilities, such as electricity, water and fuel. Adding all the savings generated by companies, it represents 0.68% of their income. That means that the actual tax burden of the corporate sector was 1.37% (2.05% minus 0.68%). This would represent an additional $ 853 million in expenses in the state budget.



Source: Ministry of Production Coordinator

Unfortunately there is no information of utility usage by wealthy economic groups, but we can deduce that those that consume a higher volume- the biggest companies- also receive higher government subsidies.

Moreover, multinational companies can avoid paying income taxes through certain mechanisms, such as: declaring false or overstated costs in order to reduce, fictitiously, their profits and therefore paying lower taxes. This is possible because companies work with tax havens where they can transfer their earnings under a lower tax rate that allows them to pay less tax. But these mechanisms of tax avoidance and evasion by themselves do not explain the reduction in the tax burden, it is necessary to consider that this is an old practice, which is a scourge for all countries that support the power of multinationals, and it is independent of the power that these companies progressively have earned in this Ecuadorian economy[5]

[5] As well it is necessary to say that this situation shows the limit of the state to control the power of multinationals. This clearly shows that an interstate monitoring system is required in countries that protect transnational corporations, although this cooperation between states is unlikely under the current dependent and subordinate relationship that most countries have with the world powers.