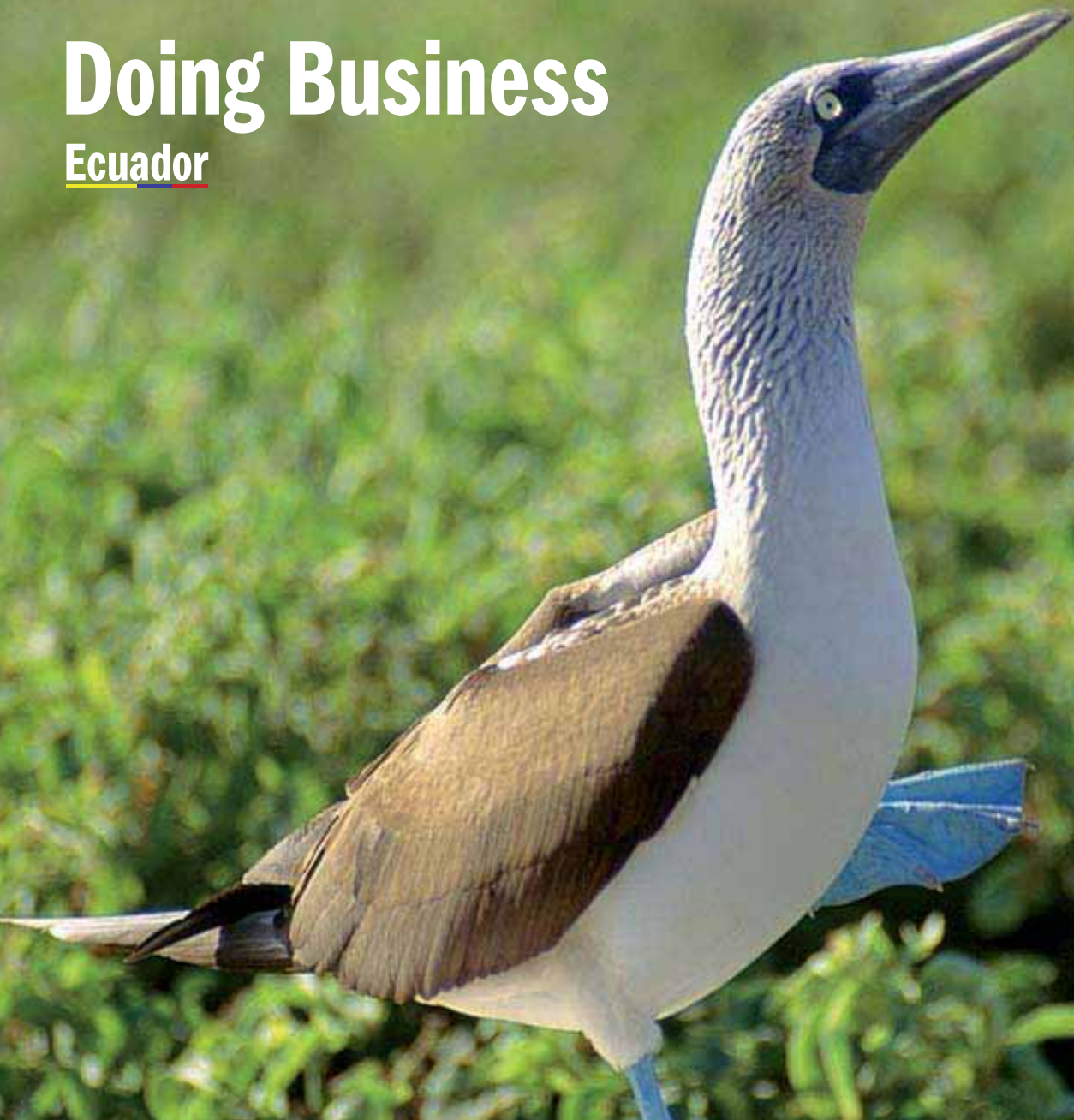


# Doing Business

Ecuador



 **ERNST & YOUNG**

*Quality In Everything We Do*



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# 1. General Country Profile

## Geography

Ecuador is located at zero latitude on the west coast of South America and is bordered on the north by Colombia, on the south and east by Peru, and on the west by the Ocean Pacific. The country's total area in square kilometers is of about 283,569. Ecuador is divided into four geographical regions: Costa, Sierra, Oriente, and Insular. The Costa (coastal) region is characterized by its beautiful beaches and fertile land. The Sierra (mountain) region has breathtaking snowcapped peaks and volcanoes, including the Chimborazo (6,310m) and the highest active volcano in the world, the Cotopaxi (5,897m). The Oriente or Amazonía (eastern) is an oil-rich region of lush vegetation. Finally, the Insular region includes the Galapagos Islands of volcanic origin, which have been declared World Heritage for their unique ecosystem.

## Political Division

Ecuador is politically divided into 22 provinces. Quito is the capital of the Republic of Ecuador and is the country's political and financial center. Guayaquil is considered Ecuador's commercial capital. Cuenca is rich in handicraft production. Finally, Manta, Ambato, Santo Domingo, Loja, Esmeraldas, and Machala are financial centers that concentrate a wide range of business activities.

## Natural Resources

Ecuador has a wide range of resources. Oil is the most important resource and the main source of foreign currency inflow into the

country. There are also abundant reserves of natural gas in the Gulf of Guayaquil. There are other plentiful resources but are scarcely exploited such as gold, silver, copper, iron, salt, and sulfur. The major marine resources are shrimp and tuna fish. Ecuador is also one of the world's leading banana producers and a major producer of flowers, exotic fruits, vegetables and cocoa. Ecuador is considered one of the 17 countries where the highest biodiversity in the planet is concentrated.

## Population and Language

According to the last census of 2001, Ecuador has a total population of 12,156,608 inhabitants, and for 2005, total population was expected to reach 13,798,000 inhabitants. There is also an emigrant population of 613,106 people (2003).

The densely populated areas are concentrated in the provinces of Guayas with 3,309,034 inhabitants (27%), Pichincha with 2,388,817 inhabitants (19%), and Manabí with 1,186,025 inhabitants (9.8%). The annual growth rate is 2.1% according to 2002 data. The working population totaled 4,585,575 by 2001, and it was expected to reach 6,132,542 by 2004.

The country's official language is Spanish. However, the English language is extensively used in the business community.

## Political System and Government

The government is organized in three powers: the Legislative, the Executive and the Judicial. Ecuador has a presidential system of government, and the president is

elected directly by popular vote every four years. The incumbent President is Dr. Alfredo Palacio González.

The National Congress has only one chamber made up of 100 representatives elected by popular vote.

Every province has a governor, who represents the President of the Republic. The cantons have municipalities led by mayors, who are democratically elected.

There is also a Constitutional Tribunal in place in charge of controlling the constitutionality of laws and other rules and regulations.

## Social Development

### Education and Literacy

Private schools provide a satisfactory education level and are usually bilingual, even trilingual. Higher and postgraduate education is provided by 32 state universities and 18 private universities, as well as by several polytechnic and specialty schools.

According to the 2001 census, the literacy rate is 91.6%.

### Medical and Health System

All employees and self-employed workers are required to be enrolled with the Government's social security system (the IESS), which provides coverage for all types of diseases, accidents, pension, unemployment, among others.

Life expectancy in Ecuador is currently 75 years.

## Transportation and Communications

In general, roads are functional and suitable for business activities as they interconnect the main cities and towns of the country. The main roads are the Pan-American Highway that slashes the country from north to south, joining Colombia and Peru; and the Costanera or Ruta del Sol that runs from the north of Esmeraldas to the south of El Oro.

Air transportation is a major means of transport for business activities. The main airports are Mariscal Sucre in Quito and Simón Bolívar in Guayaquil, both are international airports served by leading airlines. The international airfreight companies arrive at the airports of Quito, Guayaquil and Manta.

The country has four main ports. The port of Guayaquil is the channel for most imports and exports of the country. The port of Manta is a growing key factor for trade, especially for coffee and cocoa. The port of Esmeraldas is essential for the exportation of oil. Finally, the port of Bolívar is critical for the banana trade. Several types of vessels, especially oil tankers, operate along the coast of Ecuador. Navigable rivers, on the other hand, aggregate 1,500 km.

## Communications

In Ecuador, the telephone network reaches almost the entire national territory and the Galápagos Islands. The telephone companies that provide fixed public telephone services are Pacifictel, Andinatel and Etapa. The country code is 593.

The telephone companies that provide private cellular or mobile telephone services are Movistar, Porta and Alegro.

## Visa System

As a general rule, to visit Ecuador for less than 90 days, only a passport valid for more than six months and a return ticket are required; sometimes, immigration authorities require evidence of sufficient economic resources to afford living in Ecuador during that time. However, nationals of Algeria, Bangladesh, Costa Rica, Cuba, El Salvador, Guatemala, India, Iran, Iraq, Jordan, Lebanon, Libya, Nicaragua, Nigeria, North Korea, Pakistan, Palestine, Panama, People's Republic of China, Sri Lanka, Syria, Tunisia, and Vietnam require a tourist visa to enter the country for that period.

To visit Ecuador for more than 90 days without any intention of residing in the country, non-immigrant visas are required and these are granted by the Ministry of Foreign Affairs. Non-immigrant visas are granted to different people and have different effective terms. Tourist visas for tourists and businesspersons are effective for a maximum term of 180 days. Temporary visas for foreign experts, including legal representatives, managers and executives, are valid for the effective term of the related contract or agreement. Nonresidents who wish to work in Ecuador should obtain a work permit from the Ministry of Labor.

To live in Ecuador, an immigrant or resident visa granted by the Dirección General de Extranjería is required. Only the following persons are allowed to obtain this visa: retirees who receive a pension from their country of birth; real estate and securities investors who plan to invest at least USD 25,000; industry investors who have a capital of at least USD 30,000; the legal representatives of Ecuadorian companies; experts and professionals holding a university degree acknowledged by a national university, provided that 80% of the local staff of the company is Ecuadorian; and the spouses or relatives up to the second degree of consanguinity who are

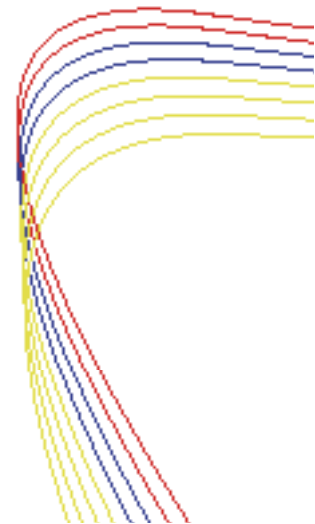
dependents.

## Entertainment and Tourism

Tourism is the country's fourth source of revenue. The main cities have an important hotel infrastructure with world-class hotel chains. Ecuador has many attractions, including ruins, colonial architecture, its culture, natural landscapes, flora and fauna, adventure and sports.

Historical art and architecture are major tourist attractions. Quito has been declared a World Heritage site by UNESCO for the uniqueness of Colonial Quito and the imposing classical and baroque architecture of its convents and churches.

One of the main attractions of the country is the Galapagos Islands. These islands have unique ecosystems with endemic plants and animals that have evolved on the islands. There are 62 tourist attractions on these islands.





## 2. Business Environment

### Currency

In 2000, the Government of Ecuador changed the monetary system under the so-called dollarization program. Thus, Ecuador has adopted the United States of America dollar as the legal tender of the country. At present, all transactions, as well as all financial statements, are performed and prepared in United States dollars.

**Economic Background and Current Situation**  
The economy of Ecuador has undergone major changes since the 1970s. The banana boom has encouraged national production and opened the economy to the international market. Since 1972, the oil revolution has led to a major economic boom that attracted foreign investment.

On March 13, 2000, the Government adopted the dollarization model to meet the high inflation and devaluation rates, and the United States dollar became the legal tender of Ecuador at the constant exchange rate of twenty-five thousand sucres (ECS 25,000) for every US dollar.

At present, the economy is growing at a moderate rate thanks to high oil prices, growing private debt, and remittances from emigrants. The inflation rate continues to decrease. The balance of payments, though negative, has improved its performance.

### Macroeconomic Policies

The economic system is moving towards a free market economy driven by supply and demand, encouraging exports as well as domestic production to meet

the population's needs adequately. One of the main objectives of the current economic policy is to provide protection to foreign investments to maintain national investments with the participation of the local and international private sector.

The monetary policy is considerably restricted by the dollarization. As the Government plans are to maintain the dollarization model, the fiscal policy is a key tool for macroeconomic control.

### Modernization Processes

The strategies of the incumbent Government are mostly focused on the modernization of the public sector to increase efficiency, flexibility, and productivity in managing governmental functions. These processes seek to facilitate and consolidate the private sector's participation by allowing the access of private capital or private management into areas that have been traditionally reserved to the Government. This includes oil exploitation as well as the provision of public services, including telecommunications and electric power.

The State Modernization Law, the main purpose of which is to renew economic activities performed by the state, governs this process through delegation and privatization. State competencies are delegated to private companies or companies jointly owned by the government and the private sector through concessions for use, work or public services; permits; or authorizations. Through these forms, private companies assume all obligations and risks and earn profits under the terms of the contract.

### Main Economic and Investment Sectors

The main investment sectors are oil, tourism, agriculture, fishing, electric power, mining, and telecommunications. The contribution of each economic sector to GDP is explained in our annexes.

#### Oil Sector

Oil is the most important natural resource and the main source of the country's export revenues. Oil and oil byproducts generate over 35% of tax revenues, either from exports or from domestic sales.

#### Tourism Sector

Ecuador is characterized by its exotic beauty with unique animal and plant species not seen anywhere else in the world. The national territory has 9.2 species per square kilometer, which makes Ecuador the country with the highest biodiversity per square kilometer worldwide. The country has also a remarkable rich culture. For all this, tourism is one of the most important activities in Ecuador and offers an attractive investment opportunity.

Ecuador's tourism is focused on different areas: ecotourism, nature tourism, beach tourism, adventure sports, cultural tourism, and business trips. Excellent investment opportunities are also available in different related sectors, such as air transportation, accommodation, information centers, land transportation, food and beverages, health services, and human resource training.

#### Sea Products and Agricultural Sector

Agriculture is considered the most buoyant economic activity that has yielded the best

results in the last few years. The export of agricultural products generates the highest amount of foreign currency after oil. Ecuador is one of the main banana producers and exporters. Coffee, cocoa and shrimp come next in importance. In addition, several other products started to be produced and exported, such as tropical and exotic fresh fruits, processed fruits, flowers and vegetables, as well as sea products such as shrimps, fresh fish and tuna.

#### Electric Power Sector

The Government plans are to overcome the electric deficit in the next 30 years

by embarking on hydroelectric and thermoelectric projects. The National Council of Electrification (the CONELEC) regulates and authorizes new electric power projects.

The Ministry of Energy and Mining has already selected 30 priority projects that will be granted on concession to local and foreign investors through competitive bidding processes.

#### Telecommunications

The Government has opened the telecommunications market to private investors based on a free competition

system. At present, the National Council of Telecommunications (CONATEL) has some attractive projects for investment purposes.

#### Economic Trends

The main macroeconomic indicators for the last few years are summarized below.

## 3. Financial Sector

#### Overview

Ecuador's financial sector has 25 local and foreign commercial, consumer credit, home credit, and micro-business banks.

After the 1999 financial crisis, when over 10 banks closed down, the Government has undertaken to strengthen the financial sector by adopting new policies to enhance the oversight of financial institutions and thus reduce and improve risk management. On another front, the financial system is working on its harmonization with the Basel Committee's standards on world banking and has shown considerable improvements in the last few years.

By their assets and contingents, the greatest banks are:

- Pichincha Bank
- Guayaquil Bank
- Pacifico Bank

Also there are international banks branches such as Lloyd's Bank and Citibank.

The Government of Ecuador manages six financial and banking institutions in the country, namely: the Central Bank of Ecuador, Banco del Estado (State Bank), Banco Nacional de Fomento (National Development Bank), Banco Ecuatoriano de la Vivienda (Ecuadorian Home Loan Bank), Corporación Financiera Nacional (National Finance Corporation), and the Instituto Ecuatoriano de Crédito Educativo y Becas (Ecuadorian Institute of Education Credit and Scholarships).

#### Credit Opportunities

Bank credit is generally market-driven; for this reason, domestic credit is more concentrated on the largest economic groups. The private sector and foreign investors may apply for a loan in the local market on a competitive basis. Loans are generally granted on a short- and medium-term basis, and sometimes on a long-term basis.

Most of the resources available for business and production development are funded by financial institutions sponsored by the Government. These institutions do not grant loans directly but through private banks.

The performance of the Corporación Financiera Nacional (National Finance Corporation) is noteworthy. This is a self-governing, independent institution that grants long-term loans for production and service activities to encourage exports.

The Banco Nacional de Fomento (National Development Bank), on the other hand, grants loans to encourage investments in the industrial, handicraft, tourism, service, and agricultural sectors. It also grants commercial or consumer loans to individuals or entities that hold checking or savings accounts with Banco Nacional de Fomento.

#### Stock Exchanges

The Government of Ecuador is the main shareholder of the country's stock exchanges. It generally issues Government bonds that are very attractive to individual and business investors.

The leading stock exchanges in Ecuador are the ones of Quito and Guayaquil. Both

government securities and private securities are traded on these two markets, offering features, terms and yields suitable for the needs of different investors.

#### Financial Indicators

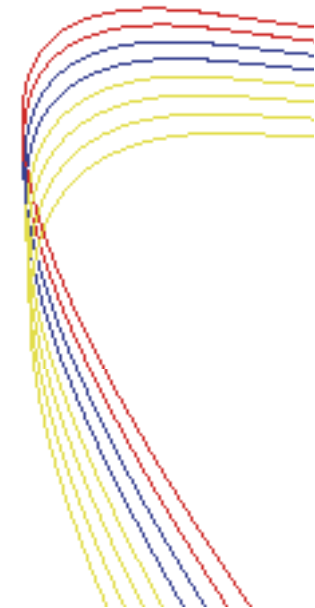
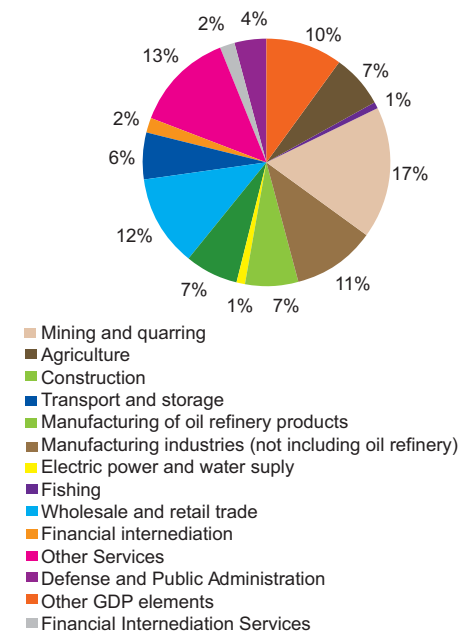
The financial system meets good solvency and liquidity conditions. During the 2005, the total deposits reported an increase of USD 1,132 million. During this same year, a positive change in the public's preference for the certificates of deposit, which reflects a renewed confidence in the private bank. In addition the dilatoriness average of the system (measurement in the reason portfolio over the total of the portfolio) stayed around the 4.8%, in addition the private national and international investment was promoted.

Monthly interest rate data are published in the leading newspapers of the country on a daily basis.

Tabla No. 1 Macroeconomic indicators

Item	2005	2006
Real GDP (annual %)	4.70	4.07
Inflation (annual %)	4.36	2.87
Unemployment rate (%)	9.30	9.03
Interbank interest rate (%)	2.30	2.10
Exports (millions of dollars - FOB)	11,259.9	13,052.5
Imports (millions of dollars - CIF)	11,829.7	11,331.7
Surplus in the fiscal budget (% of GDP)	1.80	1.60
Unified Basic Salary (US dollars)	150.00	160.00
External debt (% of GDP)	32.8	25.00

Tabla No. 2 GDP by industry 2006 (thousands of US dollars)





# 4. Trade

## Trade Opportunities and Foreign Trade

Ecuador is considered one of the most liberal countries in trade and investment matters. The Foreign Trade and Investments Law regards international trade as a “Government Policy”; therefore, any statutory provisions adopted should encourage foreign trade. This Law has created the Council of Foreign Trade and Investments (COMEXI), which works on the development of these areas.

It should be highlighted that Ecuador currently grants export and import benefits thanks to the reduction of tariff barriers and the implementation of common tariff agreements. The EMBI (Emerging Market Bond Index), which measures the foreign investors’ perception of the country risk, ended with 622 points by May 30, 2007, showing increase vis-à-vis prior periods. On another front, trade balance carried a trade surplus (USD 1,720 millions) during 2006.

It is important to indicate that Ecuador is beneficiary of the Andean Preferences and Drug eradication of the United States Law (effective up to June 30 of the 2007); it offers tariff benefits to 6.100 product categories of certain Andean countries. This has encouraged the Ecuadorian nontraditional product exports.

## Regional and International Associations and Trade Agreements

Ecuador is a member of several international organizations, being the most outstanding the United Nations Organization (UNO) and its specialized agencies, the World Trade Organization (WTO), the International

Labor Organization (ILO), the International Monetary Fund (IMF), the International Bank for Reconstruction and Development (IBRD), the Inter-American Development Bank (IADB), among others.

Ecuador is also a member of several regional organizations, such as the Organization of American States (OAS), the Latin American Economic System (SELA), the Latin American Reserve Fund (FLAR), the Andean Development Corporation (CAF), the Latin American Integration Association (ALADI), and the Pacific Basin Economic Council.

Moreover, Ecuador is a member of the Andean Community of Nations (CAN for the Spanish initials of Comunidad Andina de Naciones), together with Venezuela, Peru, Bolivia, and Colombia. The country is also a signatory state to many treaties and agreements together with other countries and trade blocs, such as Chile and the MERCOSUR (Common Market of the South).

## Main Trade Partners

Ecuador maintains considerable trade relationships with the United States of America, the ALADI-LAIA member countries as a whole, the Andean Community, and the European Union. The main trade partners within the European Union are Italy, Germany, Spain, France, and the United Kingdom.

Imports are primarily from the United States of America, Colombia, Venezuela, Brazil, and Chile.

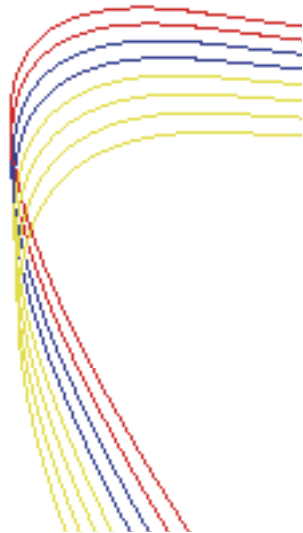
## Balance of Trade

During 2006, exports reached USD 13,053 million (FOB), while imports aggregated about USD 11,331 million (FOB). As a result, the Balance of Trade is USD 1,722 million (FOB).

## Main Products

In 2006, oil accounted for 60% of total exports. Traditional products, such as banana, plantain, coffee and processed coffee products, shrimp, cocoa and processed cocoa products, tuna and other fish, accounted for 17% of exports. Nontraditional commodities represented 23%.

Total imports, on the other hand, broke down into 32% of raw materials, 23% of consumer goods, 24% of capital goods, and 21% of fuels and lubricants.



# 5. Exports and Imports

## Controls

Exporters and importers should register with the Central Bank of Ecuador. Therefore, they have to submit the TIN (RUC for the Spanish initials of Registro Único de Contribuyentes) and meet the requirements of the Foreign Trade Rules and Regulations issued by the General Manager.

Before customs valuation or shipment, exporters and importers have to report exports and imports for consumption to the Central Bank of Ecuador using a form called Documento Aduanero Único (single customs document).

The Central Bank of Ecuador or its correspondent banks grant the related clearance once compliance with the requirements set has been verified. In the case of exports, clearance is effective for 30 days and may include partial shipments. In the case of imports, the effective term is indefinite but applies to one shipment only.

## Certificates and Authorizations for Exports

The documents required for exports depend on the products, processes, tariff preferences, system, and destination involved. In some cases, authorizations from different entities are required. Certificates and Prior Licenses for Imports For clearance purposes, it is of major importance that the products subject to mandatory compliance with technical standards or regulations have the INEN-1 form or conformity certificates to mandatory standards issued under Mutual Recognition Agreements signed by the country.

On the other hand, imports for a value exceeding USD 4,000 are required to have the related certificate of Merchandise Verification at Origin, granted by a verification company authorized by the Corporación Aduanera Ecuatoriana (Ecuadorian Customs Corporation). The following are exempted from this requirement: imports earmarked for the diplomatic and consular sector, goods declared in customs transit with a foreign destination, traveler's carry-on luggage, imports protected by special exemption systems, and deep-sea fishing products.

In the case of products from the Andean Community and the ALADI-LAIA, a certificate of origin is required to be eligible for the tariff benefits granted by the country.

Import of certain products requires the prior authorization of different entities.

## Customs Duties

A description of the customs duties and taxes applicable to exports and imports is included in the "Taxation" section below.

## Special Customs Systems

The special customs systems in place are described below:

- Customs Transit: Goods are carried under customs control from one District office to another within the country or for shipment abroad.
- Temporary Import for Re-export in the same Condition: This is a duty-

payment suspension system that allows bringing imported goods into the customs territory to be used for an intended purpose during a given period and be subsequently re-exported without changing their conditions.

- Temporary Import for Active Enhancement: This is a duty-payment suspension system that allows bringing imported goods into the customs territory for further re-export after having undergone some transformation, preparation, or repair process.
- Customs Bonded Warehouse: This is a duty-payment suspension system under which goods are stored for a given period in places authorized and controlled by customs administration, awaiting further destination.
- Special and Duty Free Shops: This duty-free system allows for storing and selling to passengers traveling abroad local or foreign-made goods that are exempted from the payment of duties and taxes at international ports and airports.
- Temporary Export for Re-import in the same Condition: This duty-payment suspension system allows taking from the customs territory local goods or goods already cleared through customs for use abroad for an intended purpose during a specified period to be subsequently re-imported without changing their conditions.
- Temporary Export for Passive Enhancement: This duty-payment suspension system allows taking from

the customs territory local goods or goods already cleared through customs during a specified period to be subsequently re-imported after having undergone some transformation, preparation or repair process.

- Conditioned Refund: Under this system, full or partial refund may be obtained of duties paid on imported goods that have undergone some transformation process in the country, imported goods incorporated into other goods and imported containers or packaging, which are subsequently exported within a specified period of time.

- Duty-free Replacement: This compensatory system allows importing identical or equivalent goods, without the payment of duties, to replace goods imported for consumption, which are returned abroad after having undergone some transformation process in the country or having been used to produce, condition or pack goods that have been exported.
- Free-trade zone: This duty-free system allows bringing goods, without the payment of duties, into authorized and delimited spaces in the national territory.

- Maquila System: This is a duty-payment suspension system that allows bringing goods into the country for a specified period of time for further re-export after having undergone some transformation process.
- International fairs: This system authorizes bringing goods permitted to be imported, with the suspension of duty payments, in order to be exhibited at authorized places for a specified period of time.



# 6. Foreign Investments

## The Presence of Foreign Investments in the Country

Direct Foreign Investment (DFI) includes capital contributions from foreign individuals or foreign entities used in the production of goods or the provision of services.

The contributions may involve freely convertible currency, tangible assets or technological contributions. Foreign Investments also include investments in local currency of resources allowed to be remitted abroad and re-investments.

In the last few years, foreign investments have shown a downward trend in almost all Latin American countries. Yet, Ecuador, Chile, Honduras, Nicaragua, and Panama have received a higher investment inflow. In Ecuador, Direct Foreign Investment has reached USD 1,646.10 millions in 2005 and USD 2,087.40 millions in 2006. The increase in foreign investments evidences the growing trust in the country shown in the last few years.

## Requirements for Foreign Investments

Foreign investments are required to be registered with the Central Bank of Ecuador by submitting a copy of the registered title deed, as appropriate, and the Documento Aduanero Único (single customs document) stating the payment method of the Foreign Investment, or the documents evidencing the transfer of stock or ownership interests. Likewise, the sale of stock, ownership interests or rights by a foreign investor to another foreign investor has to be

registered with the Central Bank of Ecuador. Technology agreements, including licensing or franchising agreements, are required to be registered with the Ministry of Foreign Trade, Industrialization, Fishery and Competitiveness.

## Protections and Incentives for Foreign Investments

Ecuador has liberalized existing investment conditions by opening free-trade zones, authorizing and encouraging the maquila, and increasing incentives.

Under the regulations in place, foreign investors are entitled to the same rights and protections as Ecuadorian investors are. Foreign investments are permitted by law in all the sectors of Ecuador's economy opened to local private investment. Ecuador has no additional restrictions regarding the foreign-owned equity of the financial sector. Moreover, there is no authorization requirement for foreign companies to invest in utilities. Finally, foreigners who intend to invest in the country may participate in research programs funded by the Government of Ecuador.

The law provides for the following protections for Foreign Investments registered with the Central Bank of Ecuador:

- Free transfer abroad, in freely convertible currency, of net profits generated by the registered investment;
- Free sending of resources obtained from the full or partial liquidation of companies in which the investment has

been made, or from the sale of stock, equity interests, or vested rights in the investment made, after paying the applicable taxes;

- Total freedom to negotiate the investment registered in the country;
- Use of the advantages derived from the application of the Andean Community Liberation Program as well as tariff preferences granted by third countries to Ecuador, for those products meeting the special standards or specific requirements of origin;
- Free access to promotion, technical assistance, cooperation and similar systems under the same conditions as those provided for local companies;
- Property rights with no further restrictions other than those set by applicable law;
- Free access to the foreign exchange market to meet the development needs of the investment; and
- Tax stability.

## Treaties for the Reciprocal Promotion and Protection of Investments

The Treaties for the Reciprocal Promotion and Protection of Investments ensure equitable and fair treatment to the national investors of the other Contracting State and grants protection to the investments. Seven bilateral investment treaties are being negotiated or renegotiated at present, and the treaties already in place have been signed with the following countries: Germany, Argentina, Bolivia, Canada, Chile, China, Cuba, El Salvador, Spain, United States of

America, Finland, France, Great Britain, Nicaragua, Paraguay, Peru, Rumania, Switzerland, Uruguay, and Venezuela.

## Restrictions on Foreign Capital

Decision 291 of the Commission of the Cartagena Agreement allows foreign investments to be made without the prior authorization of any government authority. No restrictions apply to temporary investments either.

## Sources of Financing for Foreign Investors

Foreign investors have unrestricted access to local financing. For further information on bank loans, see the "Credit Opportunities" section in this guidance.







# 7. Intellectual Property

## Legal Framework

Intellectual property in Ecuador is primarily governed by the Decisions of the Andean Community of Nations. Ecuador has also subscribed the most important International Treaties on intellectual property matters, including the TRIPS (trade-related aspects of intellectual property rights), the Berne Convention, the Paris Convention, and the PCT (Patent Cooperation Treaty). The country is also a member of the WIPO (World Intellectual Property Organization). These treaties and conventions embrace the principles of national treatment and most favored nation, and provide a true international system for the protection of intellectual property. Finally, Ecuador has enacted the Intellectual Property Law that governs copyrights, trademarks, patents, new varieties of vegetables, technology transfer, and unfair competition. The Ecuadorian Institute of Intellectual Property (the IEPI) is the entity in charge of providing for the protection and defense of intellectual property rights recognized by local laws and international treaties and conventions.

## Patents, Licenses, and Utility Models

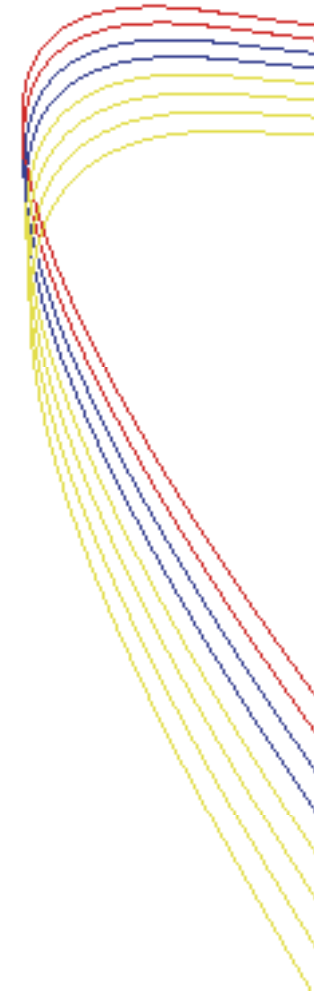
Patents, as well as intellectual property rights, require registration in order to be entitled to legal protection. Patents are registered with the Ecuadorian Institute of Intellectual Property (IEPI). The inventor has to prove the novelty, degree of inventiveness, and industrial application of the invention.

Patents confer exclusive rights to produce and market the invention for 20 years after

submission of the patent application. During that period, the inventor is required to pay applicable patent maintenance fees.

For a third party to exploit the invention, a license should be granted by the inventor under an agreement stipulating the terms and conditions of use. However, if the inventor has not used its invention after 4 years of submission of the invention registration application or after 3 years of actual invention registration (the longer period applies), the IEPI may grant mandatory licenses to third parties who have already attempted to obtain a contractual license. Mandatory licenses are also granted in case of abuse to ensure free competition or to use the invention in a new invention.

Utility models, on the other hand, are enhanced models of former or pre-existing models. They are similar to inventions but involve a lower degree of inventiveness and confer exclusive exploitation rights for 10 years. The same regulatory system applicable to patents applies to utility models.





# 8. Forms of Business Organization

The Business Associations Law provides for different forms of business. The business forms of organization mostly used by local and foreign investors are:

## Stock Corporations

Stock Corporations are the most common business form used to organize a company in Ecuador. At least two shareholders are required to organize and maintain a stock corporation. Either entities or individuals, whether local or foreign, may be the shareholders of a stock corporation.

The corporation's bylaws have to be recognized as a public instrument, approved by the Superintendencia de Compañías (Superintendence of Business Associations), and registered with the Mercantile Registry.

The minimum capital required is USD 800, of which at least 25% should be paid in upon organization, and the remaining 75% may be paid in within the next 2 years. Capital contributions can be made in cash or in kind, (the kind should be related to the business activity of the corporation).

### Main Features:

- The capital is divided into freely negotiable shares of stock that represent the contribution of the shareholders. The shareholders' liability is limited to the value of the shares they hold.
- The Shareholders' Meeting is the highest corporate body and is responsible for making the decisions related to corporate functions,

activities, and transactions. The stock corporation is managed by a legal representative (the General Manager) appointed by the Shareholders' Meeting.

- Death, sickness, retirement, or resignation of a shareholder does not cause the dissolution of the corporation
- Corporations are required to appropriate 10% of their net distributable income (after payment of employees' share in the profits and income taxes) up to 50% of the subscribed capital in order to create the legal reserve.
- Shareholders are required to distribute at least 50% of the annual net income, unless they unanimously agree to distribute or re-invest 100% thereof. However, if the shares of stock have been sold by public offering, distribution of at least 30% of the annual net profit is required.

## Limited Liability Companies

At least 2 partners but not more than 15 are required to organize and maintain a limited liability company. Either entities or individuals, whether local or foreign, can be the partners of a limited liability company. Banks and insurance companies may not be organized as limited liability companies.

The minimum capital required is USD 400, of which at least 50% should be subscribed and paid in upon organization. The remaining capital can be paid in within 12 months of organization.

### Main Features:

- The partners' liability is limited to the amount of their capital contributions.
- The company's capital is made up of not-freely-transferable ownership interests (authorization from the other partners is required).
- The public offering of the capital is not permitted, whether for obtaining equity capital or for increasing existing capital.
- The ownership interests in the company's capital may not be attached by a court order.
- A legal reserve equivalent to 20% of the equity capital should be provided, which may start to be created by appropriating a minimum 10% of net income per annum.
- Partners are required to meet at a General Meeting at least once a year within three months following the company's fiscal year-end in order to approve the financial statements and decide on the distribution of earnings.

## Branches of Foreign Companies

Foreign companies may do business in Ecuador through a branch based in Ecuador. For a company organized abroad to be able to do business in Ecuador, such company should:

- Prove its lawful organization as a business association in compliance with the law of the country of organization and its power under its own bylaws to create branches and do business abroad;
- Have at least one permanent representative in Ecuador with broad powers to perform all types of legal acts, procedures, and obligations on behalf of the foreign company;
- File with the Superintendence of Business Associations the company's articles of organization and bylaws, and a certificate issued by the Consul of Ecuador evidencing that the company is organized and authorized to do business in the country of origin and is entitled to do business abroad;
- Submit the power-of-attorney granted to the company's representative and a certification evidencing the company's decision to do business in Ecuador and the capital appropriated for such purpose, which should amount to at least USD 2,000, notwithstanding the application of other special standards on foreign investment matters; if the representative is a foreign citizen, he/she is required to be a resident of Ecuador;
- The agents of foreign companies are required to register with the Chamber of Commerce of their principal place of business;
- The Superintendence of Business Associations then evaluates the powers granted and then orders the related registration and publication.

### **One-person Limited Liability Companies ("Limited Liability Sole Proprietorships")**

These businesses are governed by the One-

Person Limited Liability Companies Law (Law No. 2005-27) published in the Official Register No. 196 of January 26, 2006.

#### **Main Features:**

- The owner should be a natural person.
- Legal entities may not organize sole proprietorships.
- The same individual may organize more than one sole proprietorship, provided that the business purpose is different in every case.
- Sole proprietorships may not perform the activities included in the Securities Markets Law, the General Law on Financial System Institutions, and the Insurance Law.
- The articles of organization should indicate the monthly compensation to be paid to the Managing Owner for his/her services.
- The minimum contribution required to start up the business is equivalent to the amount resulting from multiplying a worker's minimum unified basic pay by ten (USD 1,600 to the date of this guidance).
- A sole proprietorship is organized through a notarized instrument, first approved by a Civil Court of Justice and subsequently registered with the Mercantile Registry.

#### **Holding Companies and Joint Ventures**

The purpose of a holding company is to buy stock or ownership interests in other companies in order to exert control over them through stock ownership, management, administration, or credit or result responsibilities, and thus make up a business group.

Holding companies are required to prepare and maintain individual financial statements for every company of the group in order to control, distribute earnings to the employees, and pay applicable taxes. Holding companies may also prepare their own financial statements for any other purpose and should prevent the duplication of transactions and administrative procedures at all times.

The decision to do business in the form of a Joint Venture should be made by the General Shareholders' Meeting of each member company. If the members of the Joint Venture are companies subject to the control of the Banks Superintendence and the Superintendence of Business Associations, financial statement consolidation standards apply. Joint Ventures are required to meet the tax obligations set by the Tax Law just as any company is. The members of a Joint Venture may be companies, individuals or a combination of both.

#### **Regulatory Entities of Business Practices**

The Government of Ecuador has created the following administrative organizations to rule and oversee national business practices:

- Central Bank of Ecuador: The Bank's main purpose is to promote the stability of domestic prices and preserve the country's credit credibility.
- Banco del Estado (State Bank): This bank's purpose is to provide financing to the public sector through banking and financial services to promote economic development nationwide.
- Agencia de Garantía de Depósitos (Deposit Guarantee Agency): This agency has been created to protect the interests of customers of the

private banking and financial sector. The agency's purpose is to subject banks and financial institutions to restructuring, reorganization or liquidation programs and ensure performance of their obligations towards their customers.

- Superintendencia de Compañías (superintendence of business associations): This Superintendence regulates and reviews the financial statements of the companies doing business in Ecuador (except financial institutions). All legal entities that perform business activities are subject to this Superintendence's control.

The Superintendence of Business Associations also supervises the Stock Exchange.

- Ministry of Foreign Trade: This Ministry is in charge of overseeing and promoting business practices in the different commercial and industrial sectors, as well as in Ecuador's fishing and seafood processing industries. It is also in charge of planning, implementing, and coordinating the Common System of Foreign Capital Treatment, as well as of setting standards on patents, trademarks, licenses, and royalties.

- Superintendencia de Bancos (banks superintendence): This entity is in charge of regulating the national financial system. The Banks Superintendence supervises and reviews financial statements and may intervene in all the financial institutions of the country.





# 9. Accounting and Corporate Matters

## Annual Fiscal Year, Financial Report, and Accounting Standards

The fiscal year begins January 1 and ends December 31. Financial statements are reported and filed with the Superintendence of Business Associations on an annual basis. Financial institutions are required to report to the Banks Superintendence and file financial reports under stricter conditions.

Ecuador's National Federation of Accountants, a member of the International Federation of Accountants (the IFAC), adopted the Ecuadorian Accounting Standards (the NEC for the Spanish initials of Normas Ecuatorianas de Contabilidad). The Ecuadorian Accounting Standards are substantially based on the International Accounting Standards (the IAS).

In Ecuador, all the business associations organized in compliance with the law are required to keep books of account and file the "annual declaration" of financial statements as of the fiscal year-end. Companies are required to file their financial statements with the Internal Revenue Service between April 10 and April 28 of the next year; failure to file the financial statements on a timely basis is subject to fines and interest.

All companies and branches, whether local or foreign, are required to keep books of account. The individuals engaged in business activities and operating with an equity of over USD 24,000 as of January 1 of every year or reporting gross revenues at the tax year-end of USD 40,000 (amounts adjusted for inflation as of 2006) are also

required to keep books of account.

Accounting books should be kept under the responsibility of, and be signed by, a duly certified accountant.

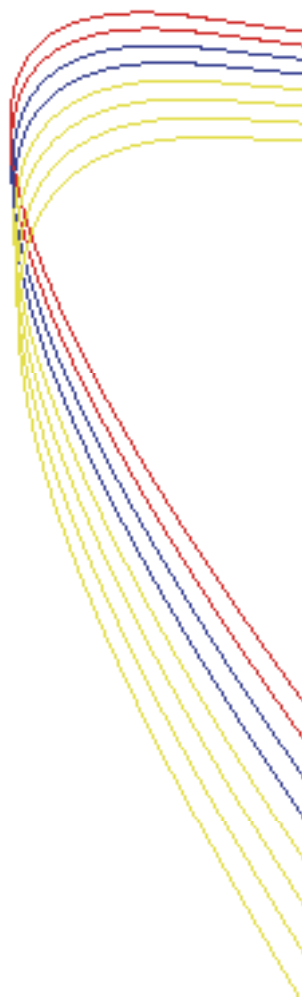
In case of discontinuance of business before the tax year-end, the taxpayer is required to file its income tax return earlier. Once the income tax return has been filed, the deregistration procedure before the Single Taxpayers Registry or the registration of business discontinuance, as appropriate, should be carried out.

## External Audit

The following business associations are required to submit their annual financial statements to the opinion of an external auditor, namely:

- Local stock corporations jointly owned by government entities and private investors organized for a social or public purpose and carrying assets in excess of USD 100,000;
- The branches of foreign companies or foreign businesses organized as legal entities and established in Ecuador, as well as the associations formed between these branches or between these branches and local companies, provided that the assets exceed USD 100,000;
- Local stock corporations, local stock limited partnerships, and local limited liability companies carrying assets in excess of USD 100,000; and

- The companies reporting exports in excess of USD 1,000,000 over one year.





# 10. Taxation

## General Description of the Tax System

As provided in the Political Constitution, the tax system of Ecuador is based on the principles of equality, proportionality, generality, and no undue confiscation. Tax laws have been created to encourage investments, reinvestments and savings for the benefit of the country's development.

## Business Taxes

In general, any company doing business in Ecuador is subject to taxation for the transactions and activities performed through income, value added, special consumptions, and other applicable taxes.

A company is considered a resident of Ecuador, therefore subject to tax on its worldwide taxable income, when it has been organized in Ecuador and has its principal place of business in Ecuador, and its articles of association are compliant with the corporate laws of Ecuador. Foreign companies pay taxes only on Ecuadorian-source income or on the assets held in the country. A company is considered a nonresident when it has been organized in accordance with foreign bylaws and its principal place of business is in another country.

The term "company" as used in this guidance refers to all the forms of stock companies: corporations jointly owned by the government and private investors, limited liability companies, private companies, and holding companies, all of which are subject to corporate tax rates.

The main taxes applicable in Ecuador are:

- Taxes on income, profits and assets (Direct taxation): Income Tax, Tax on Total Assets, Contribution to Regulatory Agencies, Tax on Urban Property, Municipal License Tax.
- Taxes on transactions (Indirect taxation): Value-Added Tax, Tax on Special Consumptions, Tax on the Transfer of Title to Real Property, Customs Duties

The late payment of income tax, withholding tax, value-added tax, and the so-called "Tax on Special Consumptions" is subject to penalties imposed by Ecuadorian tax authorities.

## Direct Taxation

### Income tax

The companies residing in Ecuador are subject to a 25% income tax rate, after deducting 15% which should be distributed by law among the company employees. Local and foreign shareholders and corporations are subject to the same income tax rate. Financial institutions are also subject to a 25% income tax rate, after deducting 15% of their employees' profit share.

The companies act as income tax withholding agents by withholding income tax on the payments made to individuals or organizations that supply goods and/or provide services. In general, companies are required to withhold 25% on payments, remittances, or transfers made abroad (special exemptions and lower withholding

rates apply). In the month following the month of the related payment, remittance, or transfer, the tax amount withheld should be reported and deposited in authorized financial institutions that act as additional withholding agents. The taxes withheld may be credited to the balance of the company's income tax return.

The companies jointly owned by the government and private investors pay income tax only on the income earned on private capital investments, provided that they provide public services not competing with the private sector. Otherwise, they pay tax on total income. Both residents and foreigners may hold shares of stock in this type of companies.

Income earned on foreign transactions performed by a company based in Ecuador receives no different tax treatment from that given to Ecuadorian-source income.

In general, taxable income includes all ordinary and extraordinary income subject to income tax, minus reimbursements, discounts, costs, expenses, and deductions attributable to such income.

International transportation companies receive a special treatment for taxable income determination purposes; their taxable income is determined by calculating 2% of their gross sales revenues from ordinary transactions.

Any tax loss generated by a company may be offset in the next five tax periods following the loss period against taxable income earned during those periods. The tax loss offset in one year may not exceed 25%

of the income earned in that period.

All companies are required to make income tax prepayments determined based on their taxable income, which results from subtracting statutory deductions from the revenues subject to taxation.

The due date for paying annual income tax falls between April 10 and April 28, depending on the ninth digit of the taxpayer's identity card or TIN.

### Transfer Pricing

After 2005, amendments have been made to the tax laws to introduce transfer pricing rules for companies performing transactions with related parties, as well as to provide for the arm's-length valuation of intercompany transactions and the different arm's-length valuation methods.

The Rules and Regulations on Application of the Internal Tax System Law (Reglamento para la Aplicación de la Ley de Régimen Tributario Interno) considers the following parties as related parties:

- The parent company and its affiliates, subsidiaries, or permanent establishments.
- Affiliates, subsidiaries, or permanent establishments.
- The parties in which the same individual or company is indistinctively involved, whether directly or indirectly, in the management, administration, control, or capital of such parties.
- The parties, in which the same group of shareholders, because of their stock holding, is indistinctively involved, whether directly or indirectly, in the management, administration, control, or capital of such parties.

- The parties in which the decisions are made by managing bodies mostly made up of the same members.
- The members of the managing bodies of a company with respect to such company, as long as the relationships established between them are not inherent to such members' position.
- The managers and statutory auditors of a company with respect to such company, as long as the relationships established between them are not inherent to their position.
- A company with respect to the spouses and relatives up to the fourth degree of consanguinity or second degree of affinity of the managing partners, managers, or statutory auditors of such company.
- Any individual or company and the trust funds in which he/she/it has interests.

To determine the existence of some type of relation or connection between taxpayers, the Tax Administration will consider on a general basis the stock holding or other interests in the companies' equity, the stockholders, the actual management of the business, the distribution of earnings, the amount of transactions between the taxpayers involved, the pricing methods used in those transactions.

### Personal Income Tax

Foreigners are subject to the same treatment if they are considered as residents for tax purposes. For tax purposes, a resident is any person who performs activities in Ecuador for more than 6 months, either consecutively or not, within one calendar year.

The due date for paying annual income tax falls between March 10 and March 28, depending on the ninth digit of the

taxpayer's identity card or TIN. For individuals to report income tax, see the progressive table No. 1 updated by the Ecuadorian IRS on a tax-year basis is used.

### At-source Withholdings

All payments made by companies to third parties, whether in Ecuador or abroad, are subject to an income tax withholding rate according to the table No. 2.

### Income Tax on Nonresident Individuals

If the individual performs activities for less than 6 months, he/she is not required to file an income tax return. However, any payments made to that individual are subject to a 25% income tax withholding, which is to be performed by the company making the payment.

### International Double Taxation Treaties

Ecuador has subscribed several double taxation treaties with the following countries: the countries of the Andean Community of Nations (Venezuela, Colombia, Peru, and Bolivia), Germany, Belgium, Brazil, Canada, Chile, Spain, France, Italy, Mexico, Rumania, and Switzerland.

Irrespective of the provisions contained in international agreements, the individuals and companies residing in Ecuador that have earned revenues subject to income tax both in Ecuador and abroad are entitled to a tax credit for the taxes paid abroad as well as for the taxes paid in Ecuador. The tax credit may not exceed the fixed rate applicable to those revenues.

### Indirect Taxation

#### Value Added Tax

Almost any transfer of goods and services is subject to VAT at a 12% rate. As a general rule, the VAT basis is the sales price minus

any discounts included in the invoice.

Some transfers are subject to a 0% rate or exempted from VAT under the Internal Tax System Law. Examples include the transfer of unprocessed foodstuff, medication, veterinary products, raw materials, imported agricultural equipment and machinery, among others.

Some services are also subject to a 0% rate, such as passenger and freight transportation services, health services, public services, administrative services provided by the Government and public-sector entities, financial and stock exchange services, the transfer of securities, the services exported, including inbound tourism.

Mergers, consolidations, spin-offs, and the sale of businesses are not subject to VAT.

### VAT Reporting and Payment

All VAT payers are required to report all the transactions subject to VAT on a monthly basis.

In the related VAT return, the VAT paid for the acquisition of goods and services represents a tax credit that may be offset against the VAT charged on the sales made. Any unused VAT credit may be offset in the VAT return of the next month.

In the case of imports, VAT is included in the respective importation document, and the tax payment has to be made before withdrawing the goods from customs

### Import Taxes and Duties

#### Customs Duties

The VAT base in the case of imports is the CIF value of goods. The actual amount of VAT depends on the type of goods to be imported

**Table No. 1 Individual Report Income Tax**

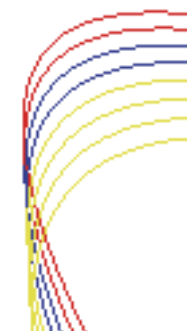
Table for Year 2006 in USD			
Basic Bracket	Excess up to	Tax on Basic Bracket	Tax on Excess of Bracket
0	7,850	0	0%
7,850	15,700	0	5%
15,700	31,400	393	10%
31,400	47,100	1,963	15%
47,100	62,800	4,318	20%
62,800	over	7,458	25%

**Table No. 2 All payments made by companies to third parties**

	Local Payment	Payment Abroad
	Withholding Rate	Withholding Rate
Dividends	0%	0%
Interest	2%	0% (Provided that loan is registered with Central Bank of Ecuador and does not exceed cap rate permitted)
Royalties	8% (For natural persons) 1% (For artificial persons)	25%
Fees	8%	25%

**Table No. 3 Due date for paying annual income tax.**

Companies Income Tax Fiscal Year 2007:	
If the ninth digit is:	Due Date:
1	April 10
2	April 12
3	April 14
4	April 16
5	April 18
6	April 20
7	April 22
8	April 24
9	April 26
0	April 28



## Applicable Taxes in the case Imports

The taxes that may apply in the case of imports are described below:

- **Ad Valorem Import Duties:** The duties on imports are 5%, 10%, 15% and 20% (35% for vehicles), as stated in the structure approved by Decision No. 370 of the Commission of the Andean Community. Decision No. 507 includes an updated version of the Andean nomenclature.
- **Value-Added Tax (VAT):** 12%, except some goods subject to a 0% VAT rate
- **Tax on Special Consumptions (ICE for the Spanish initials of Impuesto a los Consumos Especiales):** Tax on Special Consumptions applies to the import of cigarettes, beer, soda, alcoholic beverages and alcoholic products other than beer, motor vehicles for land transportation of up to 3.5 tons of load capacity, airplanes, small airplanes, helicopters, personal watercrafts, three-wheeled vehicles, four-wheeled motorcycles, yachts, and recreational vessels.
- **FODINFA (Children Development Fund):** 0.5% tax on the CIF value of the import earmarked for the Children Development Fund (Fondo de Desarrollo de la Infancia) (except the products used in the manufacturing of pharmaceutical products for human and veterinary use).
- **Redeemable quota for the CORPEI:** 0.25 per thousand on the FOB value of imports, except imports for less than USD 20,000 which are required to contribute USD 5, to be delivered by the importers of goods and services upon submission of the Single Customs Document to the banks and financial institutions of the country

in which the related transactions are performed. The member countries of the Andean Community of Nations (CAN) are exempted from the payment of redeemable quotas for the CORPEI.

## Tax Benefits for Foreign Investments

- An Investment Agreement can be signed between the investor and the Ministry of Foreign Trade, Industrialization, Fishery and Competitiveness to provide for the treatment to be given to the investor, the period during which the investment will be made, and the intended purpose of the investment. This type of agreements provides tax stability to the investment by maintaining a constant income tax rate for investors with duly registered investments exceeding USD 500,000.
- An income tax reduction from 25% down to 15% can also be obtained upon reinvestment of the income earned on the related capital increase.
- Customs duties have also been reduced to 0% in the case of the purchase of raw materials and capital goods produced in the Andean sub-region; a drawback and the refund of VAT paid on raw materials or goods for export are also available.
- As an incentive for tourism investments, general and specific benefits have been granted to tourist companies designated by the Ministry of Tourism.
- Finally, a new Law on Tax Benefits for New Productive Investments, Employment Generation and Service Delivery has been enacted to provide for major tax exemptions.

## Law on Tax Benefits for New Productive Investments, Employment Generation and Service Delivery

### Eligible Activities

Temporary and specific tax benefits apply to new investments made in the country exclusively for the following productive activities:

- a) Generation of new hydroelectric and non-conventional electric power that is produced and sold at competitive prices at international level. Thermoelectric generation using contaminating fuel is expressly excluded.
- b) Hydrocarbon refining and industrialization and the production of petrochemical products, the industrial process of which requires state-of-the-art technology. Oil exploration, exploitation, and lifting activities are excluded.
- c) The industrial manufacturing of high-tech and fiber optic electronic equipment and other digital and electronic communication devices. Industrial plants for the assembly of integrated electronic and digital circuits, microprocessors, memories, electronic cards and portable computers, scientific sensors, software, and hardware.
- d) The development, implementation, installation, and operation of regional air traffic and/or freight distribution centers for connecting international flights.
- e) The construction and operation of deepwater ports for the international transfer of freight and containers. Also, the construction of dry ports and river ports.

- f) Manufacturing machinery and equipment for agricultural or agro-industry use, currently inexistent in the country, as well as the production of inexistent goods using transformation processes as a result of new agro-industry investments.
- g) Environmental protection through productive investments aimed at preserving and improving the hydraulic potential for hydroelectric power generation, as well as new investments for the production of oxygenated additives taken from renewable raw materials, such as anhydrous ethanol.

The benefits of this Law are also granted to new investments in hydroelectric power projects starting up in production after the effective date of this Law (November 18, 2005) and undertaken by existing companies, provided that they are produced and sold at a lower price than the reference generation price prevailing upon passage of this Law.

### Eligibility Requirements for the Tax Benefits granted by this Law:

- Ecuadorian legal entities that have been organized in the country and foreign companies that are legally based in the country after the effective date of this Law and having a capital stock equivalent to 10% of the investment involved.
- Investments in fixed assets (the physical area required for the project, construction works, machinery, and new equipment) of at least USD 7.5 million in the case of the activities included in (a), (b), (c), and (e) above; and USD 2.0 million in the case of the activities referred to in (d), (f),

(g), and (h), during the first two years following the effective date of the related Executive Decree granting the tax benefits.

### Benefits granted by this Law

The new investments falling under the provisions of this Law are exempted from:

- a) Income tax payments;
- b) Payment of customs duties on the import of new machinery, equipment, and spare parts and of raw materials not produced in the country, required for the production of the goods and services indicated above (by means of an Executive Decree and having first performed the procedure to be stipulated in the Regulation of this Law). The customs service fees should be proportionate to the service being received; and
- c) Payment of all the duties and taxes applicable to the organization of corporations or companies.

Moreover, municipalities may reduce up to 95% the amount of taxes that companies are required to pay for a term of ten years from the release of the related Executive Decree.

In the case of taxes applicable to the conveyance of title to real property acquired for project operation, the tax reduction will apply as from the release date of the related Executive Decree.

### Tax Benefit Duration

Tax benefits granted under this Law will remain in effect for ten years in the provinces of Pichincha and Guayas and for 12 years in the rest of the country as from the release date of the related Executive Decree.

### Noncompliance

Noncompliance with the obligations

assumed upon applying for the benefits of this Law will result in the forfeiture of all tax benefits and the determination and payment of all the taxes exempted, together with applicable interest.

# 11. Labor Matters

## Most Common Employment Contracts

- Fixed-term contract: The statutory minimum term of fixed-term contracts is one year and the maximum term is two years.
- Indefinite term contract: When the parties have not fixed a term for the employment contract or when the parties have agreed an indefinite term.
- Trial period contract: Trial period contracts may be entered into in the case of contracts signed for the first time and may not last more than 90 days. During the effective term of trial period contracts, the employer or the employee may terminate the contract at any time without prior notice, subject to no penalty. This provision should be stated in writing in all cases. At the end of the trial period, the contract continues to be effective for the period remaining to complete one year. The employer may not have more than 15% of its employees under trial period contracts. However, the companies starting up in business and those expanding their business are exempted from this restriction for 6 months.
- Temporary contract: Temporary contracts are usually used by companies requiring additional employees to meet incidental needs, such as an increased demand for products or the temporary replacement of workers. Temporary contracts may not exceed an effective 6-month term.
- Maquila employment contract: Only authorized maquila companies are

entitled to enter into this type of contracts. Maquila employment contracts are effective for the same term of the maquila operation and may be suspended for a reasonable cause, subject to labor authorities' approval.

- Part-time contract: Employers who need to hire personnel to work on Saturdays, Sundays, and national holidays because their existing employees do not wish to work on those days may hire part-time workers under part-time contracts.
- Casual contract: Casual contracts may be used to meet extraordinary labor needs unrelated to the normal business activities of the company and may not exceed 30 days in one year.
- Hourly contract: Hourly contracts set a fixed rate per hour worked (the statutory minimum rate for 2006 is USD 1.00 per hour) and may be terminated at either party's discretion. Hourly contract workers are not entitled to profit-sharing payments or severance pay in case of termination without due notice.

## Work Hours

The number of work hours is 40 hours per week. Overtime may not exceed 4 hours in one day or 12 hours in one week, and it is paid an additional 50% of the current pay if worked before midnight and an additional 100% of the current pay if worked from midnight to 6:00 a.m. Overtime on weekends and national holidays is paid an additional 100% of the current pay. The

employees "of trust" who have no fixed working hours, such as those representing the employer or acting for the employer's interests, insurance or business agents, permanent doorkeepers or guards, among others, are not entitled to paid overtime.

## Unified Basic Pay

The value of the mandatory minimum salary is set by the Ministry of Labor and reviewed on an annual basis. At present, the mandatory basic pay for 2007 is USD 170.

## Additional Payments

- Thirteenth salary: All workers are entitled to receive from their employers an amount equivalent to the twelfth part of the total average of salaries earned over the calendar year.
- Fourteenth salary: This payment is equivalent to a unified salary of USD 170.

## Seguridad Social

Employers are required to register their employees with the Ecuadorian Institute of Social Security (IESS) as from the first workday. Employers are also required to give notice to IESS of all employee terminations and changes in their salaries, position, occupation, or any other work condition within the next three days of the termination or change.

Contributions to the IESS are made on a monthly basis according to the following percentages:





Employee	9.35% of his/her salary
Employer	12.15% of his/her salary

Employee contributions are withheld by the employer by deducting them from the employee's monthly pay and delivered to the IESS together with the employer contributions within the first fifteen days of the following month.

Contributions are estimated based on the employee's total monthly pay, including overtime, commissions, bonds, fees, and any other additional or regular payment made (excluding the 15% share in the profits).

### Vacation

Employees are entitled to fifteen uninterrupted vacation days per annum. In addition, the employees who have worked for more than five years in the same company are entitled to one additional vacation day for every additional year of service. However, additional vacation days may never exceed 20 days. The employer has the power to decide whether the employee will take the additional vacation days or he/she will be paid in cash instead.

### Reserve Funds

All the employees who have provided services for more than one year are entitled to receive from the employer an amount equivalent to one month's pay for every full year worked after the first year of service. These amounts constitute the employee's reserve fund or capitalized work.

### Foreign Employees

Any foreign person willing to be deemed as an employee should apply for a work permit before the Ministry of Labor. Once this permit has been obtained, it is ensured

that the individual will be granted the appropriate visa.

### Trade Union Organizations

Employees may choose to organize themselves into a union of workers, whether as an independent unit together with their fellow workers or as members of a collective entity representing the entire group of workers.

Unions negotiate work conditions, salary increases, and social benefits.

To organize a union, at least 30 workers of the same company are required, and they have to elect members to represent them before the company's directors and the Government.

The workers who are not members of any workers' organization or union are entitled to the same benefits and salary increases negotiated for union members. However, nonunion workers are also required to pay union dues up to 1.5% of their monthly salary.

The workers' right to strike is guaranteed by the Labor Code.

### Intermediation and Outsourcing of Workers

The "intermediated worker" is the worker employed to be made available to a third person (user), who determines the worker's functions and supervises the worker's performance. However, an outsourced worker is the worker who, by means of a legal entity, is at the service of another to perform supplementary activities of the productive process (cleaning, security, maintenance, among other support activities).

A company (user) may use labor

intermediation to hire its personnel. However, not more than 50% of the total company workers may be hired through intermediation.

### Cases where employment through labor intermediation is banned

The main cases include:

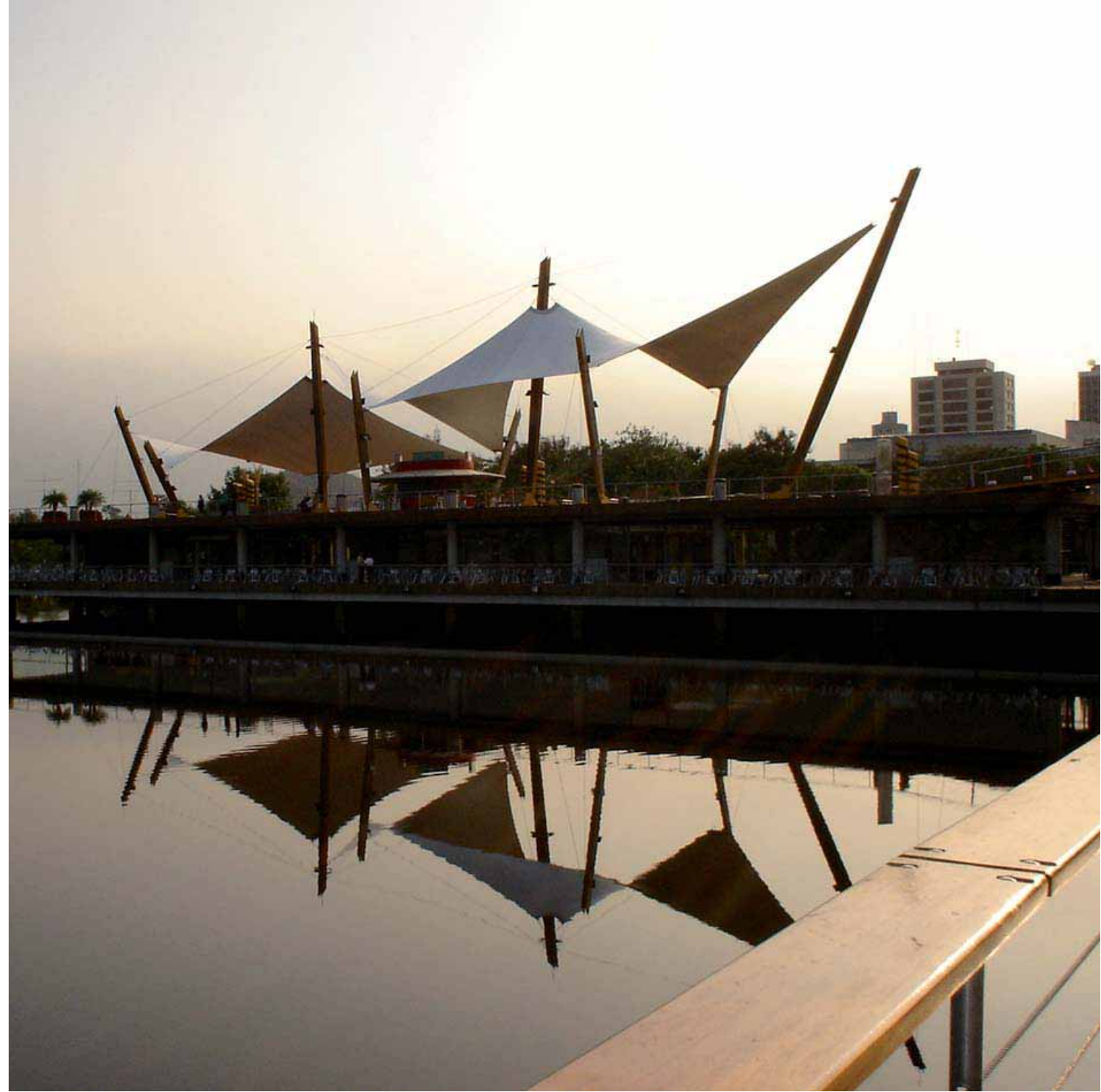
- To replace workers who are on strike;
- To perform the functions of directors, managers, and/or administrators.
- Persons who are already the employees of another employer.

### Joint and Several Liability

The person in whose benefit the services are delivered is jointly and severally liable for the nonperformance of labor obligations. Therefore, if a worker is adversely affected, he/she may assert his/her rights before the user company and/or the legal representatives of the intermediary company. However, the user company may recover what it has assumed or paid on behalf of the intermediary to the intermediated worker.

### Sharing the Profits of the User Company

Intermediated workers are entitled to share in the profits of the user company (the service beneficiary). Outsourced workers (such as cleaning, security, and catering staff) are not entitled to share in the profits of the user company but in those of their own employers.



# 13. Attachments

## GDP by Industry (in thousands of US dollars)

Data taken from the statistical bulletin of May 2007, published by the Central Bank of Ecuador.

Some activities have been omitted.

Period	GDP	Agriculture	Fishing	Mining and Quarrying	Manufacturing Industries (excluding oil refining)	Manufacturing of oil refining products	Electric power and water supply
2002	24899481	1836346	211560	2880840	2593049	-701780	614139
2003 (sd)	28690872	1972489	214814	3612043	2699893	-716184	674478
2004 (p)	32964177	2069404	219826	5348043	2852005	-1027953	614716
2005 (prev)	36243850	2173929	241809	6774629	2965886	-1182146	645452
2006 (prev)	39455072	2284891	257284	8046059	3147603	-1306389	686115

Period	Construction	Wholesale and Retail Trade	Transportation and Storage	Financial Intermediation	Other Services (1)	Financial Intermediation Services Indirectly Measured (SIFMI)(1)	Public Administration and Defense; Social Security Plans of Mandatory Enrollment
2002	2029857	3579841	2166574	520360	5770187	-680992	1315442
2003 (sd)	2142130	3760878	2569229	574077	7419517	-705877	1624015
2004 (p)	2601177	4071350	2702650	661072	8688521	-705136	1769323
2005 (prev)	2833982	4334112	2835080	687515	9122947	-763017	1937409
2006 (prev)	3035762	4629922	3025030	728766	9725974	-813017	2060240

### Exports by Product

Data taken from the statistical bulletin of May 2007 published by the Central Bank of Ecuador.

Period	Total Exports	Petroleras			No Petroleras							
		Total	Crude Oil	Oil Byproducts (2)	Total	Tradicionales					Non traditional	
						Total	Banana and Plantain	Coffee and Processed Coffee Products	Shrimp	Cocoa and Processed Cocoa Products		Tuna and Other Fish
2001	4678436	1899994	1722332	177662	2778442	1363914	864515	44104	281386	86610	87299	1414528
2002	5036121	2054988	1839024	215964	2981133	1480750	969340	41689	252718	129057	87947	1500383
2003	6222693	2606819	2372314	234505	3615874	1737367	1100800	70423	298964	169641	97539	1878507
2004	7752891	4233993	3898508	335484	3518899	1673874	1023610	84136	329793	154235	82100	1845025
2005	10100031	5869850	5396840	473010	4230181	1925283	1084394	92249	457539	176126	114975	2304898
2006	12728160	7544510	6934010	610500	5183650	2200172	1213489	99423	588160	171088	128012	2983478
2007*	3769019	1973141	1827402	145739	1795878	799617	440619	33530	183561	99139	42769	996261

\* From January to April

### Country Risk Performance

From December 1998 to April 2006

Data obtained from the Superintendencia of Banks and Insurance.

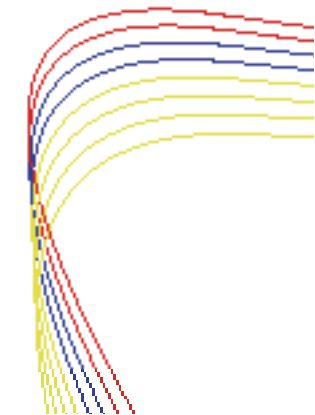


## Trade Partners

Data taken from the statistical bulletin of May 2007 published by the Central Bank of Ecuador.

	FOB EXPORTS						CIF IMPORTS					
	2001	2002	2003	2004	2005	2006	2001	2002	2003	2004	2005	2006
Overall Total	4678.4	5036.1	6222.7	7752.9	10100	12728.1	5362.9	6431.1	6702.7	8226.3	10309	12113.6
AMERICA	3320.4	3506.8	4403.3	6015.8	8247.9	10363.7	3624.1	4400.1	4743.2	5898.8	6959.8	8136.5
UNITED STATES	1789.7	2086.8	2530.9	3298.2	5050.1	6825.1	1326.4	1480.9	1433.6	1690.9	1976.3	2738.8
CENTRAL AMERICAN COMMON MARKET	97.2	183.2	226	146.7	325.9	342	30.2	17.7	39.1	36.5	83.6	58.9
LATIN AMERICAN INTEGRATION ASSOCIATION (ALADI)	1071.4	942	1265.7	1354.4	2041.3	2776.9	1916.9	2512.4	2699.1	3546.8	4204.4	4549
Argentina	72.3	15.3	35.4	34.6	42.9	44.2	94.6	169.1	175.1	247.4	406.2	415.7
Brasil	15.1	15	20.6	74.8	91.2	26.5	194.6	405.9	367.3	479.3	685.2	884.0
Chile	91	74.4	75.7	125.8	305.2	554.4	265.9	300.9	356	412.9	409.9	490.5
México	50	25.7	49.6	42.3	61.7	58.4	169.5	191	183.1	236.1	303	357.7
Other countries	5.9	4.9	1.6	2.4	4	3.9	19.3	29	50	77.5	75	70.7
Andean Community of Nations (CAN)	837.1	806.7	1082.9	1074.5	1536.3	2082.8	1173	1416.4	1567.6	2093.6	2325.1	2329.7
Bolivia	5.5	4.9	5.6	7.5	9.4	9.3	7.3	6	9.9	1.9	2.6	5.6
Colombia	324.3	362.5	375.6	334.8	511	715.2	770.4	902.3	1001.8	1315.6	1477.7	1546.5
Perú	341.6	374.5	642.5	605.8	876.1	1039.4	101.7	154.8	177.3	245	394	347.3
Venezuela	165.7	64.7	59.3	126.4	139.8	318.9	293.6	353.2	378.6	531.1	450.7	430.3
REST OF AMERICA	362	294.8	380.7	1216.5	830.5	419.7	350.5	389.1	571.4	624.6	695.5	789.8
EUROPE	845.4	1037.5	1370.7	1331.9	1631.3	1879.2	814.6	1012.9	940.2	1064.5	1252.9	1485.5
EUROPEAN UNION	666.3	794.5	1076.6	1034.4	1269.7	1487.5	665	889.5	824.4	843.9	1022.9	1210.4
Belgium and Luxemburg	81.2	71.7	75.3	75.7	78.1	103.1	100.9	146.8	100.2	89	104.8	105.1
France	32.1	44.7	57.8	61.6	91.5	109	42.6	59.1	50.4	49.6	63.6	70.1

The Netherlands	77.2	86.9	120.6	130.3	204.4	203.7	43.4	51.4	85	159	172.3	237.9
Italy	203.3	289.6	380.8	356	386.2	426.7	109.8	142.5	111.6	96.9	115.9	170.7
United Kingdom	37.3	52.1	62.5	76.1	73.5	68.8	43.9	64.2	47.9	53.6	69.8	67.1
Germany	153	172.2	215.7	198.2	201.4	223.2	178.2	181.5	178.1	206.6	232.2	237.3
Spain	70.9	65.8	154.2	114.7	217.7	296.4	101.2	137.7	139.2	123.4	139.9	146.9
Other countries	11.1	11.3	9.4	21.6	16.9	25.8	45	106.2	112.1	65.8	124.4	117.3
EUROPEAN FREE TRADE ASSOCIATION	4	5.4	6.5	9	22.6	28.6	39	37.6	29.6	64.9	60.1	63.3
REST OF EUROPE	175	237.6	287.5	288.5	338.9	363.1	110.6	85.8	86.2	155.7	169.9	211.7
ASIA	445.8	453.5	389	375.9	194.7	445.8	834.7	966.7	991.6	1230	1977.3	2349.9
Taiwan	19.9	6.7	3.8	4.4	5.4	5.7	62.5	66	73.7	67	126.1	108.4
Japan	122.8	97.9	89.3	78.9	73.1	122.5	351.3	391.6	275.4	302.4	354.9	457.0
Other countries	303.1	349	295.9	292.6	116.2	317.6	420.9	509.1	642.5	860.5	1496.4	1784.5
AFRICA	2.7	3.1	27.9	11.7	7.9	6.0	37.6	14	7.6	4.2	110.4	132.9
OCEANIA	21.2	17.2	13.5	16.2	15.5	30.8	10.7	12.5	15.2	19.4	7.4	7.3
OTHER COUNTRIES	43	18	18.3	1.3	2.7	2.7	41.2	24.9	4.9	9.4	0.7	1.5



## Our Offices

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