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"Impact of the Ecuador's unilateral resignation from ATPDEA in June, 2013, under tariff heading 0603110000 corresponding to: Roses"

Work prior to obtaining the Bachelor of International Studies, with a major in Bilingual Foreign Trade

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“There’s no easy way around it. No matter how talented you are, your talent is going to fail you if you’re not skilled. If you don’t study, if you don’t work really hard and dedicate yourself to being better every single day“

Will Smith

Table of Contents

Index of Tables and Illustrations

Tables

Illustrations

ABSTRACT

The Andean Trade Preference Act (ATPDEA) was a preferential program that allowed Andean countries to export to the United States duty free. Through the program Ecuador managed to diversify its exports of non-traditional products, leading to the creation of important industries such as the flower industry. The present research focuses on the impact of the resignation of the ATPDEA in the flower industry, especially of heading 0603110000 corresponding to roses, which refers to one of the largest export items of non-traditional products to the United States. This study contains: a description of the fundamental aspects of the Andean Trade Preference Act; a statistical analysis of the importance of the ATPDEA for Ecuador's trade; an evaluation of the impact of this waiver in the floriculture sector; an explanation of the impact on the flower sector since the loss of preferential tariff arrangements; the steps taken by the government to support the sectors affected; the main strategies adopted by companies to counter this waiver; and finally, an outlook of the flower industry for 2015.

INTRODUCTION

The waiver of the Andean Trade Preference Act (ATPDEA) is a topic of great interest for Ecuador, and more so for those sectors that have been affected by not having more of these preferences. Among the sectors affected was the flower sector, for which the ATPDEA was a factor of considerable importance for exportation to the US market.

In Ecuador, flowers were one of the main non-oil export products under the ATPDEA system. Each year exports of flowers have increased to the US market, which for years has been the main destination for exports. Consequently, there is a great concern among exporters who have had to develop new strategies to maintain competitiveness, especially against markets like Colombia that sell similar products and have a Free Trade Agreement (FTA) with the United States.

Several studies have been conducted to investigate the issue of the ATPDEA, its importance to Ecuadorian trade, and the problems facing businesses that can no longer rely on these preferences. Due to the resignation by the Ecuadorian government of the ATPDEA, this study investigates the impact of the ATPDEA waiver in the floriculture sector and the strategies it has adopted to reduce the impact of no longer having said waiver; specifically in regard to the tariff item 0603110000, which corresponds to one of the largest, non-oil areas of movement in terms of exports to the United States in recent years.

To perform the analysis, this paper is divided into three chapters. The first chapter allows the reader to learn more about the ATPDEA, its background, key points of this law, its importance to Ecuadorian foreign trade statistics, and its application in Ecuador. Chapter two explores the conditions of the floriculture sector since the annulment of the FTA, in which a statistical analysis of the variance of exports is conducted. Finally, in chapter three, we will examine: the strategies adopted by the flower sector, the government regulations implemented since the elimination of the ATPDEA, as well as the outlook of the Ecuadorian flower sector in 2015.

CHAPTER I

THE ANDEAN TRADE PREFERENCE AND DRUG ERADICATION ACT IN ECUADOR (ATPDEA)

Introduction

Before analyzing the impact of the elimination of the ATPDEA on roses (tariff heading 0603110000) one must understand the fundamental aspects of this law and its importance to each of the sectors benefiting from these preferences in Ecuador.

1.1. Andean Trade Preference Act, ATPA

The Andean Trade Preference Act consisted of a program of tariff preferences granted unilaterally by the United States to the Andean countries. The purpose of the program was to support the "war on drugs" by strengthening exports and generating "alternative sources of work to replace the cultivation of the coca leaf and reduce drug trafficking" (Castrillón, s.a.).

This program was enacted on December 4, 1991 by George H. W. Bush for a period of 10 years. To participate in the program, the beneficiary countries had to meet a number of requirements, which were overseen by the US government. If said requirements were not met then that country could cease to enjoy the benefits of free trade with the US.

Beneficiaries

To access the preferential tariff, Andean countries had to meet certain mandatory and discretionary criteria. The beneficiary countries involved in the program were Peru, Bolivia, Colombia, and Ecuador. According to (Umaña Mendoza, 2004), the mandatory criterion was as follows:

- The country could not have a communist government.
- It has not nationalized or expropriated property from US investors.
- It has not canceled contracts, patents, trademarks, or other intellectual property of US citizens.
- It is not under a consultation evaluation by the WTO.
- It does not have preferential treatment with other developed country that may disadvantage US trade.
- It respects intellectual property rights and effectively protects the copyrighted material belonging to the United States.
- It is a participant in agreements that allow the extradition of US citizens.
- It guarantees labor rights.

According to (Montero & Rossell, 2008), the discretionary criterion to be covered was:

- Express the desire to be part of the program.
- The economic conditions and living standards of its inhabitants.
- Equitable access to markets and natural resources that the country can provide to the United States.
- The degree of compliance by the country with respect to the rules established by the WTO and multilateral trade agreements.
- The extent to which the country uses export subsidies or imposes local content requirements that distort international trade.
- The extent to which the country's trade policies contribute to the revitalization of the region.
- The degree to which the country is taking steps to generate their own economic development.
- If the country has taken steps to ensure compliance in their territory of internationally recognized labor rights.
- The degree of protection that the country provides to the intellectual property rights of foreign individuals.
- The degree of prohibition that the country possesses regarding the dissemination of copyrighted material by US citizens.

- The degree of compliance by the country to US drug certification.
- The extent to which the country is ready to cooperate with the US in provisions that the preferential agreement specifies.

Eligible products

In order for products to be eligible for tariff preferences, they have to meet several conditions. In the (SICE Foreign Trade Information System, 1991), Section 3203 of the Andean Trade Preference Act, the following is mentioned:

Eligible products must be imported directly from the beneficiary countries; in addition to assuming the sum of the cost of materials used to produce the product from one or more beneficiary countries of the APTA, or from a country or countries benefiting from the Caribbean Basin Economic Recovery Act[1]; furthermore, direct costs of processing operations carried out in a beneficiary country should not be less than 35% of the value of the item.

In addition, in order to make the product, the country can use inputs from the United States; however, these inputs should not exceed 15% of the value of the product and it should be turned into a new or different article.

Excluded products

Some of the products that were excluded from the FTA were: textiles and clothing, footwear, tuna, oil and oil products, watches and watch parts, items with an already reduced tax, sugars, syrups, molasses, rum, and *tafia*.

Tax cuts for certain products

Wallets, luggage, flat goods, work gloves, and leather garments could enjoy a tariff reduction if they were products of a beneficiary country and if they had not been designated as eligible products in the General System of Preferences.

[1] The Caribbean Basin Economic Recovery consisted of a program containing tariff measures to boost the economy of the countries of Central America and the Caribbean Islands.

1.2. Changes in the Andean Trade Promotion and Drug Eradication Act compared to the ATPA

The Andean Trade Promotion and Drug Eradication Act consisted of a renewal of the ATPA. Its purpose was to strengthen the economic development of recipient countries, to continue efforts to defeat drug trafficking, and support the United States in its fight against terrorism. It was promulgated on August 6, 2002 and applied retroactively from the date of expiration of the ATPA.

The ATPDEA expired on December 31, 2006, however, Congress enacted several extensions to this law, being "the first, for a period of six months until June 2007, the second, by a period of 8 additional months to February 2008, and the third, until the end of December 2008" (Gómez Salvador, 2010). Later, the preferential treatment extended for one more year to Colombia and Peru until December 2009, while for Ecuador it was extended six months, plus six additional months contingent upon Ecuador meeting the eligibility criteria. Bolivia also received a six month extension, with an optional six additional months. However, after June 2009, Bolivia did not receive ATPDEA benefits since it did not satisfactorily meet the eligibility criteria. Peru, as of December 31, 2010, formed its own Free Trade Agreement with the United States, leaving Ecuador and Colombia as the only participating members of the ATPDEA with the US.

In February of 2011, the ATPDEA expired; however, in October 2011 it was renewed with all related benefits being retroactively applied. Similarly, in May 2012, Colombia formed its own Free Trade Agreement with the United States. Therefore, the last renovation of the law only applied to Ecuador, which ended in July 2013. From then on, Ecuador has renounced the tariff preferences granted by the United States.

Although the ATPDEA maintained the conditions set in the ATPA, it also expanded the list of products that enjoyed tariff benefits and added some conditions for the eligibility of countries. The following additions to the eligibility criteria were set out in section 204 (b) 6 (B) of the ATPA, as amended by the ATPDEA:

- Countries to be beneficiaries of the program should also demonstrate their commitment to fulfill the obligations under the WTO trade agreements and participate in negotiations to finalize the FTAA and other free trade agreements.
- In addition, they must protect intellectual property rights under the TRIPS Agreement described in the Agreements Act Uruguay Round.
- Demonstrate compliance with the fundamental rights of workers, like respecting the minimum age for recruitment, provide acceptable working conditions, and to prohibit any form of forced labor.
- Implement measures for the abolition of the worst forms of child labor.
- Meet the counternarcotic certification criteria.
- Show that the country has taken steps to join and implement the Inter-American Convention against Corruption.
- Apply transparent, competitive, and non-discriminatory procedures for its procurement.
- Support the US in its fight against terrorism.

The list of products which enjoyed tariff preferences had to pass a test to prove they would not adversely affect American exports. The products included here were:

- Footwear that has not been eligible for the Generalized System of Preferences.
- Oil and its derivatives.
- Wristwatches and parts.
- Handbags, luggage, flat goods, work gloves, and leather garments that have not been eligible for the Generalized System of Preferences.
- Vacuum-packed tuna weighing no more than 6.8 kg.

While exclusion was maintained for the following products:

- Textiles and clothing that have not been eligible under the ATPDEA.

- Sugars, syrups, and molasses subject to customs fees that exceed the quota of tariff quotas.
- Rum and *tafia*.
- Tuna prepared or preserved in another form.

1.3. Chronology of the ATPA / ATPDEA in Ecuador

Initially, Ecuador was not considered a drug producing nation; however, because Ecuador shared borders with Colombia and Peru, which had large areas of drug cultivation, it was considered a conduit for the laundering of drug money; for this reason, Ecuador was included in the program from April 1993, thus beginning to enjoy tariff preferences.

As part of the ATPA, Ecuadorian products were classified under the Harmonized System (HS System), the "international nomenclature established by the World Customs Organization, based on a classification of goods under a system of 6-digit codes accepted by all participating countries" (Organización Mundial del Comercio, s.a).

The ATPA had a term of 10 years; then, in 2002, this law was extended through the ATPDEA, renewing and extending the benefits of the ATPA. Initially, Ecuador was excluded from this law for two main reasons; one, the violation of human rights with regard to child labor in the banana and flower industries; and two, the conflicts between the Ecuadorian government and US oil companies, who requested a refund of value added tax (VAT). Although the exclusion consisted only of the goods which were included in the ATPDEA, at that time, it also endangered negotiations for the signing of a Free Trade Agreement with the United States.

With regard to child labor, Ecuador made several commitments to eradicate it. It conducted a Banana Social Forum whose objective was to "implement policies to eradicate child labor in the banana sector" (Programa Internacional para la Erradicación del Trabajo Infantil IPEC, 2003). Similarly, the banana sector committed to establish a code of social ethics, as well as hiring inspectors whose

function was to monitor irregularities in the companies' labor practices with respect to child labor.

Regarding the refund of the VAT, in 1999, an amendment to the Law on the Internal Tax Code, in Article 69A, granted to individuals and societies a reintegration of VAT paid by employees for the manufacture of exported goods (Servicio de Rentas Internas, 2002). For this reason, "certain American oil companies signed an agreement in August 2001 to which they would be refunded payments made in the form of the Ecuadorian State VAT" (Rubio Ríos, 2008). However, while the Foreign Ministry of Ecuador sought an immediate solution to the problem, the Ecuadorian IRS refused to accede to the request of the oil companies, thus the two parties were forced to wait for court rulings on the matter; hence, a commission between Ecuador and the United States was created to jointly resolve the issue. Additionally, the Ecuadorian Foreign Ministry issued a statement to the United States addressing the actions that would be taken to meet the conditions of the ATPDEA.

In May of 2003, Ecuador had received a letter from US Trade Representative Robert Zoellick indicating the concerns the US had on, ". . .a debt that stood with the US company *Duke Energy*, which Ecuador was supposed to have resolved to remain a beneficiary of the ATPDEA" (Rubio Ríos, 2008). Consequently, they still had to resolve payment to Duke Energy, who complained of a freeze on electricity rates.

After several meetings between company representatives with the Ministers of Foreign Trade, Energy, and Economy of Ecuador, they managed to reach an agreement agreeing to pay $1.8 million to the US company (Diario El Universo, 2004). Later, in 2004, revisions were made to visualize Ecuador's progress in solving the problems.

Additionally, in 2002, after the ATPDEA was approved, and canned tuna was not added to the list of duty free items, Ecuador launched a campaign called "For women, the family, and Ecuador, defend our tuna." The campaign was launched with the goal of having the United States include canned tuna in the list of duty free exports. According to a local Ecuadorian newspaper, "the Chancellor traveled twelve times to Washington, D.C., along with former Trade Minister, Richard Moss, five of

the twelve times, to lobby the U.S. Congress on this matter; but, to no avail" (El Comercio, 2002).

The original duration of the ATPDEA ended in December 2006, but Ecuador received several extensions to the law. In 2007, for a period of six months, Ecuador completed a renewal extension for a period of eight months which was eventually done. In December 2008 it was renewed for another year, followed by another extension in December 2010; but, this renewal was only for a period of six weeks, expiring in February 2011.

In January 2011, a business delegation traveled to the United States in order to achieve a renewal of the ATPDEA for a longer period of time. Similarly, a week later, Foreign Minister Ricardo Patiño also met with a group of businessmen to discuss the renewal of the ATPDEA.

In February 2011, the preferential treatment remained without effect for eight months, but the benefits were newly renovated retroactively for a period of 20 months from November 4, 2011 until July 2013.

In May 2013, the Embassy of Ecuador launched a campaign through social networks, called "Keep Trade Going," which reported on the economic benefits of trade between the two countries, in order to achieve support for the renewal of the ATPDEA.

Finally, on June 27, 2013, Ecuador renounced the ATPDEA, saying it is a sovereign country that does not accept pressure or threats from anyone. In a statement, Ecuador said it would review the request for political asylum to Edward Snowden, a former CIA agent.

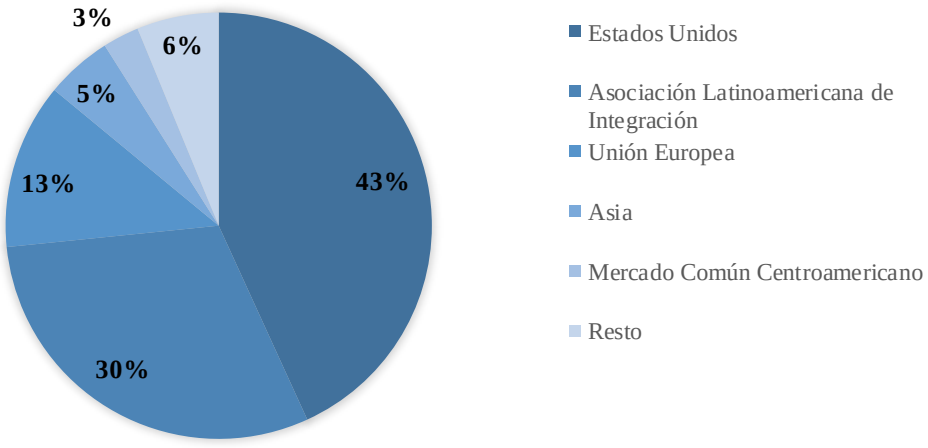
1.4. Importance of the ATPDEA for Foreign Trade of Ecuador

The largest factor of the ATPDEA for Ecuador is that the United States is its main trading partner. For years, the main market of Ecuadorian exports has been the United States, and when tariff preferences for the Andean countries were created,

Ecuador had the opportunity to export their products to the US market duty free. This generated growth and furthered diversification of exports, giving way to an agro-industrial development in various areas of the country, as well as higher employment.

"When it comes to trade with other blocs, the US remains our largest trading partner, including oil, representing in the last 10 years 45% of our exports" (Corporación Centro de Estudios y Análisis, 2013). This information can be compared with statistics from the Central Bank of Ecuador, which states that in the period 2002-2013, the United States received an average of 43% of the share of exports of Ecuador.

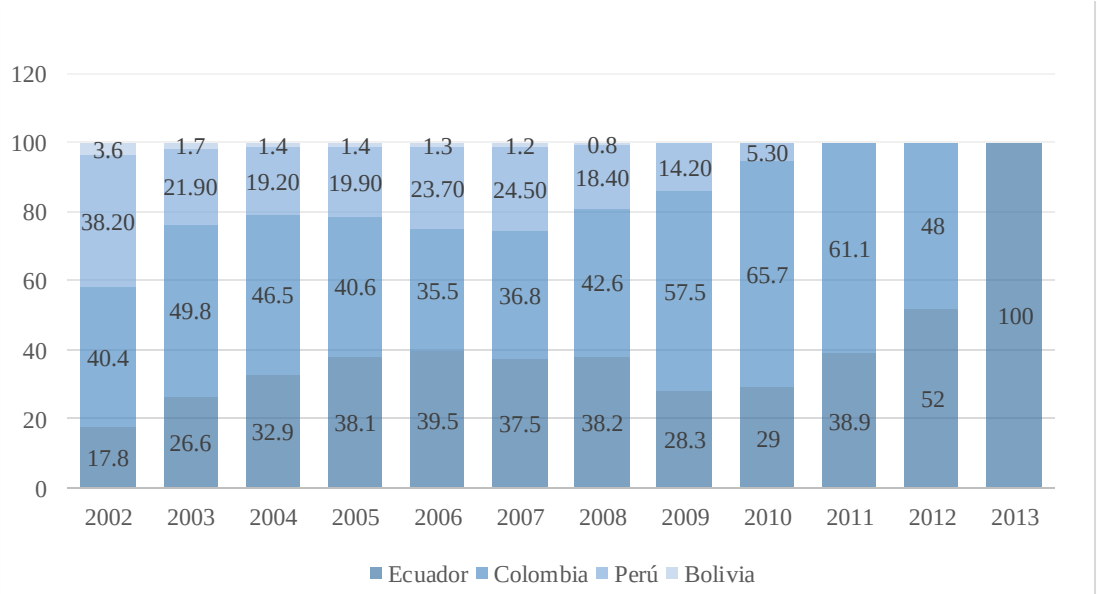
Illustration 1: Participation of Ecuador's Exports in the Economic Area and Country. Period 2002-2013



Source: Central Bank of Ecuador/ Trademap
Self prepared

Ecuador and Colombia were the countries that mostly used the ATPDEA. In 2003, "both countries, together, exported a total of $4.462 billion; which constituted 76% of total exports under the system by the beneficiary countries" (Comunidad Andina, 2004). Additionally, Ecuador was the country that enjoyed tariff preferences for the longest period of time because Bolivia was suspended in 2009 and Peru and Colombia signed their own Free Trade Agreements with the US.

Illustration 2: Percentage of Participation of the Exports from Andean Countries to the United States under ATPDEA. Period 2002-2013

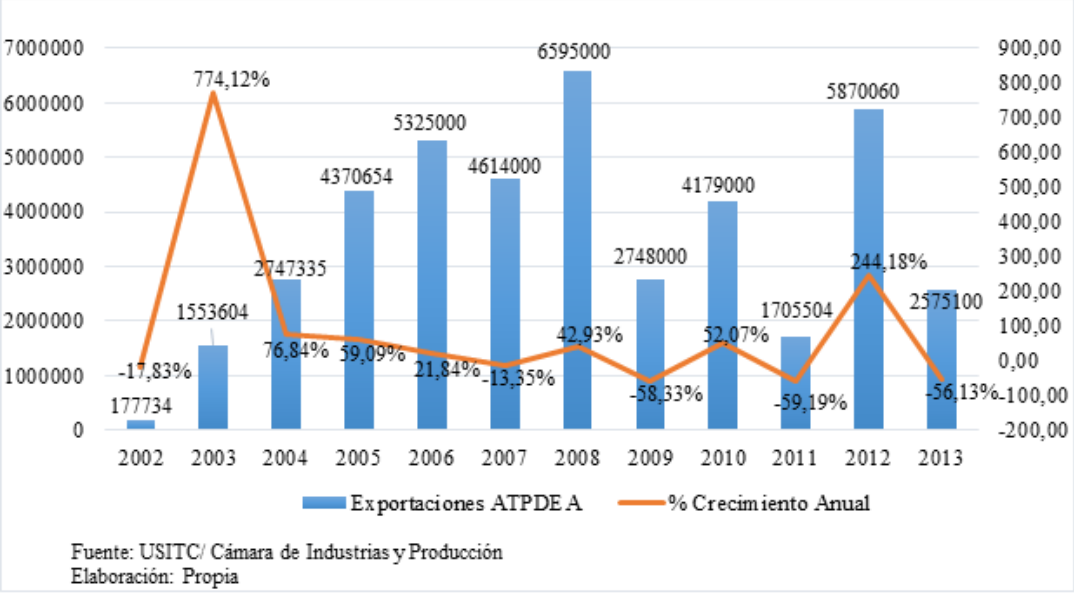


Source: Department of Commerce of the United States
Self prepared

In the period 2002-2013, Ecuador's exports represented on average 39.9% of total exports under the ATPDEA, led only by Colombia, the main supplier of products to the United States under the preferential program.

> As for total exports during the period 2002-2012, they presented a sustained average growth of 22.77%, driven mainly by oil. Thus, oil exports to that destination accounted for 60.6% of total exports from the country for 2012 and maintained an average growth of 32.1% in the last decade. Non-oil exports for their part have a more constant behavior in growth, maintaining an average increase of 8.8% over the past 10 years. In 2012 they accounted for 22.9% of total non-oil exports (Corporación Centro de Estudios y Análisis, 2013).

Illustration 3: Ecuadorian Exports under ATPDEA thousands USD and its annual growth. Period 2002 – 2013



Source: USITC

Self prepared

In the period 2002-2013 the average growth of exports under the ATPDEA by Ecuador was 30.55%. The year that showed a higher growth of Ecuadorian exports under the program was 2003 due to the incorporation of oil to the list of products benefiting from the ATPDEA. The years 2009 and 2011 had the largest decrease in exports, 58.33% and 59.19% respectively. This decrease was attributed to the international financial crisis at the time, as well as the rising price of oil.

In turn, the ATPDEA allowed Ecuador to be more competitive in relation to other countries. Through this system, around 6100 products enjoyed preferential treatment, of which about 785 Ecuadorian products were exported under the program. Although in Ecuador exports have mainly revolved around oil, and some commodities such as shrimp and bananas, it has been able to diversify the exportable supply of non-traditional products; giving way to the industries of flowers, broccoli, tropical fruits, among others, which in recent years have shown an increase.

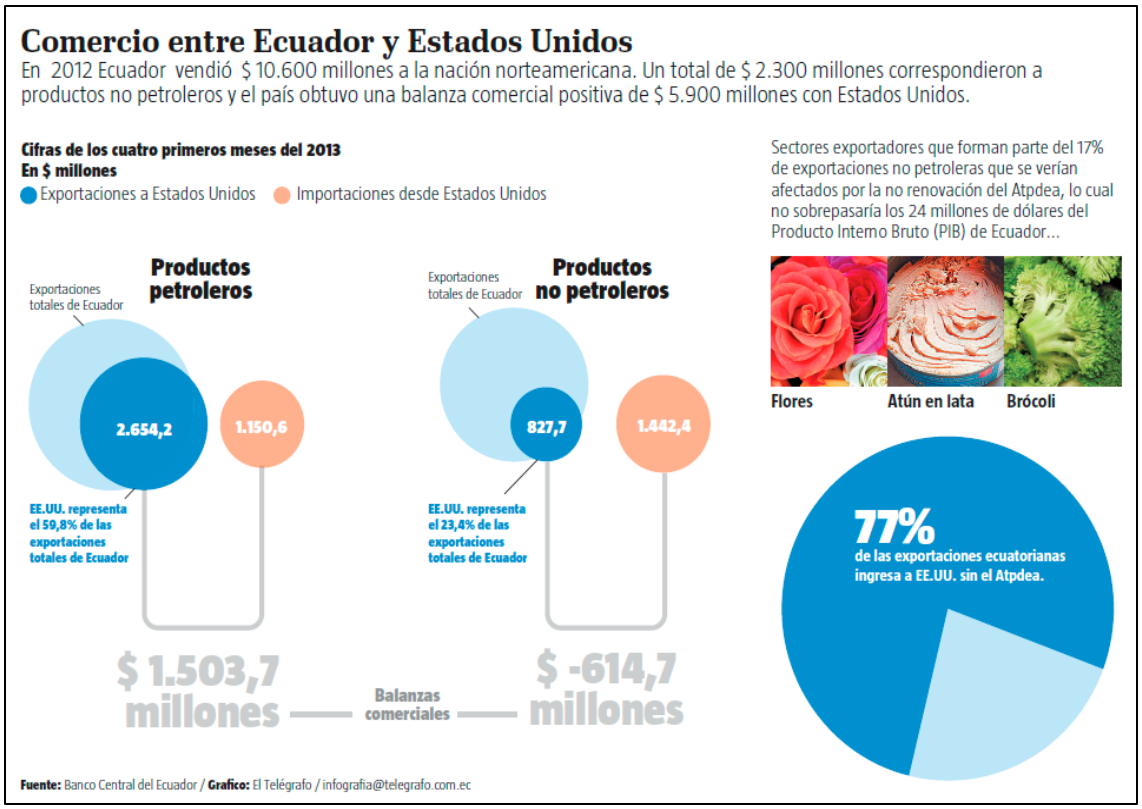
In 2013, "in the first quarter, Ecuadorian oil exports amounted to $609.7 million; in the same period of 2012 they totaled $552.7 million, a difference of $57 million in

non-oil exports, according to data by the Foreign Ministry of Ecuador" (Agencia Pública de Noticias del Ecuador y Suramérica, 2013)

"Non-oil exports, under the ATPDEA, reached $422 million in 2012, which were mainly concentrated in three products: roses, un-canned tuna, and Gypsophila; with a share of 92.6% of total non-oil exports ATPDEA" (Unidad Análisis Económico, 2013).

According to the former Ecuadorian Minister of Trade, Francisco Rivadeneira, "most trade entering the United States, in weight and amount, entered under the most favored nation clause in the World Trade Organization (WTO), i.e. under the same conditions to which all members of this organization have access" (Cancillería Ecuador, 2013). Therefore, about 77% of the country's exports enter the United States through systems outside of the ATPDEA.

Illustration 4: Trade between Ecuador and the United States Year 2012



Source: Central Bank of Ecuador

Prepared by: Diario El Telégrafo

Additionally, diversification of exportable supply has encouraged the creation of new industries, which in turn have created thousands of jobs. The Minister for Labor Relations of Ecuador and former Director of the Ecuadorian Internal Revenue Service, Carlos Marx Carrasco, says, "Products entering the United States that benefited from the ATPDEA, represented 11,920 direct jobs and 19,959 indirect jobs. Ecuador's decision means a trade diversion of 91 million dollars over five years, i.e. a rate of 18.2 million annually" (Agencia Pública de Noticias del Ecuador y Suramérica, 2013). Mr. Carrasco's statement implies that the failure to have tariff preferences not only has an economic impact but a social impact as well for Ecuador.

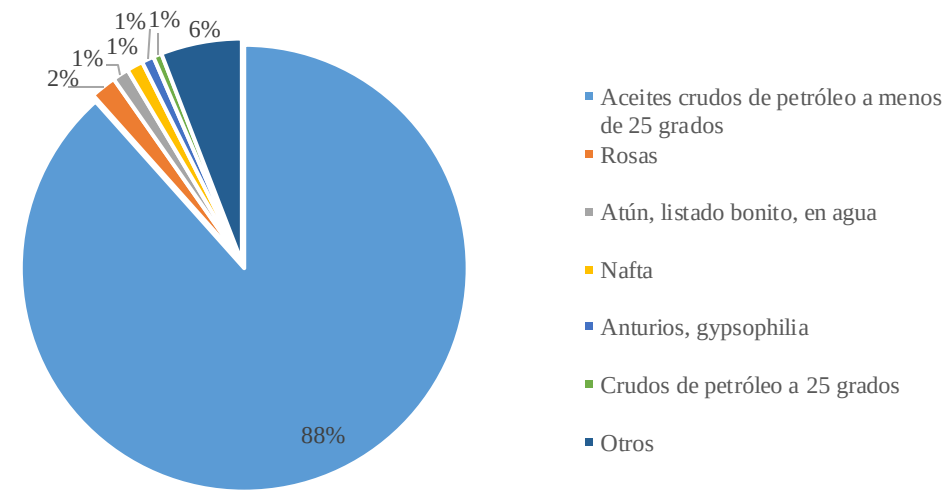
Similarly, "estimates generated by the payment of duties, on trade diversion, anticipate a decline in US imports from Ecuador of $23 million during the first year, which could reach more than $60 million during the first three years of impact" (Vásquez, 2013). However, in the opinion of the sectors affected, "the $23 million . . . is a figure that, according to the exporters, does not compare to the losses that could occur if they do not continue selling to the US market and the consequent risk to current jobs" (Diario El Comercio, 2013).

For many experts on the subject, not having preferential tariffs means more than $23 million in tariff damage because, "the impacts of the official decision, cannot and should not be limited to the amount of tariff exemptions; but, they should be viewed from a broader perspective of sustainable development, in terms of employment, investment, production chains, and competitiveness" (Cámara de Industrias y Producción del Ecuador, 2013).

For exporting companies there are several implications. For many companies having to face an additional payment of tariffs means a reduction in growth projections in the US market and a search for new markets to export their products, or the adoption of actions to boost competitiveness in the US market.

Additionally, a large amount of Ecuador's exports to the United States were covered only under the ATPDEA; one of the most significant impacts on these products is the loss of competitiveness compared to countries like Peru and Colombia that have a FTA.

Illustration 5: Main products exported by Ecuador under ATPDEA Period 2002-2013



Source: Department of Commerce of the United States
Self prepared

The main products that benefited from the ATPDEA in the period 2002-2013 were heavy crude oil, fresh roses, *tuna* in airtight containers in water, gasoline, and gypsophila. Oil was the main product exported under the program.

Another factor marking the importance of the ATPDEA for Ecuador is that without these tariff preferences some of the products have to pay fees, such as broccoli and flowers, facing a tariff of 14.9% and 6.8%, respectively. Often, the increase in cost is passed on to the consumer, which adversely affects competitiveness; in turn, the increase in cost is essentially "eaten" by the exporter. "The additional costs for Ecuadorian exporters, from paying tariffs, are estimated to be approximately $85 million" (Corporación Centro de Estudios y Análisis, 2013).

For the province of Azuay in Ecuador, among the products most affected by not having the ATPDEA are flowers. Azuay represents about 25% of the total Ecuadorian flower market. Not having the ATPDEA represents a significant loss, especially if one considers the efforts of the Azuay entrepreneurs to enter the US market, i.e. providing good quality products at very competitive prices.

For the country, one of the affected products is tuna; about 80% of tuna exports go to the United States., by not having the ATPDEA, tuna must pay a tariff of 12% for canned tuna in water, and 35% for canned tuna in oil.

Table 1: Main US competitors in Ecuadorian products exported under ATPDEA

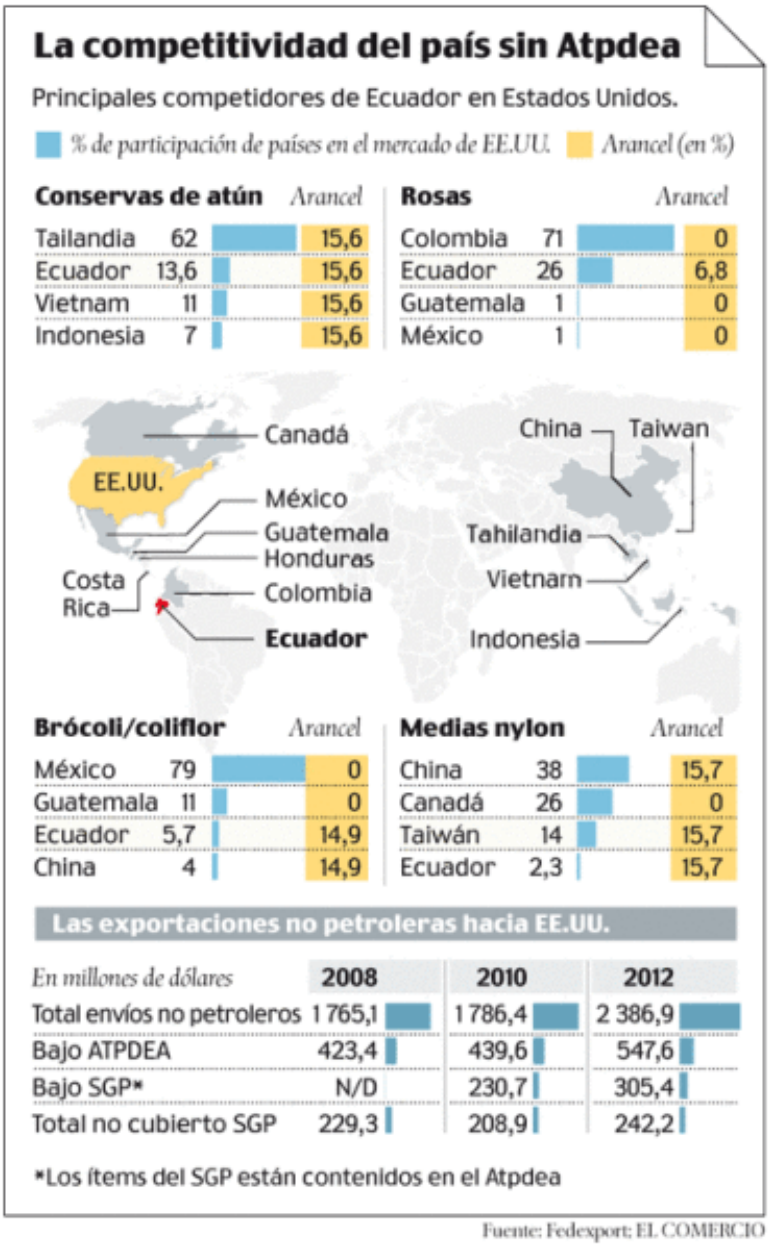
Product	Tariff	Main Competitors
Roses	6.80%	Colombia, Mexico, Guatemala
Gypsophila	6.40%	Colombia, Holanda, Canadá
Broccoli	14.90%	Mexico, Canada, Guatemala
Tuna in water	12%	Thailand, Philippines, Canada
Tuna in oil	35%	Thailand, Mexico, China
Canned bananas	0.80%	Costa Rica, Philippines, Honduras
Canned pineapples	0.51 c/kg	Costa Rica, Mexico, Honduras
Sugar Cane	1.46 c/kg	Dominican Republic, Philippines, Brazil

Source: USITC, Cámara de Industrias y Producción

Self prepared

This increase in tariffs produces a shift in the trade. According to a proposition by Jacob Viner, "an increase in tariffs reduces exports because the importing country prefers to buy products from economies with which commercial agreements are maintained and therefore the products are cheaper" (Cámara de Industrias y Producción, 2011)

Illustration 6: Main Competitors of non-oil Ecuadorian products in the United States with its respective tax.



Source: Fedexport

Prepared by: Diario el Comercio

As shown in the graph, Colombian roses are Ecuador's main competitor in the flower sector, which covers 71% of US imports of that product entering the US market and paying zero tariffs, while Ecuador pays the tariff of 6.8%. As for broccoli, Mexico and Guatemala are Ecuador's main competitors, representing 79% and 11% of the market, respectively. As a side note, both Mexico and Guatemala pay a 0% tariff on broccoli exports to US.

According to Carlos Marx Carrasco, "the total number of products exported to the United States was 1,843. Under the ATPDEA there were 835 products with a total of $450 million in exports; furthermore, the ATPDEA and the Generalized System of Preferences (GSP Plus) consisted of 588, for a total of $227 million in exports. The ATPDEA, without the GSP, totaled 247 products or $223 million in exports" (Diario La Tarde, 2013).

Another consequence of the lack of a FTA with the US is the unattractiveness for foreign investment. Foreign investors are more likely to invest in countries that have a Free Trade Agreement, allowing the country to provide greater market stability to said investors.

1.5. Statistics from the application of the ATPDEA in Ecuador since its promulgation in October 2002 until June 2013

Table 2: Exports from Ecuador to the United States under ATPDEA and without a program and its percentage of participation within the total exports of the country. Period 2002-2013. Thousands of USD

YEAR	ATPDEA	%Part	WITHOUT A PROGRAM	%Part	OTHER	% Part	TOTAL EXPORTS
2002	177,733	8.85	1,095,938	54.55	735,345	36.60	2,009,016
2003	1,553,604	62.60	292,547	11.79	635,747	25.62	2,481,898
2004	2,747,335	66.00	573,722	13.78	841,804	20.22	4,162,861
2005	4,370,654	87.12	527,367	10.51	118,851	2.37	5,016,872
2006	5,325,194	78.41	486,775	7.17	979,404	14.42	6,791,373
2007	4.613.792	75.12	336,621	5.48	1,191,636	19.40	6,142,049
2008	6,594,774	78.46	1,129,968	13.44	680,444	8.10	8,405,186
2009	2,748,446	59.74	989,800	21.51	862,668	18.75	4,600,914
2010	4,179,067	69.12	1,826,900	30.22	40,063	0.66	6,046,030
2011	1,705,504	17.51	5,954,502	61.12	2,082,361	21.37	9,742,367
2012	5,870,060	55.45	1,564,000	14.77	3,152,242	29.78	10,586,302
2013	2,575,100	23.25	6,057,900	54.68	2,444,832	22.07	11,077,832

Source: Department of Commerce of the United States/ Central Bank of Ecuador

Self prepared

In 2002, the ATPA ran from August to October, while the ATPDEA was in force only for two months, November and December; in that year, as one can see in the table, under the ATPDEA, exports were relatively insignificant, representing only

8.85% of total exports. While non-program exports accounted for 54.55% of total exports.

With regard to 2003, exports from Ecuador under the ATPDEA had a considerable increase, going from $177,773,000 in 2002 to $1,553,604,000; representing 62.60% of total exports. This increase is attributable to two fundamental aspects; On the one hand, in 2003, the ATPDEA was already in effect for the full year; and oil, the main export product of Ecuador, was included in the list of products to enjoy tariff preferences within the program.

With regard to 2004, Ecuador's total exports increased by 68% compared to 2003, while exports under the ATPDEA showed an increase of 77% from $1,553,604,000 exported in 2003 to $ 2,747,335,000 in 2004.

2005 was one of the years when exports under ATPDEA reached the highest participation rates of total exports from Ecuador to the United States, representing 87% of total exports. Additionally, in 2005, Ecuador's exports under the program presented an increase of 59.1% compared to 2004, increasing from $2,747,335,000 to $ 4,370,654,000.

As for 2006, this was a year of great importance for Ecuador with regard to exports under ATPDEA because Ecuador was the main exporter of products under this program, surpassing Colombia, and representing 39% of total exports from Andean countries under the preferential program. (Office of the United States Trade Representative, 2007). Additionally, under the ATPDEA, exports increased by 22%, with $4,370,654,000 exported in 2005 to $5,325,194,000 in 2006, representing 78.41% of total exports in Ecuador.

Despite the increase in 2006, in 2007, Ecuador's exports to the United States declined. Although exports under ATPDEA represented an important percentage of participation in total exports, exports from Ecuador under ATPDEA were down 13% compared to 2006, from $5,325,194,000 to $4,613,792,000.

However, in 2008, exports from Ecuador under the program increased 43%, from $4,613,792,000 in 2007 to $6,594,774,000 in 2008. This increase was largely due to increased exports of oil and its derivatives, which in 2008 constituted 94% of exports under the ATPDEA, with around $6.111 billion (Office of The United States Trade Representative, 2009).

In 2009, Ecuador's exports were $4,600,914,000, decreasing by 45% over the previous year. As for exports under the ATPDEA, they decreased by 58% from $6,594,774,000 in 2008 to $2,748,446,000 in 2009. The decrease was mainly due to the financial crisis and the declining price of oil (which in recent years has remained the main export of the country).

In 2010, Ecuador exports under ATPDEA were $4,179,067,000, representing 69.12% of total exports from Ecuador to the United States; while total exports were $6,046,030,000, showing an increase of 31% compared to 2009. Of this amount, 73% came from oil exports, while 27% were non-oil exports (Corporación Centro de Estudios y Análisis, 2013)

In 2011, Ecuador exported $9,742,367,000 to the US, an increase of 61% compared to 2010; however, under ATPDEA, exports decreased by 59%. In 2011, Ecuador exported, under ATPDEA, $1,705,504,000; while in 2010 it exported $4,179,067,000. This decrease was attributed to the program not being in effect from February 12th to October 21st of the same year, causing 62% of Ecuador's exports to the United States to pay fees (Corporación Centro de Estudios y Análisis, 2013).

In 2012, Ecuador exported, under the ATPDEA, $5,870,060,000; an increase of 244% compared to the previous year, representing 55.45% of total exports. This significant increase is due to the fact that in 2011 the program was suspended for eight months since the program lapsed in May 2012 due to the signing of the Free Trade Agreement with the United States and Colombia; thus, Ecuador was the only ATPDEA country during the whole year (Office of the United States Trade Representative, 2013).

In 2013, the ATPDEA was only in force for Ecuador from January to July; as such, under the ATPDEA, exports during this period were $2.575.100.000, showing a decrease of 56% compared to 2012. These exports in turn accounted for 23.25% of total Ecuadorian exports to the United States.

According to the statistical information collected, Ecuador, in the period from January to July 2013, exported, under the ATPDEA, $2,500,000,000; however, according to the latest report by United States International Trade Commission, Ecuador exported $75.1 million in the period from August to October 2013, because these exports were eligible products under the ATPDEA that were exported in the US Foreign Trade Zones to which they were granted a privileged status before July 31, 2013, the date in which the ATPDEA expired.

This privileged foreign status implies that "the merchandise was classified and evaluated, and the duties and taxes were determined on the date the application for the privileged foreign status was filed. . .certain duties and taxes were not subject to future change" (United States International Trade Commission, 2014).

Table 3: Main products exported from Ecuador to the United States under ATPDEA. Period 2002-2013. Thousands of USD

Description	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Crude oils obtained from bituminous minerals less than 25 degrees	79,732	1,207,291	2,298,483	3,937,316	4,695,158	4,135,124	6,080,386	2,330,968	3,767,853	1,522,350	5,268,062	2,215,782
Roses, fresh cut	18,758	59,714	69,200	74,108	82,565	82,544	70,635	60,373	74,097	37,377	91,651	72,017
Tuna, tuna in water, 7kg pouch	0	25,474	31,466	47,814	64,860	67,868	70,067	43,400	44,468	9,990	52,761	42,300
Naptha, non fuel / liquefied reserve petroleum oil	4,510	25,792	38,549	73,288	115,729	30,202	107,641	65,171	0	0	41,901	0
Anthurium, alstroemeria, gypsophila, irises	0	0	0	0	0	59,430	60,694	57,402	61,810	21,836	67,698	46,827
Crude oils obtained from bituminous minerals at 25°	0	20,631	23,735	0	71,981	9,094	0	0	9,897	40,264	35,969	49,156
Distillate fuel or petroleum resid or min. bitum. less than 25°	1,129	18,575	63,129	15,303	30,700	61,210	31,085	0	0	0	0	0
Raw vegetables or cooked in water or steamed, frozen	3,008	9,347	11,750	12,063	17,543	22,704	20,909	22,594	20,935	5,480	22,570	11,018
Guavas, mangoes, and mangosteens, fresh or dried	5,378	11,036	9,488	9,746	14,680	15,584	11,553	14,519	10,049	14,483	20,683	3,510
Mixture of light petroleum hydrocarbon						300	2,404	16,368	44,835	17,683	4,433	39,056

Source: Department of Commerce of the United States

Self-prepared

Since the ATPDEA went into effect, Ecuador's exports have mainly focused on oil. In 2002, the leading products exported to the US under the ATPDEA were oil and flowers. Oil became the second most important product imported by the US from Andean countries and flowers occupied the third place, accounting for 20% and 17% respectively. As for Ecuador, oil and its derivatives constituted 52% of its exports; insomuch that in 2002, Ecuador was the main supplier of crude oil among the four Andean countries (United States International Trade Commission, 2003). Exports of roses, one of the main products exported under the ATPDEA, only accounted for 10.55% of total exports under the program.

In 2003, exports under ATPDEA had a remarkable increase of 774% over the value exported in 2002. The main products exported in 2003 under the program were oil, roses, tuna in water, and naphtha. Oil below 25 degrees accounted for 77.71% of total exports under the program and had an increase of 1,414% over the value exported in 2002. With regard to the roses, they accounted for 3.84% of total exports under the program and had an increase of 218.33% compared to 2002. While tuna and gasoline accounted for 1.64% and 1.66%, respectively, of total exports under the program.

In 2004, under the ATPDEA, exports totaled $2.747 billion, of which 88% was oil, the main export product. In this same year, Ecuador became the fourth largest supplier of crude oil to the US after Mexico, Canada, and Venezuela (United States International Trade Commission, 2005). This increase in exports of heavy crude oil was due to two main reasons: first, the opening of the Trans-Andean pipeline of heavy crude in September 2003, which allowed the country to increase its production capacity, and two, the increase of oil prices in 2004.

Additionally, among the products exported that increased significantly were: petroleum products, roses, and tuna in water in pouches. Heavy crude oil had an increase of 90.38%; from $1,207,291,000 in 2003 exported to $2,298,483,000 exported in 2004.

In turn, exports rose 15.89%, from $59.714 million exported in 2003 to $69.2 million exported in 2004. Additionally, in 2004, Ecuador remained one of the main exporters of flowers to the United States, representing 19% of imports of flowers. Regarding roses, Ecuador was the second highest supplier of this product to the United States, being responsible for 28% of its imports (United States International Trade Commission, 2005).

$31.5 million of tuna in pouches was exported, achieving a 24% increase compared to the value exported in 2003. In 2004, Ecuador was the second highest supplier of tuna to the United States after Thailand.

In 2005, the products exported by the country were mainly heavy crude, roses, and tuna in pouches. In addition, "in 2005, as in 2004, Ecuador was the fourth largest supplier of heavy oil to the United States, after Mexico, Canada and Venezuela" (United States International Trade Commission, 2005). In 2005, Ecuador exported $3,937,316,000 of heavy crude, with an increase of 71% over the previous year. This increase, as in 2004, was due to two main reasons; the increase in oil prices and the opening of a new pipeline in 2003.

Regarding the flower sector, in 2005, Ecuador remained the second largest supplier of roses to the United States, accounting for 24% of total exports for US consumption (Office of the United States Trade Representative, 2007). Roses constituted the second largest export item by Ecuador under the ATPDEA, exporting an amount of $74,108,000, an increase of 7% over the value exported in 2004. While tuna in water in pouches had an increase of 52%, with a total of $47.814 million exported in 2005.

In 2006, oil and its derivatives remained the main export product of Ecuador, representing 92% of the country's exports under the ATPDEA. Heavy crude oil exports accounted for 88.17% of total exports under the program, and presented an increase of 19.25% over the value exported in 2005. Another important export for the country was roses with $82,565,000, an increase of 19.25%; and tuna in water with $64.86 million, an increase of 35.65% over the previous year.

In 2007, exports from Ecuador under the ATPDEA showed a reduction of 13.37%, falling to $4.613 billion, compared to 2006. Heavy oil, the main export product of the country under the program, had a reduction of 11.93%, accounting for 89.63% of exports under the ATPDEA. Meanwhile, roses showed a decrease of only 0.03% in relation to 2006, and accounted for 1.79% of total exports under the program. In turn, in 2007, Ecuador exported $59.43 million of anthuriums/gypsophila, representing 1.29% of exports under the ATPDEA.

While exports of tuna in water had an increase of 4.64%, compared to 2006, and represented 1.47% of exports under the program.

In 2008, exports from Ecuador under the program increased 43%, from $4.613 billion in 2007 to $6.594 billion in 2008. This increase was largely due to increased exports of oil and oil products, which in 2008 constituted 94% of exports under ATPDEA. Heavy crude oil exports accounted for 92% of exports under the program with $6.08 billion, an increase of 47.04% over the value exported in 2007.

Other products that increased were tuna with $70,067,000, an increase of 3%; and anthuriums/gypsophila to $60,694,000, an increase of 2%; exports of roses fell 14% to $70,635,000.

In 2009, oil continued to dominate the list of Ecuador's exports, but its percentage share in total exports was only 88%. Heavy crude oil, the main product exported by the country under the ATPDEA, decreased 62% to $2.33 billion compared to the value exported in 2008, accounting for 84.81% of total exports under ATPDEA. Additionally, roses and pouch tuna in water also suffered a decrease of 14% and 38%. However, in 2009, vegetable exports showed an increase of 8%; guavas and mangoes had an increase of 26%, light oil mixture had an increase of 581%; pineapples 27%; and malanga 6%. Additionally, the percentage of non-oil exports of Ecuador under the ATPDEA rose from 9.6% to 14.3% (Cámara de Industrias de Cuenca, 2013).

In 2010, Ecuador exported $4.179 billion to the United States under ATPDEA, of this amount 90% was heavy crude oil exports; 1.77% was roses and 1.06% was tuna

in water pouches. Heavy oil was one of the products that showed a higher growth compared to 2009, with an increase of 61.64%, while roses showed a growth of 22.73%.

In 2011, exports increased by 29.54% compared to 2010, exports under the ATPDEA decreased by 59% due to the lack of the program for a period of 8 months. Oil and its derivatives remained the main export products of the country, accounting for 93% of exports under the ATPDEA.

In 2011 Ecuador exported $1.522 billion of heavy crude, showing a decrease of 59.60% compared to 2010. However, the overall export of this product outside the program had a 31% increase from $5.5 billion to $7.3 billion due to increased oil prices (Office of the United States Trade Representative, 2012).

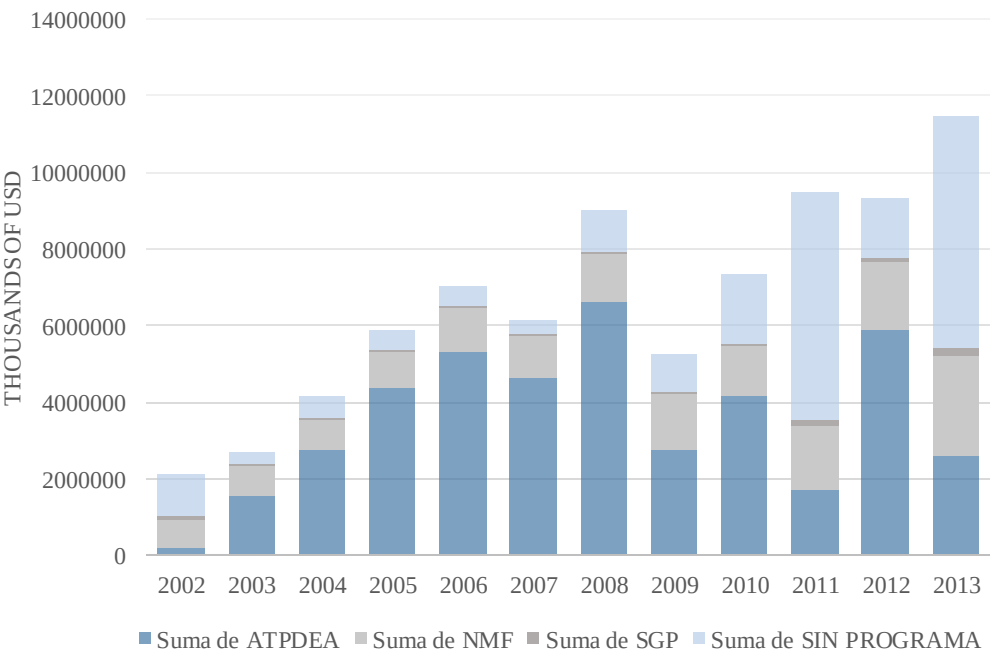
Regarding flowers, Ecuador exported $60 million under the ATPDEA, a decrease of 56% and accounting for 3.5% of total exports of Ecuador under the program; however, like oil, exports of flowers outside the ATPDEA had an increase of 7%. In 2011, Ecuador exported $147 million, while in 2010 it exported $137 million (Office of the United States Trade Representative, 2012)

Despite the ATPDEA not being in effect for much of 2011, in 2012, exports of Ecuador had an increase of 244%; and, as in previous years, petroleum and petroleum products were the main export products under the ATPDEA, accounting for 93%. "Regarding non-oil exports under ATPDEA, they reached $422 million in 2012 and. . . [focused] mainly on three products (roses, non-canned tuna, and Gypsophila) with a share of 92.6% of total non-oil ATPDEA exports" (Unidad Análisis Económico, 2013).

Regarding roses, Ecuador exported $91,651,000, an increase of 145% over the previous year and representing 1.56% of exports under the ATPDEA. "In the case of roses and gypsophila, these products made up 25% and 21.5%, respectively, of total exports to the United States" (Unidad Análisis Económico, 2013). While tuna in water had an increase of 428%.

In 2013, the ATPDEA was only in force for Ecuador from January to July; as such, under the ATPDEA, exports showed a decrease of 77.2% compared to 2012. Oil and its derivatives, as in previous years, were the main products exported under the program, accounting for 92.8%, while the main non-oil exports under the program were flowers and tuna. Most oil exports were crude oil, which showed a decrease of 58% compared to 2012. "The decline accelerated in the past five months before the expiration of the ATPDEA commercial benefit" (United States International Trade Commission, 2014), while "non-oil imports accounted for about 10.8% of US imports under the ATPDEA from Ecuador, followed by fresh cut roses and other flowers" (United States International Trade Commission, 2014).

Illustration 7: Exports from Ecuador to USA. Thousands of USD. Period 2002-2013



Source: United States Department of Commerce
Self prepared

Additionally, as displayed in the graph, the largest amount of Ecuador's exports entered the United States under the ATPDEA, except for the years 2011 and 2013 in which the program was not in effect and most exports were not covered under any program.

In 2009, 2010, and 2012, years in which the preferential treatment under the ATPDEA was in effect for the full year "more than 75% of US imports from Ecuador entered duty-free, and more than 50% of US imports from Ecuador entered duty-free under the ATPDEA" (United States International Trade Commission, 2014).

In 2013, Ecuador had the program for a period of seven months, this being the last renewal of the ATPDEA program. Because of this, 53% of exports from Ecuador to the United States were forced to pay tariffs (United States International Trade Commission, 2014).

Conclusions

The United States issued a Law of Preferences, in order to encourage exports from Andean countries, in order to replace drug crops and support the fight against drug trafficking. While these preferences ended in 2001, in 2002 the United States enacted the ATPDEA, further extending the benefits received by the ATPA. The ATPDEA was due to end in 2006, but from that date several enactments of the law occurred, the last for Ecuador transpiring in July of 2013.

The ATPDEA gave way to negotiations between the United States and Colombia and Peru for the signing of individual free trade agreements, something that Ecuador was unable to achieve. Currently, the failure to obtain tariff preferences, and the fact that Colombia and Peru have an FTA with the United States, has generated a loss of competitiveness in the US market.

The ATPDEA allowed Ecuador to achieve a breakthrough in the diversification of its exports, and therefore increase exports of non-traditional products, such as roses, which became one of the most important products in the country's exports under the ATPDEA. Due to the FTA with the US, Ecuador was able to become the second largest supplier of flowers to the United States. Similarly, this diversification led to the creation of many industries, increasing employment, and improving the economy of Ecuador as a whole. However, it should be noted that exports of Ecuador in recent years has been led by oil, which constitutes around 90% of total exports.

CHAPTER II
THE RESIGNATION OF THE ATPDEA AND ITS CONSEQUENCES IN FLORICULTURE

Introduction

Since roses where a major product that benefited from the ATPDEA, it is necessary to analyze the export of roses to the United States, in order to understand the existing impact on the floriculture sector that no longer receives tariff preferences. Thus, this chapter consists of four subsections, which cover: the implications of the loss of the ATPDEA for the flower sector, statistical analysis and comparative analysis of the rose tariff subheading, and an analysis of the percentage of tariffs that roses have since the removal of the ATPDEA.

2.1 Implications of the loss of the ATPDEA for the Flower Sector

The flower sector is an important economic industry for Ecuador. By 2014, floriculture generated about 105,000 direct and indirect jobs, becoming "one of the main agricultural export activities in this region, making it one of the sectors with the highest amount of technology and in which a large number of families drew an income" (Castrillón, s.a.)

Floriculture is an activity that has been steadily growing to around 4,000 hectares. Each hectare requires about $300,000 investment; hence, the investment required for flower production is very high. The climatic and geographical conditions of Ecuador allows growers to have the greatest diversity of flowers in the world and the ability to produce and export throughout the year; unlike other countries that can produce only 22 to 25 weeks a year. These factors have allowed Ecuador to become one of the major exporters of flowers in the world. Of the total production of flowers in Ecuador, almost 98% are exported (Martínez, 2014).

The variety of flowers that Ecuador produces are: roses, gypsophilas, carnations, chrysanthemums, orchids, summer flowers, among others. In all this variety, roses are the flower most cultivated in the country because it has the largest export demand in the world. By 2010, according to data compiled by MAGAP and SIGAGRO, in Ecuador, around 2,517 hectares of roses were grown, with about 275 producers, being the country with the largest number of hectares of roses and with the widest range of colors. Rose production is concentrated in the Sierra region, since it has a unique micro climate and adequate amount of sunlight which helps make Ecuadorian roses the best quality in the world. The main provinces engaged in the production of roses are Pichincha, Cotopaxi, Imbabura, and Azuay.

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Illustration 8: Number of Flower Business and Hectares cultivated in Ecuador to year 2010 according to Flower Type

NÚMERO DE FLORÍCOLAS POR TAMAÑOS Y SUPERFICIE CULTIVADA SEGÚN TIPO DE FLORES								
Tipo	Total		Tamaño del Cultivo					
			Menos de 3 ha		De 3 a menos de 20 ha		De 20 y mas ha	
	No. Florícolas	Hectáreas	No. Florícolas	Hectáreas	No. Florícolas	Hectáreas	No. Florícolas	Hectáreas
Total	447	3,504.50	134	184.1	288	2,552.00	25	768.5
Rosas	275	2,517.20	53	79	203	1,868.10	19	570.1
Claveles	16	88.6	10	14.9	5	49.8	1	23.9
Gypsophila	29	316.4	2	3	25	242.8	2	70.6
Calla	8	31.8	4	3.8	4	28	.	.
Hypericum	19	163.2	5	7.3	12	78.9	2	76.9
Alstromeria	3	12.5	1	0.7	2	11.8	.	.
Limonium	13	28.3	9	7.2	4	21.1	.	.
Gerbera	3	3.4	3	3.4	.	.	.	.
Aster	4	5.2	4	5.2	.	.	.	.
Delphinium	12	29.6	7	7.1	5	22.5	.	.
Flores de Verano	45	188.9	27	40.2	18	148.8	.	.
Flores Tropicales	7	76.3	1	2.9	5	46.4	1	27
Follajes	10	41.5	5	7.6	5	33.9	.	.
Otras Flores	3	1.7	3	1.7	.	.	.	

Fuente: MAGAP/SIGAGRO – SENACYT "PROYECTO SIGFLORES 2009-2010"
Elaboración: Mat. Víctor Bucheli

Source: MAGAP/SIGAGRO

Prepared by: Mat. Victor Bucheli

Ecuador has more than 300 varieties of roses, which are noted for their large buttons bright, vivid colors, thick and long vertical stems, and their vase life, which can last up to 12 days. "There are more than 60 varieties of roses, including: *First Red*, *Classi*, *Dallas*, *Mahalia*, *Madame Del Bar*, and *Royal Velvet*. Some yellow rose varieties are *Allsmer Gold* and *Skyline*. Others include *Anna Nubia* rose blossoms

and purple *Ravel* and *Gretta*" (Dirección de Inteligencia Comercial e Inversiones, 2011).

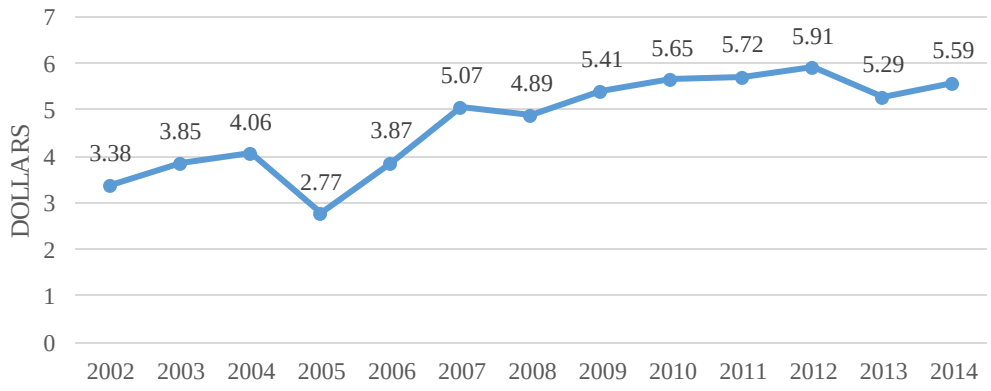
Additionally, there are more varieties of flowers which have gained considerable importance for the country. The clearest example is the gypsophila, which in recent years has established itself as the second highest flower export from Ecuador. This flower is used as filler for floral decorations and Ecuador is the largest producer in the world with 70% of world production. (Pro Ecuador, 2012). Similarly, *aster flowers,* also known as summer flowers, also have high demand.

Undoubtedly, the most important Ecuadorian flowers export market is the US. Using data compiled by the Central Bank of Ecuador and Trade Map, from 2002 to 2014, approximately 53% of total exports of Ecuadorian flowers went to the US. Among the factors that have allowed Ecuadorian flower export to positively position itself in the US market are: weather and geographical conditions that contribute to their high quality, Ecuador's proximity to the United States, and tariff benefits that lasted until July 2013.

Since the United States is the principal market for the export of flowers, not having the ATPDEA has had a huge impact on the flower industry; furthermore, the Ecuadorian flower industry mostly consists of small and medium enterprises (62% small farms, 28% medium, and 10% large) (Expoflores, 2013).

With no trade preferences, logically, the product has become more expensive. These conditions have lead flower producers to take certain actions, such as: pass the increase in cost on to the consumer; however, this may cause consumers to stop buying the product and replace it with another of lesser value; or, the exporter may bear the cost, a situation that has been adopted by most of the country's flower exporters. Unfortunately, reducing flower prices reduces the profitability of the companies.

Illustration 9 Unit / Kg Value of Exports of Ecuador to the United States of tariff heading 0603 corresponding to flowers. Period 2002-2014



Source: Central Bank of Ecuador
Self prepared

Since 2009 we can see a rise in the price of flowers, except in 2013, the year in which Ecuador renounced the tariff preferences, presenting a reduction in the price of flowers by 10% compared to 2012, going from $5.91 to $5.29. While in 2014, an increase of 5.67% from $5.29 in 2013 to $5.59 in 2014 is seen.

Table 4: Unit / Kg Value of Exports of Ecuador to the United States of tariff heading 0603 corresponding to flowers. Period 2012-2014

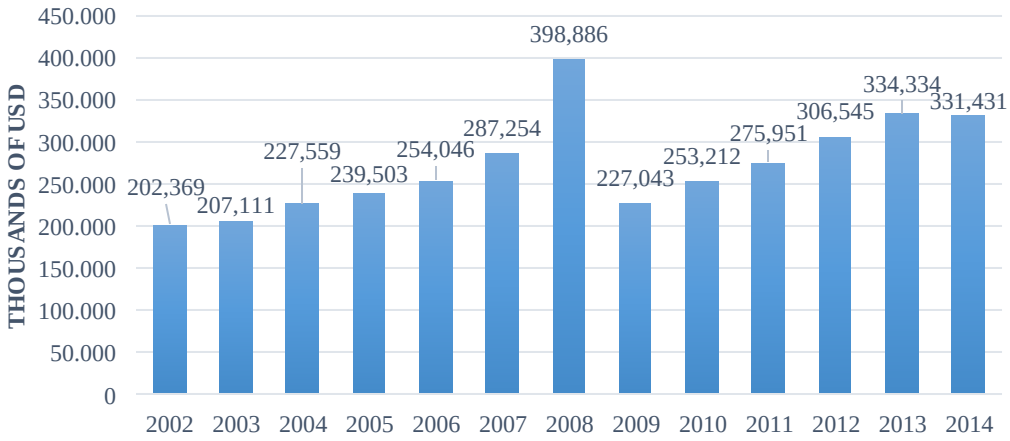
YEAR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEPT	OCT	NOV	DEC
2012	6.95	7.31	5.61	6.03	5.93	5.35	5.64	5.39	5.52	5.68	5.62	4.98
2013	5.43	6.04	5.70	5.30	5.34	5.07	4.87	4.63	4.89	5.31	5.11	5.22
2014	6.32	6.33	5.70	5.44	5.49	5.22	5.15	4.84	5.40	5.75	5.57	5.34

Source: : Central Bank of Ecuador

Self prepared

In 2013 there was a decrease compared to 2012 in the price of flowers. 10 of the 12 months of the year; January, February, and August, showed the greatest decrease (22%, 17%, and 14%, respectively). While in 2014, every month of the year had an increase; January, September, and November had the greatest increase of 16%, 10%, and 9%, respectively.

Illustration 10: Exports of Ecuador to the United States of tariff heading 0603 corresponding to flowers. Period 2002-2014 Thousands of USD

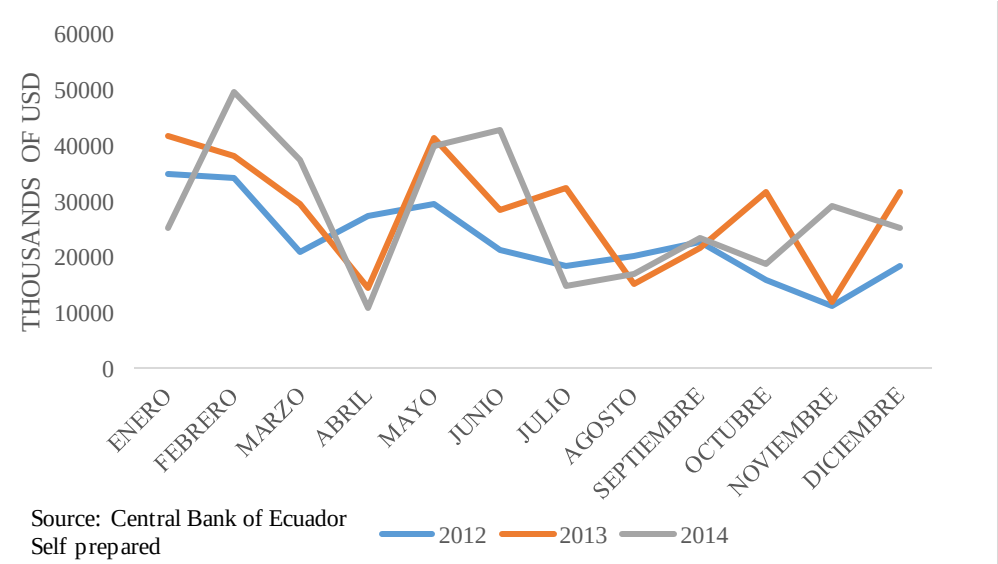


Source: Central Bank of Ecuador
Self prepared

Additionally, in the overall analysis of the export of flowers from Ecuador to the United States, for the period 2002-2014, we can see that the Ecuador's exports reached their highest point of sales in 2008 at $398 million, followed by 2013 with $334,334,000 and $331,431,000 in 2014.

In 2013, despite the tariff preferences only being in effect until July, we can see an increase in exports of 9.06%; however, in 2014, there was a decrease of 0.86% compared to export values in 2013.

Table 5: Ecuadorian exports to the United States of tariff heading 0603 corresponding to flowers Period 2012-2014 Thousands of USD



Source: Central Bank of Ecuador
Self prepared

With regard to exports by months for the period 2012-2014, we can see that in 2013, the largest decline in exports occurred in the months of April to $14,127,000 (a decrease of 47.59%) and August to $14.934 million (a decrease of 25.18%), compared to exports in the same month in 2012. In 2014, the largest decreases occurred in the months of January to $25,138,000 (a decrease of 39.55%), in April to $10.49 million (a decrease of 25.75%), and in July to $14,609 (a decrease of 54.33%).

Table 6: Export of Ecuadorian flowers for Valentine's Day in tons and its respective growth. Period 2013-2015

Destination Country	2013	Growth 2012-2013	2014	Growth 2013-2014	2015	Growth 2014-2015
U.S.A.	7,520	7%	6,559	-13%	6,615	1%
Europe/Russia	4,358	2%	5,621	29%	5,200	-7%
Other destinations	103	-25%	259	152%	259	0%
Total	11,981	5%	12,439	4%	12,074	-3%

Source: Expoflores/ Diario El Universo

Self prepared

Additionally, in an analysis of Valentine's Day, which covers exports from the last days of January to the first week of February and which constitutes one of the most important times for the country to export flowers, we can see, in 2013, an increase of 7% of exports to the United States and a 2% increase in exports to Europe/Russia.

With regard to 2014, exports to the US market around Valentine's Day fell by 13% over the previous year, while exports to other destinations showed growth. According to Expoflores President, Alejandro Martinez, in 2014 there was a 5% decrease in production, and 14% in the volume of exports in relation to 2013 (Diario Ecuadorinmediato, 2014). Among the reasons for this reduction was the loss of the ATPDEA which created a payment of a 6.8% tariff, and therefore a reduction of prices by the exporters to compete in the US market. Another factor is the oversupply of the product; Ecuador had competition from Colombia and Kenya, countries with lower production costs. Additionally, Ecuadorian flower farms experienced

logistics/shipping problems due to bad weather conditions in the northeastern United States.

On Valentine's Day in 2015, there was a decrease of 3% of Ecuador's flower exports to the world. European and Russian markets had a greater reduction in relation to 2014, showing a decrease of 7%; however, the decline of these exports was offset by sales to the US market, which showed an increase of 1%.

Antonino Chiriboga, manager of *Flor de Machachi*, said, "last year, the average price per rose in all markets was $0.50; this year it was $0.44, which represented a drop of 12%" (Diario EL Universo, 2015). The floriculture production that was initially destined for Europe was turned to the United States; "nevertheless, sales to the latter were down 2% in volume with revenues of $145,000, $30,000 less than in 2014. This year's sales for Valentine's Day flowers produced by *Flor de Machachi* reached $230,000; 6% less compared to 2014" (Diario EL Universo, 2015). However, companies like *Ecoroses* and *Roses and Roses*, maintained almost the same level of sales to the United States, relative to 2014.

For many companies the reduction in exports to the United States is due to limited access to the US market, especially since Ecuador's main competitor in the United States is Colombia that has a Free Trade Agreement. To curb limiting access to the US market, exporters seek other markets to sell their products. For example, Geovanny Almeida, sales manager of *Bella Rosa*, says, "the payment of duties means losing an amount equal to 50% of sales, i.e. $ 2.9 million a year. If the situation continues, the company will exit the US market to focus on opportunities in Europe and Asia" (Diario Explored, 2013).

Medium and long term demand has likewise been affected. When the ATPDEA was in effect, long-term contracts were signed; but now, the situation has led to short-term spot sales, since "despite the availability of financial compensation for the loss of the ATPDEA in the US market, American importers prefer to maintain long-term relationships with its suppliers, with clear rules that are unaltered over time" (Expoflores, 2014).

Additionally, another impact is the limitation on investment in the floriculture sector. In an interview with Juan Francisco Pozo, Manager of Communications, Economic Information, and Marketing for *Expoflores*, he reported that the ATPDEA helped potentiate flower production in the country, and, with its resignation, Ecuador has seen a smaller share of investment in this sector. Currently, the province of Azuay is in a critical situation. "In Azuay, currently, there are only six plantations of roses and summer flowers in operation; four closed in 2014 and ten completed their work in previous years. Of the six, only three are producers of roses, and they are located in the province of Cañar, not Azuay" (El Mercurio, 2015). Several farms have closed due to production problems and lack of international sales. As mentioned earlier, floriculture is an activity that requires great investment. In the case of the company *Dreamy Roses*, its doors were closed in October 2014 due to a natural disaster that collapsed greenhouses and equipment. The owner did not reopen because the investment was too high.

It is noteworthy that the impact generated has a domino effect, not only on the export of flowers but on all the companies and people involved in this activity: companies that supply agricultural inputs for businesses packaging, labeling, supply materials, trucking companies, distribution, cargo agencies, airlines, among others. Such is the case of the Brown Breeding Company, which specializes in plant biotechnology. In an interview with James Brown, CEO of the company, he said that sales of the company's technology to Ecuadorian flower farms had shown a decline, but that sales had increased to Colombia.

Juan Francisco Pozo largely anticipated the flower industry's eventual loss of certain preferences and sought alternatives to overcome the difficulties; however, these particular measures have not had the scope to promote further growth of exports because his main competitor has a long-term trade agreement (LTTA).

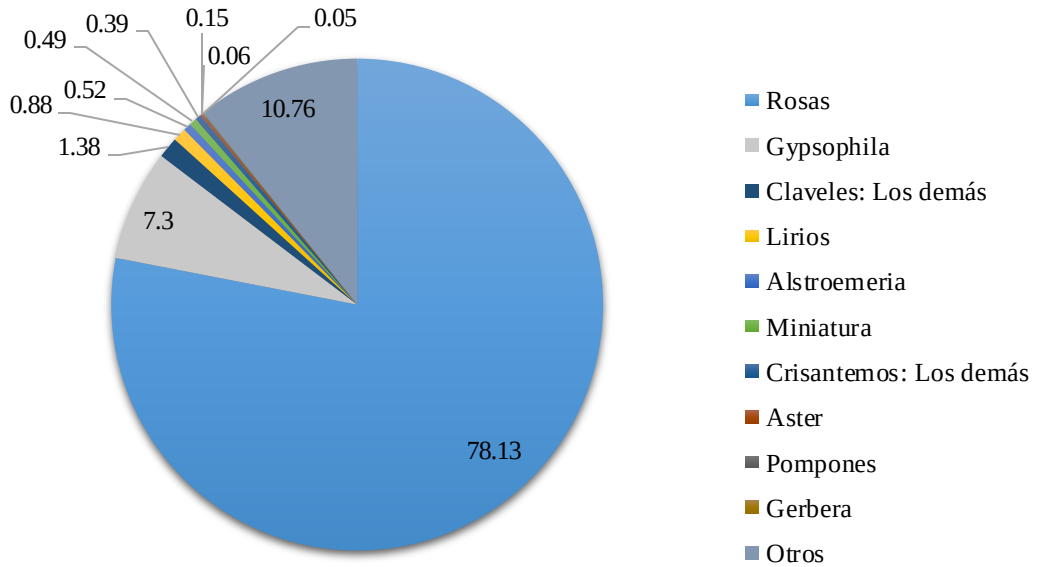
2.2 Statistical analysis of tariff heading 0603110000

Tariff heading 0603110000 corresponds to roses under the Harmonized Commodity Description and Coding System (HS) in the update revision made in 2007 in its

fourth edition. Statistical data for roses in previous years is under headings 0603104000 and 06031040.

Ecuador is the second largest supplier of flowers to the United States and the third largest exporter of flowers in the world. Ecuador currently exports roses to 110 destinations, the main markets being the United States and Russia.

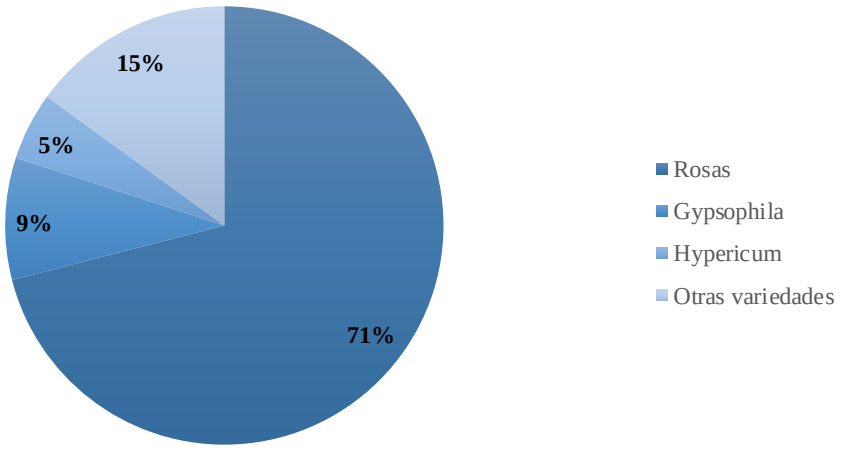
Illustration 11: Participation Rate of exports of each type of flower in the total export of flowers from Ecuador. Period 2008-2014



Source: Central Bank of Ecuador
Self prepared

Roses are the main flowers exported from Ecuador, constituting on average, in the period 2008-2014, 78.13% of total exports of flowers.

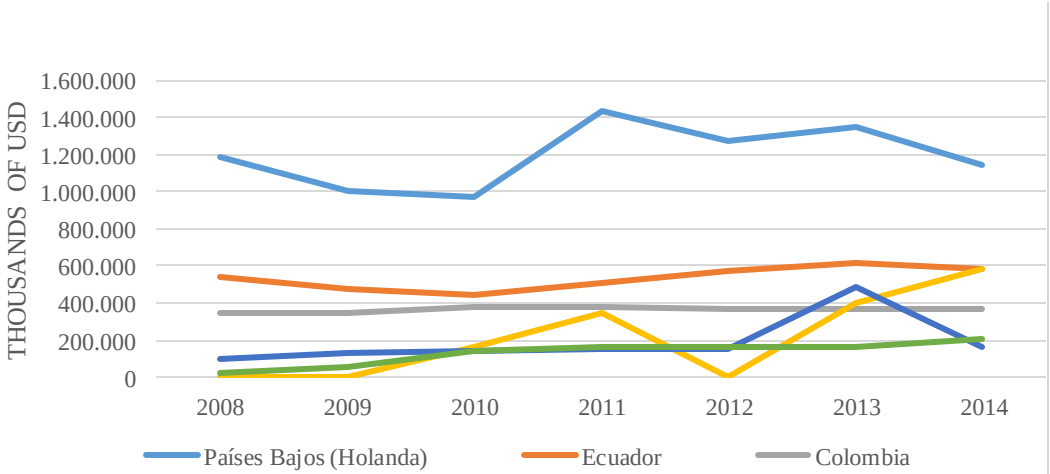
Illustration 12: Percentage of Productive area of Flowers in Ecuador by flower type in the year 2010



Source: Magap, Sigflores, Sigagro
Self prepared

Additionally, roses are a major, non-oil export of Ecuador. According to the latest floriculture census in 2010 by the Ministry of Agriculture, Livestock, Aquaculture, and Fisheries (MAGAP), 71% of the flower sector of the country was allocated to rose production.

Illustration 13: Main export countries of the tariff heading 060311 Thousands of USD Period 2008-2014



Source: Trade Map
Self prepared

Ecuadorian roses are recognized and listed worldwide for their quality. According to the Dutch Ministry of Foreign Affairs, Ecuador is "the producer of the highest quality roses worldwide" (Diario El Comercio, 2014); however, it competes with

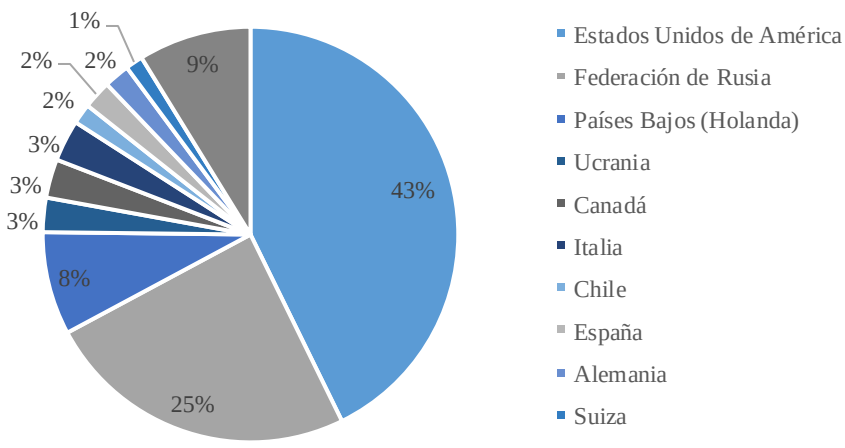
several countries, especially in terms of prices. Among the main competitors of Ecuador are Colombia, Kenya, and Ethiopia.

The Netherlands, as shown in the table, is the largest exporter of flowers in the world; "it is considered the center of production of flowers and plants worldwide, and according to data from the Ministry of Agriculture, represents 80% of the global market" (Diario El Comercio, 2014). Additionally, the Netherlands is the main distribution center of roses in the world, which are redistributed to other European countries.

Colombia is similar to Ecuador climatically and geographically; as such, it also produces excellent quality roses. Additionally, it has a Free Trade Agreement with the United States allowing the product to enter the market without paying tariffs. Currently, according to data from Trade Map, Colombia is the main supplier of roses to the United States, representing about 68% of all flowers imported into the United States.

Kenya competes with Ecuador in relation to prices with lower transportation and labor costs. Ethiopia is the second largest exporter of flowers in Africa and one of the leading providers of roses to the European Union. Similarly, its roses are of good quality and are favored for their proximity to the European Union.

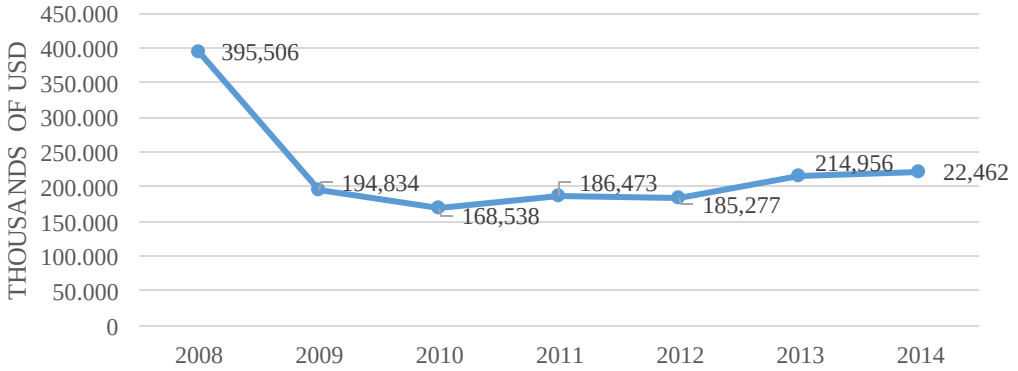
Illustration 14: Main Destinations of Exports of Ecuador of the tariff heading 0603110000 corresponding to Roses. Participation Rate. Period 2008-2014



Source: Central Bank of Ecuador
Self prepared

From 2008-2014, the top 10 export destinations of Ecuadorian roses were: the United States, Russia, the Netherlands, Italy, Canada, Ukraine, Spain, Germany, Chile, and Switzerland. The US was the main destination for roses, representing, on average, 43% of total roses exported from Ecuador; followed by Russia which accounted for 25% of total rose exports.

Illustration 15: Exports from Ecuador to the United States of the tariff heading 0603110000 corresponding to Roses Period 2008-2014 Thousands of USD

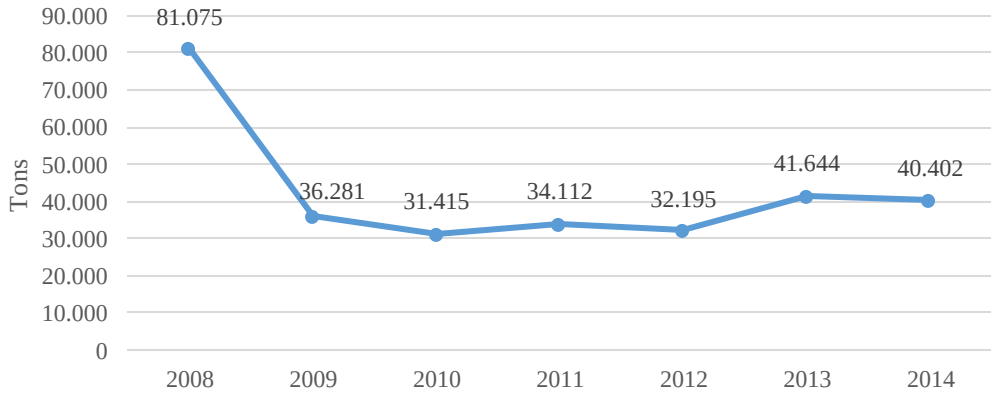


Source: Central Bank of Ecuador
Self prepared

In the analysis of rose exports to the United States from 2008-2014, one can observe a decrease of 51% and 13% of rose exports in 2009 and 2010 mainly due to the 2008 Financial Crisis which reduced the level of consumption by the US population. However, as of 2011, rose exports to the United States show a growing trend, with an average growth of 7%.

In 2013, despite the renunciation of ATPDEA, there was an increase of 16% on the export of Ecuadorian roses compared to 2012; increasing from 185,277,000 to $214,956,000 it was recorded. This increase is partly due to exports in 2013 of Colombian and Mexican roses to the United States were down 1% and 13%, respectively. In 2014 there was also an increase in exports to the US, albeit decelerated, of 3% over the value exported in 2013.

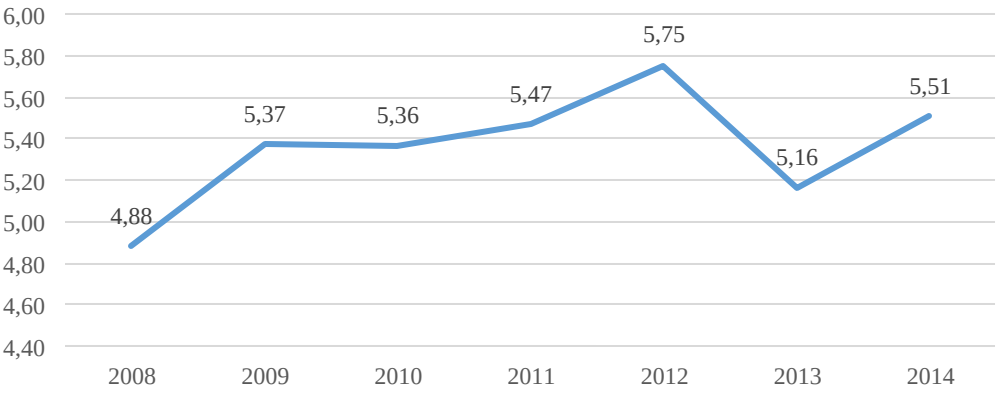
Illustration 16: Exports from Ecuador to the United States of the tariff heading 0603110000 corresponding to Roses Period 2008-2014 Tons



Source: Central Bank of Ecuador
Self prepared

With regard to the export of tons of roses in the study period, one can observe two variations when compared to exports in thousands of USD. In the years 2012 and 2014, unlike exports in thousands of USD, exports to the United States in tons showed a decrease of 6% and 3% respectively, a decrease mainly attributable to the rising price of roses, which went from $5.47 per kilogram in 2011 to $5.75 in 2012 and $5.16 in 2013 to $5.51 in 2014.

Illustration 17: Unit / Kg Value USD/Kg of the Export from Ecuador to USA of the tariff heading 0603110000 corresponding to Roses. Period 2008-2014



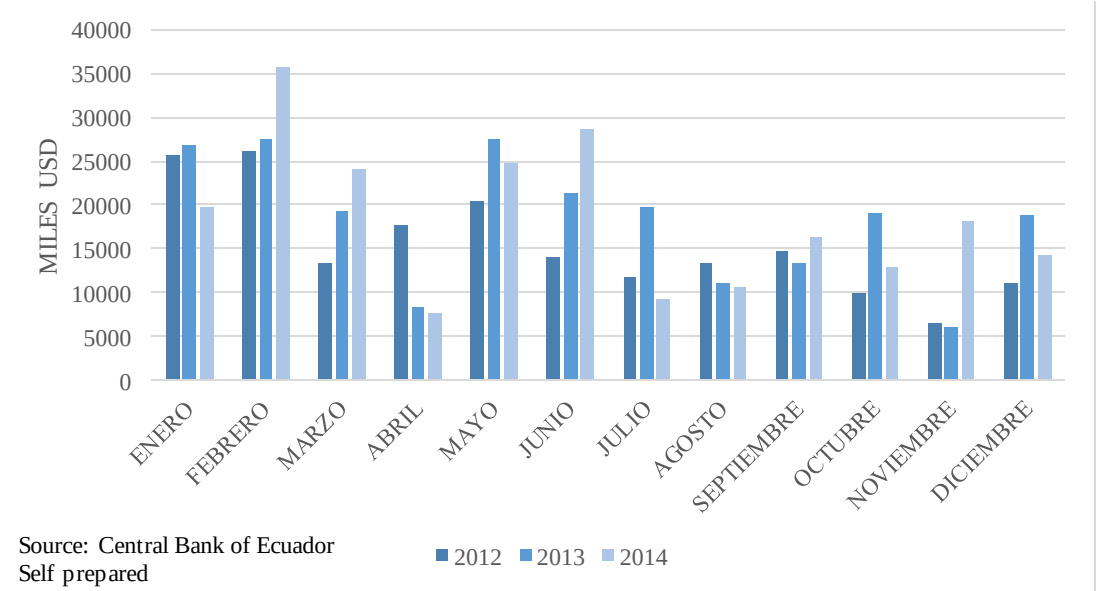
Source: Central Bank of Ecuador
Self prepared

With regard to unit / kg value of roses, it can be seen that the greatest reduction occurs in 2013, in which Ecuador renounced the tariff preferences with a decrease of 7.64% from $5.75 in 2012 to $5.16 in 2013. However in 2014, a year in which Ecuador also did not have the ATPDEA, we can see an increase of 3.57%.

2.3 Comparative analysis of Ecuador's exports to the United States with and without the ATPDEA of tariff heading 0603110000

Tariff preferences between the US and Ecuador ended on July 31, 2013. In order to compare exports of Ecuadorian roses with and without the ATPDEA, an analysis was performed, by months, of the years 2012, 2013, and 2014.

Illustration 18: Exports from Ecuador to the United States of the tariff heading 0603110000 corresponding to Roses Period 2012-2014. Thousands of USD

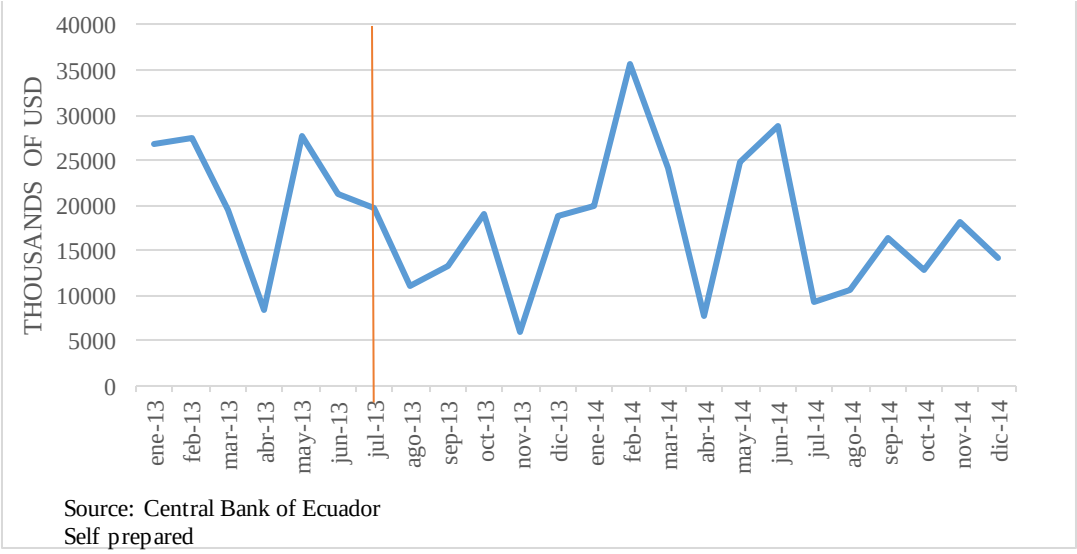


Source: Central Bank of Ecuador
Self prepared

In 2012, tariff preferences were in effect during the entire year thus it was used as a reference for comparative analysis. In the period 2012-2014, we can see in the months of January, February, May, and June that the major export items of Ecuador were roses, mainly due to demand on Valentine's Day and Mother's Day. In 2013 there was a reduction in rose exports in relation to 2012. In the months of April, August, September, and November there was a reduction of 52%, 16%, 9%, and 7% respectively. Meanwhile in 2014, the reduction was in the months of January, April,

May, July, August, October, and December of 26%, 8%, 10%, 52%, 4%, 32%, and 24% respectively; however, in November, there was an increase of 200% compared to exports in the same month in 2013.

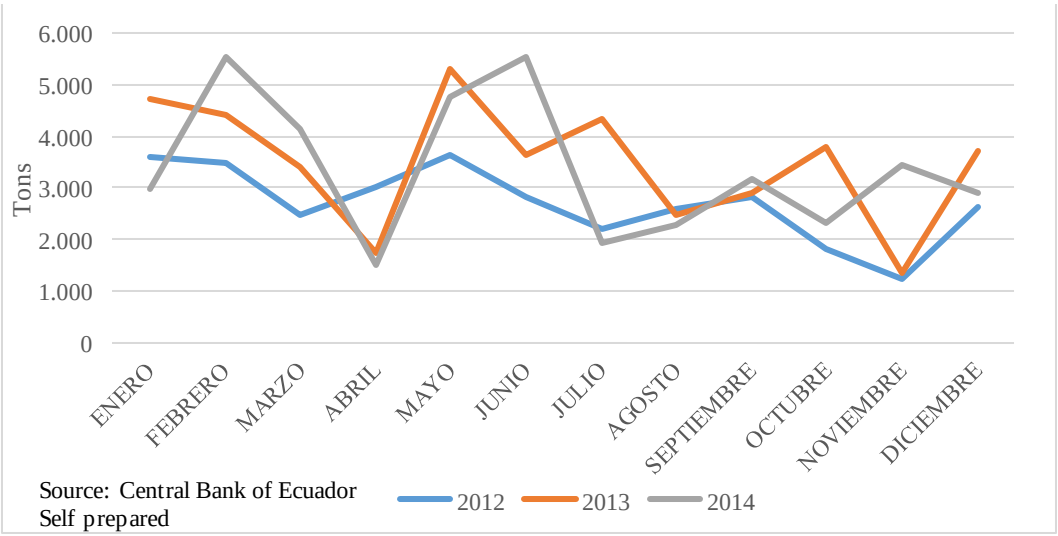
Illustration 19: Exports from Ecuador to US of the tariff heading 0603110000 corresponding to Roses Period. 2013-2014. Thousands of USD



Source: Central Bank of Ecuador
Self prepared

Additionally, in order to appreciate the movement of exports of Ecuadorian roses to the United States after the resignation of the ATPDEA, in 2013, August and November had the largest decrease; while in 2014, the greatest reduction occurred in the months of April, July, and August.

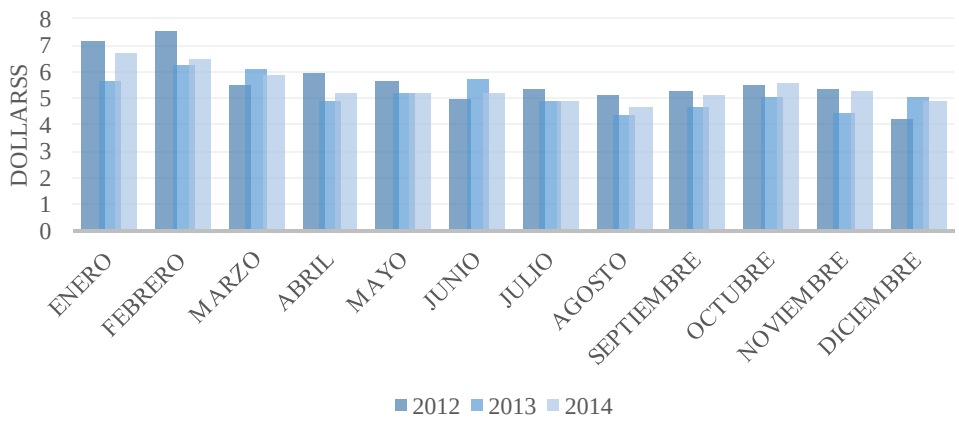
Illustration 20: Exports from Ecuador to US of tariff heading 0603110000 corresponding to Roses Period. 2012-2014. Tons



Source: Central Bank of Ecuador
Self prepared

As for exports in tons, in 2013, two variations emerged in relation to exports in thousands of USD. The change came in the months of September and November with an increase of 2% and 7%, respectively, relative to the value exported in 2012.

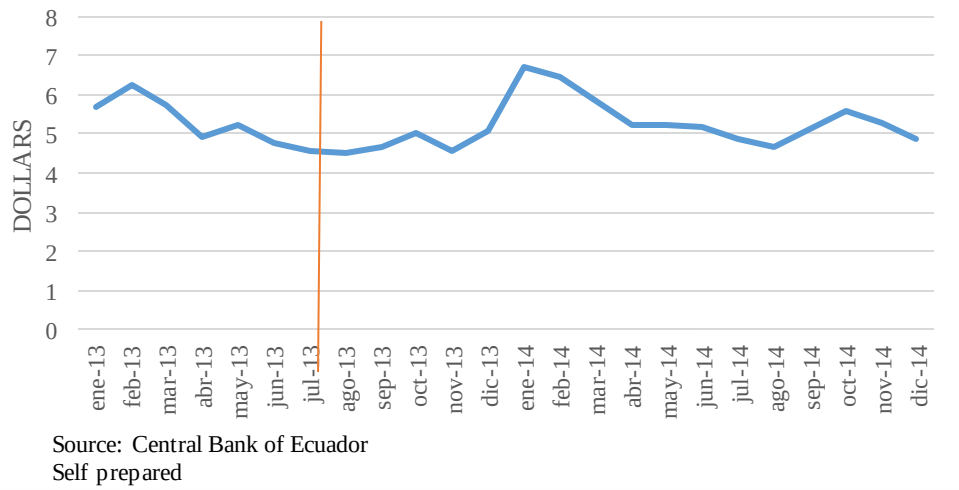
Illustration 21: Unit / Kg Value USD/Kg of the Export from Ecuador to USA of the tariff heading 0603110000 corresponding to Roses. Period 2012-2014



Source: Central Bank of Ecuador
Self prepared

In regards to the unit value per kilogram, it can be seen that in 2013, in the months of January, February, and from April to November, there was a decrease in the unit/kg value of roses in relation to the unit value of the same period in 2012; while in December, there was an increase of 18%. Meanwhile in 2014, the only decrease occurred in December of 3%.

Illustration 22: Unit / Kg Value USD/Kg of the Export from Ecuador to USA of the tariff heading 0603110000 corresponding to Rose. Period 2013-2014



Source: Central Bank of Ecuador
Self prepared

Similarly, to display the variation in unit / kg value of roses after the resignation of the ATPDEA in the monthly analysis of the years 2013 and 2014, one can observe that, in 2013, August and November are the months that had the largest decrease. Meanwhile in 2014, in the months of January and February there was a large increase; while in the period April to August of 2014 the greatest reduction occurred.

2.4 Analysis of the percentage of tariffs with heading 0603110000 affected by the resignation of the ATPDEA.

"The tariff is an indirect tax levied on goods that are traded between different countries" (Gónzalez López, Martínez Senra, Otero Neira, & González Vásquez, 2013), therefore, the tariff is a tax that can be applied to goods that are imported, exported, or goods in transit; but, the most common tariff applies to imports.

Usually, by imposing a tariff on imports, countries seek to increase the price of the good in order to protect domestic production; limiting the consumption of that foreign product so that they can produce the good domestically. In turn, the tariff also constitutes revenue for the State.

There are three types of tariffs: an ad valorem tariff, which is calculated as a percentage of the value of goods or merchandise; the specific duty, which is calculated as a certain amount per unit of weight and volume; and a mixed tariff, which is a combination of an ad valorem tariff and a specific duty. (Gónzalez López, Martínez Senra, Otero Neira, & González Vásquez, 2013)

In the case of the corresponding tariff heading for roses, 0603110000, the United States applied an ad valorem tariff of 6.8%, meaning that US consumers will have to pay this percentage for roses exported from Ecuador.

Table 7: Percentage charged to Ecuador and its main competitors in the tariff heading, 0603110000, corresponding to roses

Importer	Ecuador	Colombia	Kenya	Ethiopia	The Netherlands	Germany	Belgium	China
Germany	0%	0%	0%	0%	0%	0%	0%	8.50%
Austria	0%	0%	0%	0%	0%	0%	0%	8.50%
Belgium	0%	0%	0%	0%	0%	0%	0%	8.50%
Canada	10.50%	10.50%	10.50%	0%	10.50%	10.50%	10.50%	10.50%
Chile	0%	0%	6%	6%	0%	0%	0%	0%
Colombia	0%	0%	5%	5%	5%	5%	5%	5%
Denmark	0%	0%	0%	0%	0%	0%	0%	8.50%
Spain	0%	0%	0%	0%	0%	0%	0%	8.50%
USA	6.80%	0%	0%	0%	6.80%	6.80%	6.80%	6.80%
France	0%	0%	0%	0%	0%	0%	0%	8.50%
Italy	0%	0%	0%	0%	0%	0%	0%	8.50%
Japan	0%	0%	0%	0%	0%	0%	0%	0%
Netherlands	0%	0%	0%	0%	0%	0%	0%	8.50%
Poland	0%	0%	0%	0%	0%	0%	0%	8.50%
United Kingdom	0%	0%	0%	0%	0%	0%	0%	8.50%
Russia	11.25%	11.25%	11.25%	0%	15%	15%	15%	11.25%
Switzerland	75.21%	75.21%	75.21%	0%	75.21%	75.21%	75.21%	75.21%
Ukraine	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%

Source: MAcMap, International Trade Center

Self prepared

In the table we can see that Ecuador pays fees for roses in Canada, the US, Russia, Switzerland, and Ukraine. Switzerland remains the country that imposes the highest tariff.

The United States imposes a tariff of 6.8% on Ecuadorian roses. The same tariff is imposed by the Netherlands, Germany, Belgium, and China; however, Colombia, which is the main competitor of roses for Ecuador in the US market, has zero tariffs. Kenya and Ethiopia, also important competitors for Ecuador, have a 5% tariff.

Conclusions

Since Ecuador renounced the ATPDEA there has been an overall decrease in exports of roses to the United States; furthermore, there was a 14% decrease in the volume of exports on Valentine's Day of 2014 compared to the previous year. This decrease is mainly attributed to the ATPDEA not being in effect, competition from Colombia and Kenya that do not pay tariffs in the US market, and logistical problems due to weather conditions in the United States.

However, the main impact on exports was a decrease in the price of roses in 2013, especially from April to November. However, in 2014, we can see a recovery in the price of roses, with a reduction in only one of the 12 months.

In addition, there has been a deviation from the US market by Ecuadorian flower farms and an impact on demand in the medium and long term; this has caused US importers to replace short-term contracts with long-term ones.

CHAPTER III
STRATEGIES IN THE FLORICULTURE SECTOR

Introduction

After seeing the impact the Andean trade preferences had on the floriculture sector we must examine the actions taken by the flower industry to offset the lack of said preferences in the present day. Similarly, it is important to analyze what measures the Ecuadorian government has taken to support the flower industry, as well as understand the new landscape that awaits the flower sector in the coming years.

3.1 Strategies implemented by companies in the flower sector to counter the resignation of the ATPDEA

Companies in the flower sector, in order to counter the resignation of ATPDEA, have sought to adopt strategies to maintain long-term sustainable results. The strategies adopted include improving efficiency and competitiveness through technological development. The floriculture companies, through Expoflores, are making alliances with companies engaged in the production of sugarcane in order to provide each other with vital technology. According to Alejandro Martinez, president of Expoflores, sugarcane companies are transferring much of their pest management technology to flower growers, while the flower-growing industry has reciprocated with technology used for soil.

Another important strategy has been to generate added value through innovation in developing new varieties of flowers, thereby improving competitiveness.

Additionally, floriculture has improved its production processes in order to improve efficiency, costs, and quality. Irrigation has been one of the investments the flower industry has made in order to maximize water resources and increase productivity. Also, many of the flower farms already have environmental and social certification for quality such as the *Certificación Flor Ecuador*, which regulates "conservation of water resources and irrigation systems; conservation of soil resources and

fertilization; safe and effective use of pesticides; rights and welfare; safety and health at work; waste management and national and local regulations" (Expoflores, 2015).

Another important action has been participating in events and fairs to promote Ecuadorian products in Latin America, Asia, and the European Region. In 2014, many flower growers were participants of the following events:

Annual Convention of American Florists, conducted in the United States.

The *International Symposium of Horticulture*, held in Colombia, in which information on research and work in the flower industry was presented.

Flower Expo Fair held in Russia, which brings together professionals from floriculture and Russian buyers, allowing for appropriate conditions for negotiations. In 2014, Ecuador obtained in this fair the award for best stand, standing out as one of the largest and most striking. (Oficina Comercial de Moscú, 2014). Additionally, the company *Rose Connection* won gold with the Wild Topaz rose, which is a new genetic mutation of the Topaz rose.

The Fair *Agriflor Flor Ecuador* held in Quito, which brings together exporters of flowers to present their products. In this event the winners for best quality roses were Ecuadorian companies. *Rosaprima* won gold with the pink variety Black Pearl, *Altaflor* won silver with the Dove variety, *Rose Connection* won bronze with the Wild Topaz variety, and *Ecoroses* won platinum with the Lemonade variety (El Comercio, 2014).

The *International Floriculture & and Horticulture Trade Fair* was held in the Netherlands, which brings together national and international exporters who expose their diverse variety of flowers. The *WF / FSA floral Distribution Conference* was held in the United States, which brings together wholesalers, manufacturers, suppliers, logistics, transportation, and other members of floriculture.

In addition, Ecuador was present with its flowers at important events like the canonization of John Paul II and John XXIII. St. Peter's Square at the Vatican was

decorated with 32,500 roses, which were donated by more than 30 Ecuadorian floriculturists, allowing Ecuador to exhibit to the world the beauty of roses, one of its main exports. Similarly, Ecuadorian roses were also present at the *Memorial Day Flowers* tribute to the soldiers who died during in United States wars. Participating in these events has been a very clever strategy by the country and flower farms, and which has promoted the Ecuadorian rose in the world.

Also in 2014, several promotional events were held in Korea, where several farms, certified by *Flor Ecuador* exhibited their products. Additionally, *Expoflores* made visits to major markets around Ecuador, the United States, and Russia, in order to strengthen trade relations. "Our exports to the US are severely threatened by the loss of the ATPDEA. . .certainly we are facing difficult times and, as growers, performing and marketing in the smartest way possible" (Revista Flor Ecuador, 2014).

In turn, one of the strategies implemented by the floriculture has been the opening of new markets. Many flowers have opened export markets in Europe and Asia; however, this is a strategy that requires time to build lasting and sustainable trade relations. Therefore, *Expoflores* has worked on plant logistics and opening new markets, as both topics are essential to initiate relationships with other countries. Similarly, through *Proecuador* "an aggressive market penetration strategy was initiated by four Ecuadorian trade offices in Chicago, New York, Miami, and Los Angeles" (Ministerio de Relaciones Exteriores y Movilidad Humana, 2013).

Similarly, a strategy adopted by many flower farms to meet orders during high demand periods, such as Valentine's Day and Mother's Day, was to increase overtime to their employees, so that they could comply fully with the orders without hiring more personal and thus decreasing costs.

It is also important to mention that the flower sector has lobbied the government for the elimination of the VAT and reducing red tape. An administrator spends about 33% of his/her time just in administrative processes, which creates inefficiency for the company. In regard to the VAT, about 95% of the flower production is exported; therefore, the VAT generated by the government is not representative. However, this

tax obstructs the activities of the sector. "The VAT affects the natural flow of business, because the VAT refund process is not efficient. This is reflected in the time it takes to process it versus the administrative cost to manage it" (Revista Flor Ecuador, 2014).

Finally, an important development for the flower sector was the strategic alliance formed in November 2013 between the *Mariscal Sucre International Airport* in Quito and *Chicago O'Hare International Airport*. "This strategic alliance looked at three areas of cooperation: mutual promotion of tourism, an airport logistics cargo alliance, and cooperation on best practices in public spaces" (Revista Flor Ecuador, 2014). In addition to the direct flight routes between the two cities opening, the *Center for Perishable Products* in the O'Hare Airport was inaugurated, improving logistics. "O'Hare Airport is an important bond linking Ecuador with other major world markets," says Borys Mejia, Head of the Trade Office of Ecuador in Chicago (Revista Flor Ecuador, 2014).

3.2 Case studies of the application of strategies in floriculture in Azuay

Trebol roses

Trebol Roses is a business of fundamental importance for the flower industry. The company was founded in 1997 and currently has 12 hectares of production, with 17 varieties of roses, and employs around 120 people. The farm is located 40 km north of Cuenca. To ensure the quality of the flower, the company currently has an Advisory for High Quality Control, and also has *Flor Ecuador* and BASC (Business Alliance for Secure Commerce) certifications. Its exports go mainly to markets in the United States, Canada, Russia, Europe, Japan, Chile, Australia, among others.

The company, in order to develop its business, employs the following fundamental processes:

Harvesting: responsible for producing the best quality roses through strict quality control processes. The company makes sure that its roses develop in a suitable environment, with appropriate light conditions, soil and water.

Post-harvest: divided into two areas the area of classification and coolers. In the area of classification, roses are classified according to their variety and size of the stem; while in the cold rooms, roses are stored at low temperatures in order to ensure flower quality.

Packing process: in order to protect the roses, the flowers are wrapped in cardboard and micro corrugated to prevent dehydration and damage during transport. In addition, each bunch is identified with a label indicating the variety, stem size, date of processing, the number of stems per bunch, and the name of the person who made them.

Shipping: the company ensures that each case is carefully transported and maintained in a cold environment.

To counter the resignation of the ATPDEA, Juan Carlos Velez, manager of *Trebol Roses*, said that the company has been preparing for years, using market diversification as a main strategy, which has enabled them to work with different countries and not rely solely on a single market like the United States. However, it should be noted that, although the company was prepared for business conditions without the ATPDEA, negotiations between the company and its customers in the US market were affected, as they lost customers with whom they maintained trade relations for many years.

Plantaciones Malima

Plantaciones Malima is one of the most important flower export companies in Azuay. They first started in 1988 with only one hectare of flowers; however, in 1990, they began to export with ten hectares of flowers. Currently, it has 45 hectares, which are located in *Sanjuanpamba*, *Monjashuayco* (*Paute*), and *Yunguilla*.

Among the varieties of flowers it produces are: summer flowers, gypsophila, roses, chrysanthemums, carnations, among others. Its exports go mainly to markets in the United States, Europe, Russia, and Japan.

It also has the following certifications: *Licencia Ambiental del Gobierno*, the *Global Gap certification of the European Community*, *Flor Ecuador*, and the BASC Certification (Business Alliance for Secure Commerce).

Additionally, the company employs about 600 workers, of whom about 80% are women. Similarly, as part of the social responsibility of business, each farm has a daycare, a clinic of the Social Security Institute with a resident doctor, and a cafeteria for employees.

Faced with the resignation of the ATPDEA, Juan Andrés Proaño, Manager of the Company, said that as part of its strategy, the company entered a loyalty program; a program that was implemented as a trade policy. This loyalty meant that the company maintained sales volumes, but without accepting discounts for the implementation of the tariff. Therefore, sales were cut with customers who were not loyal to the company, and failed to agree to this trade policy. However, there was an increase in orders by loyal customers. Therefore, through this strategy, the company has been able to maintain sales volumes and prices, and in turn has been able to grow in 2014.

However, when analyzing the strategy, it is worth mentioning that not just any company can apply it. This strategy was successful because of its product positioning in the market. "For years we work to position ourselves as a quality mass product, which unquestionably has the preference of customer purchases" (Pozo J. A., 2015).

3.3 Government legislation addressing the absence of the ATPDEA and its impact on the strategies of flower plantations

Since the waiver by the Ecuadorian government of the ATPDEA on June 27, 2013, a series of questions and concerns from the sectors that were benefiting from these preferences have arisen. Waiving the ATPDEA meant the sectors had to pay duties on products exported to the United States, a loss of about $23 million annually. Therefore, the President of Ecuador, Rafael Correa, stated that he would create a subsidy, Tax Credit Certificates, to those exporters who have suffered deterioration

in the level of market access, either by a change in tariff levels or the imposition of unilateral sanctions (Cancillería del Ecuador, 2013).

Flowers, tuna, and broccoli are the products that have mostly benefited from the measure, as it accounted for about 80% of non-oil exports to the United States under the ATPDEA. Through Tax Credit Certificates, exporters receive a return on 100% of tariffs paid. The application of this measure costs about $23 million and comes from the General State Budget.

Tax Credit Certificates Law was issued in 1979, but in 1986 was suspended. However, in March 2010 and in May 2011 the granting of tax credit certificates was reactivated; and in August 2013, amendments to the law were made. The reforms of the law are as follows:

The *COMEX*, will be the body acting as the Administrative Committee of the Tax Credit Act, and shall be designed to produce the list of products that will benefit from the Tax Credits; and set the period, the amounts, and percentages applied to the granting of licenses.

Additionally, in order to expedite the process, the National Customs Service of Ecuador (SENAE) is the body responsible for issuing tax credit certificates through a credit note to be issued to natural or legal persons performing exports, after the presentation of the requirements of Article 9 of the Tax Credit Regulation Act, which are as follows:

- They are qualified as beneficiaries by the Administrative Committee of the Tax Credit Act;
- They export the products subject to the benefit provisions of the Tax Credit Act, for the market that the Committee has defined, within the period under consideration for the grant of tax credit;
- They are up to date in the fulfillment of obligations with the National Customs Service of Ecuador and the Internal Revenue Service.

- They complete the file Form referred to in Article 6 of Regulation Tax Credit Act.
- They comply with other regulations established in the Tax Credit Act, Regulation, and Tax Credit Committee.

Likewise, the beneficiaries of the tax credit certificates can use them to "pay any tax or duty owed to those institutions in the public financial system, except: par rates provided services, royalties, and other taxes payable to the State that are related to mining and hydrocarbons" (Consejo Supremo de Gobierno, 2013)

Also, if an exporter issues a false statement to obtain a higher amount in the tax credit he shall be punished with a fine corresponding to 3 times the value of the credit obtained, in addition to the cancellation of access to benefits of the tax credit.

Also, if the export value is less than that declared, the exporter must provide a proxy statement with the correct value and must return the received value to the National Customs Service for the proportional tax credit initially declared as surplus.

Also, an external audit of the beneficiary companies that have received tax credit certificates can be conducted at any time by the *COMEX* and/or *SENAE*. These organizations may ask the exporter to submit, every six months, Ecuadorian origin certificates and copies of import declarations on arrival, as well as copies of the confirmation of receipt of the goods at destination.

The Tax Credit Certificates have been delivered to all exports from August 1, 2013. In 2013, 968 Tax Credit Certificates were awarded in the amount of $9 million, 5,594 in the amount of $26 million in 2014, and in 2015, "$65 million was the amount delivered by the government . . . to export sectors through Tax Credit Certificates dispersed by the *Committee of Foreign Trade* (*COMEX*) in resolution 038-2014, which was published in the Official Register, last November 25th" (Diario El Universo, 2014).

Another measure taken by the government to support Ecuadorian exporters was the return of taxes, duties, and tax charges, better known as a "drawback." The drawback

"is a tax rebate system used and accepted by the member countries of the World Trade Organization (WTO)" (La Nación, 2015). This mechanism is awarded to exporters of non-traditional products affected by the appreciation of the dollar, the crisis in certain markets, and the devaluations in the world. While traditionally intended for products like bananas and tuna, this mechanism is applied only in certain cases and with a lower percentage.

"$253 million will go for tax rebates to exporters affected by the crisis. Of that amount, $156 million will be for tax refunds for exporters of non-traditional products, and the remaining $97 million for traditional products" (Radio Internacional de China, 2015).

To make the payment of tax refunds of non-traditional products, an estimated 5% of the export value is calculated. "The mechanism allows the exported goods to only pay taxes in the country where they are consumed, whereby double taxation is avoided" (Radio Internacional de China, 2015)

In addition, the government also adopted the exemption from payment of income tax in fiscal 2015 for producers of palm, canned tuna, an exporters and growers who have been affected by the crisis in Russia. $25 million will be allocated for exemption of payment (Ministerio Coordinador de Producción, Empleo y Competitividad, 2015).

Similarly, the National Finance Corporation has adopted the Program of Financing for growers with markets in crisis, which will run until the end of 2015. The program "seeks to support the flower companies with potential for economic recovery of the business, and demonstrate that they have been affected by external factors to its corporate exercise" (Cómite de Comercio Exterior, 2015).

The above measures have been positive for Ecuadorian growers as it will allow them to have greater liquidity; also, it "will allow companies to meet the outflow of money from its working capital rather than seeking external funding" (El Telégrafo, 2015).

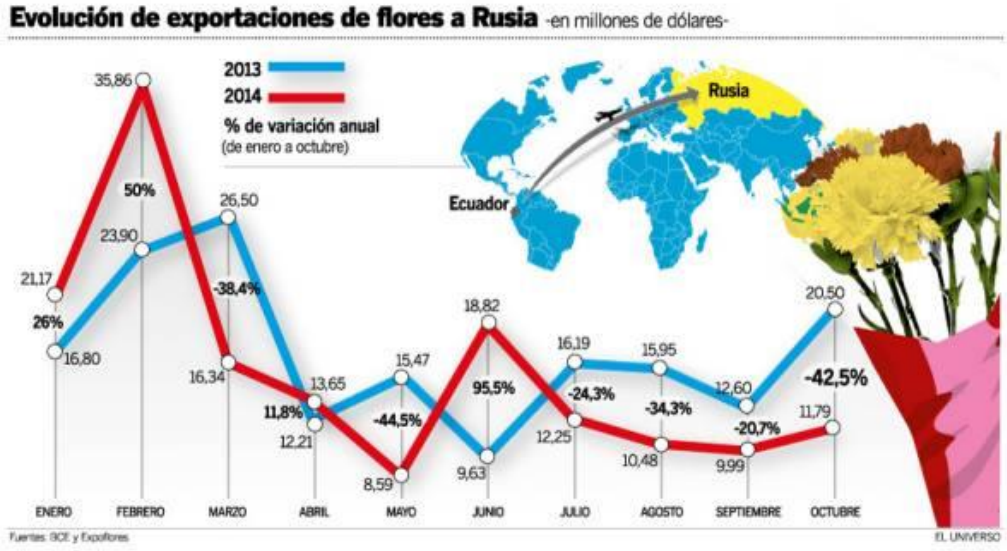
The Tax Credit Certificates have been a measure that has undoubtedly helped the floriculture sector to not lose competitiveness; however, it is not enough to cover market loss due to the lack of sustainability of long term trade relations. Additionally, in many cases, the Tax Credit Certificates have been a measure that has not been promptly delivered to growers. Some companies report that delivery of Tax Credits still require a lot of documentation, thus delaying the process.

3.4 Market prospects for the flower sector

2015 is forecasted to be a difficult year for the flower export sector for various reasons. First, since August 2013, Ecuador no longer has the ATPDEA for exports to the United States, which is one of the main markets to which exports are directed, representing 40% of exported flowers. This has caused Ecuador to lose its competitive edge, especially against Colombia.

Additionally, in recent years, the Russian market has gained considerable importance for the country's flower exports, representing about 25% of them. However, the outlook for Russia today is not encouraging. Russia is going through a depreciation of its currency, as the Russian economy is highly dependent on oil exports; therefore, the collapsing international oil price of around USD $110 to less than $60, plus the imposition of financial sanctions by the United States and the European Union because of the crisis in Ukraine, has failed to improve the Russian economy. The devaluation of the ruble has caused Ecuadorian flowers to be more expensive, causing their consumption to reduce. Alejandro Martinez, president of *Expoflores* says that, "sales to Russia, and to the countries of the former Soviet Union, fell in the second half of last year by 15% compared to 2013. The main decline occurred in October, November, and December" (Revista Líderes, 2015).

Illustration 23: Evolution of export of flower from Ecuador to Russia. Millions of dollars. Period 2013-2014



Source: Central Bank of Ecuador, Expoflores

Prepared by: El Universo

Faced with the fall of the Russian currency, in February 2015, many exporters redirected their exports to the European market and the US market, meeting a new challenge: the oversupply of flowers. Similarly, the preferences of the product from one market to another are not the same. The Russian market prefers flowers with longer stems compared to those exported to the US. For that reason, Ecuadorian exporters that redirected exports, initially going to Russia, to the US market had to sell their roses with long stems at a lower price in order to liquidate their inventory.

"*Expoflores* estimated that this will be a year of adjustments and the export value could be reduced by about $80 to $100 million. Volume could have a slight growth" (Revista Líderes, 2015). Additionally, for 2015, it is believed that there will be a higher demand for value-added products, generating a greater number of special shipments. For example, in the Valentine's season this year, 30% of exports from *Pacific Bouquet* corresponded to specialized arraignments, while the remainder were normal (Revista Líderes, 2015).

Given this new situation, with the collapse of the Russian market, the flower industry in the country will try to export more flowers to the United States and Europe, as well as China and certain Latin American countries. "An alternative to 'save the

year,' is to point to China, Taiwan, South Korea, and other Asian countries; in addition to opportunities in Chile and Argentina" (Basantes, 2015).

"The international situation leads us to predict a fall of 10% to 12% of exports of flowers to the world, mainly driven by the decline in the Russian market." (Pozo, 2015) It is anticipated that the situation that currently besets the market could last about two years.

As for the US market, due to oversupply, it is believed that in 2015 there will be a decline in prices. "The expectation is a drop in the international price for 2015" (Pozo, 2015). Colombia, in this regard, is very competitive due to two main reasons: first, as previously mentioned, the Free Trade Agreement with the United States; and, the rise in value of the dollar relative to the Colombian peso. However, Ecuadorian growers encouragingly observe that the US economy is improving; thus they have a positive outlook for demand this year.

Regarding China, exporters will focus on a unique segment that requires much higher quality, as China also produces a high quality flower. "According to *Pro Ecuador*, Ecuador's flower exports to China have increased by 232.31% from 2011 to 2014; between 2003 and 2014 they increased by more than 20,000%" (Revista Flor Ecuador, 2015).

Roseonly is one of the most exclusive shops in China and only sells roses from Ecuador, which are known for their high quality and variety of color. "The company enhances the name of the Ecuadorian rose as the best and most exclusive. In its brochures they present it as a symbol of exclusivity, emphasizing that the Ecuadorian roses have been used by royalty in their weddings and coronations" (Pro Ecuador, 2014). Carlos Gomez, head of the *Corporación de Floricultores del Sur*, says, "if we go to the Asian market, and invest more, we could conquer those markets." Mr. Gomez mentioned that, "producers are involved in flower fairs in China to further open markets in South Korea and other Asian countries" (Revista Líderes, 2015).

Likewise, Ecuador also plans to conclude a trade agreement with the Eurasian Economic Union, comprising Russia, Kazakhstan, Armenia, and Belarus, in order to diversify exports to that area.

Conclusions

The strategies adopted by the flower industry to offset the resignation of the ATPDEA have been implemented to promote long-term sustainability. Among these strategies were: the opening of new markets, training, technological development, improved production processes, innovation in developing new varieties of flowers, participation in promotional events in countries like Korea, exhibitions in several countries, and visits to the United States and Russia. In turn, a major breakthrough for the flower industry has been the strategic alliance between the Mariscal Sucre International Airport and Chicago O'Hare International Airport.

To counter the resignation of the ATPDEA, the Ecuadorian government has adopted the Tax Credit Certificates program as a measure of compensation to the affected sectors. For many exporters, thus far, it has been useful but it is not enough to cover the overall market loss. Additionally, in recent months, the government has adopted other support measures for growers, such as tax refunds, or drawbacks, and exemption from payment of income tax, measures that have positively impacted the sector.

The ending of the ATPDEA, and the crisis in the Russian market, does not provide an encouraging outlook for the flower industry in 2015. On the one hand, the resignation of the ATPDEA has contributed to a loss in competitiveness in the US market, especially against Colombia, that has a Free Trade Agreement and currently has devalued its currency. While in Russia, through the devaluation of the ruble, the Ecuadorian flowers are expensive; therefore, it has resulted in reduced consumption.

Thus, in 2015, the flower industry will seek to export more flowers to the European market and the US market; although, this will mean that Ecuador may face a new problem, such as the oversupply of flowers, which produces a decrease in price. Additionally, the export of flowers is an opportunity of considerable importance in the Chinese and Latin American markets. However, in general, on the international stage, the value of flowers is expected to fall by 10% to 12%, but have a slight increase in export volume.

CONCLUSIONS

The Law of Andean Trade Promotion and Drug Eradication was a very important program for Ecuador because it allowed the country to export its products to the US market tariff-free. During the ATPDEA, the largest amount of Ecuador's exports entered the United States under this program; although, the main product exported under the program was oil.

In regards to the impact of the resignation of the ATPDEA in the flower sector, the price of flower exports has been greatly affected because of the applied tariffs that are sometimes passed on to the consumer; nevertheless, in most cases, it has been assumed by the exporter in order to not lose sales in the US market. However, the price reduction could only be appreciated in 2013, the year in which Ecuador renounced the tariff preferences. In 2014, there was a recovery in the industry, evidenced largely by the efforts of entrepreneurs themselves; the recovery is due in part to promotional strategies, loyalty, and support received from the Ecuadorian government.

Similarly, it is important to mention that the flower industry has had an impact on demand in the medium and long term, which has caused US importers to replace long-term contracts for short-term sales. However, exports rose in thousands of dollars to the US market and have not decreased in 2013 or 2014; except for Valentine's Day in 2014, the year in which flower growers suffered a fall in exports in volume due in part to the payment of tariffs, the price competitiveness of Colombia and Kenya, and logistical problems caused by bad weather in the United States.

Finally, one of the main strategies adopted by the flower industry to mitigate the resignation of the ATPDEA has been the opening of new markets, a strategy that has required time to build long-term business relationships; nevertheless, in 2015, Ecuador will seek to position its flower industry in the Chinese market, a market that is very large and appreciates the quality of Ecuadorian roses.

RECOMMENDATIONS

Search and analyze new routes in order to achieve greater effectiveness in the logistics. Work with freight shippers to ensure that the product remains cold during transport, therefore improving the quality of an already superior product.

The opening of new markets, focusing on current existing opportunity in the Chinese market.

Continue to promote the Ecuadorian rose in the world, and further work in promoting other flower varieties in order to achieve better market positioning.

Generate greater value added, through the creation of bouquets.

Strengthen the country's relations with its main trading partners in order to create a path that promotes the realization of trade agreements which in turn, would generate a more stable and sustainable outlook for the promotion of investment in the sector

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