



University of Azuay

Faculty of Law

School of International Studies

Impact analysis of tariff reform and safeguards with the heading 52092200 on the production and sales of the company "Procostura. Cia Ltda". Periods 2010 to 2015

**Graduate Thesis prior to obtaining a
Bilingual Bachelor in International Studies minor in Foreign Trade**

Author: Carlos Andrés Cabrera Astudillo

Director: Economist Gabriela Fajardo Monroy

Cuenca - Ecuador

2016

Dedication

This thesis is dedicated to the members of my family who have supported me every day and who are my daily motivation to reach my goals.

Acknowledgments

I thank God for blessing me with a life full of health and happiness, and for letting me create new opportunities. I thank my parents who have shown me that anything is possible with enough perseverance and dedication despite the obstacles we find in our way. I thank my colleagues and friends for making my days at college so unique and for developing a warm friendship with me. Especially, I thank my teachers for their perseverance, patience, and for the knowledge they shared with us. Finally, I thank my thesis tutor, who has been my guide throughout the development of this thesis.

Abstract

This project analyzes the impact that the 2013 tariff revaluation and the 2015 tax surcharges implemented by the Ecuadorian government have had on the sales of the Procostura Cia. Ltda. Company. By comparing information and statistical data, this paper determines the impact these protectionist measures have had.

Keywords:

Procostura Cía.Ltda.

Denim garments

Tariff revaluation

Safeguard

Tariff surcharges

Content Index

Dedication	ii
Acknowledgments	iii
Abstract.....	iv
Introduction.....	7
Chapter 1: Protectionism and Free Trade.....	9
1.1 Protectionist Policies	10
1.1.1 Direct Intervention Measures	10
1.1.2 Indirect Intervention Measures	11
1.2 Advantages and disadvantages of the government's tariff policies	12
1.2.1 Protectionist Measures Applied in Ecuador in 2013 and 2015	13
Chapter 2. General Analysis of the “Procostura Cía. Ltda” Company.....	18
2.1 General Description of “Procostura Cía. Ltda”.....	18
2.2 Strategic Thinking of “Procostura Cía. Ltda”	20
2.3 Analysis of the finished product	21
2.4 Determining the raw material origin	25
2.5 Determining the main market of “Procostura Cía.Ltda	27
Chapter 3: Analysis of the impact that the protectionist measures and importation barriers have had on Procostura Cía. Ltda.	31
3.1 Consequences on imports between 2010 – 2015	31
3.1.1 Purchases from National Suppliers	32
3.1.2 Imports of the heading “52.09.22.00”	37
3.2 Procostura Cía. Ltda.'s Production Analysis	46
3.3 Sales Analysis of “Procostura Cía.Ltda”	49
3.4 Comparative macroeconomic analysis with the company "Procostura Cía.Ltda"	53
Conclusions	56
Recommendations	59
Bibliography	60
Annexes	63

Annex 1: Origin Certificate given to “Procostura Cía. Ltda” by the “Federação das Indústrias do Estado de Minas Gerais”, for the "52.09.22.00" Raw Material	63
Annex 2: Procostura Cía.Ltda.´s Customs Clearance of the "52.09.22.00" Raw Material	64

Introduction

Foreign trade involves the exchange of goods and/or services between two or more countries, through imports or exports. The government's protectionism measures or free market measures could either benefit or hinder the domestic industry and the consumers.

The protectionism measures are made to protect the national industry through their policies, either directly or indirectly. On the other hand, free trade focuses on the free movement of goods or services around the world without government intervention.

During recent years in Ecuador, some tariff policies have been made towards the Ecuadorian textile industry, which has generated both positive and negative effects.

"Procostura Cía. Ltda" is an Ecuadorian company, part of the textile industry. Most of the raw material it uses is not produced in Ecuador, so the measures taken by the government towards textiles may benefit or hinder the company.

The main products that Procostura imports are fabrics, linings, ropes, belts, pins and buttons. These inputs are part of the 2013 comprehensive reform of the National Importation Tariffs, and are also included in the surcharges applied by the government in 2015. The latter was applied to 2691 items which showed a large increase of surcharges, from 5% to 45%.

If the costs of the materials to produce jeans increased, these would be transferred to the final selling price, which would affect the production and sales of the company.

The main objective of this thesis is to determine the impact on the production and sales of the company Procostura Cía. Ltda, generated by the 2013 tariff reform and the 2015 safeguards.

First, this research describes the advantages and disadvantages of protectionism and free trade measures, the different types of protection measures used by governments, and the protection measures implemented by the Ecuadorian government which have affected the raw materials used by Procostura Cía. Ltda.

Later, this research describes Procostura Cía. Ltda. and analyses the finished products to determine the origin of the raw material and its main market.

Then, this paper presents an analysis of the impact that implementing protectionist measures and import barriers has on the company. Also, it shows the negative impacts in the imports and in the purchases from domestic suppliers. Moreover, this section presents an analysis of how these measures affect the production and sales of the company.

The research finishes with conclusions and recommendations.

Chapter 1: Protectionism and Free Trade

An objective of foreign trade is to satisfy the nation's internal and external needs, through the exchange of goods and services between two or more countries. Foreign trade is regulated by treaties, agreements, and control agencies which are meant to simplify international trading activities and to encourage foreign trade.

The economic philosophy known as mercantilism believes that the best way for a nation to become rich is to export more than it imports, given that exports generate precious metals for the country and instead imports generate the output of such metals. Consequently, the mercantilists used to apply a protectionist policy and to encourage exports through subsidies, and tried to limit the imports by applying extra tariffs.

Protectionism is an economic practice used by governments to protect and promote the domestic industry against other nations' industries, by applying taxes, quotas, customs duties or other restrictions that cause the reduction of imports.

Free trade is the opposite of protectionism. The free trade theory was proposed by Adam Smith who talked about "The invisible hand of the market" referring to the ability of the market to be self-regulated. Smith believed that free competition is the best way for the economy to work and free trade, internally and externally generates specialization and productivity of the nation which results in a "Competitive Advantage".

Sergio Ceballos says that Adam Smith demonstrated that all forms of government intervention such as export subsidies, import restrictions, and regulation of wages and prices, are an obstacle to the natural growth of the economy. David Ricardo has joined this theory with his concept of "Comparative Advantage" and states that the country should specialize in the product that has the greatest competitive advantage, or the less competitive disadvantage, which means doing what you do the best to benefit from foreign trade.

Free trade is the free exchange of goods and services without the existence of barriers to impede foreign trade. Government intervention in foreign trade is opposed to free trade. Free trade represents the free movement of goods and services between all people of the world, regardless of the place where they live.

1.1 Protectionist Policies

The State's intervention represents a protectionist economy based on the protection and promotion of the domestic industry. There are direct and indirect protection tools.

<u>Direct Intervention</u>	<u>Indirect Intervention</u>
Tariffs	Exchange Rate Management
Import and Export Quotas	Commodities Programs
Export Subsidies	Marketing Support
Sanitary and Phytosanitary Restrictions	Inputs subsidies and tax exemptions
Source: José María Caballero, Geraldo Calegar and Carlo Cappi	

The Protectionist instruments seek to increase exports and to reduce imports. The direct tools have the market directly involved, since these implement tariffs, and sanitary and phytosanitary restrictions, among others. The indirect tools support the domestic industry, since they allow the management of exchange rates, and the implementation of commodities programs, among others.

1.1.1 Direct Intervention Measures

1. Tariffs: according to Robert Carbaught a tariff is a tax charged on a product when it crosses the borders of a nation. It is imposed by the destination country.

2. Import and export quotas: according to Francisco Places, such quotas represent the amount of a good that can be exported or imported, according to the supply conditions and the domestic supply of the product under the quota.

3. Export Subsidies: According to the World Trade Organization (WTO) a subsidy is an amount of money taken from the public funds, granted to a company or an industry to help them keep the price of a product or service low. Thus it becomes an incentive to increase exports.

4. Sanitary and Phytosanitary restrictions: These are measures that seek to protect the health of consumers in the importing country. According to the WTO every country applies measures to ensure the safety of products for human consumption and to prevent the spread of pests or diseases among animals and plants.

1.1.2 Indirect Intervention Measures

1. Exchange Rate Management: Robert Carbaugh determines the exchange rate as the amount of a certain currency given from a claimant to a bidder. This currency can face fluctuations or gradual changes depending on the currency the exporter and importer are using.

2. Commodities Programs: according to the United Nations this measure is meant to increase and maintain exports which are necessary to generate employment and income in an exporting country.

3. Marketing Support by reducing production and exporting costs.

4. Inputs subsidies and tax exemptions for sectors that produce and export by generating social benefits.

1.2 Advantages and disadvantages of the government's tariff policies

Tariffs are an instrument of economic policy influenced by the situations of each country. The developed countries have openly considered them negative for foreign trade, but on the other hand, these have been considered as an economic and protectionist tool for developing countries.

According to Juan Gongora and Salvador Medina, tariffs were created from the industrial revolution seeking to protect the domestic industry. The United States and United Kingdom, which are considered developed countries, defend free trade and have also used these tools of economic protection, which has benefited their industries. History shows that the countries that did not exercise these measures right after becoming independent nations have had little development and low economic growth to face international trading. The currently developed countries used these economic tools to achieve a high level of industrialization.

Thus, tariffs are a tool to protect domestic industries. The main objective of using tariffs is to discourage the importation of products that can be made in the country, for the national industry to be in charge of fulfilling the needs of consumers and to be used as a tax collection mechanism which generates tax revenues. Currently tariffs are not only meant to protect national industries but they also take into account the social, political, economic, and ecological aspects, among others; which also generate tariffs.

Advantages

1. Tariffs generate larger revenues for the government.
2. Tariffs protect and promote domestic industries.
3. They increase employment: by protecting the domestic industry the demand for domestic products would increase, so employers would need more employees to meet the needs of consumers.

4. In the long term, tariffs could generate a positive trade balance, as exports would increase and imports would decrease. Tariffs make imports expensive so some particular imports are reduced.

Disadvantages

1. Tariffs reduce the supply of imported products, because tariffs make the destination market less attractive.
2. They increase the price of imported products.
3. They increase domestic products by speculation.
4. Less access to trade integration agreements.

1.2.1 Protectionist Measures Applied in Ecuador in 2013 and 2015

On January 1st, 2013, a comprehensive reform of the National Import Tariff was adopted, and later, according to resolution No. 59 issued by the Foreign Trade Committee, was named the Tariff of Ecuador. This committee chose the National Import Tariff as an instrument of economic policy, which should promote the development of productive activities in the country and, in accordance with the government policies, should generate competitiveness of the relevant productive sectors. In this way, the Ecuadorian government protects domestic industries from foreign competition.

A tariff surcharge known as safeguards was applied in Ecuador in 2015. According to resolution 011-2015 issued by the Foreign Trade Committee, it was adopted on March 6th, 2015, and entered into force on March 11th, 2015. As the “National Customs Service of Ecuador (SENAE)” has explained, this safeguard has added an extra value on 32% of products that are imported, also there were surcharges from 5% to 45% for 2691 tariff headings. The main reason to apply these measures was to reduce the impact of dollar appreciation and falling oil prices.


Product	Tariff Heading	Advalorem before 2013	Advalorem after 2013
Fabric	5209220000	14%	20%
Liners	5209590000	20%	20%
Buttons	9606220000	0%	25%
Ropes or Belts	5806310000	0%	20%
Source: 59 Resolution - 2013, Foreign Trade Committee, and Procostura Cía. Ltda			
Made by: Andrés Cabrera			

The measures described above affect the textile sector since the prices for imported products vary because of the revaluation of tariffs and the application of safeguards. Fabric, for example, before 2013 entered the country with a 14% tariff and since 2013 the tariff increased to 20%; the liner tariff was not changed and remains 20%, but for buttons there was a new tariff implemented of 25%, and for belts the new tariff was 20%. In March 2015 a surcharge of 5% was applied specifically for fabrics. So it is determined that the tariff revaluation and surtaxes affect raw materials, which are normally imported by the textile industry. The chart shown above describes the measures taken by the government in 2013.

The following chart lists the raw material affected by the surcharge indicated above.

Product	Tariff Heading	Surcharge
Fabric	5209220000	5%
Liners	5209590000	5%
Buttons	9606220000	45%
Ropes or Belts	5806310000	5%
Source: Resolution 011 - 2015, Foreign Trade Committee		
Made by: Andrés Cabrera		

The raw material importation costs increased between 5% and 45% which also increased the price of the products made by Procostura Cía. Ltda., and made them less competitive.

ANEXO			
SUBPARTIDA	DESCRIPCIÓN ARANCELARIA	SOBRETASA ARANCELARIA	OBSERVACIONES A LA SOBRETASA ARANCELARIA
5208490000	-- Los demás tejidos	5%	
5208510000	-- De ligamento tafetán, de peso inferior o igual a 100 g/m2	5%	
5208520000	-- De ligamento tafetán, de peso superior a 100 g/m2	5%	
5208591000	-- De ligamento sarga, incluido el cruzado, de curso inferior o igual a 4	5%	
5208599000	-- Los demás	5%	
5209110000	-- De ligamento tafetán	5%	
5209120000	-- De ligamento sarga, incluido el cruzado, de curso inferior o igual a 4	5%	
5209190000	-- Los demás tejidos	5%	
5209210000	-- De ligamento tafetán	5%	
5209220000	-- De ligamento sarga, incluido el cruzado, de curso inferior o igual a 4	5%	
5209290000	-- Los demás tejidos	5%	
5209310000	-- De ligamento tafetán	5%	
5209320000	-- De ligamento sarga, incluido el cruzado, de curso inferior o igual a 4	5%	
5209390000	-- Los demás tejidos	5%	
5209410000	-- De ligamento tafetán	5%	

Source: Resolution 011-2015 – Foreign Trade Committee

Note: The chart above describes the Tariff Subheadings, Tariff Description, Tariff Surcharges, and Notes on the Tariff Surcharges. The Tariff Description Column includes the following items:

- Other Woven Items
- Taffeta Ligament under 100 g/m2
- Taffeta Ligament over 100 g/m2
- 4 or less Thread Twill, Including Crossed Twill
- Others
- Taffeta Ligament
- 4 or less Thread Twill, Including Crossed Twill
- Other Fibers
- Taffeta Ligament
- 4 or less Thread Twill, Including Crossed Twill
- Other Fibers
- Taffeta Ligament
- 4 or less Thread Twill, Including Crossed Twill
- Other Fibers
- Taffeta Ligament

The heading number 52.09.22.00 was included in the surcharges with a 5% surtax. Imported raw materials account for 25% of tariffs, because from January 2013 resolution No. 59 for national tariffs was in force.

The imported textiles which are competition for the company, were also included in the tariff changes. In 2013 the Foreign Trade Committee decided to conduct a tariff revaluation. The following image shows the tariff revaluation of denim garments using the items listed below.

Código	Designación de la Mercancía	UF	Tarifa Arancelaria	OBSERVACIONES
6202.99.00	- - De las demás materias textiles	u	10 + USD 5.5 por kg.	
62.03	Trajes (ambos o ternos), conjuntos, chaquetas (sacos), pantalones largos, pantalones con peto, pantalones cortos (calzones) y shorts (excepto de baño), para hombres o niños.			
	- Trajes (ambos o ternos):			
6203.11.00	- - De lana o pelo fino	u	10 + USD 5.5 por kg.	
	- Pantalones largos, pantalones con peto, pantalones cortos (calzones) y shorts:			
6203.41.00	- - De lana o pelo fino	u	10 + USD 5.5 por kg.	
6203.42	- - De algodón:			
6203.42.10	- - - De tejidos llamados «mezclilla o denim»	u	10 + USD 5.5 por kg.	
6203.42.20	- - - De terciopelo rayado («corduroy»)	u	10 + USD 5.5 por kg.	

Source: Resolution No. 59 – Foreign Trade Committee

http://www.aduana.gob.ec/archivos/Boletines/2013/ARANCEL_FINAL_January_1st_R93.pdf

Note: The chart above describes the following information: Code, Goods Description, UF, Tariff, Notes. The Goods Description colum includes the following items:

- Other textiles
- Suits, jackets, coats, large pants, trousers, shorts (except swimming pants), for men or kids.
- Suits
- Made of wool or fine hair.
- Large pants, trousers, shorts (underwear)
- Made of wool or fine hair
- Made of cotton

- Made of denim
- Striped Velvet

In 2015 the government implemented the surcharges measures. According to the 011-2015 presidential decree the tariff for the heading "62034210" is 25%. This heading is described as "suits, jackets, trousers, bibs and brace overalls, breeches and shorts, men's or children's denims or denim fabrics".

Chapter 2. General Analysis of the “Procostura Cía. Ltda” Company

2.1 General Description of “Procostura Cía. Ltda”

The "Procostura Cia. Ltda" company is a family firm that entered in the textile market in 1985 and became a limited company in 1996. It is part of the jeans industry. The company operates in Cuenca and its market niche is focused on men between 15 and 65 years old living in Cuenca.

When the company began operating, it bought only raw materials from national suppliers, such as the following importing companies: IMPORDENIM, IDTEX, DISTRIDENIM, and COLORTEX, which represent 90% of suppliers of the main raw material the company uses. IMPORDENIM is the most representative supplier. To reduce costs and due to product differentiation, in 2006 the company started to import raw material. The major international suppliers are "CEDAR" from Brazil, "FABRICATO" from Colombia, "AAFABRICS" from India, and "COLORTEX" from Perú, among others.

The main supplier of Procostura Cia. Ltda. is IMPORDENIM, which claims to be the largest denim distributor in the southern.

Distribution of “Impordenim Cía. Ltda” in the Austro Market between 2009 – 2014	
COMPANY	% OF DISTRIBUTION
IMPORDENIM	33%
PIZANTEX	2%
DISTRITEX	13%
ID TEX	18%
VICUHNA + MODATEX	15%
RAFATEX + BROOLING	16%
FABRIDOR	3%
Source: IMPORDENIM	
Made by: Luis Alberto Valencia	

The production process of "Procostura Cía. Ltda" is one of the most complete in the national industry. This Company has two areas that differentiate it from other companies: the design and laundry areas. These are constantly being updated in order to implement new fashion designs and processes for its products.

The production process has the following phases: raw material procurement, design, production, washing, finishing, and sales. The retailer is an important part of the distribution chain given that "Procostura Cía. Ltda" does not sell directly to the consumer.

To this day the company has generated nationally known brands for its focus niche. Even though Procostura Cía. Ltda. has created several new brands, the following are the most and better known: Ungaro, PPK, and Truker. These have been registered in the Ecuadorian Institute of Intellectual Property and are backed by their own patent.

The main markets the company sells to are Guayaquil, followed by Machala, Huaquillas, Quito, Santo Domingo, and Cuenca, among others. The goal of the company is to keep looking for new national markets.

The company employs 35 people in its administration and production areas. For the garments manufacturing area the company has 25 jobs which are paid for their services rendered. Currently, the company employs more than 60 people because each garment manufacturing position involves about 4 people. That being said, we can conclude that the company is liable with its partners and meets the requirements of the laws established by the Ministry of Labor Relations.

2.2 Strategic Thinking of “Procostura Cía. Ltda”

- Mission:

To produce and to market high quality denim garments to meet the needs and expectations of the customers by providing a rational income to the shareholders, and watching over the welfare of all employees.

- Vision:

To be the lead marketing and producer company in the Austro area, reaching all possible national markets, and always being committed to customers, employees, and partners.

- Values:

- "Procostura Cia. Ltda" is based on its values, being always focused on reaching success.
- Commitment: Procostura Cía. Ltda. works as a team seeking the Company's welfare and is focused on producing a high quality product to meet the customer requirements.
- Originality: The Company is authentic and innovative
- Honesty: Procostura Cía. Ltda. does what is right to benefit the company and the customers
- Courage: the Company does not let itself be beaten by the competition
- Effort: The Company creates products that meet the customer's Expectations

- Goals:
 - To meet the customer's needs giving them an excellent product in quality, design, price, delivery time, and different from the competition.
 - To be the largest denim garments producer of the Austro region starting in 2006.
 - To achieve greater participation in the national market, especially in the markets where there company is already well known and recognized.
 - To focus on the opening of new potential markets.
 - To generate higher recognition of the Company's brands which are characterized by their quality and design.
 - To increase the overall production by 5% annually

2.3 Analysis of the finished product

There are eight materials that have been determined to produce jeans: Fabric, Liners, Thread, Pins & Plates, Leather, Labels, Ropes or belts, and Packaging. The following picture shows the inputs used to produce a jean.



Source: Procostura Cía. Ltda.

Made by: Andrés Cabrera

Each material used in the final product has a different origin. Fabric is the input being used the most (75%) in the production. The fabric is imported from the Brazilian "CEDAR" Company, the Colombian "FABRICATO" Company, the Indian "AAFABRICS" Company, and the Peruvian "COLORTEX" Company, among others. There are also some national suppliers: "Impordenim", "Distridenim", and "Modatex". The national suppliers import the raw material and then distribute them through the country.



Another material used is the liner which is located inside the pants, in the pockets and in the matching parts. The liner represent 8% of the final product and comes from the "AAFABRICS" Indian Company.



Thread is also used to produce these garments and it represents 5% of the final product. The thread is bought from national suppliers: "PASS" and "Bridiscom".



The Company imports the pins and plaques. The quality and design of these national inputs do not meet the production and design features of the company. These materials represent 2% of the final product and are imported mainly from the Colombian "Cimetal" Company.



The leather label affixed to the back of the garment is a differentiator to identify the Brand. It represents 2% of the product and comes from the Colombian “ConCuero” company.



Another element to identify the products of Procostura Cía. Ltda are its “marquillas” or “labels”. These and the packaging are bought from national suppliers "Imtex" and "Austrodiseti"



"Procostura Cía. Ltda" uses ropes or belts to make its products different from its competition. The company manufactures 40% of them and the raw material is imported from the Peruvian company "Mapasac".



Components that are part of the Jeans		
Procostura Cía. Ltda.		
Componentes	Percentage	
Fabric	75%	Imported
Liner	8%	Imported
Thread	5%	National
Pins and Plaques	2%	Imported
Leather	2%	Imported
Labels	2%	National
Ropes or Belts	4%	Imported
Packaging	2%	National
Percentage of inputs imported by garment	91%	
Percentage of national inputs by garment	9%	
Source: Procostura Cía.Ltda		
Made by: Carlos Andrés Cabrera		

According to the above chart, 91% of the raw material needed to produce these products are imported. Even though the thread and labels are not imported by the Company, the National Companies that Procostura Cía. Ltda buys them from, are importing these inputs to sell them in the ecuadorian market.

2.4 Determining the raw material origin

It has been determined that 91% of each garment is imported from Brazil, Pakistan, Colombia, and Peru. The fabric is the material that will determine the primary country of origin for the product material since 75% of each jean is made of fabric.

Imports Origin	
Procostura Cía. Ltda.	
	2014 – 2015
	Origin
Fabric	Cedro Textil – Brazil
Liner	AAFabrics – Pakistan
Buttons, Pins and Plaques	Cimetal – Colombia
Leather	Concuero – Colombia
Ropes and Belts	Mapasac – Peru
Source: Procostura Cía. Ltda	
Made by: Andrés Cabrera	

Annual average of raw material procurement between 2010 a 2015 (Shown in Units and Dollars)				
Procostura Cía. Ltda				
Elements	Unit of Measurement	Origin	Amount	Value
Fabric	Meters	Ecuador / Brazil	215,437	\$ 1,193,906.50
Liner	Meters	Pakistan / AAFabrics	21,060	\$ 31,590.50
Buttons	Units	Colombia / Cimetal	167,527	\$ 31,830.17
Pins	Units	Colombia / Cimetal	671,752	\$ 53,740.16
Plaques	Units	Colombia / Cimetal	167,525	\$ 30,154.57
Leather	Units	Colombia / Concuero	172,312	\$ 36,185.49
Ropes and Belts	Units	Peru / Mapasac	170,755	\$ 200,380.75
Labels	Units	Ecuador / Austrodiseti - Imtex	981,442	\$ 294,432.48
Packaging	Units	Ecuador / Indupetra - Plasticos International	162,776	\$ 16,278.00
Source: Procostura Cía.Ltda				
Made by: Andrés Cabrera				

"Procostura Cía. Ltda" imports 91% of the raw material used to produce jeans; however, as explained above, the labels and packaging are bought from national suppliers.

The main country "Procostura Cía. Ltda." imports from is Brazil, where its fabric comes from. Fabric is the most used material to produce these jeans so it is also the material that Procostura Cía. Ltda. imports the most.

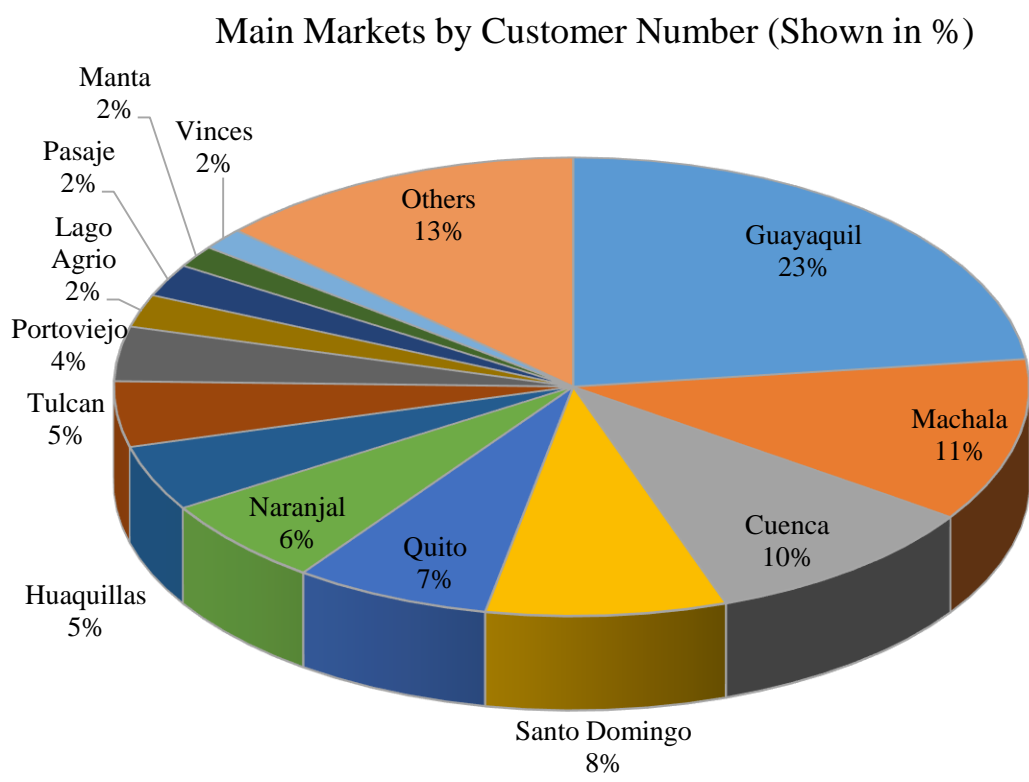
2.5 Determining the main market of "Procostura Cía.Ltda

Main Markets by Customers Number		
Procostura Cía.Ltda		
Destination	Number of Customers	Percentage
Guayaquil	30	23.08%
Machala	15	11.54%
Cuenca	13	10.00%
Santo Domingo	11	8.46%
Quito	9	6.92%
Naranjal	8	6.15%
Huaquillas	6	4.62%
Tulcan	6	4.62%
Portoviejo	5	3.85%
Lago Agrio	3	2.31%
Pasaje	3	2.31%
Manta	2	1.54%
Vinces	2	1.54%
Others	17	13.08%
Total	130	100.00%
Source: ProcosturaCía.Ltda		
Made by: Andrés Cabrera		

"Procostura Cía. Ltda" has a portfolio of 130 wholesale customers throughout Ecuador. The main market of the company is Guayaquil, where 23% of customers are located (30 customers). The second main market is Machala, where 11% of customers are located (15

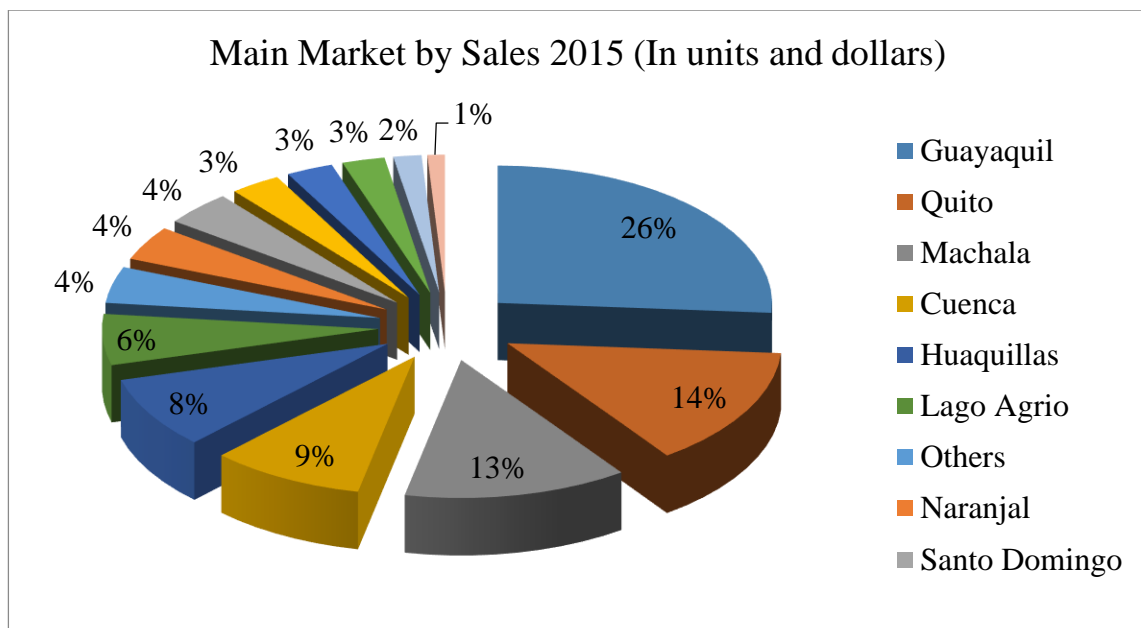
customers). Then comes Cuenca, where 10% of customers are located (13 customers), and then Santo Domingo which has 8% of customers. These markets represent 52% of the portfolio of the wholesale customers.

The box "Others" mentioned in the chart accounts for 13% of the market. These customers belong to various parts of the country.



Source: ProcosturaCía.Ltda
Made by: Andrés Cabrera

Main Market by Sales (Units and Dollars)			
Procostura Cía. Ltda			
Destination	Sales by Unites	Sales by Dollars	Participation Percentage
Guayaquil	33.238	\$ 565,049.72	26.15%
Quito	17.820	\$ 302,944.44	14.02%
Machala	16.664	\$ 283,281.14	13.11%
Cuenca	11.478	\$ 195,120.42	9.03%
Huaquillas	10.740	\$ 182,587.77	8.45%
Lago Agrio	7.626	\$ 129,648.12	6.00%
Naranjal	5.148	\$ 87,512.48	4.05%
Santo Domingo	5.122	\$ 87,080.32	4.03%
Tulcán	3.775	\$ 64,175.82	2.97%
Manta	3.495	\$ 59,422.06	2.75%
Portoviejo	3.178	\$ 54,020.05	2.50%
Vinces	2.085	\$ 35,437.15	1.64%
Pasaje	1.296	\$ 22,040.18	1.02%
Others	5.440	\$ 92,482.33	4.28%
Total	127,106	\$ 2,160,802.00	100%
Source: ProcosturaCía.Ltda			
Made by: Andrés Cabrera			



Source: ProcosturaCía.Ltda

Made by: Andrés Cabrera

Guayaquil is the main market for “Procostura Cía. Ltda” according to the amount and value (Units and dollars) of the sales. The 26.15% of the sales of the company in 2015 were performed in Guayaquil, followed by Quito where 14.02% of the sales were performed. Machala represents 13.11% of the sales, Cuenca 9.03%, and Huaquillas 8.45%. These markets represent 70% of the company sales.

The sales volume and number of customers is not the same. Some variables show that the markets which have the most customers are not necessarily the markets where most of the sales are performed. Quito, for example, is the second main market by sales volume but it is the sixth main market by number of customers. Guayaquil is the main market for the company by both, number of customers and volume of sales.

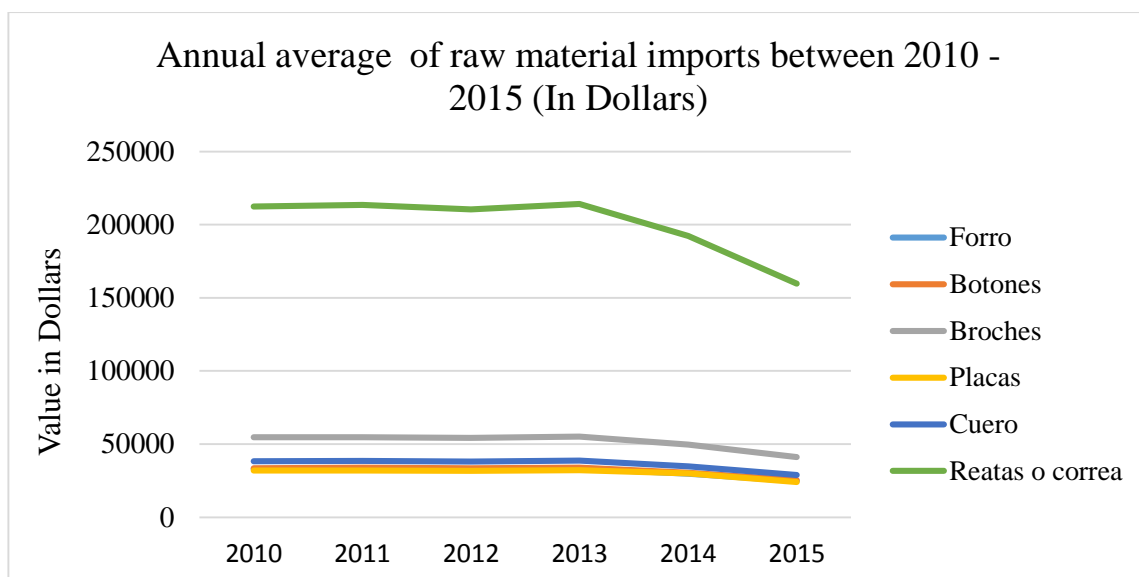
Chapter 3: Analysis of the impact that the protectionist measures and importation barriers have had on Procostura Cía. Ltda.

3.1 Consequences on imports between 2010 – 2015

Being able to import goods is a business opportunity for companies willing to buy either consumer products, or raw materials which are used to innovate and create new products. "Procostura Cía. Ltda." imports raw material to create a differentiated product, given that in the national market the raw material supply for the production of denim garments is very limited. Furthermore, importing the raw material reduces the costs of the final product.

An import is a purchase of goods or services from another country. Any importation made should be legalized by different control agencies.

Annual average of raw material imports between 2010 – 2015 (By Units)							
Procostura Cía. Ltda							
Elements	Unit of Measurement	2010	2011	2012	2013	2014	2015
Liner	Meters	21,991	22,102	21,789	22,165	19,905	16,524
Buttons	Units	177,623	178,513	175,985	179,022	160,774	133,461
Pins	Units	685,118	688,549	678,800	690,513	620,128	514,779
Plaques	Units	177,623	178,513	175,985	179,022	160,774	133,461
Leather	Units	182,698	183,613	181,013	184,137	165,367	137,274
Ropes or Belts	Units	181,007	181,913	179,337	182,432	163,836	136,003
Source: Procostura Cía.Ltda							
Made by: Andrés Cabrera							



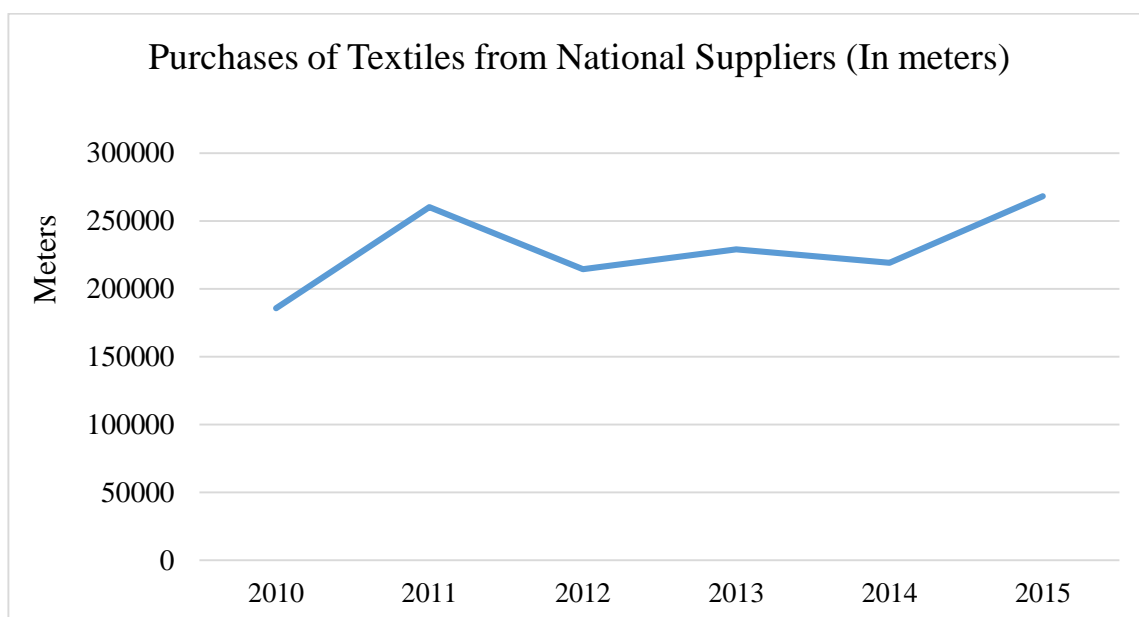
Source: Procostura Cía. Ltda

Made by: Andrés Cabrera

Between 2010 and 2013 the imports of raw material by Units and by Dollars had a similar behavior. Beginning in 2014, the imports have been reduced in volume and dollars by approximately 10% compared to the the 2013 – 2014 period, and compared to the 2013 - 2015 period, the imports were reduced by approximately 30%.

3.1.1 Purchases from National Suppliers

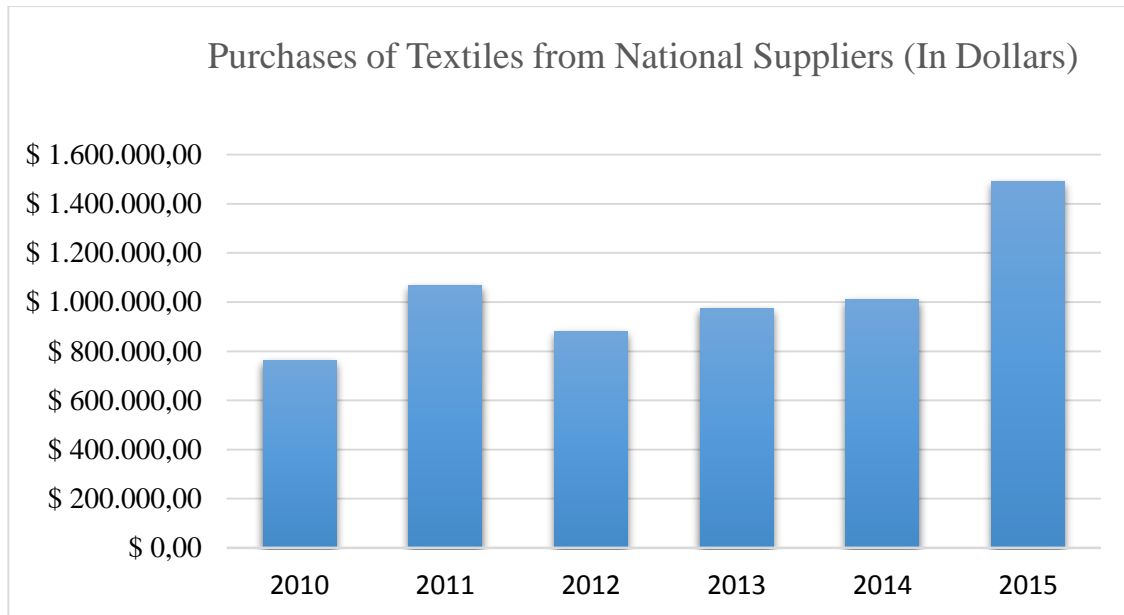
Purchases of Textiles from National Suppliers (By meters)					
Procostura Cía. Ltda					
2010	2011	2012	2013	2014	2015
185,677	260,317	214,576	229,181	219,285	268,290
Source: Procostura Cía.Ltda					
Made by: Andrés Cabrera					



Source: ProcosturaCía.Ltda

Made by: Andrés Cabrera

Textile Purchases from National Suppliers (By Dollars)						
Procostura Cía. Ltda						
	2010	2011	2012	2013	2014	2015
Total	\$ 761,276.88	\$ 1,067,300.54	\$ 879,760.37	\$ 974,020.15	\$ 1,008,713.11	\$ 1,489,011.40
Source: Procostura Cía. Ltda						
Made by: Andrés Cabrera						



Source: ProcosturaCía.Ltda

Made By: Andrés Cabrera

In 2010 the company paid to its national textile suppliers \$761,276.88 for 185,677 meters of fabric. In 2011 the payment increased to \$1,067,300.54 for 260,317 meters of fabric. In 2012 the suppliers were paid \$879,760.37 for 214,576 meters. In 2013 the amount increased to \$974,020.15 for 229,181 meters of fabric. In 2014 the Company only bought 219,285 meters of fabric, but paid \$1,008,713.11 to the suppliers because the costs of raw material had increased, and in 2015 the costs increased even more having the Company paid \$1,489,011.40 for 268,290 meters of fabric.

In 2013, despite the tariff appreciation, the purchases from national suppliers increased compared to 2012. In 2015 the purchases by volume from national suppliers increased by 18% compared to 2014. As explained in the above paragraph, the costs of raw materials increased in the latter period. It is important to remember that the textiles the company purchases from national suppliers are not from Ecuador.

There are national suppliers that import raw material and sell it in the Ecuadorian market.

It is important to mention that the company acquires the textiles at dealer prices and resells them to other producers. In September, 2015, according to some executives of the company, Procostura received an offer from "Impordenim Cía. Ltda" to buy their raw material at a lower cost than what it normally would. The Company, taking this opportunity, bought more raw material than it normally would in order to keep it as a backup in its inventory for further production and sales. This is why in 2015 the Company's purchases increased by 32% compared to 2014.

The above mentioned analysis was made based on all the kinds of textiles that the company purchased. The following data is based only on the item "52092200

"52092200" Raw Material Purchases (By Dollars)	
Procostura Cía. Ltda	
	Purchases between 2010 and 2015
Impordenim	\$ 1,453,381.08
Distridenim	\$ 50,290.65
Colortex	\$ 122,157.92
Total	\$ 1,625,829.65
Source: Procostura Cía. Ltda	
Made by: Andrés Cabrera	

"52092200" Raw Material Purchases by Supplier (By Dollars)							
PROCOSTURA Cía. Ltda							
	2010	2011	2012	2013	2014	2015	Total 2010 - 2015
Impordenim	\$ 180,439.42	\$ 252,973.79	\$ 208,522.63	\$ 230,864.27	\$ 239,087.27	\$ 341,493.70	\$ 1,453,381,08
Distridenim	\$ 5,738.80	\$ 8,045.72	\$ 6,631.97	\$ 7,342.54	\$ 7,604.06	\$ 14,927,57	\$ 50.290,65
Colortex	\$ 14.179,07	\$ 19.878,87	\$ 16.385,87	\$ 18.141,49	\$ 18.787,66	\$ 34.784,96	\$ 122.157,92
Total	\$ 200.357,29	\$ 280.898,38	\$ 231.540,46	\$ 256.348,30	\$ 265.479,00	\$ 391.206,23	\$ 1.625.829,65
Source: Procostura Cía. Ltda							
Made by: Andrés Cabrera							

The results are similar to the previous analysis. The supplier "Id Tex" is not marketing this raw material so it is not in the chart above.

3.1.2 Imports of the heading “52.09.22.00”

In foreign trade there is a document called “certificate of origin”, which gives preferential treatments to the products that belong to such certificate. These benefits are positive for the company because the import costs are reduced.

The following chart shows the imports that the Company has made and where they have come from.

Imports Origin (By Units)				
Procostura Cía. Ltda				
	2014		2015	
	Imports Number	Origin	Imports Number	Origin
Fabric	6	Brazil / Cedro textil	3	Brazil / Cedro Textil
Liner	3	Pakistan / AAFabrics	0	
Pins and Plaques	3	Colombia / Cimetal	2	Colombia / Cimetal
Leather	10	Colombia / Concuero	4	Colombia / Concuero
Ropes - Belts	5	Peru / Mapasac	3	Peru / Mapasac
Total of Imports	27		12	
Source: Procostura Cía.Ltda				
Made by: Andrés Cabrera				

"Procostura Cía. Ltda." has made 39 raw material imports between 2014 and 2015. To benefit the company, the origin of most of these imports are from the region.

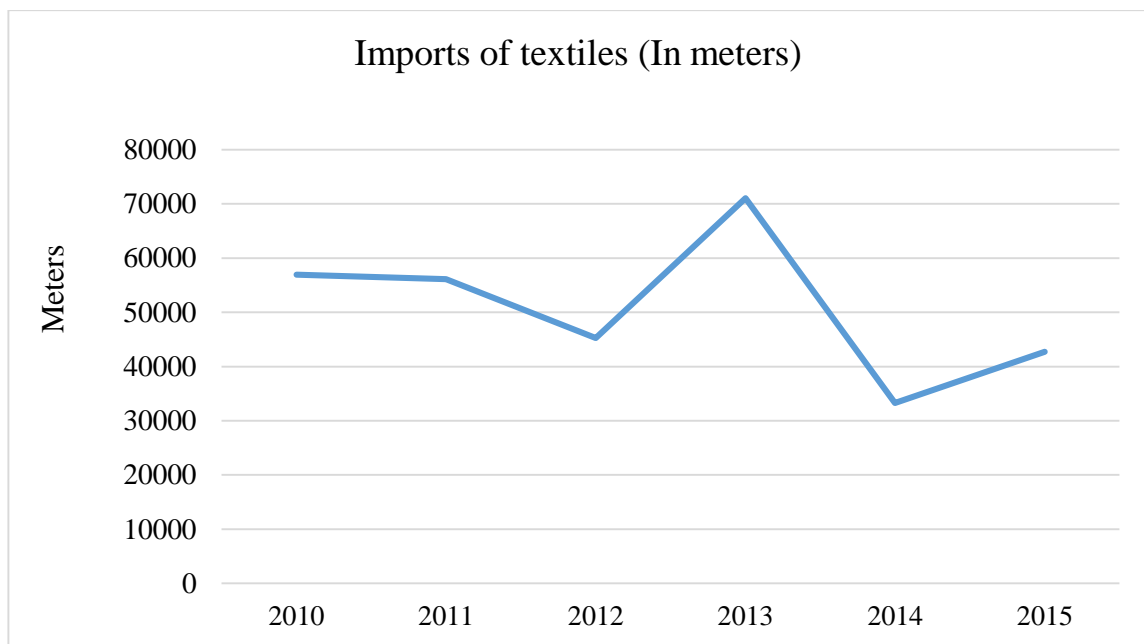
According to MERCOSUR, its members are: Argentina, Brazil, Paraguay, Uruguay, Venezuela, and Bolivia, which are currently going through the accession process. Chile, Colombia, Ecuador, Peru, Guyana and Suriname are "Associated States". Mexico and New Zealand are "observers".

According "Procostura Cía. Ltda" its main source for raw material with the tariff heading "52.09.22.00" is Brazil. In the Importation Records of "Procostura Cia. Ltda " there is an origin certificate which exempts the product from the ad valorem tax by 86% from the 20% set by the Committee for Foreign Trade.

This is based on "The Economic Complementation Agreement No. 59, signed between the governments of Argentina, the Federative Republic of Brazil, the Republic of Paraguay, and the Eastern Republic of Uruguay, which are part of Mercosur, and the governments of the Republic of Colombia, the Republic of Ecuador and the Bolivarian Republic of Venezuela, which are part of the Andean Community".

Imports of Textiles by Supplier (By Dollars – CIF)			
Procostura Cía. Ltda			
Cedro		AA fabrics	
2010	\$ 205,012.53	2010	\$ 0
2011	\$ 202,007.46	2011	\$ 0
2012	\$ 103,252.39	2012	\$ 59,636.95
2013	\$ 211,862.61	2013	\$ 65,127.29
2014	\$ 42,886.13	2014	\$ 86,989.68
2015	\$ 170,476.76	2015	\$ 0
Total:	\$ 935,497.88		\$ 211,753.92
Source: Procostura Cía. Ltda			
Made by: Andrés Cabrera			

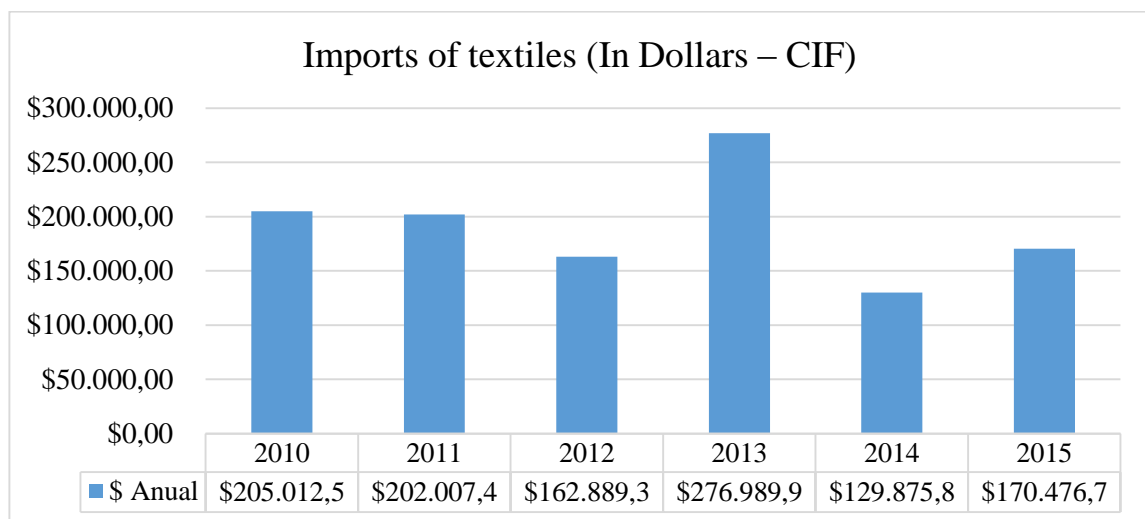
Imports of Textiles (By meters)	
Procostura Cía. Ltda	
2010	56,948
2011	56,113
2012	45,247
2013	71,023
2014	33,301
2015	42,712
Source: Procostura Cía. Ltda	
Made by: Andrés Cabrera	



Source: Procostura Cía. Ltda

Made by: Andrés Cabrera

Imports of Textiles (By Dollars – CIF)		
Procostura Cía.Ltda		%
2010	\$ 205,012.53	17.87%
2011	\$ 202,007.46	17.61%
2012	\$ 162,889.34	14.20%
2013	\$ 276,989.90	24.14%
2014	\$ 129,875.81	11.32%
2015	\$ 170,476.76	14.86%
Total	\$ 1,147,251.8	100.00%
Source: Procostura Cía. Ltda		
Made by: Andrés Cabrera		



Source: Procostura Cía.Ltda

Made by: Andrés Cabrera

In 2010 and 2011 imports were only made from the Brazilian Company, "Cedar". Both imports totaled \$407,019.99 for 113,061 meters. In 2012 the imports were made from the two primary raw material suppliers and they totaled \$162,889.34 for 45,247 meters.

In 2013, the Foreign Trade Ministry (COMEX) established a 20% ad valorem tariff; however, the company recorded higher imports compared to the years prior to 2013.

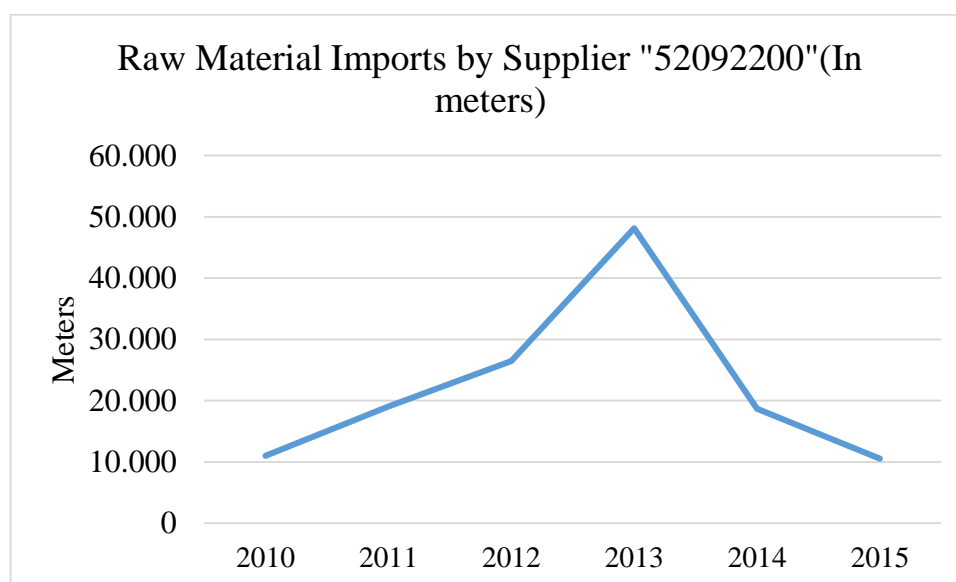
According to these records, the annual imports totaled \$276,989.90 for 71,023 meters. In 2014 the imports were reduced by 46% compared to 2013. In 2014 the imports were only of 33,301 meters which totaled \$129,875.81. In 2015 the imports increased by 30% compared to 2014, but compared to 2013 they were reduced by 61% and totaled \$170,476.76 for 42,712 meters.

Imports of textiles by periods (Shown in meters - Dollars – CIF)	
Procostura Cía. Ltda	
2010 – 2012	2013 - 2015
158,308 m	147,036 m
\$ 569,909.33	\$ 577,342.47
Source: Procostura Cía. Ltda	
Made by: Andrés Cabrera	

By comparing the following periods: 2010 – 2012, and 2013 – 2015, this research finds that there is a similar behaviour, despite the ad valorem percentage which went from 14% to 20%. Furthermore, in Ecuador there is a 5% additional tax on the remittance of currencies since 2013.

Although there have been new tariff changes, the imports by units and dollars have only had a little change: the number of units between periods have decreased but the amount of dollars has increased.

Raw Material Imports "52092200" (By meters)	
Procostura Cía. Ltda	
2010	11,006
2011	19,070
2012	26,470
2013	48,100
2014	18,680
2015	10,520
Source: Procostura Cía. Ltda	
Made by: Andrés Cabrera	



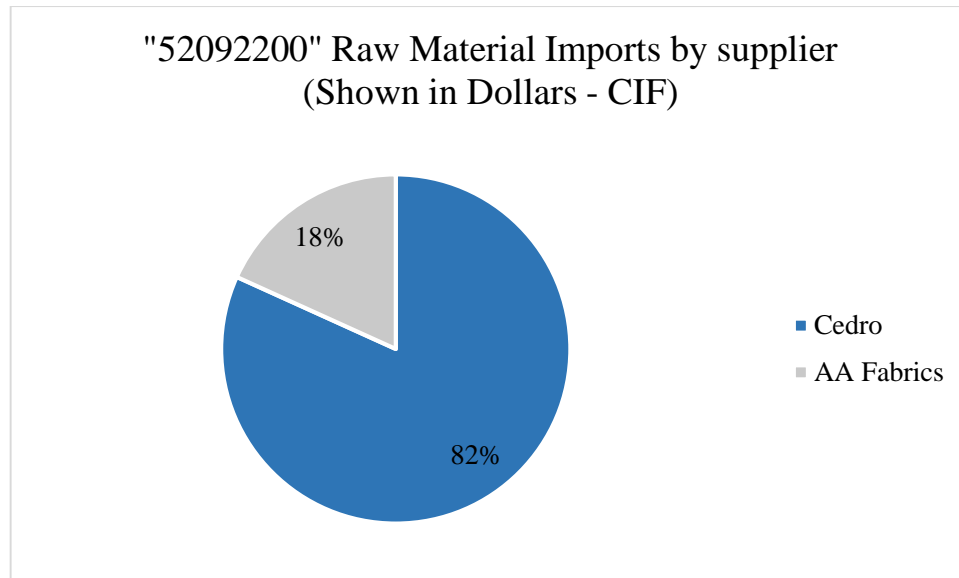
Source: Procostura Cía.Ltda

Made by: Andrés Cabrera

The reduction of imports in the last three years is not a result of the 20% ad valorem tariff, because within the periods being analyzed, the highest imports were made in 2013. The reduction of imports happened in 2014 but they were specially reduced in 2015. If the

tariff revaluation had happened in 2013 there would have been negative results in that year. In 2013 the amount of imported fabric increased from 26,470 to 48,100 meters. In March, 2015, a 5% surcharge was applied and the imports of fabric went down by 76% compared to 2013. In 2015, 10,520 meters of fabric were imported and in 2014 18,680 meters, which means that the imports in 2015, compared with 2014, were reduced by 56%.

"52092200" Raw Material Imports by supplier (Shown in Dollars – CIF)				
Procostura Cía. Ltda				
Cedro		AA fabrics		REG. ANNUAL
2010	\$ 37,419.88	2010	\$ 0.00	\$ 37,419.88
2011	\$ 64,839.76	2011	\$ 0.00	\$ 64,839.76
2012	\$ 56,120.82	2012	\$ 33,880.00	\$ 90,000.82
2013	\$ 121,252.64	2013	\$ 42,352.22	\$ 163,604.86
2014	\$ 56,125.82	2014	\$ 7,410.15	\$ 63,535.97
2015	\$ 39,415.88	2015	\$ 0.00	\$ 39,415.88
Total:	\$ 375,174.80		\$ 83,642.37	
Total Imports	\$ 458,817.17			
Source: Procostura Cía.Ltda				
Made by: Andrés Cabrera				



Source: Procostura Cía.Ltda

Made by: Andrés Cabrera

In 2010 the raw material imports totaled \$37,419.88 for 11,006 meters. In 2011 the imports increased by 73% and totaled \$64,839.76 for 19,070 meters. In 2012 the imports summed \$90,000.82 for 26,470 meters. In 2013 they totaled \$163,604.86 for 48100 meters, which means that the imports increased by 81% compared to the previous year. In 2014 and 2015 the imports were reduced by 61% and 76% compared to 2013 and totaled \$63,535.97 in 2014 for 18,680 meters, and \$39,415.88 in 2015 for 10,520 meters.

According to the above chart, between 2010 and 2015 the imports made from the Brazilian Company, "Cedar", totaling \$375,174.80, and the imports made from the Indian "AAFabrics" Company totaled \$83.462, 37, so 82% of the "52.09.22.00" raw material imports comes from Brazil, and 18% from India.

"52092200" Raw Material Imports by supplier (Shown in Meters - USD – CIF)	
Procostura Cía. Ltda	
1st Period: 2010 - 2012	2nd Period: 2013 – 2015
56,546 m	77,300 m
\$ 192,260.46	\$ 266,556.71
Source: Procostura Cía. Ltda	
Made by: Andrés Cabrera	

Between 2010 and 2012, Procostura Cía. Ltda., imported 56,546 meters of the “52.09.22.00” raw material which totaled \$192,260.46, and between 2013 – 2015 it imported 77,300 meters which totaled \$266,556.71, so there was an increase of 38%.

During the first period, the raw material was mostly bought from national suppliers. According to company executives, this happened because of liquidity shortages and because of the 2015 surcharge, which affected the import costs and therefore the Company.

The following chart shows the "Impordenim Cia. Ltda" anual imports by meters.

Fabric Imports (By meters)	
Impordenim Cía. Ltda	
Year	Fabric Meters
2010	9,566,888
2011	12,456,907
2012	12,890,557
2013	13,356,890
2014	12,789,904
2015	11,789,010
Total	72,850,156
Source: Impordenim Cía. Ltda	
Made by: Andrés Cabrera	

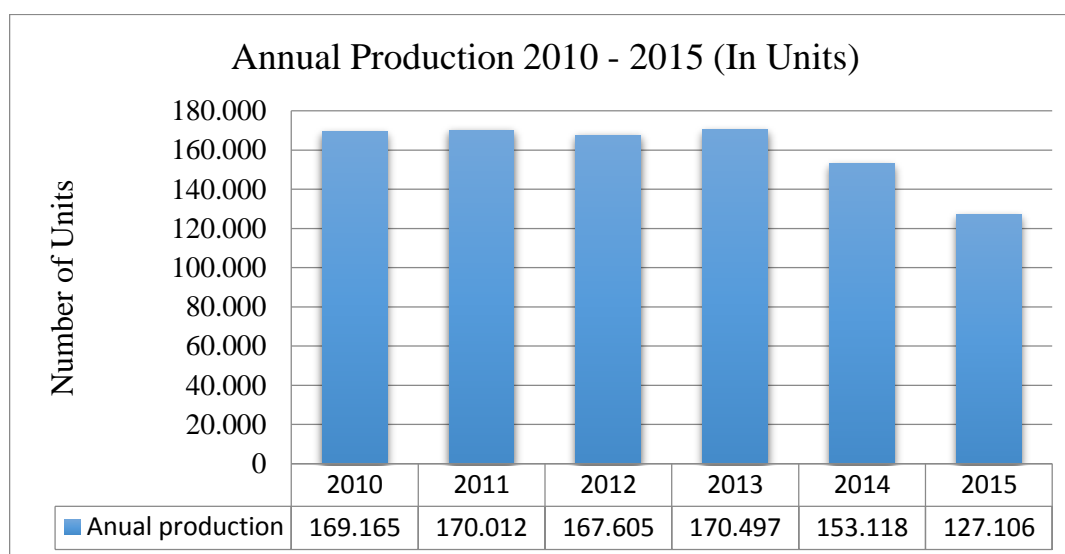
Between 2010 and 2011 the imports increased by 23%, and between 2011 and 2012 the imports increased by 3%. In 2013, after the tariff revaluation, the imports increased by 4% compared to 2012. In 2014 the imports of fabric decreased by 4% compared to 2013, and in 2015 the imports decreased by 12% compared to 2013.

In 2013, despite the tariff revaluation, the imports by meters increased, but starting in 2014 they have decreased. The behavior is similar to the "Procostura Cía. Ltda." case, which means that this pattern happening in the Ecuadorian textile industry is not a result of the the tariff revaluation or of the surcharges imposed by the Ecuadorian government.

3.2 Procostura Cía. Ltda.'s Production Analysis

The production area of the Company is based on a system called "By existence", which means that the Company produces its products based on trends and backgrounds studies. The information about the product is given to the customers in advance so they can place new orders. With this system the Company avoids excessive stock and sells all of its products.

Annual Production 2010 – 2015 (By Units)						
Procostura Cía. Ltda						
	2010	2011	2012	2013	2014	2015
January	8,354	8,793	7,865	9,520	8,900	11,803
February	8,180	9,225	8,725	8,340	10,597	9,534
March	14,620	12,025	13,625	12,052	14,474	9,534
April	13,456	15,003	14,700	14,523	13,007	12,137
May	15,520	14,654	15,220	15,001	12,132	9,927
June	15,032	16,223	15,320	16,500	12,771	12,142
July	15,205	14,789	14,202	15,202	12,130	10,222
August	14,356	15,335	13,525	16,312	11,212	11,318
September	17,358	16,223	16,546	17,720	15,717	9,319
October	16,890	17,589	17,452	17,786	13,904	12,301
November	15,230	15,569	15,223	13,446	16,170	10,856
December	14,964	14,584	15,202	14,095	12,104	8,013
Total	169,165	170,012	167,605	170,497	153,118	127,106
Average Production	14,097	14,168	13,967	14,208	12,760	10,592
Source: Procostura Cía.Ltda						
Made by: Andrés Cabrera						



Source: Procostura Cía.Ltda

Made by: Andrés Cabrera

The chart and graph above show the annual production of Procostura Cía. Ltda. by units. In 2010 the company was producing a monthly average of 14,097 jeans and an annual average of 169,165 units. At the end of 2011 there was a slight increase, having the Company produced a monthly average of 14,168 jeans and an annual average of 170,012. In 2012 the company produced an average amount of 167,605 denim garments. In 2013, despite the 5% surcharge and the higher costs of raw material, the annual production of jeans was of 170,497 units. Thus, the production was not reduced but it had an increase.

In 2014 the production dropped by 11% compared to 2013, with an average monthly production of 12,760 units, and an average annual production of 153,118 jeans. In 2015, the production fell by 34% compared to 2013, with an average monthly production of 10,592 units of jeans, and an average annual production of 127,106 units.

Production Records starting in March 2013 - 2015			
Procostura Cía. Ltda			
	2013	2014	2015
March	12,052	14,474	9,534
April	14,523	13,007	12,137
May	15,001	12,132	9,927
June	16,500	12,771	12,142
July	15,202	12,130	10,222
August	16,312	11,212	11,318
September	17,720	15,717	9,319
October	17,786	13,904	12,301
November	13,446	16,170	10,856
December	14,095	12,104	8,013
Total	152,637	133,621	105,769
Monthly Average	15,264	13,362	10,577
Source: Procostura Cía.Ltda			
Made by: Andrés Cabrera			

Between March and December of 2013, the monthly production was 15,264 units and the annual production was 152,637 units. In 2014, during the same months the production dropped by 14% compared to 2013; the monthly production was 13,362 units and the

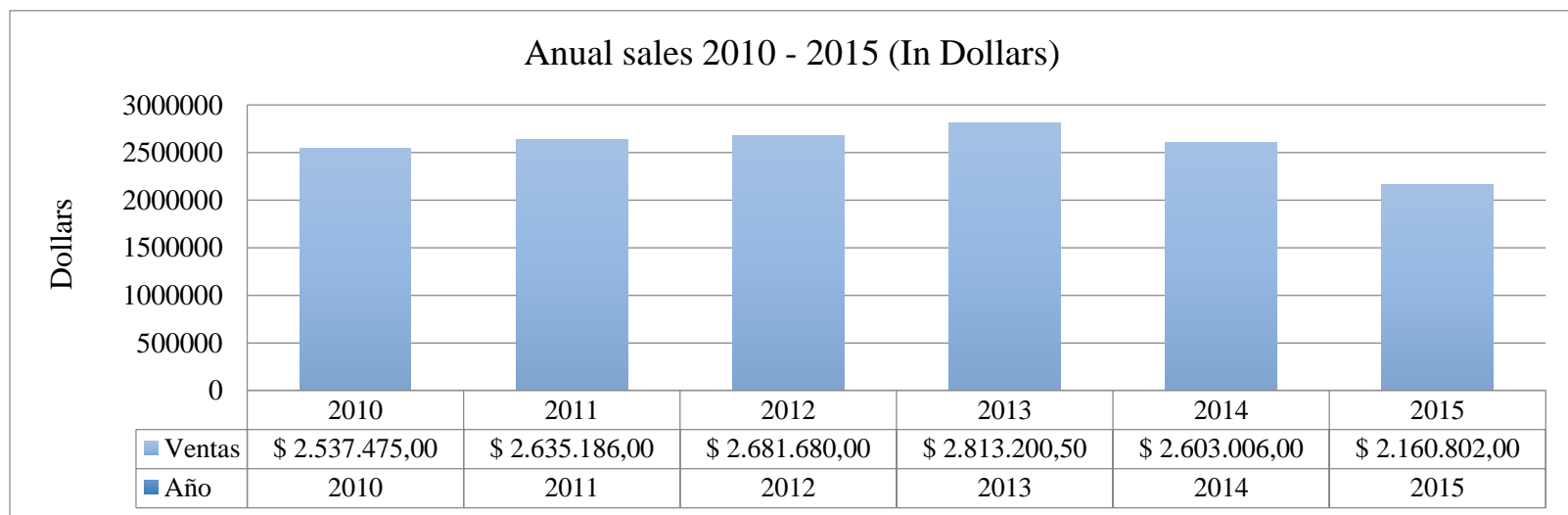
annual production 133,621 units. In 2015 the production dropped by 44% and between March and December the company produced 105,769 units.

The decline of Procostura's production started in 2014, which means that the surcharges of 2015 have not significantly affected the company.

3.3 Sales Analysis of “Procostura Cía.Ltda”

The company's sales are directly related to the production record, as the company does not generate a permanent stock of its products. The customers are contacted regarding the company's products in advance for them to place new orders.

Annual Sales (Shown in Units and Dollars)						
Procostura Cía. Ltda						
	2010	2011	2012	2013	2014	2015
Produced Units	169,165.00	170,012.00	167,605.00	170,497.00	153.118,00	127.106,00
Price	\$ 15.00	\$ 15.50	\$ 16.00	\$ 16.50	\$ 17,00	\$ 17,00
Total Sales:	\$ 2,537,475.00	\$ 2,635,186.00	\$ 2,681,680.00	\$ 2,813,200.50	\$ 2.603.006,00	\$ 2.160.802,00
Source: Procostura Cía.Ltda						
Made by: Andrés Cabrera						



Source: Procostura Cía.Ltda

Made by: Andrés Cabrera

It is not possible to determine an exact price for each garment, because they vary depending on their processes and designs, so the company sets annual reference prices. In 2010 the company sold 169,165 garments at \$15.00 each, which means that the annual sales totaled \$2,537,475.00. In 2011 the prices increased by \$0.50 cents per unit, and the annual sales totaled \$2,535,186.00 dollars for 170,012 units at \$15.50 each unit. In 2012 and 2013 there was a similar pattern. In 2012 the company sold 167,605 garments at \$16.00 each. In 2013 the sales totaled \$2,813,680.00 for 170,497 units at \$16, 50 dollars each.

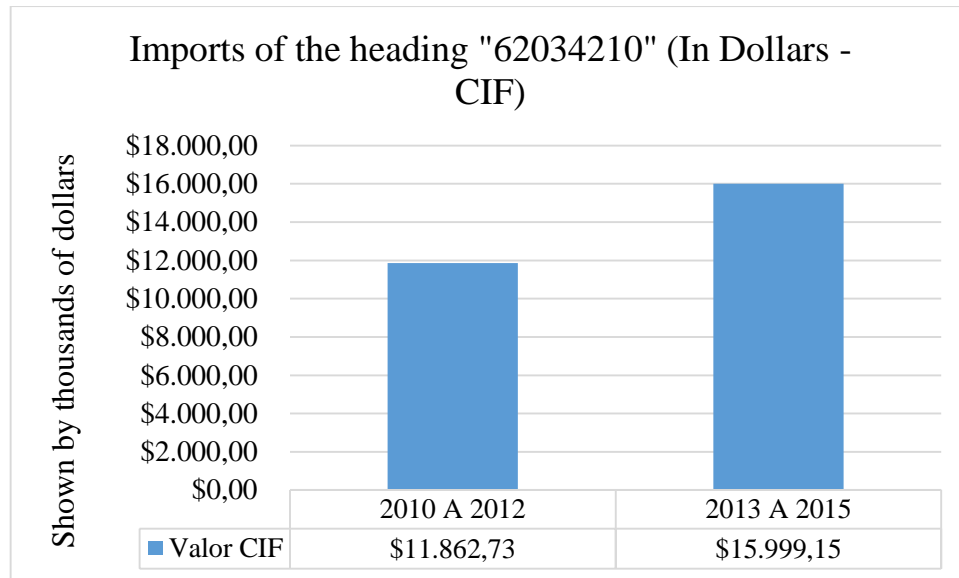
Between 2014 and 2015 the sales declined. In 2014 there was a total sale of 153,118 garments at \$17.00 each, which totaled \$2,603,006.00. In 2015 the total sale was of 127.106 garments at \$17.00 each, which totaled \$2,160,802.00.

Sales Growth Behavior (Shown in Dollars)		
Procostura Cía. Ltda		
Year	Sales	Variation Percentage
2010	\$ 2,537,475.00	
2011	\$ 2,635,186.00	4%
2012	\$ 2,681,680.00	2%
2013	\$ 2,813,200.50	5%
2014	\$ 2,603,006.00	-7%
2015	\$ 2,160,802.00	-17%
Average Percentage Growth		-3.16%
Source: Procostura Cía.Ltda		
Madey by: Andrés Cabrera		

Between 2010 and 2015, the average sales growth percentage was of -3.16%. The company sold the most Units and collected the highest amounts of money in 2013, which means that the raw material tariff revaluation is not what has affected the company. In

2014 the average sales growth percentage was of -7%, and in 2015 the average sales growth percentage was of -17%. Thus, 2015 is the year with the lowest sales growth average.

Imports to Ecuador of products under the "62034210" heading			
Year	Tons	Dollars FOB	Dollars CIF
2010	57.55	\$ 1,968.65	\$ 2,005.24
2011	153.31	\$ 4,733.36	\$ 4,815.39
2012	121.81	\$ 4,944.47	\$ 5,042.10
Total 2010 – 2012	332.67	\$ 11,646.48	\$ 11,862.73
2013	165.79	\$ 5,892.11	\$ 6,074,90
2014	130.49	\$ 4,777.16	\$ 4,948,81
2015	150.37	\$ 4,744.04	\$ 4,975.44
Total 2013 – 2015	446.65	\$ 15,413.31	\$ 15,999.15
Source: Banco Central del Ecuador			
Made by: Andrés Cabrera			



Source: Banco Central del Ecuador (Central Bank of Ecuador) - <http://www.bce.fin.ec/comercioExterior/comercio/consultaTotXNandinaConGrafico.jsp>

Made by: Andrés Cabrera

The chart above shows that there was a continual growth between the two periods shown in the chart and graph, 2010 – 2012 and 2013 – 2015. According to the Central Bank of Ecuador, during the first period 332.67 tonnes were imported, and during the second period 446.65 tonnes were imported. During the second period, the imports of denim garments increased by 32% compared to the first period. This, once again, shows that despite the tariff revaluation and the surcharges, the imports did not decline.

During the last two years the sales dropped, thus the production of the company dropped too. According to the Central Bank, during the last 3 years the imports of other similar products increased by 32% in CIF dollars. Even though the government applied a tariff revaluation and a 25% surcharge, these protective measures did not generate benefits for Procostura Cía. Ltda.

3.4 Comparative macroeconomic analysis with the company "Procostura Cía.Ltda"



Source: Banco Central del Ecuador

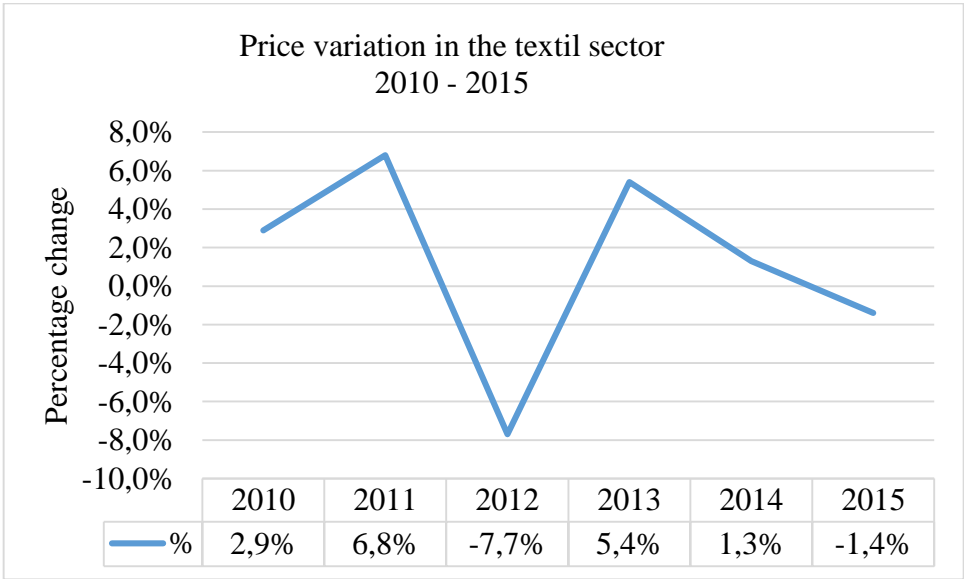
<http://sintesis.bce.ec:8080/BOE/BI/logon/start.do?ivsLogonToken=bceqsappbo01:6400@717917Jc9a9pXuNGq8gd7yzPKG39p717915JBo3JUbs5h01n6GKYqLb0fl>

Made by: Andrés Cabrera

According to the Central Bank of Ecuador in its national accounts, determines the production of the industries; and describes the textile sector as "Manufacture of textiles, clothing; manufacture of leather and leather goods"

The graph above describes the behavior of the textile sector in thousands of dollars, the year 2010 represents the beginning of the analysis period, and could be consider the lowest production of the period with \$ 1,840,702. For 2011 the production increases to \$ 2,198,838 and for the year 2012 exist a decline to \$ 2,038,498; in 2013 the production reached \$ 2,170,296, in 2014 it increased by 3.64% in relation to the previous year and produces \$ 2,249,308. And for the year 2015 production increased by 0.77% compared to 2014 and recorded a production of \$ 2,266,652.

In relation to "Procostura's Cía.Ltda" production the behavior maintains the same tendency until the year 2013; but from the year 2014 the company registered a decrease in the production of 11% in relation to the previous year, and in the same way the year 2015 because the production reduced 16%. As a result, the company faces a contrary behavior in relation to the information records of the national accounts of the Central Bank of Ecuador from 2014.



Source: Banco Central del Ecuador
<http://sintesis.bce.ec:8080/BOE/BI/logon/start.do?ivsLogonToken=bceqsappbo01:6400@717917Jc9a9pXuNGq8gd7yzPKG39p717915JBo3JUbs5h01n6GKYqLb0fl>

Made by: Andrés Cabrera

Another indicator is the variation of prices in the textile sector, the graph indicates the variation respect to the previous year. During 2010 and 2011 the variation increase, but for 2012 decreases 7.7%; in the year 2013 registered a positive behavior in 5.4%, for 2014 the indicator establishes a variation of 1.3% and in the year 2015 the variation is negative in -1.4%. The price variation has had a similar trend to the production record of the

company because in 2014 the variation is smaller compared to 2013 and in the year 2015 the indicator reduced -1.4% compared to 2014.

The above data do not indicate the behavior of the company; because the last two years has faced a reduction in production while at the macroeconomic level the Central Bank of Ecuador indicates that production has increased in the last two years. The price variation maintains a similar trend to the company, because in 2014 there was a positive variation but it was lower than positive variations of previous years and the year 2015 the variation is negative

Conclusions

Governments can take either protectionist or free trade measures depending on which generates more benefits for the country's development. A developing country without a developed domestic industry would normally have protectionist measures, while a developed country would take free trade as a benefit.

There are advantages and disadvantages on implementing protectionist measures. These could be positive for the domestic industry but negative for the consumers.

The national industry benefits from protectionist measures taken by governments, as it seeks to discourage imports to increase domestic production which generates more employment and higher profits for the state. On the other hand, the supply of imported products becomes lower and the prices increase. Not only are the prices of imported products higher, but also, due to speculation, the domestic products become more expensive too.

Free trade is the opposite trend. This theory focuses on the free exchange of goods and services without barriers to stop foreign trade.

The "Procostura Cía. Ltda" company buys its raw material from national and international suppliers. The raw material the company buys from national suppliers is also produced abroad, like fabrics, linings, and labels, among others.

The Ecuadorian Foreign Trade Committee, according to resolution 59, revalued the national import tariff in 2013, so the raw material purchases had a slight variation.

The fabric imports made by "Procostura Cía. Ltda" (heading 52.09.22.00) were reduced in 2014 and 2015 as the demand of garments declined too. After doing this research, the author has determined that the imports reduction was not a result of the 20% tariff

reevaluation. In 2012 the company imported 26,470 meters of fabric, in 2013 it imported 48,100 meters, but in 2014 the imports dropped by 61.16%, and in 2015 they dropped by 78.12% compared to 2013 while The tariff reevaluation did not have negative results in 2013.

In Ecuador, in March 2015, a 5% tariff surcharge was applied on some tariff headings that correspond to the raw material used in the production of denim garments, and the importation of these raw materials were reduced by 76% compared to 2013 and by 56% compared to 2014. The purchases from domestic suppliers were reduced by 4,31% in 2014, compared to 2013, but in 2015 there was an increase by 17% because the supplier offered the fabric at a very beneficial cost for Procostura Cía. Ltda.

As this study has shown, the highest amount of imports made by Procostura Cía. Ltda. were performed in 2013, so this analysis concludes that the measures taken by the government in 2013 to import fabric did not affect the production of the company. In 2013 the company produced 170,497 units which meant that the production had increased by 1.70% compared to 2012.

This analysis has shown that in 2013 the production increased by 0.78% compared to 2010, by 0.28% compared to 2011, and by 1.7% compared to 2012. In 2014 the production decreased by 10%, and in 2015 by 25.44%.

In 2013 the sales increased despite the prices that had augmented by \$0.50 cents per garment each year, from 2010 to 2013. The sales increased by 9.80% in 2010, by 6.32% in 2011, and by 4.67% in 2012. In 2014 the price increased by \$0.50 cents per garment and the sales dropped by 7, 47%. In 2015 the sales dropped by 23.19%.

Finally, the average sales growth percentage between 2010 and 2015 was of -3.16%. The sales variation between 2011 and 2013 was positive, but between 2014 and 2015 the variation was negative. The average sales growth percentage in 2015 was of -17%.

Recommendations

The Protective Measures are a tool for governments to protect domestic industries, so they should be implemented in order to reach that goal.

These measures should be implemented only on the final product and not on the raw materials used by the domestic industry.

The protectionist measures should be applied only to goods that the national industry is capable of producing.

Bibliography

- ACOSTA, FALCONI Y JÁCOME. *¿Qué pasa si Ecuador no firma el Tratado de Libre Comercio?*. Quito: Facultad Latinoamericana de Ciencias Sociales-Sede Académica de Ecuador, Januray 2006.
- APOLO, Norberto. *Tratados de Libre Comercio en Latinoamérica*. February 2013.
<http://www.puce.edu.ec/economia/efi/index.php/economia-internacional/14-competitividad/107-tratados-de-libre-comercio-en-latinoamerica>.
- CÁMARA DE INDUSTRIAS DE GUAYAQUIL. *Acuerdos Comerciales del Ecuador*. April 2011. http://www.industrias.ec/archivos/documentos/acuerdos_comerciales.pdf.
- CARBAUGH, Robert J. *Economía Internacional*. Washington : Cengage Learning, 2009.
- CEBALLOS, Luis. *Comercio Exterior*.
<http://www.comercioyaduana.com.mx/comercioexterior/comercioexterioriyaduanas/116-que-es-comercio-exterior>.
- COMITE DE COMERCIO EXTERIOR. *Aranceles*. May 2012.
http://www.aduana.gob.ec/archivos/Boletines/2013/ARANCEL_FINAL_1_DE_ENERO_R93.pdf.
- . *Resolucion N- 67*. Junio 2012. <http://www.produccion.gob.ec/wp-content/uploads/downloads/2012/09/RESOLUCION-67.pdf>.
- . *Sobretasas Arancelarias*. Resolución 011-2015. March 2015.
<http://www.comercioexterior.gob.ec/wpcontent/uploads/2015/03/Resoluci%C3%B3n-011-2015.pdf>
- COMUNIDAD ANDINA. *El comercio exterior de bienes entre los países andinos y UNASUR 2002- 2011*. April 2012.
http://estadisticas.comunidadandina.org/eportal/contenidos/2251_8.pdf.
- DIARIO EL POPULAR. *Virtudes y defectos de los TLC latinoamericanos*. September 2011. <http://www.diarioelpopular.com/2011/09/09/virtudes-y-defectos-de-los-tlc-latinoamericanos/>.

DIARIO EL UNIVERSO. Ecuador y UE firman acuerdo comercial que esperan aplicar en 2016. December 2014.

<http://www.eluniverso.com/noticias/2014/12/12/nota/4334506/ecuador-ue-firman-acuerdo-comercial-que-esperan-aplicar-2016>.

SALVATORE DOMINICK Y ARANGO MEDINA. Economía Internacional. Bogotá : McGraw-Hill, 1998.

ESCUELA POLITÉCNICA NACIONAL. *Fundamentos del Comercio Internacional de mercancías*. 2005. <http://bibdigital.epn.edu.ec/bitstream/15000/151/1/CD-0173.pdf>.

FALCONI & UNIVERSIDAD SAN FRANCISCO DE QUITO. Régimen común sobre Propiedad Industrial. Análisis Comparativo entre las Decisiones 344 y 486 de la Comunidad Andina de Naciones. http://www.usfq.edu.ec/publicaciones/iurisDictio/archivo_de_contenidos/Documents/IurisDictio_4/Regimen_comun_sobre_propiedad_industrial_analisis.pdf.

GRECO, Orlando. Diccionario de Comercio Exterior. Valleta Ediciones, 2005.

GONGORA JUAN PABLO Y MEDINA SALVADOR. La Política Arancelaria y el Comercio Exterior, Vol 60, N-3. March 2010.

KRUGMAN, Paul. Economía Internacional. Madrid: Pearson, 2006.

QUIROZ, Luis. *Introduccion a las medidas proteccionistas y sus ventajas*. May 2012. <http://www.puce.edu.ec/economia/efi/index.php/economia-internacional/14-competitividad/17-introduccion-a-las-medidas-proteccionistas-y-sus-ventajas>.

MINISTERIO DE COMERCIO EXTERIOR Y TURISMO DE PERÚ. Lo que debemos saber de los acuerdos comerciales. http://www.acuerdoscomerciales.gob.pe/index.php?option=com_content&view=article&id=48:lo-que-debemos-saber-de-los-tlc.

MONTAÑO, César. *El potencial tratado de libre comercio entre Ecuador y los EEUU frente al Derecho Comunitario Andino*. Quito: Universidad San Francisco de Quito, 2006.

PEREYRA, Gabriela. Teoria del Comercio Internacional. June 2014.

http://www.uaeh.edu.mx/docencia/P_Presentaciones/atotonilco_tula/inteligencia_mercados/documentos/aranceles.pdf.

PÉREZ Y CEBALLOS GABRIEL. *Comercio exterior, producción y determinación de precios del maíz en México*. Mexico: Eumed, 2010.

RENDON, Carlos Andrés. *El TLC, Ventajas y Desventajas para Colombia*. 2004.

<http://web.usbmed.edu.co/usbmed/mercatura/nro4/ventajas.htm>.

SERVICIO NACIONAL DE ADUANA DEL ECUADOR. Misión y visión. 2010.

http://www.aduana.gob.ec/ace/mission_vision.action.

SISTEMA DE INFORMACIÓN SOBRE COMERCIO EXTERIOR DE LA

OEA. Acuerdos. 2013. http://www.sice.oas.org/agreements_s.asp.

MERCOSUR. *Regimen de origen y arancel externo comun*. May 2015.

http://www.mercosur.int/mercosurwiki/index.php?title=R%C3%A9gimen_de_Origen_del_MERCOSUR

Annexes

Annex 1: Origin Certificate given to “Procostura Cía. Ltda” by the “Federação das Indústrias do Estado de Minas Gerais”, for the "52.09.22.00" Raw Material

FIEMG CIEMG SESI SENAI IEL Minas Gerais Federação das Indústrias do Estado de Minas Gerais		Av. do Contorno, 4.520 - 2º Andar Tels: + 55 31 3263 6819, 3263 6818 ou 3263 6820 Fax: + 55 31 3263 6821 CEP 30.110-916 445 108 096 Belo Horizonte MG Brasil		Certificado Nº MG 15590534 pagina: 1 de 1	
CERTIFICADO DE ORIGEM ACORDO MERCOSUL-COLÔMBIA, EQUADOR E VENEZUELA					
País Exportador: BRASIL					
País Importador: EQUADOR					
N.º de Ordem (1)	NALADI/SH	DENOMINAÇÃO DAS MERCADORIAS	Peso líquido ou Quantidade	Valor FOB em (US\$)	
01	5209.22.00	TECIDOS DE ALGODÃO CONTENDO PELO MENOS 85%, EM PESO, DE ALGODÃO, COM PESO SUPERIOR 200G/M2, BRANQUEADOS, EM PONTO SARJADO, INCLUÍDO O DIAGONAL, CUJA RELAÇÃO DE TEXTURA NÃO SEJA SUPERIOR A 4. TOTAL CIF	4.876.6000 KG	28.074.74 28.796.05	
DECLARAÇÃO DE ORIGEM DECLARAMOS que as mercadorias indicadas neste formulário, correspondentes à Fatura Comercial Nº EXP0280/15 , datada de 29/09/2015 , cumprem com o estabelecido nas normas de origem do Acordo ACE-59 , de conformidade com o seguinte desdobramento:					
N.º de Ordem	NORMAS(2)				
01	ANEXO IV - ARTIGO 2º - INCISO C				
Produtor Final ou Exportador (Razão Social, Endereço, País) CIA DE FIACAO E TECIDOS CEDRO E CACHOEIRA R. CHOPIN, 50 Bairro CH REUN. S. TEREZINHA 32.183-150 CONTAGEM MG BRASIL					
Data: 29/09/2015					
Importador (Nome, Endereço, País) PROCOSTURA CIA LTDA RUC 0190376117001 BARRIO CASTILLA CRUZ SN - VIA CHILCAPAMBA CUENCA EQUADOR					
Meio de Transporte : MARITIMO (BY SEA) Porto ou Lugar de Embarque: RIO DE JANEIRO					
Observações:					
Declaração Juramentada de: 17/09/2015					
CERTIFICAÇÃO DE ORIGEM					
Certifico a veracidade desta declaração, na cidade de Belo Horizonte – MG/Brasil aos:					
Entidade Certificadora: Federação das Indústrias do Estado de Minas Gerais					
Notas: (1) Esta coluna indica a ordem em que são individualizadas as mercadorias compreendidas neste certificado. Caso seja insuficiente, deve-se continuar a					

Source: Procostura Cía.Ltda

Annex 2: Procostura Cía.Ltda.'s Customs Clearance of the "52.09.22.00" Raw Material

Fecha : 11/18/2015 ✓

Liquidación

CONTRIBUYENTE:

Número de la liquidación	33265298 ✓	Tipo de identificación	RUC	Número de identificación	0190376117001
Nombre o Razon Social	PROCOSTURA CIA. ✓	Ciudad	CUENCA	TELEFONO	
Dirección	BARRIO CASTILLA CRUZ SN				

LIQUIDACION ADUANERA:

CONCEPTO	Liquidación de Aduana	Valor liberado	Valor a Pagar	Valor Garantizado	Diferencia a pagar no garantizada
A. Derechos arancelarios					
ARANCEL ADVALOREM	10,929.270	9,399.120	1,530.150		
ARANCEL ESPECIFICO	0	0	0		
ANTIDUMPING	0	0	0		
B. Impuestos					
FONDIFA	273.230	0	273.230		
ICE ADVALOREM	0	0	0		
ICE ESPECIFICO	0	0	0		
IVA	8,076.720	1,127.900	6,948.820		
C. Tasas					
Tasa de Vigilancia Aduanera	0	0	0		
D. Recargos Arancelarios					
SALVAGUARDIA	1,457.190	0	1,457.190		
SALVAGUARDIA ESPECIFICA	0	0	0		
E. Intereses					
F. Multas					
G. Otros					
TOTAL	20,736.410	10,527.020	10,209.390	0	10,209.390
Fecha/Hora de liquidación	18/11/2015	Fecha máxima de pago	20/11/2015	Banco	
Numero de Garantía		Valor liquidado	10,209.390 ✓		
Motivo Liquidación					

Source: Procostura Cía.Ltda