



University of Azuay

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**Economic and political effects of the resignation of the ATPDEA in Ecuador
Exports broccoli to The United States in the period June 2008 – 2014**

**Graduation work Prior to obtaining a degree in International Studies Bilingual
Mention in Foreign Trade**

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Dedication

The following graduation document is dedicated to my peers who for 4 long years have accompanied me. To my teachers who have managed to guide me in different academic areas. To my friends who have faced ups and downs beside me. To my family who becomes a cornerstone for achieving my goals, because without them this work and other activities would be meaningless.

Gratitude

Hereby I would like to thank everyone who has supported me, no matter how long for achieving this graduation work. To my teachers who taught me many tools to solve problems. To my thesis director who has become fundamental to the development of this study guide. To my university classmates who collaborated with me every day in different ways, especially on my education. Finally, to each member of my family who support me in every decision, in order to find the best results. Thanks to each of the people I mentioned, because without them the journey would have been more complex and undoubtedly less satisfactory.

Abstract

This project will address the effects of the ATPDEA in the export of broccoli from Ecuador to the United States in the period June 2008 - December 2014. By analyzing and comparing statistical data and product tariff preferences. We will see the modifications that have occurred and the impact of the ATPDEA in Ecuadorian exports of broccoli. Finally, to know how favored the Ecuadorian broccoli export sector was.

Key Words:

ATPDEA

Broccoli

Exports

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Introduction

The next graduation text is made in order to solve a critical point in the process of university education. In which the knowledge obtained during the 4 years of education within the School of International Studies were applied. Moreover, I solved several questions which appeared in the process of investigation. As one of the main objectives in Chapter 1, I will analyze broccoli exports during the period June 2008 - December 2014 within the ATPDEA. In chapter 2, I will identify and will analyze the importance of the ATPDEA preferences for broccoli exports. Finally in Chapter 3, I will determine the effects of the ATPDEA in exports of broccoli from Ecuador to the United States.

To achieve the objectives and the consistent development of this graduation document, statistical tools were used. As well as secondary sources of information, by which I can learn different points of view about the decisions made by who represent the Ecuadorian State. Therefore, this analysis will produce an objective work, which allows generating critical thinking. Likewise, allow the development of further work that may come to be supported for it.

Chapter 1. Concepts: ATPDEA

Introduction

States seek to link together in different circumstances because alone they cannot solve their needs. That is why in seeking to improve these links, concessions or preferences are granted. Primarily in economic terms between different stakeholders to generate mutual benefits. However, concessions may also occur unilaterally and as a mechanism to obtain benefits equally, for example, we can find the ATPDEA.

1.1 What is the ATPDEA?

In 1991 the government of the United States created the Law for Andean Trade Preference Act (ATPA). This was to provide tariff preferences to export products from Ecuador, Peru, Bolivia and Colombia to compete in the US market. This law was renewed in 2002, - which was planned that would operate for 10 years -, but now under the name of ATPDEA (Law of Andean Trade Promotion and Drug Eradication). The renewal was made after the report issued by the United States Congress presented positive conclusions of the actions of the agreement. Some positive points as having had an impact on US trade with Andean countries, having increased employment and export deals for the parties.

This new law would provide tariff preferences to the Andean countries, they committed to combating export, distribution and sale of illegal drugs. This agreement would expire on December 31, 2006. However, this law passed a negotiation process then its validity is extended until June 2013. Ecuador renounced the concessions offered by the United States in June 2013.

Not all products could get into the benefits of the ATPA as part of the agreement, the USA had established that exportable goods must have source records demonstrating that they have been manufactured or grown in the Andean countries. They must have a

minimum contribution of 35% of the country in the good's creations; however, other products whose market is sensitive were excluded on the preferences system such as:

Chart 1 Excluded Products ATPA tariff preferences

Excluded Products
Textiles and clothing items subject to other textile agreements.
Shoes not included when the agreement was signed and selected for GSP. ¹
Tuna prepared or preserved in any vacuum packaging.
Oil and other petroleum products in the sub headings 2709 and 2710.
Watches, parts (including cases, bracelets or belts) of any kind including, but not limited to mechanical quartz digital or quartz analog, if the watch or parts.
Sugar, syrups and molasses classified in the sub headings 1701.11.03, 1701.12.02, 1701.99.02, 1702.90.32, 1806.10.42, and 2106.90.12.
Ron and tafia classified under sub heading 2208.40 .00

Source: Washington Trade Report

By: Landy Andrade Fernando J.

After the renewal under the name of ATPDEA, several of the above listed products were included in the preferential agreement, such as watches and parts, footwear, petroleum, any derivative of petroleum, and clothing under some technical specifications.

Not all Andean countries could be benefited by this agreement, because in the documents of the ATPA and ATPDEA had established criteria under which States must accomplish to be considered for obtaining tariff preferences. Some of the conditions under which a country cannot be a beneficiary of this agreement are that the State is a communist, if it have nullified or taken action against any contract with citizens and organizations of the United States. If the State does not have good faith, that intellectual property is respected and that exist stockings on it to protect the rights of Americans. If it does not does modifications to support the international labor rights. An example of an Andean country that was no beneficiary is Venezuela.

¹GSP.- General System of Preferences

The conditions of admission were extremely strict, and our country suffered. The Ecuadorian State had problems with working conditions that were presented at that time, as taxes. According to Walter Supurrier in his article Exclusion of New ATPA preferences in Weekly Analysis wrote about the great influence of powerful groups within the policies of the two countries involved. The US oil demanded the refund of VAT for exports; it broke the possibility of Ecuador to be part of the ATPDEA. As a way to solve this problem, Ecuadorian groups of power pushed the government at that time (2002) Foreign Minister Heinz Moeller mediated with SRI to improve the situation.

Against this, Elsa de Mena, who was head of SRI, claimed that the VAT refund was issued in contracts with US companies. On the other hand, the precarious situation became more noticeable within the banana industry, whereby a demand from Human Rights Watch for child exploitation were reported. As a consequence, this industry adopted a code of social ethics to improve the situation. However, Ecuador could not enter the ATPDEA until October 29, 2002. The USA had previously issued statements in which Ecuador is excluded for not complying with the conditions demanded.

As it can be seen, the power groups influence and will influence national policies, regardless of the related country. State needs were displaced in accordance with recurring demands of the national productive sector to meet the requirements posed. Thus both the Ecuadorian Foreign Ministry and the US Embassy worked together to solve the obstacles encountered.

Moreover, the objectives of the ATPDEA:

- Provide benefits of income for Andean origin products.
- Promote the diversification of exports.
- Encourage domestic and foreign investment in non-traditional sectors.
- Consolidate democracy.

- Promote legal industries and prevent illegal cultivation and drug marketing².

As you can see the demanded requirements within this concession, were objectives which just represented the ideology of a state. Those countries that did not amount to align the conditions presented were simply excluded. A new situation for us? No, none of them can be surprised; however, it does not possess a better strategy to continue with the displacement of certain State's priorities to meet the achievement of revenue.

1.2 The ATPDEA for Ecuador.

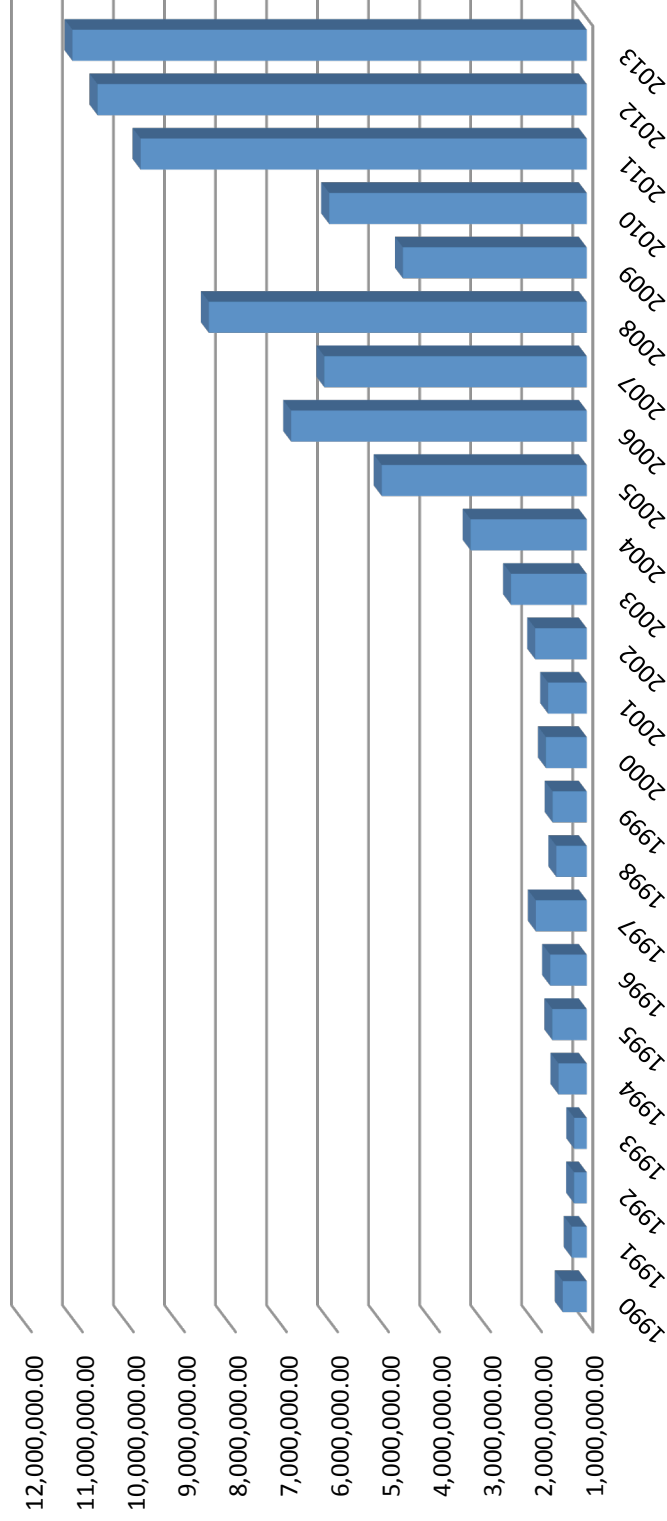
The United States is the main trading partner of Ecuador, which is the reason why preferences have to enter its primary market which is undoubtedly an advantage and benefit our country. With the unilateral concessions the Ecuadorian market is not affected by the entry of US products that destabilize the domestic industry. The Ecuadorian industry was motivated to improve and to increase efficiency and diversify exports using the ATPDEA. This directly affects the establishment of industries, which in turn generates increased employment positions.

Ecuador has benefited from the tariff preferences provided by the United States since 1991. Ecuadorian exports have been favored by the elimination of tariff barriers in terms of non-oil products. In general and for Ecuador has a concession becomes an advantage over its competitors to enter the US market in similar conditions of goods and services. In addition to the possibility of expanding their exports, this motivated Ecuador to reduce the heavy dependence on oil domestic exports, generating value to other commodities with an opportunity to be consumed in the US markets.

²Ulloa, Gina. *La Ley de Preferencias Comerciales Andinas y Erradicación de la Droga –ATPDEA, una renovación importante o innecesaria para el Ecuador*, Universidad Internacional del Ecuador, 2011

**Graph 1 Exports of Ecuador to the United States
(Thousands of Dollars) (FOB) (1990-2013)**

**Exports of Ecuador to the United States (Thousands of Dollars)
(FOB) (1990-2013)**



**Source: Central Bank of Ecuador
By: Landy Andrade Fernando J.**

As it is showed in the Graph No.1 Ecuadorian exports to the United States were increased thanks to new preferences that were obtained by the ATPA. This positive effect can be checked by analyzing the 21 tariff lines that has more weight during the 21 years of combined duration of the ATPA and ATPDEA. In which during the mentioned period they take an average representation of 59.52% in FOB Price, 83.82% in export's tons. Since 1994 this increase became more noticeable as system stability and handling on the deal boosted an export sector with greater confidence in their goods produced.

Export growth remains constant in the period 1994-1996, the peak presented in 1997, it is the most striking and representative value. This is because Ecuador has increased its exports gradually. The number of exported tariff lines increased from 484 in 1992 to 1341 in 2013. It should be emphasized that it has not made full use of all tariff items which had favored Ecuador. However, subsequent to peak exported in the 90s, a change is generated in terms of the growth trend filed after the entry into force of the ATPA.

The banking crisis which affected Ecuador in 1998 destabilized internal and external State economy. Ignorance and uncertainty about the direction of the situation with the freezing of the funds of thousands of Ecuadorians made that companies and national economy in general suffered a big blow. This hard impact on society is reflected in the decline in national productivity especially in the international market as is showed in Graph No. 1. On the other hand, note that this agreement undoubtedly boosted the domestic industry, especially with its main trading partner.

After the renewal of the ATPA in 2002 under the name of ATPDEA, the role of these tariff preferences could play a key role in Ecuadorian exports. Since the recent dollarization, industry needed incentives and what better way to boost the Ecuadorian industry that obtain benefits for nationals products to its main buyer market.

We must take into account the exchange of Sucre to the dollar as another factor that distorts graph 1. Ecuador's purchasing power boosted exports. However, as it has seen in the year 2001 and 2002 the effect of this change caused a blow in stability.

**Chart 2 Percentage representations of Exports by ATPDEA
(Thousands of Dollars) (FOB) (2002-2013)**

Exports to The Unites States (Thousands of Dollars) (FOB)			
Year	Total Exports	Exports by ATPDEA	Percentaje Exports by ATPDEA
2002	2,009,016.48	1,250,667.50	62.25%
2003	2,481,898.16	1,605,696.16	64.70%
2004	3,273,724.17	2,389,471.48	72.99%
2005	5,016,872.65	4,016,157.56	80.05%
2006	6,791,373.16	5,618,864.66	82.74%
2007	6,142,049.93	4,943,133.20	80.48%
2008	8,405,186.01	7,181,165.05	85.44%
2009	4,600,914.51	3,274,248.24	71.17%
2010	6,046,030.66	4,763,426.67	78.79%
2011	9,742,367.35	8,106,210.13	83.21%
2012	10,586,302.77	8,654,323.53	81.75%
2013	11,077,832.23	8,936,211.68	80.67%

**Source: Central Bank of Ecuador
By: Landy Andrade Fernando J.**

As seen in Chart 2, the importance of the ATPDEA in Ecuador's exports is remarkable. It represents from 62.25 % to 85.44 % of total exports. This means that 7 of 10 exported goods were favored with tariff preferences, besides showing similar behavior during the years of it. On average the ATPDEA had covered 77.02 % of exports by Ecuador to the United States.

**Chart 3 Percentage representation of Petroleum with respect to Total Exports to the United States
(Thousands of Dollars) (FOB) (2002-2013)**

Exports to the United States (Thousands of Dollars) (FOB)			
Year	Total Exports	Oil Exports by ATPDEA	Percentage Oil Exports by ATPDEA
2002	2,009,016.48	922,185.01	45.90%
2003	2,481,898.16	1,214,466.70	48.93%
2004	3,273,724.17	2,007,400.43	61.32%
2005	5,016,872.65	3,625,848.84	72.27%
2006	6,791,373.16	5,214,565.85	76.78%
2007	6,142,049.93	4,542,353.92	73.96%
2008	8,405,186.01	6,600,503.52	78.53%
2009	4,600,914.51	2,899,623.38	63.02%
2010	6,046,030.66	4,306,272.87	71.22%
2011	9,742,367.35	7,525,586.61	77.25%
2012	10,586,302.77	8,069,600.15	76.23%
2013	11,077,832.23	8,406,401.48	75.88%

**Source: Central Bank of Ecuador
By: Landy Andrade Fernando J.**

**Chart 4 Percentage representation of Petroleum with respect to Total Exports to the United States
(Tons) (2002-2013)**

Exports to the United States (Tons)			
Year	Total Exports	Oil Exports by ATPDEA	Percentage Oil Exports by ATPDEA
2002	7,738,630.73	5,795,856.92	74.90%
2003	8,497,000.89	6,591,224.92	77.57%
2004	11,344,330.83	9,127,506.07	80.46%
2005	14,297,181.77	12,284,546.44	85.92%
2006	16,434,279.24	14,438,417.37	87.86%
2007	12,679,690.28	10,765,667.34	84.90%
2008	12,973,007.10	11,242,867.56	86.66%
2009	10,140,069.98	8,271,478.36	81.57%
2010	10,182,613.97	8,467,009.30	83.15%
2011	12,687,803.29	10,915,154.41	86.03%
2012	13,153,097.71	11,479,898.94	87.28%
2013	13,868,521.41	12,316,734.16	88.81%

**Source: Central Bank of Ecuador
By: Landy Andrade Fernando J.**

To see better the importance of the ATPDEA in the economy of Ecuador, I can analyze Charts 2, 3, 4, 5, 6 in which its role is clear as a driver of our main export. During the last years of existence of preferences, oil came to occupy a percentage from 63% to 77 % of total exports. As for non-oil products had represented from 22% to 35 % of exports.

**Chart 5 Percentage representation of Non-Oil with respect to Total Exports to the United States
(Thousands of Dollars) (FOB) (2002-2013)**

Exports to the United States (Thousands of Dollars) (FOB)			
Year	Total Exports	Non-Oil Exports	Percentaje Non-Oil Exports
2002	2,009,016.48	1,086,831.47	54.10%
2003	2,481,898.16	1,267,431.46	51.07%
2004	3,273,724.17	1,266,323.74	38.68%
2005	5,016,872.65	1,391,023.81	27.73%
2006	6,791,373.16	1,576,807.31	23.22%
2007	6,142,049.93	1,599,696.01	26.04%
2008	8,405,186.01	1,804,682.49	21.47%
2009	4,600,914.51	1,701,291.13	36.98%
2010	6,046,030.66	1,739,757.79	28.78%
2011	9,742,367.35	2,216,780.74	22.75%
2012	10,586,302.77	2,516,702.62	23.77%
2013	11,077,832.23	2,671,430.75	24.12%

Source: Central Bank of Ecuador

By: Landy Andrade Fernando J.

Using these charts, we can check the high dependency that Ecuador had regarding preferences. The absence of a great diversity of products did that few assets that supported the national economy got the ATPDEA preferences. While it is noted that exports have grown, you can see that the percentage margin gets to have some stability. Therefore, I conclude that since the beginning of preferences, Ecuador had a strong privilege over other competitors.

Chart 6 Percentage representation of Non- Oil with respect to Total Exports to the United States (Tons) (2002-2013)

Exports to the United States (Tons)			
Year	Total Exports	Non-Oil Exports	Percentaje Non-Oil Exports
2002	7,738,630.73	1,942,773.81	25.10%
2003	8,497,000.89	1,905,775.97	22.43%
2004	11,344,330.83	2,216,824.76	19.54%
2005	14,297,181.77	2,012,635.33	14.08%
2006	16,434,279.24	1,995,861.87	12.14%
2007	12,679,690.28	1,914,022.94	15.10%
2008	12,973,007.10	1,730,139.54	13.34%
2009	10,140,069.98	1,868,591.62	18.43%
2010	10,182,613.97	1,715,604.67	16.85%
2011	12,687,803.29	1,772,648.88	13.97%
2012	13,153,097.71	1,673,198.77	12.72%
2013	13,868,521.41	1,551,787.25	11.19%

Source: Central Bank of Ecuador

By: Landy Andrade Fernando J.

According to the Chamber of Industries of Guayaquil (2011), one of the reasons that made the ATPDEA a useful tool, is that in this way we could get to compete with our neighbor countries. Especially with Peru and Colombia, they have TLCs with the United States, which releases much of their products of tariffs. We got to compete not only by geography, but also by the similarity of export products of the region. This situation produces that the costs generated by these activities, make us to stay in a very tough international competition.

A primary point is tax exemption favoring Ecuadorian exporters to gauge the importance of the ATPDEA. By having these preferences, the volume of export products was increased by the ease of access. In addition, it should be noted that in 2010, according to data from the Central Bank of Ecuador, our country stopped paying 34 million dollars generated by exports made for this Act. Ecuador had 1150 items that were favored in the ATPDEA. Majority of the products had to amend their prices to compete with their counterparts, since payment of tariffs demands it.

There are other ways to reduce tariffs as GSP preferences or Most Favored Nation. The relevance of the ATPDEA is the exemption from taxes in full for the products favored with this preference. It gives a greater advantage to the Andean countries against other States who have the US as their main trading partner.

The lack of this law is a blow which affects the Ecuadorian economy from paying 0% tariff to pay 5, 10, 15% or more of tariff taxes. These changes will be widely visible. On the other hand, different industries will not only change the selling price of their goods, since the amount offered will undergo changes due to loss of competitiveness. A sample of how the ATPDEA influenced national exports can be found in the decline in exports of broccoli by almost 50%, according to statistics from the Central Bank of Ecuador (2014). It would lead to the search for new alternatives by the United States, in better terms finding new suppliers that solve better their demands.

A sample of the needs of the Ecuadorian exportable offer of being strengthened is that 80 products represented 99% of exports made in 2010. And, only 12 products (oil, roses, fuel, tuna, tilapia, gypsophila, wood, mango, pineapple, passion fruit juice and broccoli) account for 97.96% of Ecuadorian exports for ATPDEA, according to the Statistics export of the Central Bank of Ecuador (2011). It leads us to the idea that there are few products exported by Ecuador. They have a strong representative in exports to the United States, in which they have exhausted tariff preferences.

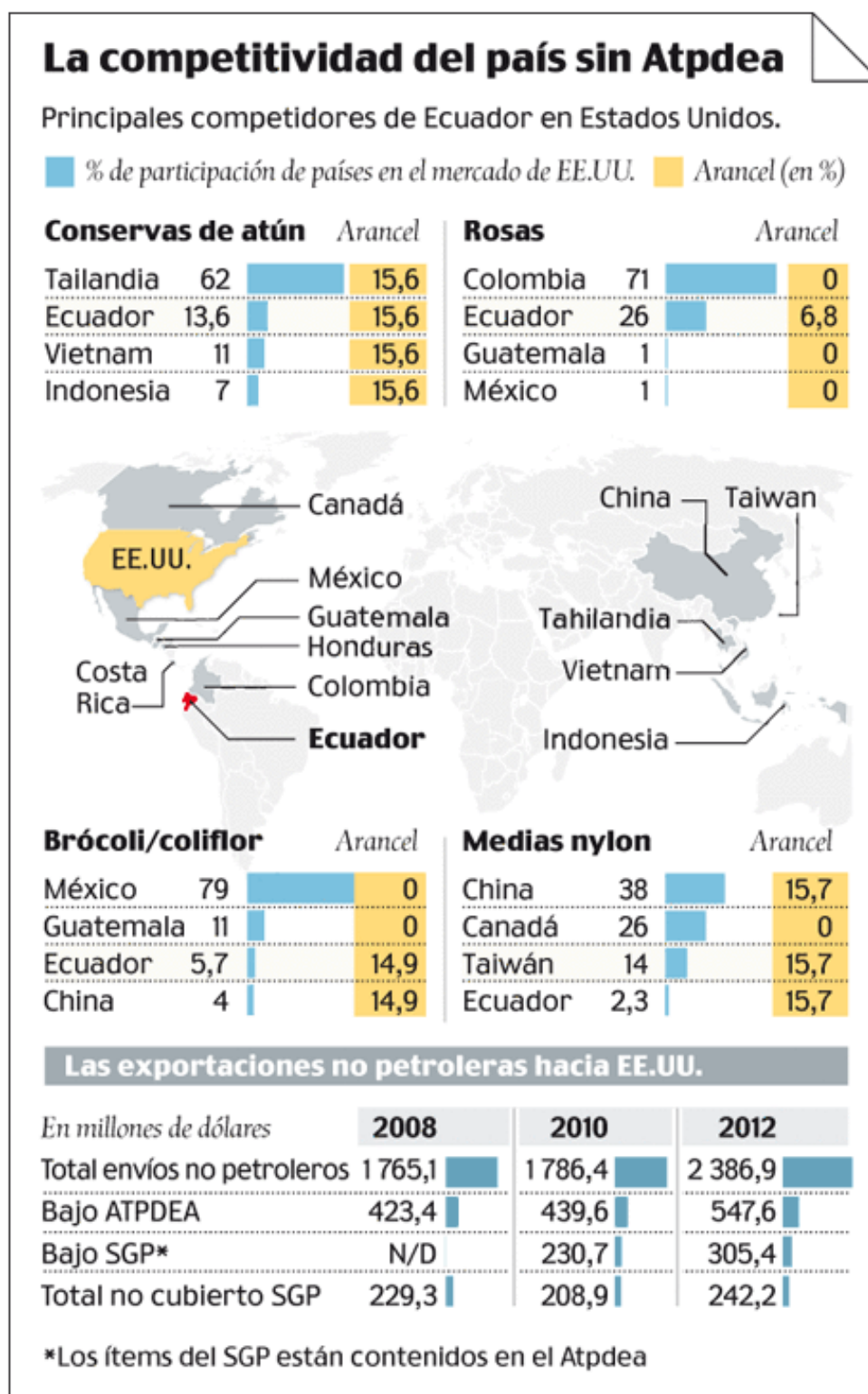
As shown in Figure 1, Ecuador is among the leading suppliers of various goods to the United States. This lead will be very difficult to maintain with the completion of the ATPDEA. These tariffs that have been imposed made the competitiveness of our products lower. Do not just look at the economic losses in number sense; other aspects such as the cooperation of the countries will be influenced by the precedent that is generated by the Ecuadorian government.

These have been made the work accomplished over several years by our representatives in embassies and diplomatic mission's action worthless. Thousands of dollars and all

agreements or sought concessions have seen their decline. Relations with the United States are deteriorating compared to other decades.

Similarly in Figure 1, we can see the importance of the ATPDEA for Ecuadorian products. This law came to cover a big part of the exported goods. Another point to emphasize is that it becomes more favorable for the country than the SGP. The SGP fails to cover even 40% of exports made using the preferences provided by the ATPDEA.

Figure 1 The Competitiveness of the country without ATPDEA



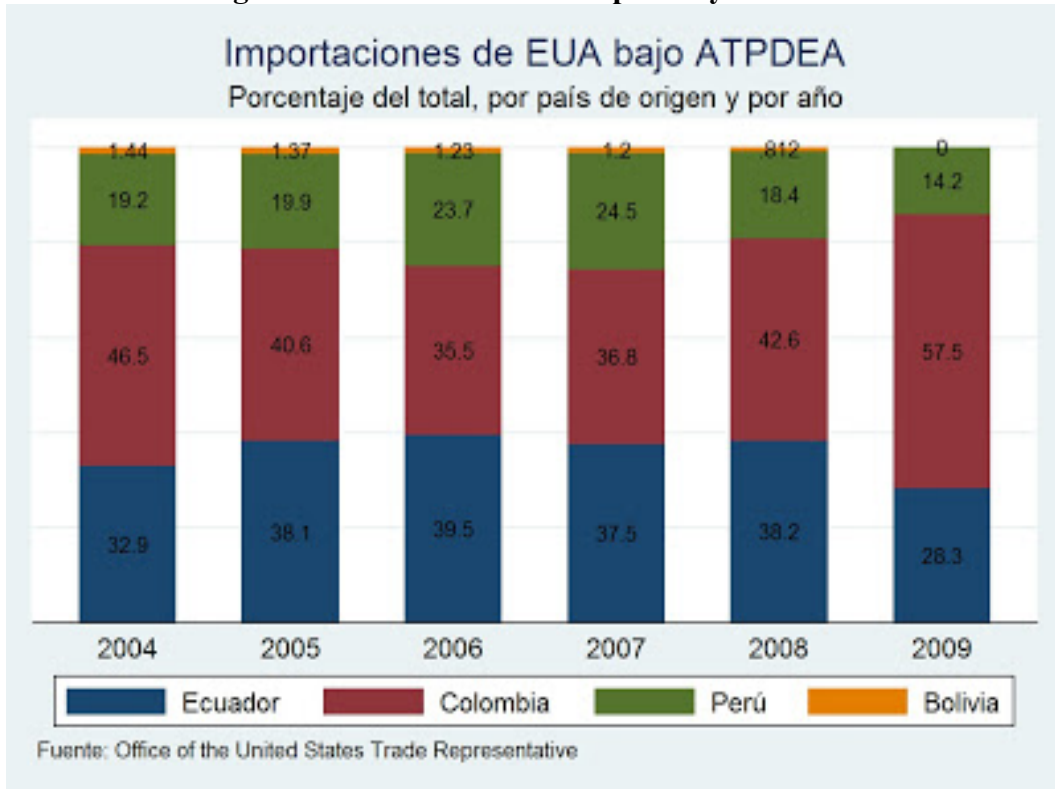
Fuente: Fedexport; EL COMERCIO

By: El Comercio

Not only products are affected, reducing exports by the end of the ATPDEA. There are variables that have changed, and one of the most important is employment. Based on data from the COMEX , 775 Ecuadorian companies were beneficiaries of preferences. The ATPDEA generated 331,216 direct and indirect jobs in the productive sectors if we rely on data from the IESS (2010). According to the Embassy of Ecuador in Washington (2013) about 327000 jobs were beneficiary of ATPDEA. They will be affected as soon as changes in the national export sector notice. Ecuador has about 7 million people within the economically active population (INEC, 2013); therefore we can conclude that 4.67% of the Ecuadorian population able to work is related to the effects generated by the ATPDEA.

In addition to the individual importance for our country of the ATPDEA; our country can be seen within the group of countries favored by the preferences in the second position. Therefore the benefits against our main competitors were of great help. Figure 2 shows statistics generated by the United States, which makes this analysis become objective.

Figure1The United States’ Imports by ATPDEA

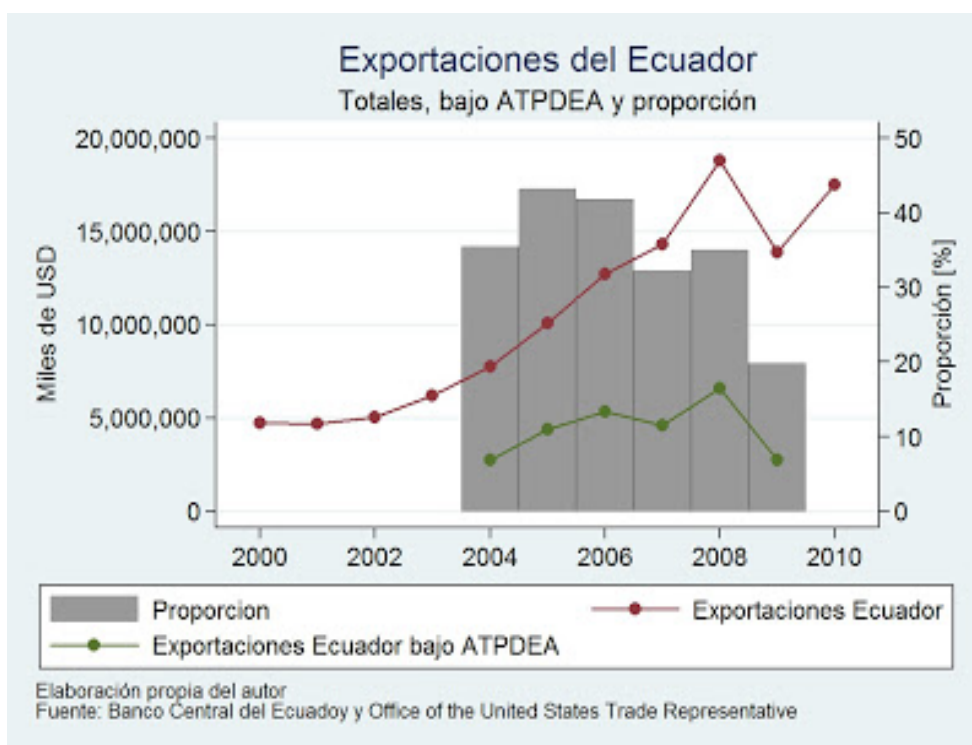


Source: Office of the United States Trade Representative
By: Office of the United States Trade Representative

It can be seen that the growth of exports of Ecuador is almost in similar proportion to growth of exports generated by the preferences of the ATDEA. Especially it should be noted that exports begin to take a peak since 2002. As mentioned previously, it is because with the renewal of the ATPA more goods were favored by preferences.

We must take into account that oil prices may alter the difference between years; however, it appears that certain relation between the lines within the graph is maintained. The period in which the proportion of representation of exports by ATPDEA was greater in 2004-2006; it becomes about 43% of total exports to the United States.

Figure2 Ecuador's Exports by ATPDEA



**Source: Banco Central y Office of the United States Trade Representative
By: Salcedo Cruz Juan José**

1.3 Position of Ecuador against the ATPDEA

After 21 years having preferences by the United States to the Ecuadorian exports by ATPDEA, our country unilaterally decides to finish these concessions. The position of the Ecuadorian government has been strong and sharp, through a press conference held

by Fernando Alvarado (Minister of Communication), José Serrano (Minister of Interior), Betty Tola (Secretary General), in which the reasons of Ecuador's decision were exposed.

If you look at the reasons given for the resignation, we cannot find commercial aspects. This decision is presented as a form of "liberation of blackmail by the United States to Ecuador by the constant threat of withdrawal of preferences," according to Betty Tola Secretary of Political Management. Similarly, it is mentioned that the resignation of Ecuador has "not return". As we can see the renounce of ATPDEA is driven by political reasons, but not commercial and this can be verified in the words of Fernando Alvarado during the press conference, "Ecuador does not accept pressure or threats from anyone, and does not trade with principles and commercial interests, important as they are."

Finally, when the press ended, Ecuador offered to the United States the amount of \$ 23 million, -an amount according to the Ecuadorian government- exports stop paying if do not use the ATPDEA. This amount must be used on learning about Human Rights.

The main question is why does Ecuador neglect the commercial aspects that generate the ATPDEA? As we can see the Ecuadorian government avoided provides statements regarding economics, as said President Rafael Correa the resignation is "unilateral and irrevocable", "against the threat, insolence and arrogance of Certain US Sectors that have pushed to remove the ATPDEA". Because it seems that the Snowden case in which Ecuador has been involved is the main drawback to this agreement. For the support provided by Ecuador to Snowden, the United States used it as a way to exercise some restraint in Ecuador's actions against the economic benefits. However, Ecuadorian representatives clarified that there is no connection with the Snowden case and that morality and honor of the country is all about circumstances regardless of the field.

This situation did not show the position of the whole Ecuador, the reactions to the resignation of the ATPDEA did not wait. Blasco Peñaherrera Solah President of the Chamber of Commerce of Quito was one of the first to rule on this decision. Peñaherrera (2013) in an interview with the newspaper HOY, mentions that the decision

is "absolutely irresponsible" because not only threatens exports, but also employment sources are affected.

Another appointed by Peñaherrera (2013), is the economic analysis of the 23 million Ecuador stopped paying according to Fernando Alvarado.

"Mr. Alvarado does not understand business issues. There are several losses, but two are quantifiable: the first, tariffs must begin to be paid from the time the ATPDEA has finished. If we calculate what the Ecuadorian exporters did not pay in 2012; it is approaching \$ 35 million. But if that amount is compounded by the loss of markets, the impact that it has on the production of those products that have no other market, then the losses are greater." (Peñaherrera, 2013)

Once again it shows that the decision made by the Ecuadorian government has no economic reasons. The export sector is the most affected. As we see, there are two opposing positions on this issue; the parties do not see the decision in the same manner. Each one did a different analysis of the generated effects.

The export sector refuses the decision. FEDEXPOR mentioned that this action "feeds speech and unfavorable position that some politicians and companies in the United States have about Ecuador". People who are directly benefited by the agreement of tariff preferences are not decision makers on this situation. Leaving them "with tied hands" at the expense of a mediator or a compensatory role that Ecuadorian government starts playing.

A few days after the renunciation of ATPDEA; the Chamber of Industries and Production of Ecuador issued a statement. Which expressed they believe it is causing a critical damage to the sustainable development. It will affect jobs, investment and production linkages. Furthermore, it is considered that measures of Ecuadorian government must be long-term measures. Otherwise it does not be able to establish solutions to address the lack of tariff preferences. This shows the impending concern of the various national trade organizations.

Export sectors began to demand action from the government. It is why Francisco Rivadeneira - former Minister of Foreign Trade - after making the waiver, he offered to work for many of the products which had had ATPDEA. To include them in the GSP; USA offers GSP to 5000 products imports. So he did not see affected fully products that lost tariff preferences. It is clear that not all products may be included into the various alternatives presented.

In 2013, Carl Marx Carrasco who then was in charge of the Internal Revenue Ecuador, mentioned that there will be a deviation of \$ 91 million due to the lack of ATPDEA. This deviation refers to the loss of income due to lack of preferences, be they direct or indirect. It means the United States would seek replacements for Ecuadorian products. However, Pablo Davila representative of the Chambers of Industries of Ecuador believes that trade diversion will be greater than the exposed by the Ecuadorian government, so that industries seek to receive state aid.

The Ecuadorian government in the search for alternatives to reduce the negative impact that the export sector will suffer, offered the Tax Credit. It operates in a way of compensating for those natural or legal people who have felt affected exports. Effects as deterioration in the market, change in tariff levels or unilateral sanctions for their products. Blasco Peñaherrera was pronounced on this measure, "in 2011 appeared something similar, however, the exporters were unable to make proper use of it". Francisco Rivadeneira responded saying that this time all the necessary corrective measures were taken, to allow the system to function properly and provide other benefits to exporters.

Government measures to address the situation have begun to appear, and are not unique. Removal of bureaucracy as a way to expedite obtaining certificates has been presented as an alternative to stimulate the productivity of the industry. The Ministry of Agriculture and Pro Ecuador hopes to strengthen productivity with the intention of not losing competitiveness.

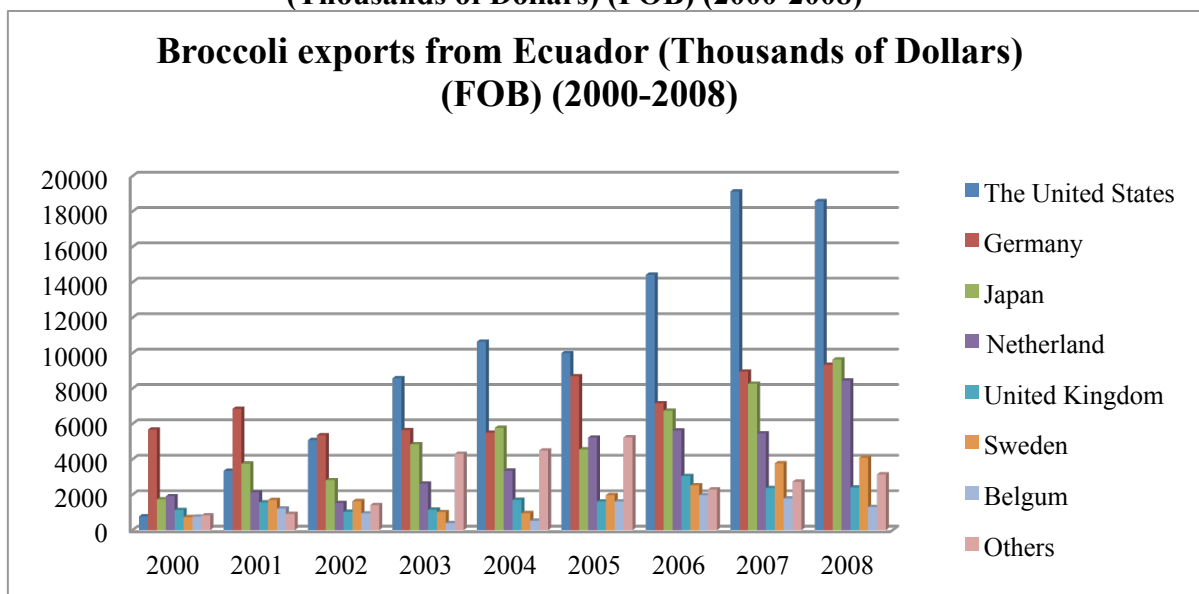
As we can see, two positions were created about the resignation of the ATPDEA. Both parties have agreed there will be changes in the national economy; the government is in

the role of "reducing" the importance of the ATPDEA, it contrasts with figures that are presented by the private sector. The private sector has been pronounced worried about this situation. However, keep in mind that permanent compensation given by the government for the same amount should be taken of the various taxes collected from 15 million Ecuadorians. So initially, you can start getting some conclusions about how negative and problematic this situation becomes for Ecuadorians.

1.4 Analysis of ATPDEA preferences in exporting broccoli

One of the main products favored by the preferences provided by the ATPDEA is broccoli. It got better opportunities to compete into one of its main consumer markets. During the last decade the various markets have remained, so we can talk of stability in demand as buyers are concerned, but not related to the quantity demanded.

**Graph 2 Exports broccoli from Ecuador
(Thousands of Dollars) (FOB) (2000-2008)**



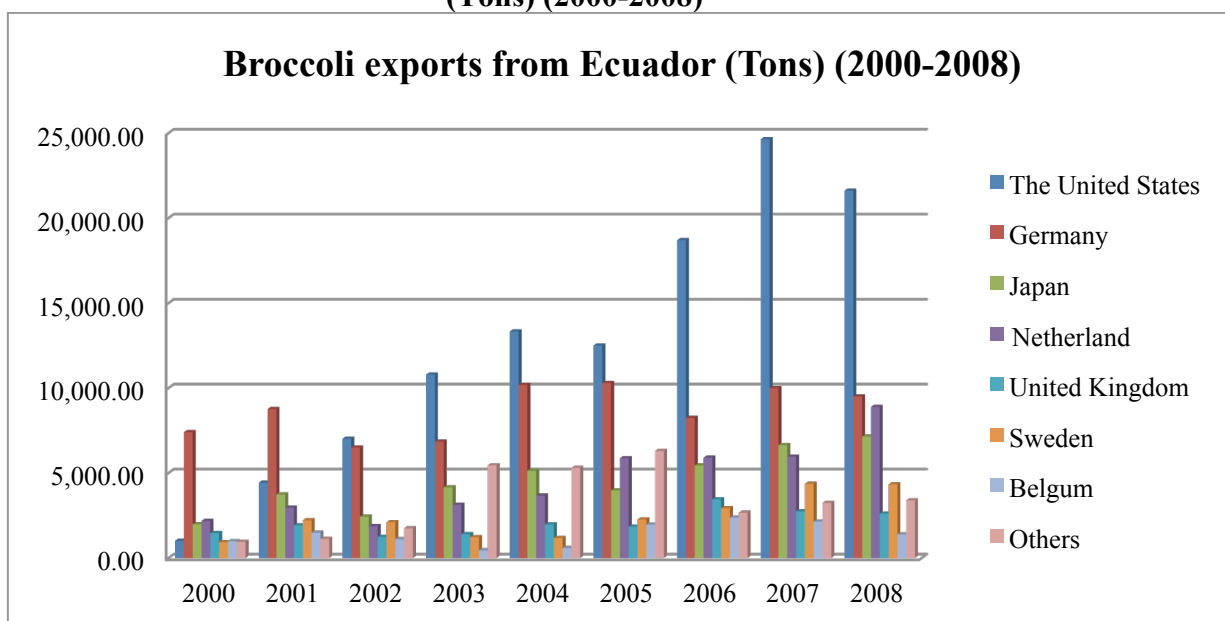
**Source: Central Bank of Ecuador
By: Landy Andrade Fernando J.**

At the beginning of XXI century, ATPA tariff preferences provided a less extensive list of products if we compare the ATPDEA. Exports of broccoli were increased thanks to the ATPDEA since 2002; it begins a new impetus in this industry thanks to the preferences obtained. The growth of exports to the United States presents a progressive

growth over 70% on the first decade of the century. However, we cannot say the same about other markets destinations. This is due to the facilities that the market presented despite not being one of the main import markets for this product, as if they were UK, Japan and Germany.

However, since 2008 presents a decrease in imports of broccoli by the United States, since the housing crisis of that year caused several products to lose their markets. The demand for consumer goods began to have another subject as priority.

Graph 3 Exports broccoli from Ecuador (Tons) (2000-2008)



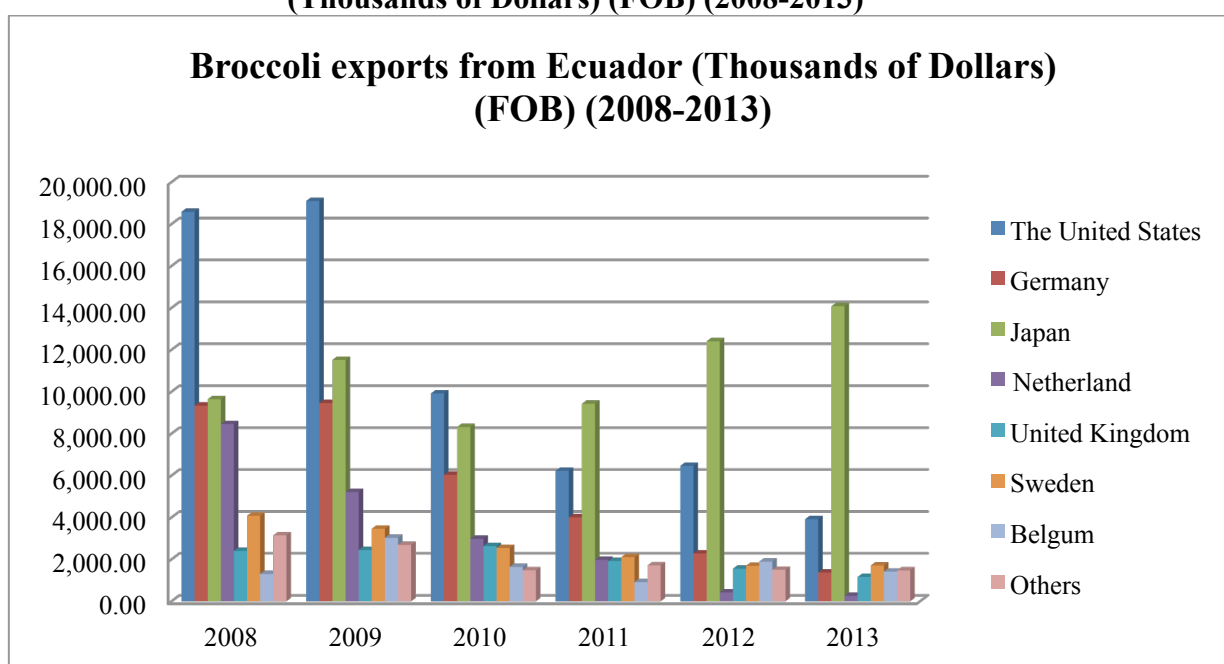
**Source: Central Bank of Ecuador
By: Landy Andrade Fernando J.**

Both exports in dollars (FOB) and tons maintained a similar development, which tells us that the price of broccoli apparently remained constant for several years. It creates stability in the export-import ratio. Although the USA is the major export market of Ecuadorian broccoli, Germany is the market with more stable consumption. The opportunities for this product may be increased in the European market under the agreement reached with the European Union in 2014. Notably, the number of import markets of the Ecuadorian broccoli has remained from 14 to 20 in recent years.

The ATPA and ATPDEA improved the opportunities, the Ecuadorian broccoli had a substantial increase in exports, which directly and indirectly improved its industry and jobs that surround this activity.

In recent years, Ecuador's relationship with the United States began to have a greater number of altercations, and this situation affects the business relationship between the two parties. Some comments emerged about the stability and no renewal of ATPDEA, it generated issues in the Ecuadorian broccoli industry for the possible loss of tariff preferences.

**Graph 4 Exports broccoli from Ecuador
(Thousands of Dollars) (FOB) (2008-2013)**

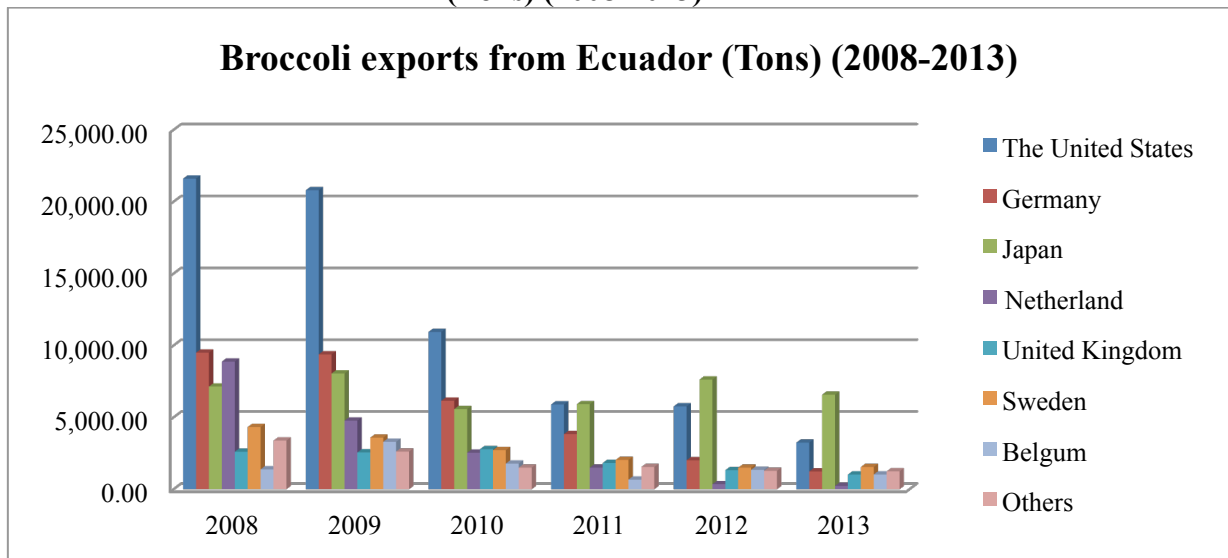


**Source: Central Bank of Ecuador
By: Landy Andrade Fernando J.**

This insecurity on tariff preferences of the ATPDEA began and created some effects. Exports were similar in 2008 and 2009, is noteworthy that the housing crisis maintained close relationship with the decreased consumption of various goods. The situation of US imports changes dramatically from 2010, for the possible non-renewal of ATPDEA. It began to affect the Ecuadorian industry, which suffered constant declines in exports.

Similarly exports to most destination markets began to decline. However, the fall in demand has no major differences between the various periods covered from 2010 to 2013.

**Graph 5 Exports broccoli from Ecuador
(Tons) (2008-2013)**



**Source: Central Bank of Ecuador
By: Landy Andrade Fernando J.**

Exports in dollars (FOB) and tons suffer similar variations; however, Japan is a market that does not fall on this analysis, because their values fluctuate differently from their peers' manner. The Japanese country has increased its exports, however, fluctuations in dollars (FOB) and Tons do not suffer a similar change, so we do not talk that the price of broccoli is superior to the Asian destination.

The importance of preferences and facilities provided by ATPDEA for this product were notary. The United States consume similar amounts of broccoli to the sum of the following two main consumers of Ecuadorian broccoli, during the last years of the first decade. The situation changed during the last years, the aforementioned lack of stability by the uncertainty of the renewal of the agreement began to affect the broccoli industry.

1.5 Changes introduced tariff on exports of broccoli from the end of the ATPDEA

After several years receiving tariff preferences from an extensive list of products exported from Ecuador, it changed the situation, but this time against the domestic industry. The lack of settlement agreement between the United States and Ecuador begins a tariff regime which must be accepted, broccoli is one of the most affected.

Exports of this product had been favored, especially with lower tariff barriers to enter their main consumer market. Payment of a fee of 0% made the price of broccoli find better opportunities through which compete with similar or substitutes in the market. However, the situation has changed, but not only following the resignation of ATPDEA, because the lack of stability began gradually to diminish confidence in this industry to generate higher productivity.

The new tariff assigned for the product is 14.9%. This increase will decrease the number of shipments, the frequency thereof, generating changes in order to shovel this hard coup. The product price will be affected, and indirectly the consumer, because you will lose access to this product. USA will seek other parties which comply with substitutes of broccoli goods, for its quality or accessibility to the amount. The role of government becomes important, finding new markets, renegotiation of preferences, or the granting of incentives. Government actions would be needed to support this and other industries.

Conclusion

As we have seen the ATPDEA has played an extremely important role within the Ecuadorian foreign trade. Our products possessed advantages into the main market, it will always be beneficial. Similarly this agreement has generated greater opportunities for the growth of the exportable supply of Ecuadorian products. It is a shame that this agreement did not progress in the best way. The ATPDEA came to cover from 62% to 85% of national exports to the United States.

Several taxes concessions for products had become important within a wider market; they generated more revenue for the country and in turn other benefits such as employment or investment. This situation will be changed against of Ecuadorian industry that had been used to having greater competitive advantage over third producer-exporters of substitute goods.

Chapter 2. The importance of broccoli to Ecuador in products with tariff preferences provided by the ATPDEA.

Introduction

Broccoli is located within the main products which have benefited from the ATPDEA. For this reason the Ecuadorian government has talked about some of the strategies to solve the waiver of tariff preferences, to solve strong effects on exports of this product. Furthermore, the national broccoli's importance in the Ecuadorian economy as exports product.

2.1 Response of the government as to the importance of broccoli in exports

Aware that exports of broccoli have been rising until 2013, this thanks to product quality and added value shown by presenting it when being sold, the former Minister of Foreign Trade Francisco Rivadeneira spoke about the situation. He mentioned that work for these goods will become part of the SGP which would reduce the commercial disadvantages which now the broccoli has in the US market.

Similarly it has been present with his statements Patricio Gutiérrez representative of Pro Ecuador on broccoli issues. He stated that the institution responsible for promoting national exports work hard for seeking new markets. Keep in mind that the role of various trade offices abroad is vital to improve the economy of Ecuador. Also, he ensured that markets such as Canada, Japan and the European Union will favor, which are major consumers of vegetables and main export markets of the Ecuadorian broccoli.

One of the first activities carried out by the government as a way to help this industry that suffered heavy losses by the lack of preferences has been the exemption from income tax. According to National Decree No. 136 within which exist a report of the situation of Ecuadorian broccoli that has been affected by the waiver of ATPDEA is provided, generating the reaction approved above. Another way to counter the negative effect that the domestic industry is suffering is the Organic Law of the Productive Sector Incentives, in which this sector is benefited.

Christian Rueda, Development Specialist Sector Food Agricultural Pro Ecuador, presented his opinion on exports of broccoli. He said it exhibits stability; however, he is aware of the loss of competitiveness of the product states that the institution which he performs is working with the export sector. Help to give to companies producing this good to attend international fairs and trade promotion events. It is looking to open new markets and strengthen others who have been recurrent importers for this manufacturer-exporter sector.

Similarly, the Ecuadorian government suggests that markets like the Middle East become points of consumption of the domestic product, this time of broccoli. This aspect is remarkable, since before the crisis moment, these new measures may turn into real changes to the national economy. However, it cannot get to leave a dependency to put us in another. This makes the job of the government and its political agents be increasingly important and must be carried out meticulously towards our wellbeing.

As another reaction from the government, which has not yet begun to have an impact, is the possible agreement with the European Union, of which the former Minister Francisco Rivadeneira showed positive. As several sectors were concerned, of course broccoli has with this situation the opportunity to increase their representation in this region and neglecting the problems that are being presented with its main consumer market.

Finally, it is observed as the economy began to make changes within the country, affecting the entire environment. The legislature had to create new parameters so Ecuadorian exports did not suffer a strong impact on the waiver of preferences obtained. Similarly government work should be maintained due to constant search for markets that it need. Especially when several sectors both from left and right have commented on this measure, because the political ideology of Ecuadorians is in the background when parties see their income sources affected. We should stay alert to the actions of the government, hoping these changes in the economy do not completely transform the political sphere of the country. Because of persistent discomfort of the population to obtain stability, it would cause a completely opposite effect.

2.2 Relevance of broccoli in the ATPDEA in exports from Ecuador

Although there is a large number of tariff items that had tariff preferences provided by the ATPDEA, the weakness of the domestic industry or otherwise call the Ecuadorian young industry makes the country's export potential unable to take the advantage obtained for several years. That is why products like artichokes and broccoli have come to represent the Ecuadorian producer-exporting industry. As an example of the role that represent some of these products is that together broccoli, artichokes and roses using these concessions accounted for 80% of exports of nontraditional products, in 2012.

Exports of broccoli are among the main products exported using the ATPDEA. Tariff preference marks obtained became a pattern to improve this industry, and to begin to stand out in the market. Employment generation is a key measure the importance and impact of the ATPDEA within this industry point, about 12 000 jobs which are linked directly with the production of broccoli. It is not a fact less, if we know that in total around 327,000 jobs were created by the preferences obtained, data from 2013.

For 2010, exports of broccoli represented 4% of products exported under the ATPDEA. It tells of a product having high competitiveness for Ecuador, and a high rate of consumption in the destination country. Broccoli was in the No. 8 position of the top 10 products exported within the preferences. Government and private sector need to promote broccoli sector aware of the growth presented by it. This momentum made broccoli represent 0.34% of non-oil exports in the period June 2010 - June 2011, and 1.4% in non-traditional export products. We must take into account that this period was the beginning of a decline in exports of this product (2010) (Graph 9).

Also you can see the representation of Ecuadorian broccoli during the last 11 years (2002-2013) in terms of exports to the United States, both in tons and FOB price .It can be used to measure the importance of broccoli for the country. However, remember that the average is a sign of long-term behavior of exports of this asset. We discussed below different forms of grouping that can be obtained depending on the features or themed products exported.

**Chart 7 Percentage Representation of Broccoli with respect to Total Exports to the United States
(Thousands of Dollars) (2002-2013) (FOB)**

Exports to the United States (Thousands of Dollars) (FOB)			
Year	Total Exports	Broccoli's Exports by ATPDEA	Percentage Broccoli's Exports by ATPDEA
2002	2,009,016.48	5,083.38	0.25%
2003	2,481,898.16	8,574.43	0.35%
2004	3,273,724.17	10,645.68	0.33%
2005	5,016,872.65	9,996.86	0.20%
2006	6,791,373.16	14,423.29	0.21%
2007	6,142,049.93	19,130.83	0.31%
2008	8,405,186.01	18,578.27	0.22%
2009	4,600,914.51	19096.06	0.42%
2010	6,046,030.66	18740.6	0.31%
2011	9,742,367.35	18790.8	0.19%
2012	10,586,302.77	18524.6	0.17%
2013	11,077,832.23	3,913.68	0.04%

**Source: Central Bank of Ecuador
By: Landy Andrade Fernando J**

**Chart 8 Representation Percentage of Broccoli with respect to Total Exports to the United States
(Tons) (2002-2013)**

Exports to the United States (Tons)			
Year	Total Exports	Broccoli's Exports by ATPDEA	Percentage Broccoli's Exports by ATPDEA
2002	7,738,630.73	7,015.85	0.09%
2003	8,497,000.89	10,789.76	0.13%
2004	11,344,330.83	13,330.35	0.12%
2005	14,297,181.77	12,499.67	0.09%
2006	16,434,279.24	18,699.41	0.11%
2007	12,679,690.28	24,641.44	0.19%
2008	12,973,007.10	21,610.85	0.17%
2009	10,140,069.98	20804.42	0.21%
2010	10,182,613.97	20512.86	0.20%
2011	12,687,803.29	20905.43	0.16%
2012	13,153,097.71	20667.95	0.16%
2013	13,868,521.41	3,244.73	0.02%

**Source: Central Bank of Ecuador
By: Landy Andrade Fernando J**

**Chart 9 Percentage of Broccoli Representation Regarding Non-oil Exports to the United States
(Thousands of Dollars) (FOB) (2002-2013)**

Exports to the United States (Thousands of Dollars) (FOB)			
Year	Non-Oil's Exports	Broccoli's Exports by ATPDEA	Percentage Broccoli's Exports by ATPDEA
2002	1,086,831.47	5,083.38	0.47%
2003	1,267,431.46	8,574.43	0.68%
2004	1,266,323.74	10,645.68	0.84%
2005	1,391,023.81	9,996.86	0.72%
2006	1,576,807.31	14,423.29	0.91%
2007	1,599,696.01	19,130.83	1.20%
2008	1,804,682.49	18,578.27	1.03%
2009	1,701,291.13	19096.06	1.12%
2010	1,739,757.79	18740.6	1.08%
2011	2,216,780.74	18790.8	0.85%
2012	2,516,702.62	18524.6	0.74%
2013	2,671,430.75	3,913.68	0.15%

Source: Central Bank of Ecuador
By: Landy Andrade Fernando J

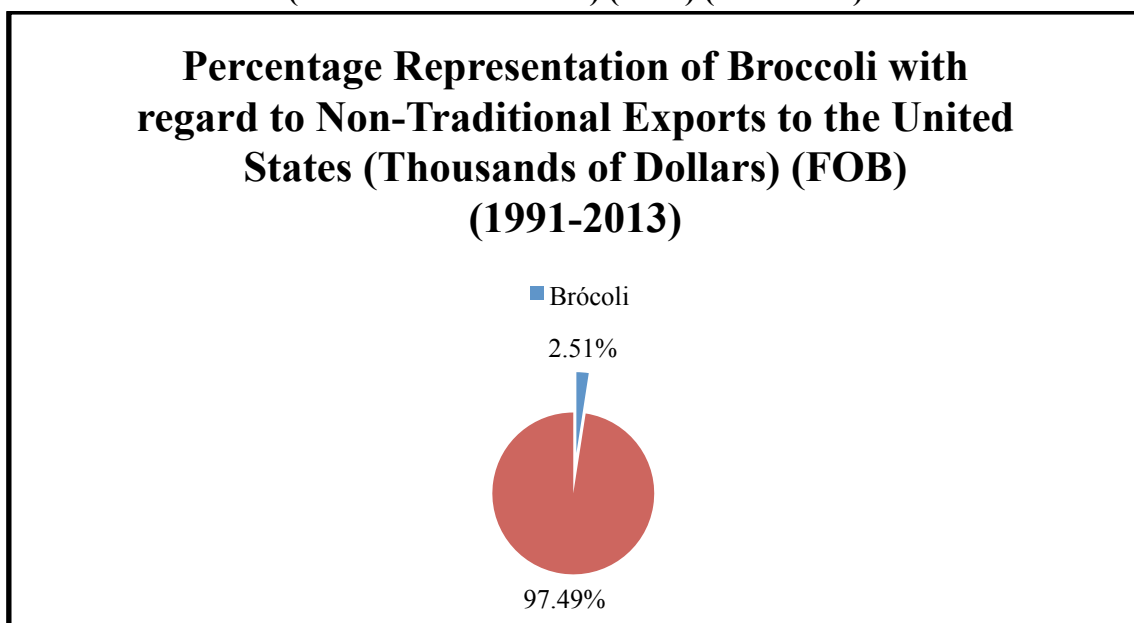
**Chart 1 Percentage of Broccoli Representation Regarding Non-oil Exports to the United States
(Tons) (2002-2013)**

Exports to the United States (Tons)			
Year	Non-Oil's Exports	Broccoli's Exports by ATPDEA	Percentage Broccoli's Exports by ATPDEA
2002	1,942,773.81	7,015.85	0.36%
2003	1,905,775.97	10,789.76	0.57%
2004	2,216,824.76	13,330.35	0.60%
2005	2,012,635.33	12,499.67	0.62%
2006	1,995,861.87	18,699.41	0.94%
2007	1,914,022.94	24,641.44	1.29%
2008	1,730,139.54	21,610.85	1.25%
2009	1,868,591.62	20804.42	1.11%
2010	1,715,604.67	20512.86	1.20%
2011	1,772,648.88	20905.43	1.18%
2012	1,673,198.77	20667.95	1.24%
2013	1,551,787.25	3,244.73	0.21%

Source: Central Bank of Ecuador
By: Landy Andrade Fernando J

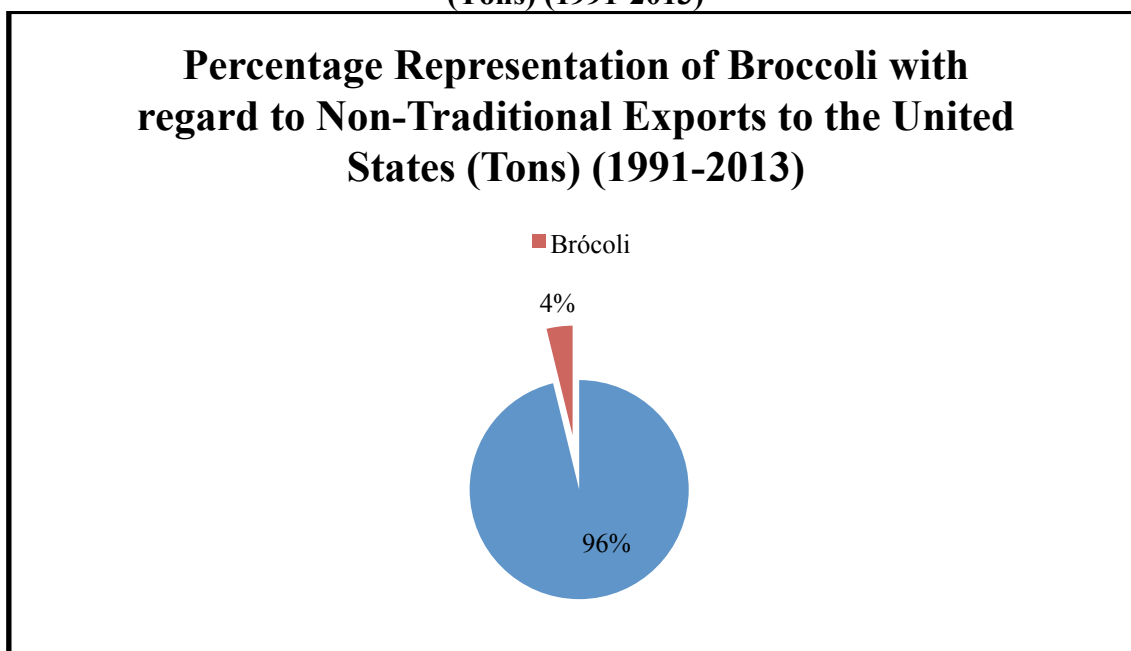
The importance of broccoli is such that this Ecuadorian product has come to represent 6.2% of US imports of this good, according to statistics Trademap.org. The country from which the United States acquired more of this product is Mexico; take into account the proximity of markets, in addition to the agreements and good relationship between the parties. It means a plus for the exchange of goods and services. On the other hand, it covers a significant part of a gigantic market which is a great achievement for our domestic industry. Remember, broccoli is not a traditional export product; it has come to earn its spot in the domestic industry. This entire positive situation show us that the ATPDEA worked as a great promoter of various industries, which for several decades had failed to take off and then export their products.

Graph 6 Percentage Representation of Broccoli with regard to Non-Traditional Exports to the United States (Thousands of Dollars) (FOB) (1991-2013)



**Source: Central Bank of Ecuador
By: Landy Andrade Fernando J**

Graph 1 Percentage Representation of Broccoli with regard to Non-Traditional Exports to the United States (Tons) (1991-2013)



**Source: Central Bank of Ecuador
By: Landy Andrade Fernando J**

The imminent and subsequent completion of the ATPDEA made broccoli industry began to show declines in exports. Uncertainty plays an important role in various companies in which planning must generate constant stability over time, which allows them maintaining profitability in their activities.

Broccoli's production grew by 7.7% annually since 2013, according to a study by the Ecuadorian American Chamber of Commerce, it is possible to thank to stability of climate and crop conditions of broccoli in Ecuador. Each of these details and statistics can show the impact of preferences within the sector. The ATPDEA represent a before and after for this type of goods that had been forgotten; productive growth, job creation and increased of exports were increased.

2.3 Exports of broccoli in the period June 2008 - June 2013

Broccoli exports have increased since the ATPDEA began to give preferences to this product. However, this trend has not maintained for Ecuador. There are 3 companies that distribute and export the product, Nova, Ecofroz and Proverfrut, according to the Ecuadorian American Chamber of Commerce. These three are located in the Sierra region. Despite beginning a good trade performance in recent years, and being the second non-traditional product of the Sierra, it began to notice negative changes in export. But these changes become more noticeable in its main consumer market, the United States. The importance of the ATPDEA for this product is noticeable.

The imminent completion of these preferences began to have a negative effect on this industry. Speculation about the situation makes activities such as production trade and business planning begin submitting shortcomings. As shown in Graph No. 9 in recent years exports of broccoli began to decline in values above 50%.

I have taken the month of June as a basis for analysis, in that month Ecuador presented waiver of ATPDEA. June is an excellent date for a previous and subsequent analysis of the decision taken by the Ecuadorian government. Not having a good relationship with our largest trading partner affects price and quantity of product the shipped.

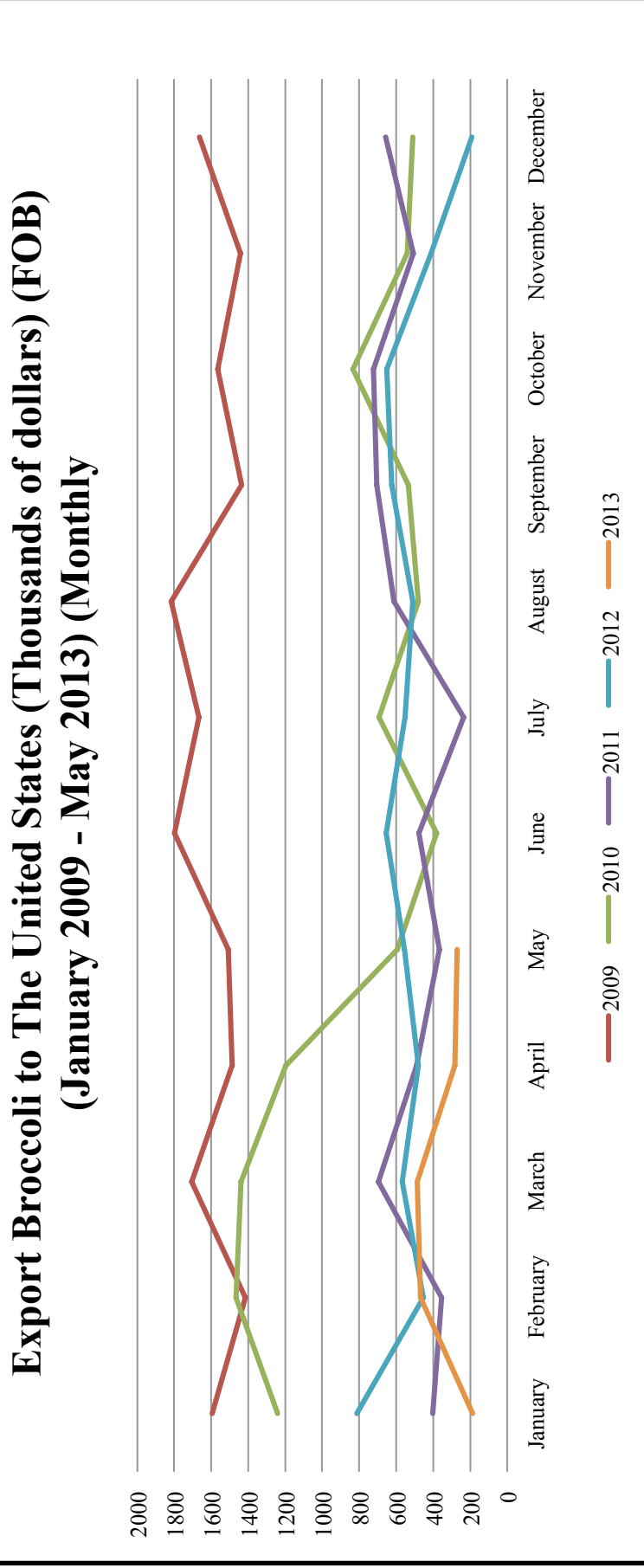
Broccoli does not have a clear pattern in terms of exports, although there is a similarity between the thousands of dollars (FOB) sold and exported tons. This reflects the behavior of the product on the market has been steady. On the other hand, it tells us that the product price remained apparently stable.

Analyzing product's demand is very important, because this makes a more objective point of view. According to broccoli's imports of the United States, consumption through this activity does not have stability. This import's amount increases and decreases in recent years. We can mention that while Ecuador had the ATPDEA as a driver of this industry, the US market was not consistent in the application of its demand, which is reflected in Chart No. 9. Alternation of demand, and an Ecuadorian

industry without a powerful manufacture, failed to maintain regularity in exports of broccoli. This contrasts with the productive growth that broccoli had.

October had a higher level of exports in thousands of dollars (FOB). However, it's not shown regularly over the years analyzed, which shows that the tendency of an irregular consumption is maintained throughout the sells period of the product. This effect may be generated by the need to meet high demands of this product in the months of November and December due to holidays of United States. The transit time for this product is 15 days, however, consider the time of arrival of the product from the port to the buyer. Therefore there is a talk of a month estimated transit time to the consumer. Moreover, the month of May becomes the month in which exports have lower incomes, making this the negative peak of the graph.

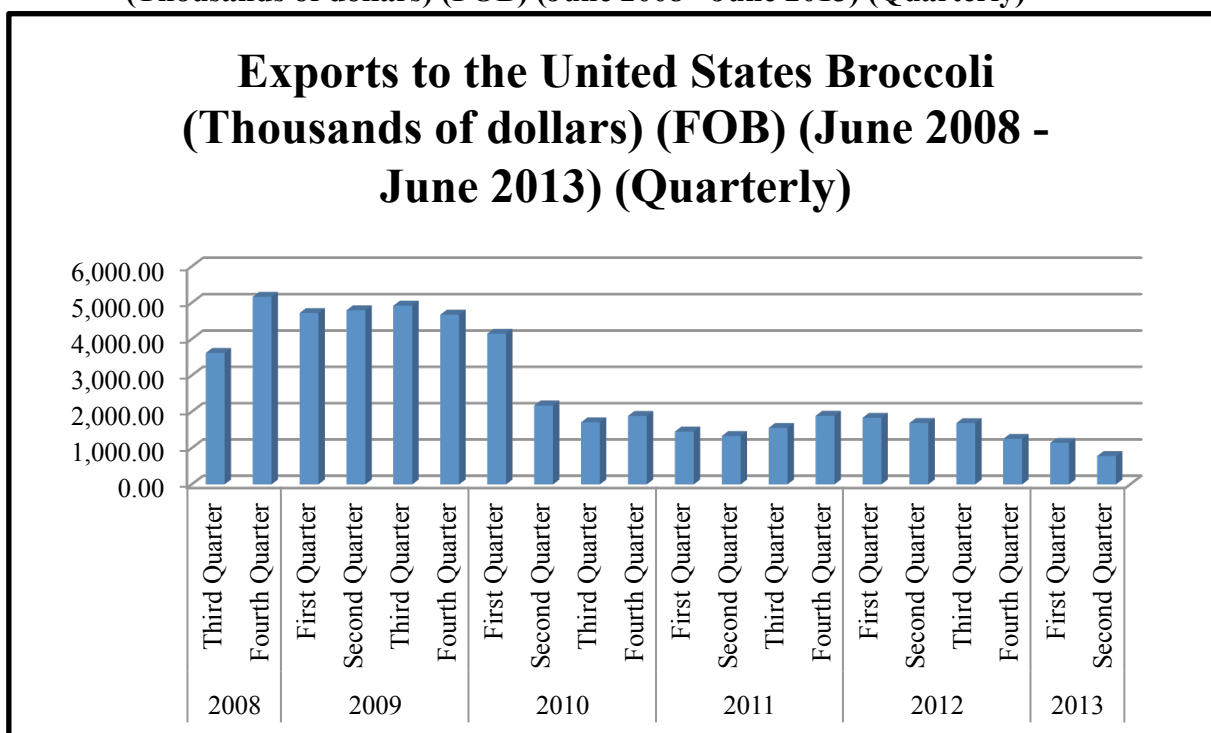
**Graph 8 Export Broccoli to the United States
(Thousands of dollars) (FOB) (January 2009 - May 2013) (Monthly)**



**Source: Central Bank of Ecuador
By: Landy Andrade Fernando J.**

Despite the various fluctuations in demand in the United States, Ecuador has presented a drastic change in exports of this product with respect to its main consumer market. This reflects that bilateral trade between those States has been affected by the decisions of the national government.

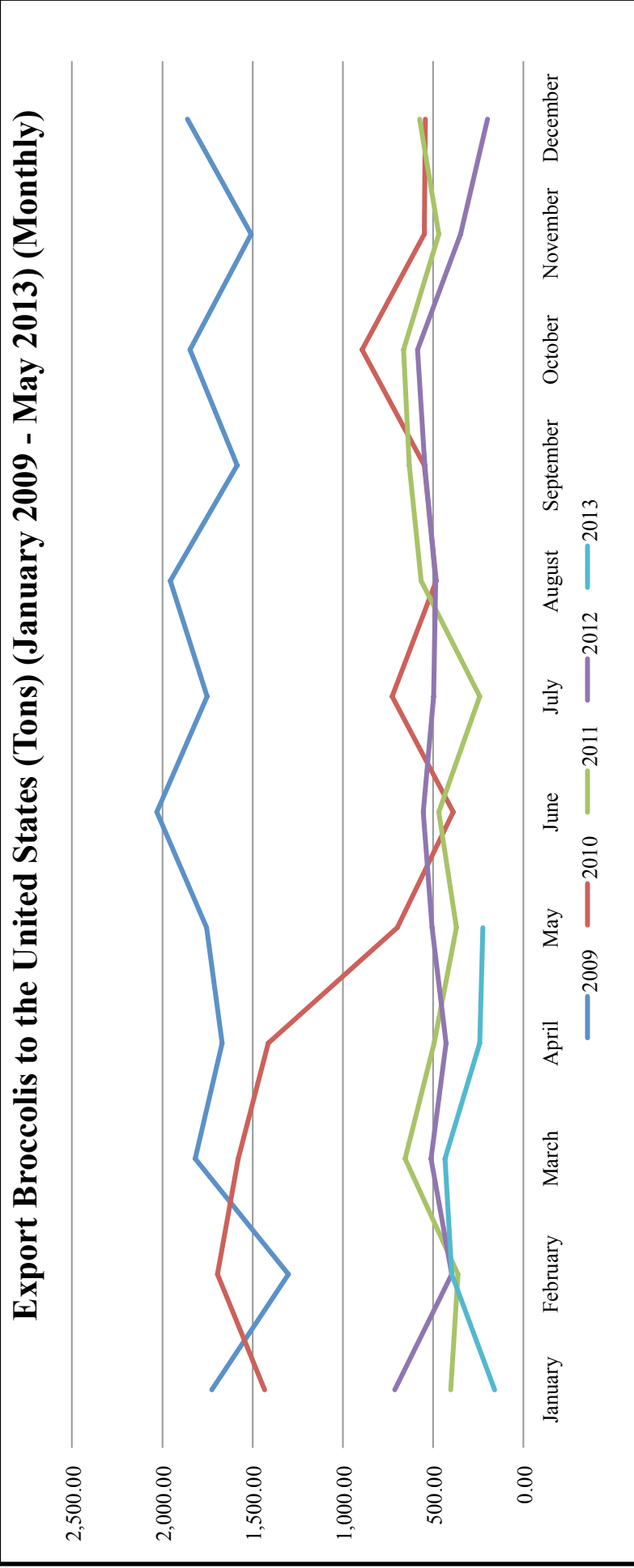
**Chart 9 Exports to the United States Broccoli
(Thousands of dollars) (FOB) (June 2008 - June 2013) (Quarterly)**



**Source: Central Bank of Ecuador
By: Landy Andrade Fernando J.**

If the months are grouped by quarters we can see that the fourth quarter is the set of months in which exports are greater. However, erratic market broccoli values fail to exhibit stability, either in its growth or in its relation to other quarters (Chart No. 10). Moreover, one cannot show a quarter with a lower level of exports because it is affected by the same irregularity. It makes the sum of quantities shows an increase or not in various groups in the series of years of study. Therefore it is concluded that there is not seasonality for export of broccoli.

**Graph 10 Export Broccolis to the United States
(Tons) (January 2009 - May 2013) (Monthly)**



**Source: Central Bank of Ecuador
By: Landy Andrade Fernando J.**

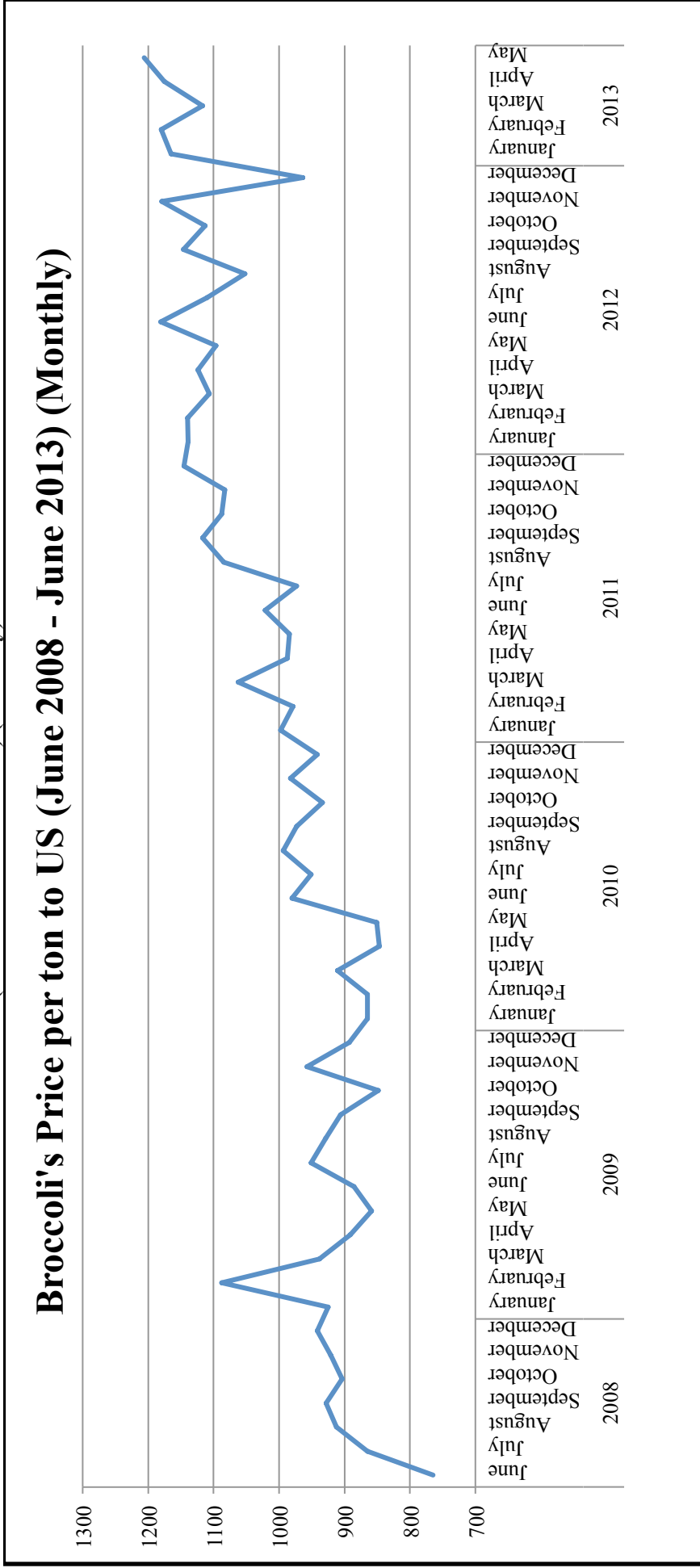
During the months of August, September and October is the period where growth occurs in exports. However, no one can say that in all the years the same behavior has remained as in 2009. Export performance has many fluctuations, take into account that the recent crisis spanning the United States. It influenced in period of demand of goods, making a priority the consumption of the most indispensable.

Irregular exports made in recent years, show the market for broccoli bleak. Until 2007 export quantities had filed a tenure growth, but since 2008 the situation began to show adverse. Although there were rounds of negotiations for extension of the duration of the ATPDEA, power groups in the United States and the bad relationship between the two governments began to have noticeable effects on the Ecuadorian industry.

As shown in Graph No. 10 the amount in tons of broccoli exported suffered the same impact caused by erratic demand. If we could superimpose exports in thousands of dollars (FOB) on exports in tons we might note that the behavior the variations in increment and decrement is similar. This says that despite a high variability demand it did not directly influence the price of the product. Well generally and according to the law of demand, the higher the price, the lower the demand, this does not happen in this situation.

However, the price of broccoli has remained changing for the period that has been exported since several months in which this value was increased and decreased. Months of February 2009 and January 2013 were the months in which there was a higher increase in the price of the product, leading to register an increase of 17.59% and 20.86% respectively. Note that the month of February is presented which has less variability in behavior of the product price compared to other months of January that preceded it during the years of analysis.

**Graph 2 Broccoli's Price per ton to US
(June 2008 - June 2013) (Monthly)**



**Source: Central Bank of Ecuador
By: Landy Andrade Fernando J.**

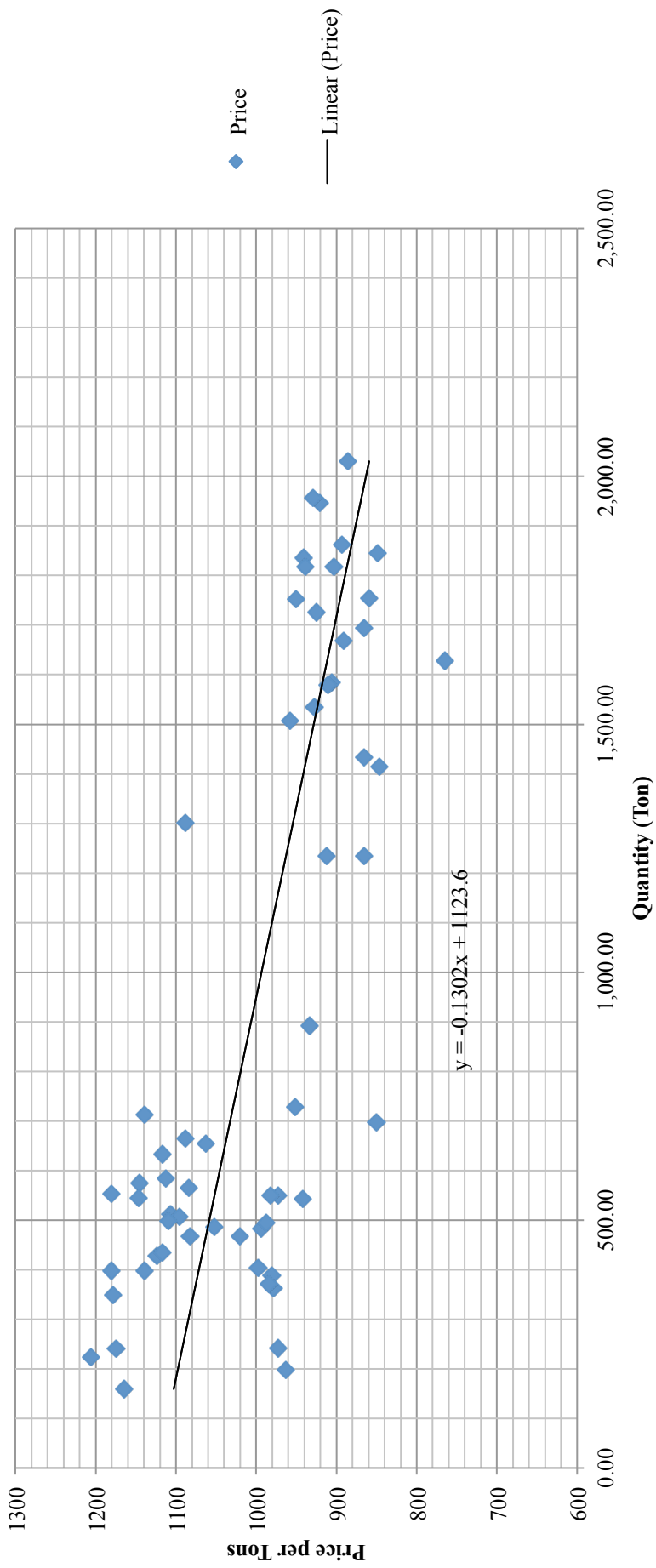
On the other hand, March 2009 and December 2012 were the months in which this product had the greatest decrease in the price of broccoli. The price per ton exported was taken for analysis. On these occasions the decrease was 13.72% and 18.26% respectively. Although the month of October is considered the date on which larger quantities of exports were presented in thousands of dollars (FOB), we must mention that this same date every year decreases the price of Ecuadorian broccoli.

Therefore, it is understood that during the months of October of each year of the period analyzed, the amount of exported product had higher percentage with respect to the other months. These percentage increases or decreases do not mean that the price of broccoli has fluctuated unsteadily, such as any good or service, it depends on the circumstances presented in the market in which it operates. It is noteworthy that during the years of analysis the price has ranged from \$764.7 to \$ 1,206 per ton.

To get a better perspective of the decline in exports of broccoli, I can compare the last 3 years of analysis to 2009. Between June 2009 and May 2010 Ecuador has exported a total of \$ 17 321.30 (FOB) while the sum of the subsequent years has exported a total of \$ 18 349.65 (FOB). It shows that exports in recent years are only 6.61% higher compared to the first period mentioned. Generating an average of recent years of 64.7% in exports comparing with the year 2, it is the last with great regularity of exports by the ATPDEA.

Graph 12 Price per Ton Defendant Broccoli
(June 2008 - May 2013)

**Graphic Broccoli by the United States (Thousands of dollars) (FOB)
(June 2008 - May 2013)**



Source: Central Bank of Ecuador
By: Landy Andrade Fernando J.

As can be seen, the behavior of this product has been irregular; the quantities exported as the price of the exported product have changed. While exports have been declining in recent years, the price of the product is not affected itself. However, according to the demand, I can say that for every 13 cents less in the price of a ton of broccoli, come to sell a ton more. In addition, the maximum selling price of a ton of this product is \$ 1123.6.

Note that throughout the period analyzed, the Ecuadorian broccoli was exempt from tariffs. It affects the product to obtain greater advantages over its competitors, and likewise it presents a product with potential to be exploited by Ecuadorian industry. All the irregularities came to affect the broccoli sector; it had an apparently favorable market performance until 2010. We can corroborate data showing the dramatic change in recent years.

Conclusion

The economic crisis has among its main victims broccoli. Which caused the demand for this product fell if we compare recent years. This becomes more evident if we see the behavior of the US market and other destinations. In addition exports of this product diminished, through tariff preferences. Therefore the representativeness of broccoli for the government became more evident. The Ecuadorian government began with the search for alternative markets and new solutions to not affect to a greater extent this sector.

Chapter 3. Analysis of broccoli exports during the period June 2013 - December 2014 without the ATPDEA

Introduction

Following the announcement of the Ecuadorian government waive to the preferences provided by the United States, the sector producer-exporting is concerned because their activities could be modified according to the new market conditions. Meanwhile the role of the Ecuadorian State becomes critical to maintain and further enhance business opportunities that had thousands of domestic products over international competitors.

3.1 Changes submitted after the completion of the ATPDEA on broccoli's exports

After the resignation of the ATPDEA by the Ecuadorian government, various industries became even more evident and concern about the decision. Ecuadorian products began to be subject to new tariffs, which changed its market. The employment situation generated by the sector of broccoli became one of the main points of uncertainty, according to the producers and exporters of this product; it has generated 19,702 direct and indirect jobs. It favor to 3940 families for 2011. For these companies fear has been great, losing ATPDEA 50% of jobs will be lost.

The main change presented is a imposing tariff of 14.9%, which began modifying the broccoli industry. This is reflected in the export figures of this Ecuadorian product to the United States (Graph 13). For this reason, Rodrigo Darquea Manager of Ecofroz in an interview to La Hora of Quito, said that beyond the incentives or compensation that the government can provide, it actually limited the opportunity to grow in the US market. Besides ensuring that major competitors such as Guatemala and Mexico will lookout to get new customers, this would lead the Ecuadorian product to be displaced.

However, not everything has turned negative, the most outstanding example is provided by the company NOVA, which has seen the new tariff taxation as a way to find new

markets and expand the destinations for its product. This company has made its way in the UAE; Xavier Hervas NOVA's President applauds the role that the former Ministry of Foreign Trade had in achieving this new market. As for Hervas, the role of the former ministry was instrumental in the negotiation process undertaken. The extension of the production process and strategic support obtained by this agency generated more confidence in the international market. Likewise they have not stopped working on their already achieved markets, because they see destinations like Japan as a major buyer of their product after the loss suffered in the US market.

There have been changes in the broccoli industry; these changes have not become easily noticeable because tax exemption law, certificates of tax incentives and credits have begun to work for this sector. However, export figures show that this law has not yet generated a boost to this sector; it only has tried to maintain the level of the market in recent years. It did not cause a high unemployment rate in broccoli companies, it was feared that the lack of the ATPDEA begins to destabilize companies.

3.2 Exports of broccoli in the period June 2013 - December 2014

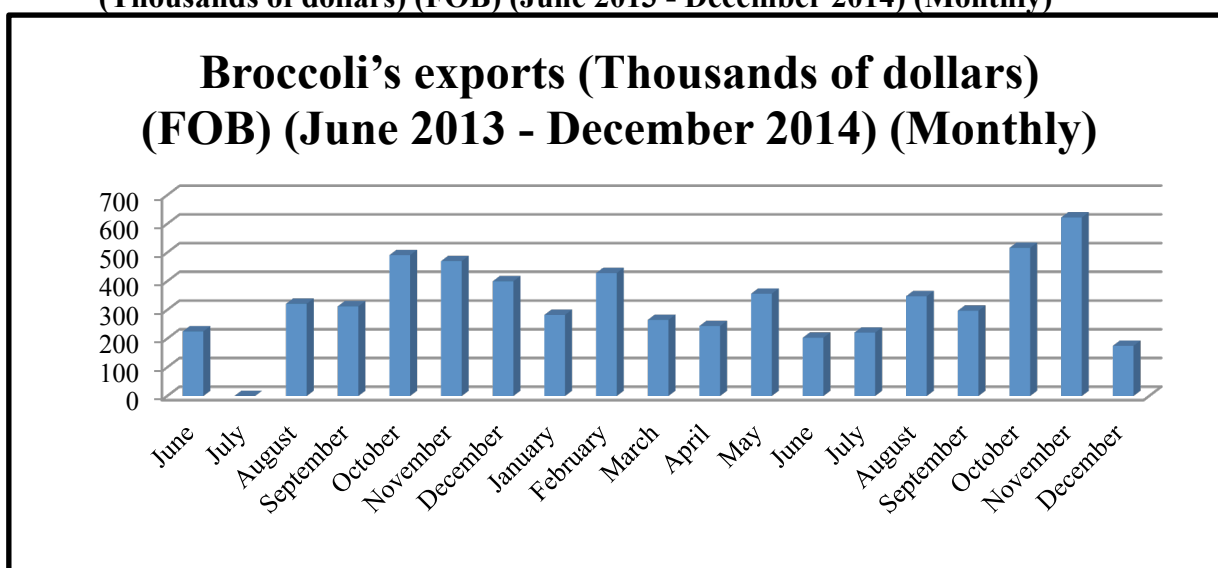
After the resignation of the ATPDEA unilaterally by the Ecuadorian government, domestic exports began to show changes. Although, it began to work on new ways to boost exports which had received incentives to the United States... It has not been able to regain the level that these exports reached in previous years. A clear example is exports of broccoli, which began showing declines in 2010.

This product is one of the most affected by the completion of the ATPDEA. However, the effect began to be felt before the decision was made. The uncertainty began to have influence in this sector, coming to show significant declines in exports. From July 2013 Ecuador began to be governed by new tariffs, and its importance within the economic figure of each product became notorious.

In July, 2013, there were not exports of broccoli, since the price of the product was amended by the tariff increase and, by the ignorance about the measures to take to boost the industries affected by the Ecuadorian government (Graph 13). This negative effect

was not sustained, and for the benefit of producers and exporters of broccoli the situation changed, because for August 2013 exports had begun to generate more incomes. In August 2013, we see an increase of 29.99% in exports comparing with the last month of ATPDEA (June 2013). During the following months the situation does not change much, because the irregularity of broccoli market over the years became a constant.

**Graph 3 Broccoli's exports to the United States
(Thousands of dollars) (FOB) (June 2013 - December 2014) (Monthly)**



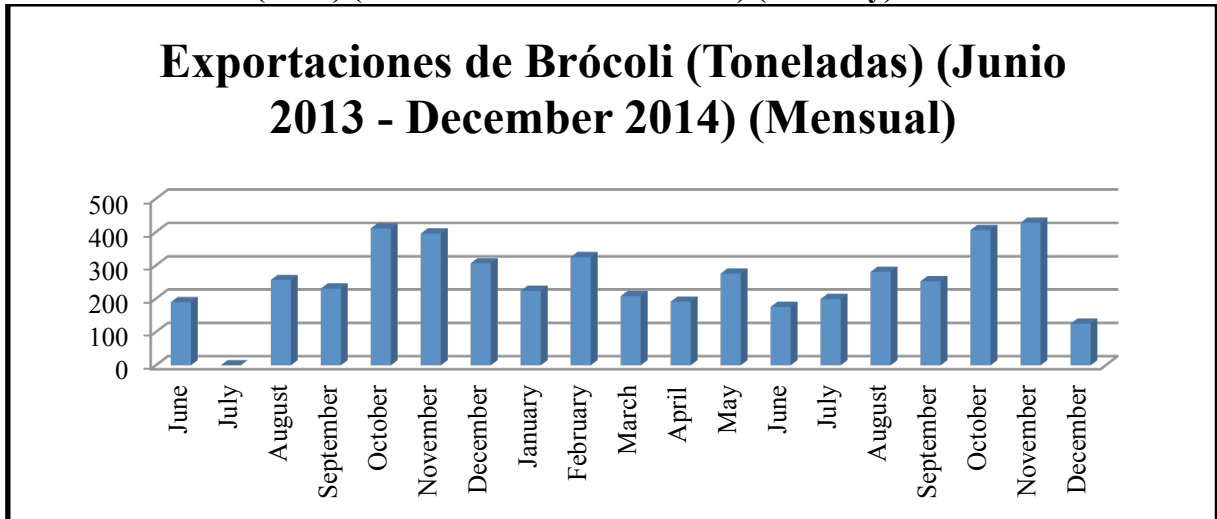
**Source: Central Bank of Ecuador
By: Landy Andrade Fernando J.**

Among exports of this product, the month of October 2013 is once again the month in which it's performed with greater force. However, the export level could not be maintained, on the contrary during the subsequent three months showed declines. Despite the changes generated within the system of exports, no seasonality of shipments of broccoli was remained.

Both exports in thousands of dollars (FOB) and Tons have shown similar behavior, so we can speak of an apparent stability of the product price. However, there have been changes in price, being the months of December and September those with a greater increase in this topic, 9.84% and 7.93% respectively. Similarly the months that have shown a greater decline in the price of broccoli per tons are October and June, presenting a change of 11.98% and 10.55% respectively.

As you can see, the month of October has greater visibility over other analysis period. It is the month of higher export, in thousands of dollars (FOB) and tons. However, it is the month in which the product had the third lowest price per ton exported within the period June 2013 - June 2014.

Graph 4 Broccoli's exports to the United States (Tons) (June 2013 - December 2014) (Monthly)



**Source: Central Bank of Ecuador
By: Landy Andrade Fernando J.**

Comparing the first year without the ATPDEA and the last year with these awards, we can see there have been reasonable variations. In 2013 exports showed a decrease of 28.2% compared to last year using ATPDEA, take into account that the month of July 2013 no exports were made; it modifies the quantities of each year. For this reason and for better analysis, we removed the month of July 2012, and we see that the difference is 19.82% between the years analyzed.

The average price per ton last year using ATPDEA was 11.06% lower than the first year without concessions. However, eliminating the month of July 2013 (no exports) and the month of July 2012, we can see that the difference is greater. For the first year without preferences has a higher average price per ton by 20.93% compared to last year with ATPDEA, for this reason it is concluded that the product's price has been affected by the imposition tariff. It has come to export smaller quantities with a higher price; it has not been able to regain the level exported by this sector. This worsens further in the

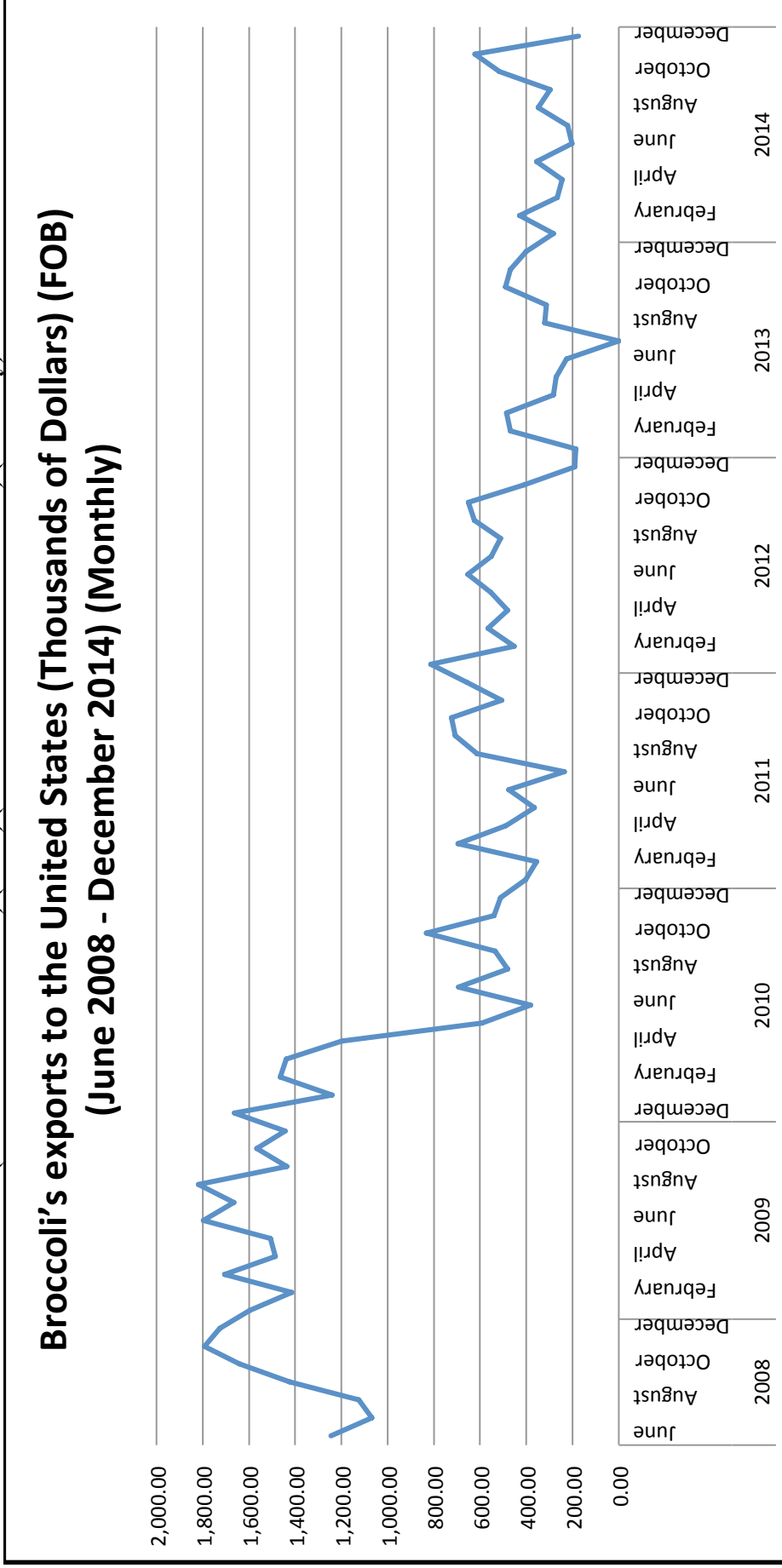
industry, since you cannot stop the cultivation of this and other products by decreasing the demand. The lack of competitiveness of our goods leads to a loss of market and product.

Similarly, and as a direct effect of the situation of the national broccoli, you can see that for the period July 2013 - June 2014, the representation of this product in non-traditional exports is 0.33%. It is far 1.4% obtained in the period June 2010 - June 2011 date on which good export levels were maintained. This says that the representativeness of this product decreased by 76.43% in few years.

These differences in exports show that despite the measures taken by the government as an organization that promotes the country's economy has not had the desired effect. Exports of broccoli have not submitted a recovery to the level of recent years in the first decade of the century.

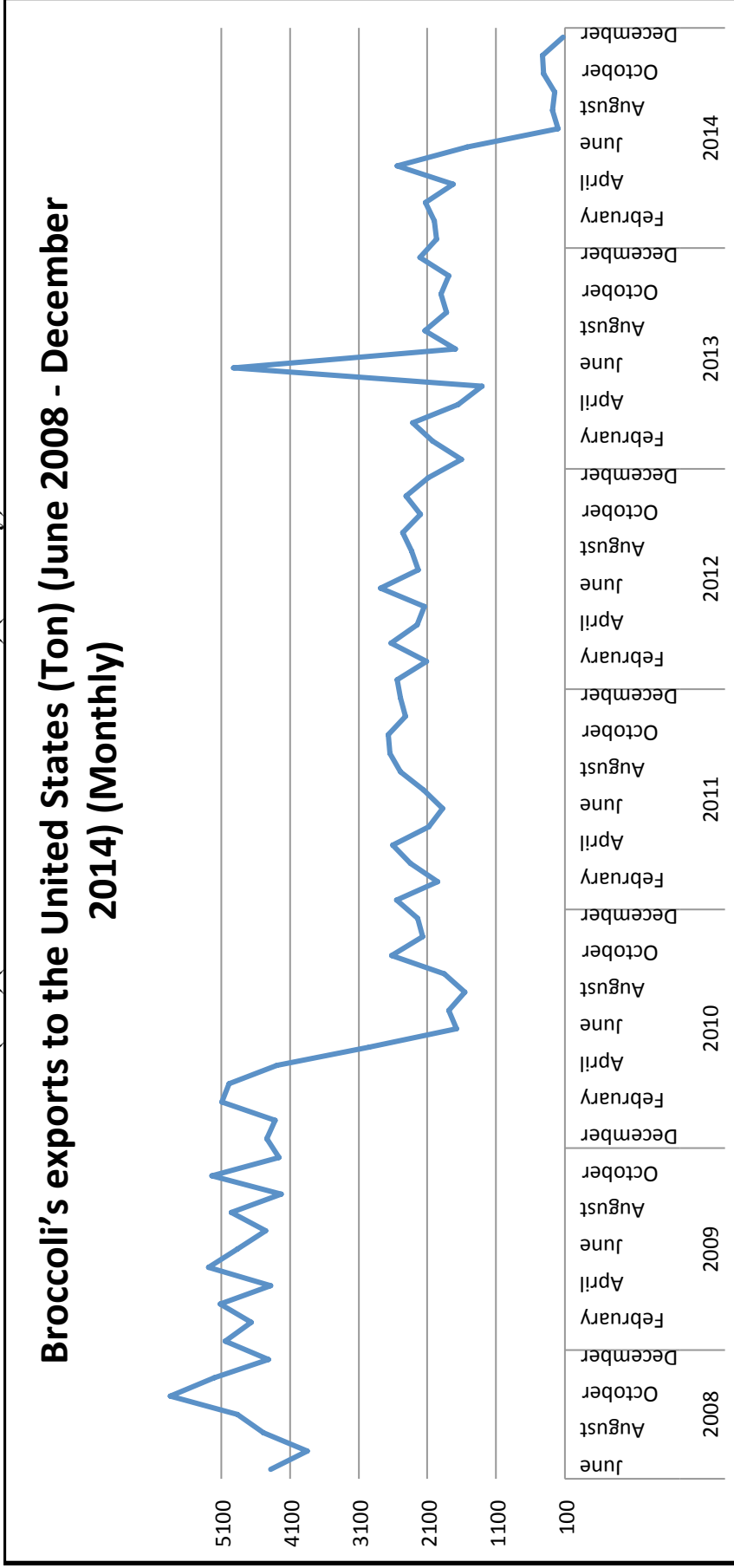
This deleterious effect on exports of broccoli becomes more visible within Graph 15, where you can see a decline from 2008 to 2014. However, it is noteworthy that October is still the most important within the Annual statistics for this product. Also you can see better that exports in 2014 have failed to recover, it did not fail to meet 2013 which was one of the poorest years in terms of this activity.

**Graph 5 Broccoli's exports to the United States
(Thousands of Dollars) (FOB) (June 2008 - December 2014) (Monthly)**



**Source: Central Bank of Ecuador
By: Landy Andrade Fernando J.**

Graph 6 Broccoli's exports to the United States (Ton) (June 2008 - December 2014) (Monthly)



**Source: Central Bank of Ecuador
By: Landy Andrade Fernando J.**

Moreover, in Graph 15, you can see how there is a similar pattern of total exports to various destinations with exports to the United States. USA was our main buyer market for several years, so its contribution cannot go unnoticed. However, during the last two years the behavior of total exports is not equal, market diversification plays an important role. It makes exports do not show a great impact. Markets such as Japan and Germany have begun to increase demand for this product, however, exports have not been able to recover a favorable level.

3.3 Actions taken by the government to end the ATPDEA

After the completion of the ATPDEA, the Ecuadorian government began to show alternatives to the decision. Thousands of Ecuadorians depend of the business relationship between Ecuador and the United States. That is why it introduced the implementation of favorable action for exporting producers. Most important Organic Law of Incentives for the Productive Sector and exemption from payment of income tax in this sector (Broccoli).

The first action mentioned has become operational almost immediately; it is responsible for providing incentives or subsidies for exporting producers. However, how to establish the aid from the government is not completely clear within the law. A clear example can be found in Article 7, because it mentions about providing aid through tax to "(...) exporters whose access level to a particular market have suffered deterioration, either by changes in tariff levels or imposition of unilateral sanctions (...) ". However, there is not written how, how much or when will it be considered a demotion for producers and exporters to access this help. According to Article 6 of the Act, the Administrative Committee on Tax Credit Act will be responsible for establishing who will be eligible to access this benefit, again without having set clear parameters for the fulfillment of the requirements by enterprises.

"Art. 14. The Tax Credit Certificates may be used to cancel any tax liability to the Central and Institutional Public Administration or those contracted with institutions of public financial system, except for: service fees,

royalties and other taxes payable to the State for mining and hydrocarbon activity. "

In Article 14 of the Act, it mentions how credit must be used. However, it has provided conditions under which users of this benefit must act if the export transactions suffer setbacks. Article 19 mentions that in the case of exported goods to be returned in whole or in part, the tax credit obtained must be repaid by the company in the same conditions. It is favorable to the government, which does not lose the help it would provide. It becomes negative for companies that have benefited from the tax credit, if export does not conclude the commercial operation; companies will contract one debt to the government.

About the exemption of income tax for broccoli, the Law Internal Taxation mentions that "in specific situations in which subsectors of the economy have suffered a drastic decline in incomes. The President of the Republic may reduce or waive the value of taxes for the affected sector or subsector."

The exemption is 100% of the income tax, and this is one way to reduce commercial disadvantages which now the sector of broccoli has. It is not known whether this measure will be permanent or for a long time, or by what criteria will work to improve the situation of exports of this product. It is understood that this exemption ceases to be in force in short periods to eliminate its percentage share.

Now, while the Organic Law of the Productive Sector Incentives and exemption from payment of income tax is favorable for Ecuadorian producers, they could become the subject of complaint by competing countries with Ecuadorian exportable products. According to Article Dumping, Antidumping and Fundamentals of Antidumping, subsidies or incentives could be confused with dumping. According to the author of that article, Raúl J. Crespo, "Export subsidies could generate situations of dumping, insofar as these will allow the producer to accept lower export prices compared to those that are profitable in the domestic market. However, this situation does not occur necessarily. In this sense, it is better that these actions must be considered as aid or government contributions instead of dumping." It could become tested for international competitors,

to incur that domestic firms are benefiting in this way. They would be ways that could eventually be used to offset the loss of market suffered in recent months, after the completion of the ATPDEA.

Conclusion

As we have seen, broccoli's exports are affected, not just since the resignation of the ATPDEA. The destabilization generated in different sectors was a situation that preceded the decision. The reaction of the Ecuadorian government did not take long, however, its response has not been fully effective, as the market of broccoli in this case does not fetch its importance in past years. Of course, those measures taken by the government can keep improving and adapting to the needs of different sectors. However, we should not overlook the good practices of international trade, this in an effort to avoid being subject of complaints or problems with other States.

Conclusion

Throughout this analysis I have seen how the ATPA has played a fundamental role in the economy of Ecuador. As soon as the effective date of preferences began, it had positive changes. A growing relationship between the United States and Ecuador caused tariff preferences became an engine for young domestic industry. After the renovation of concessions, this time with the name of ATPDEA, business opportunities of our country were increased. The opportunity to increase export supply was unbeatable. Therefore various products, such as broccoli started having better days for entering some of the most important markets, especially the opportunity to increase broccoli's role with its main trading partner.

Producers were anxious about the Ecuadorian decision; loss of preferences would be detrimental to the whole sector. In the case of exports of broccoli this problem becomes more noticeable; it decreased by over 50% in recent years, the sector market showed slowed growth.

The Organic Law of the Productive Sector Incentives has been one of the pillars on which the State has found support. This system is used as a way to compensate for the lack of tariff preferences. Various producers and exporters can use this stimulus; however, no clear criteria for all who have been affected to access these new benefits? Such aid is rewarding for Ecuadorian producer of broccoli, it represents about 4% of non-traditional export products.

Of course, these new stimuli do not come from the outside, now are the Ecuadorian people responsible for providing several million dollars. It will cost to recover the loss of benefits. Therefore this new law, from my point of view should be temporary, since otherwise a subsidy to generate different industries, will generate larger country's debt. The idea is disappeared government debt, generating investment and not an excessive government spending.

Although this law has been created, broccoli sector is benefiting from the exemption of income tax. All these advantages presented to boost production and subsequent export of domestic goods. It should forewarn a potential international demand by states competing commercially with our country, since excessive sponsorship by the national government could be subject to accusations of dumping.

The measures taken caused that the situation for broccoli has been maintained, if we compare the years with the ATPDEA. However, this situation has not been able to improve, because there is still uncertainty about the functioning of the state system. The effects of ATPDEA continue being reflected in the graphs of exports to our main trading partner. However, in the following months we will be sure how they favored or not the stimuli generated within the domestic industry.

Similarly, it can be observed that broccoli has no seasonality in exports. However, the month of October is more representative within each year, although that does not have a constant level of export. Another important point is the variability of the price of the product, which does not have a constant direction of growth or decline. One positive aspect is that countries like Germany and Japan have become hotbeds of our exports, which has managed to reduce the reverse obtained by the end of the ATPDEA. We can say that the representativeness of broccoli has decreased by 76.43% from 2010 to 2014 compared to previous years; it shows the impact of preferences for our national industry.

Recommendation

As we have seen market conditions for exports of broccoli have failed to recover. Therefore my recommendations are diversification of export destinations, as the reliance on a single plaintiff always are a double-edged sword. It causes maintaining a dependence which in our case is not reciprocal. Similarly, consolidation of preferential agreements will be crucial, not only for broccoli or products without added value, but for all the goods and services that are exported.

Finally, the driving action of benefits for products exported by Ecuador should have a deadline revocation or a regulatory mechanism in the percentage share of them. It should not leave a dependency to get another. By contrast, the idea is to generate measures that allow us to maintain the level exported, in order to find more solid foundation tools that allow us to grow without generating excessive government spending.

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