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**Safeguards impact analysis on liqueurs such as: Wines, Pisco,
Sparkling Wine, Tequila, Vodka and Beer, on period 2013-
2016**

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Dedication:

To my parents, because they have been a fundamental stone in order to achieve my goals and objectives.

To María Eulalia Guillén García (+), an example of perseverance and dedication, a reference in my life.

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ABSTRACT

This study was focused on analyzing the impact that safeguards have had on the imports of some products within Ecuador. This measures started to rule the country since March 11, 2015, with the objective of reaching equivalence in the payment balance of the country.

This document sets out the legal regulations during the examined period (2013-2016), at the same time of analyzing the impact of the assumed measures by the Ecuadorian government, over six types of liquors: Wine, Pisco, Sparkling Wine, Tequila, Vodka and Beer.

Key words: Payments balance, safeguards, import, liquors, government, World Trade Organization, tariff items, Organic Code of Production, Trade and Investment (COPCI), Central Bank of Ecuador.

INTRODUCTION

In march 2015, with the objective of achieving equivalence in the payment balance of the country, safeguards started ruling Ecuador. Being those tariffs the base for developing this study, it is divided in three different chapters.

The first part of the document is based on analyzing the legal normative of the study, as well as the background that generated it. In context of the commercial relations regulating bodies.

According to chapter number two, six types of liquors have been selected in attention to the relative perception of levels of consumption, these liquors are: Wine, Pisco, Sparkling Wine, Tequila, Vodka and Beer. In addition, it can be said that the period of analysis (2013-2016) was selected according the date safeguards started ruling the country, with the goal of recognizing with objectivity the marked effects and tendencies, before and after its application.

In the last analyzed chapter, chapter number three, are detailed the most significant tariff headings, in other words, the six ones mentioned before. To these tariff headings, a month to month behavior analysis were done, during the mentioned period, at the time of identifying the seasonal behavior consumption of them.

It should be mentioned that the required information to execute this study, was obtained in the database of the Ecuador Central Bank, according to the quantities of imported liquor tons, classified by tariff subheadings.

CHAPTER 1

Safeguards Policy Analysis applied to liquors imports in Ecuador

1.1 Introduction:

On this chapter we will deal with purely conceptual issues, through this work will address the proposed problem.

The world is experiencing a stage of globalization, a situation that implies interrelation between countries, in political, economic and commercial aspects. Foreign trade involves the exchange of a number of products and services in order to meet the needs of each nation. To regulate this type of commercial activities, on January 1st, 1995, World Trade Organization (WTO) was created, an organization that, as mentioned on its website, was established by the European countries after an update of GATT, General Agreement on Tariffs and Trade. (World Trade Organization)

1.2 Conceptual framework:

Countries tend to establish certain measures and requirements, both to export and import products from other countries, tending to protect their national industry. WTO is the organizational structure responsible for regulating the recognized and applicable barriers to international trade.

Fees for general import and export taxes are known as tariffs. And they can be of three different types (Caraveo, 2016):

- Ad valorem: Tariff value, expressed as a percentage, on goods cost in Customs.
- Specific: Value imposed in monetary terms per unit of measure.
- Mixed: The combination of the previous two.

For the proposed topic appropriate analysis, it is relevant to present some definitions of general knowledge, they have been the starting point for this study, is the case of export and import. Referring to the first term, Cecilia Huesca Rodríguez, in her book Comercio Internacional (2012), defines it as:

"Licit shipment of products or services, being these national or nationalized, for consumption or being used in other countries" While, when we talking about imports, the same author defines it as: "A customs regime that allows a licit entry of products

that come from other countries, having these the purpose of being consumed by the population".

In the first section (eighth chapter, fifth book) of the Regulations to the COPCI (2017), the "Import Regime for Consumption" is expressed. Legal instrument that rules the definitive entry of products to the country, and that establishes the different modes of application to the General Director of the National Customs Service of Ecuador. This document also mentions that, once the customs obligation is compensated, the products entered under its application may circulate freely in Ecuador.

It should be noted that the compensatory measures are part of the tariff barriers, and are defined as: "those used in order to neutralize any subsidy granted directly or indirectly to the manufacture, production or export of any merchandise." (Pro Ecuador, 2017)

In addition to the named terms, it is worth mentioning the meaning of the trade balance and balance of payments, because the safeguards took effect in Ecuador due to the balance of payments deficit. Caraveo (2016) defines the term commercial balance as: "The one in which the entry and exit of foreign currency is recorded for the import and export of goods or merchandise, which may be these raw materials or products already made." refers to the term balance of payments, Huesca Rodríguez (2012) cites in his publication to Adam Smith, who defines balance of payments as an instrument that quantifies two sections: the first (assets), "all the items that a nation receives external purchasing power for the sale of a good or service "; and the second (liabilities), "all the items that a nation gives to its external purchasing power, for the purchase of some good or service". In conclusion, it is "a quantifier of monetary heat of the total purchases and total sales of a country that were generated with other nations, within a certain period of time."

Finally, within what concerns basic and fundamental concepts for this analysis, there are safeguards. WTO defines them as:

"Urgent" measures with respect to increased imports of certain products when those imports have caused or threaten to cause serious injury to domestic industry of the importing member. These measures, which generally take the form of concessions or obligations suspension, may consist of quantitative restrictions on imports or increases in duties above the bound rates. (World Trade Organization)

For Caraveo (2016), safeguards are regulations that restrict trade, with the purpose of preventing or amending serious damages that have occurred on national production. Author mentions that these safeguards may exist as tariffs or as quotas, and may be classified as definitive and provisional, applying the last ones in critical cases, provided competent authorities have the necessary evidence to demonstrate the excessive increase in imports is causing damage to the country's economy.

Conceptualization expressed for the term safeguards, allows concluding that these are urgent measures taken by different countries governments, when it happens that the imports grow in a way that could cause damage to the national production. In the case of Ecuador, safeguards were applied in order to regulate country's balance of payments deficit.

1.3 Foreign trade background in Ecuador:

Commercial horizons that were being handled in what is now Ecuador, during the first years of the colonial era, were with the north of Peru. By the end of the colony, the countries to which ecuadorian products were exported had multiplied to destinations such as: Panama, ports of New Spain, Argentina, the Caribbean, among others. (2012).

As the author Ordoñez Iturralde (2012) mentions, trade with other countries was affected by his dependence on the monopoly monarchy of the Viceroyalty of Peru, which had implemented a series of prohibitions on the international exchange of products. Among them, the free distribution of Ecuadorian cocoa, a condition that affected workers in the coastal region of this country for three centuries.

At the beginning of the 19th century, Ecuador was still an unknown market to the great consumers of raw materials in Europe. There was little prospect of promoting national production in other countries and continents, a situation marked until the end of the century. At this time the toquilla straw hat was the third most important income of foreign currency for the country, however. For a sales strategy, the market called it "panama hat". (Ordoñez Iturralde, 2012)

In addition to the above, a slight analysis of the text "Brief Economic History of Ecuador" by author Alberto Acosta (2012), allows us to say that Ecuador was born as an independent republic in 1830, after having formed part of the Gran Colombia and

Spanish domination time. The big question, however, is: have things been carried out correctly since that time?

Abundance of primary products that characterizes the country has been the engine for trade with foreign markets; however, the existing “latifundismo” has caused accumulation of fortunes around family groups within the territory, a situation that led to control of economic and political activities in a few hands that is oligarchic groups. The booms and commercial "booms" that Ecuador has gone through have always been affected by the lack of industrialization and with it final consumer goods generation. (Ordoñez Iturralde, 2012)

Around Ecuadorian reality, “extractivism” has been latent throughout the years. It is known throughout twentieth century oil was exploited in our country by transnational companies, a situation that was not given more importance until the state entered the so-called seventies "oil boom", when the rulers of that time identified the goodness of having hydrocarbons, as the trigger for the country to enter a period of sustained economic growth.

Most underdeveloped countries generally export primary resources, instead of making plans and strategies that add value to their products, and with that, greater profits through their internal and external commercialization.

"Poverty in many countries of the world is related to the existence of significant wealth in natural resources. Above all, they seem to be condemned to underdevelopment those countries that have a substantial allocation of one or a few primary products. (Acosta, 2012)

These are words that are considered a living reality in the history of our country, since they have been the cause for poverty and the delay of our people.

Ecuadorian economy has always been characterized by its primary-exporting essence, in which products such as: cocoa, bananas and mainly oil, have sustained the economic base for trade and exports in the country.

Initial deployment of economic growth in Ecuador, as indicated by Acosta, was given by the so-called "cocoa boom", which reported great benefits for Ecuador's trade

balance during the last years of the 19th century. This process began formally in 1890, when the most important increase in the commercialization of this product occurred. (Acosta, 2012)

Increase in demand for Ecuadorian cocoa was favored by new chocolate industries in North America and Europe development, a situation that triggered a massive land grab for this product cultivation. Even the political, financial and institutional system required profound changes to the extent that the country's economy benefited from the mobilization of cocoa resources. (Acosta, 2012)

However, this fruitful stage for the Ecuadorian economy declined during the course of World War I, as the international market weakened, a situation that resulted on Ecuadorian trade loss of competitiveness. This recessive process was linked to the growth of unemployment and population poverty. (Acosta, 2012)

Ecuadorian economy dynamism rebounded once again with the production and external commercialization of a new predominant fruit: bananas, which still retain their importance today. The "banana boom" marked the beginning of a new era in the country's commerce. In the 50s, the increase in banana exports was due to the high demand from North America and European countries, since it was an exotic fruit, attractive to the tastes and preferences of these regions population. It should be noted that national production of this plant resource was favored by the affectation of soils and plantations in Central American countries that were competitors. (Acosta, 2012)

However, strengthening of suppliers from Central America, which accounted for important shares of international demand for bananas, led to a decrease in production and exports, the root of the banana crisis of 1961, a situation that once again triggered a deficit in the balance commercial of Ecuador. (Acosta, 2012)

Oil discovered in Ecuadorian territory, event that would mark the beginning of a new productive scheme, up to the present, arose as a substitute in importance of the aforementioned products, since its contribution was no longer enough to maintain the trade balance, nor allowed processes of industrialization in the country. (Acosta, 2012)

"Oil Boom" beginning had its starting point in 1972, and while it brought considerable

economic income to the country, it also generated a productive scheme that is considered, nowadays, as a strong cause for underdevelopment.

It should be noted that, during General Guillermo Rodríguez Lara government, the objective of generating an autonomous economy, driven by oil, was raised, however, industrialization process that should accompany the exploitation of this resource, it was never materialized. (Acosta, 2012)

Unlike, through government measures aimed at regulating foreign trade, as a practice of protecting domestic production, the idea was to maintain growth through diversifying production and import substitution, tending to implement industrialization in the long term (Ordoñez Iturralde, 2012).

In the seventies our country, as already mentioned, went through a time of economic bonanza never seen before, "The oil boom had a sectorial, regional and social character", according to Carlos Larrea words, however, it is known that they were few Ecuadorians who had access to the sumptuary consumption of this period, only the upper and middle sectors of society had the luxury of importing consumer goods, thanks to the fact they could buy dollars (Acosta, 2012).

On the other hand, it is necessary to highlight the lack of economic resources that has characterized Ecuador throughout history. Existing extractivism, with more emphasis since the seventies of the previous century, due to oil exploitation, cannot be considered as a totally negative aspect, since it has been a permanent solution to economic problems in the absence of other resources. (Acosta, 2012)

In conclusion, it can be said the productive matrix currently valid in Ecuador is a clear result of the processes analyzed above, that is, the primary exporting character of the Ecuadorian economy has not yet reached higher stages such as industrialization and the goods production with added value, causing dependence on the international market and limitations to overcome underdevelopment. (Acosta, 2012)

1.4 Complementary concepts:

Smith's Theory of Absolute Advantage, 1776, explains the reasons why free trade for a State is beneficial. The term "Free Trade" applies when there is no barrier in the

purchase and sale of products and services between nations. Smith also indicates that "the invisible hand" of the market mechanisms, in a stronger way than the governmental laws of a country, would be the ones that should regulate what to export and what to import. (Hill C., 2011)

In a theoretical discourse presented by CEPAL (1998), Rodríguez, O. (1980) and FitzGerald, Valpy (1994) related to the theories of industrialization by import substitution, it is mentioned this process was taken the decrease in competitive imports, as well as the needs of governments to sustain spending at times of low tax collection; situation that made it indispensable to use the manufacturing capacity installed in the country itself, to increase domestic production.

John Stuart Mill, philosopher, politician and economist, indicates in his theories that the only time that temporary taxes could be defended would be to protect a nation that is emerging. The logic of this theory is the only way two countries have competitive differences in the production of some good, the advantage of one over another, is to have begun to produce it before, that is, superiority is present in the gained experience. (Pelet Redón, 2001).

Philosopher Adam Smith, known as the father of economic liberalism, contributed with a theory related to the fight against high controls of tariffs, impositions and prohibitions in commercialization. He also proposed the "Theory of Individual Motivations", which is based on the private interest of each person to increase their own position through savings, and consequently, the accumulation of capital. (Pelet Redón, 2001).

Based on Adam Smith's theory, David Ricardo, expanded and analyzed what would happen if this were applied, developing the "Theory of Comparative Advantage". One of the things this author tried to prove is that not all the benefits are dominant for the country that applies the "absolute advantage theory". In this theory the author supports that a country should specialize in the goods it produces, in a better and more efficient manner, while buying from other countries those products that do not have or specialization in manufacturing them. (Hill C., 2011)

Starting from the Theory of Comparative Advantage, the authors Eli Heckscher and Bertil Ohlin make a criticism and talk about the "endowment of factors", thus creating a

new premise, when referring to this term, as to the amount of resources that a state: capital, land and labor. They support that countries that have more and better factors, establish advantages by differentiating their costs over others. They point out that the more a factor exists, the lower its price becomes. The theory also indicates that countries should export the products that are most available within their territory, and import those that do not possess them in greater quantity. (Hill C., 2011)

1.5 Protectionism and Free Trade

It is known that under the governmental perception of a country that imports and exports goods, there are protectionist policies to its national production. Likewise, in certain nations there are measures of radical liberalism of foreign consumption and exchange with the market.

Darío Martín Pereyra, in his study "Free Trade vs. Protectionism: a debate from the theory of international trade "(2015), clarifies that the debate between free trade and protectionism has a central position today. It is not enough to explain the benefits or definitions of each one, since a commercial policy by itself does not work to maintain a certain commercial position.

Many countries apply one of the two options or a mixture of both, at different times.

In reference to commercial policy, it can be defined as "The management of instruments by the State to execute, modify and regulate the commercial relations of the governed nation with the rest of the nations, to benefit them through integration processes at the moment of generating exchange of goods and services." (Ministry of Foreign Trade, 2014)

1.5.1 Protectionism

Author, J. Ballesteros Román, in his book "Foreign Trade: Theory and Practice", refers to protectionism as a doctrine or economic policy system that is aimed at defending national production against foreign production through the application of taxes on imports. The author also mentions that, in spite of the fact that nowadays one could speak of a greater tendency towards free trade, all countries apply commercial practices designed to protect their markets. Protectionism has also been called "fair trade" or "inward growth" measures. At first instance, model is convenient; however, when it

reaches extreme, competition within international trade becomes unfair and monopolizes the market, leaving the increase in production and final goods at liberty. (Ballesteros, 2002)

From the historical point of view, one can speak of a resurgence of protectionism at the end of the nineties. Paul Krugman, Maurice Obstfeld, and Marc Meltz, in their book "International Economics" (2012), explain how a movement that mixed several traditional and new protectionist theories gained supporters at that time. It is important to understand this resurgence as a reaction to the negotiation of several important agreements on free trade at the beginning of the last century nineties, which culminated on the World Trade Organization (WTO) creation. For this reason, protectionism has gained special importance in recent decades, as part of a movement against globalization. It should be noted that protectionism area in advanced countries is, for the most part, limited to two sectors: agriculture and textiles (Krugman, Obstfeld, & Meltz, 2012).

In general terms, it could be said that Latin America countries have adopted different measures of self-sufficiency on their goods production, all of them included on "The Substitution of Imports". Policy based on the massive control, tariff and non-tariff, state imports, so that domestic market is protected, and strategies are promoted that support these imports, causing the increase in national production, and consequently, balance on the trade balance.

Ribera Ríos (2017) on his study: "Mexico: From Overprotection to Commercial Aperture", points out that the commercial opening of Mexico through the imports regime liberalization, initiated in 1985, led the country towards concept elimination of self-sufficiency in production through the so-called "Substitution of Imports", indicating that this change was based on the experience of Southeast Asian countries that began on last century 60s, when those nations established conditions of protectionism but since concept adoption of "Growth Outwards", establishing policies to promote industrial growth through exports promotion, based on world market's behavior, on one hand, and on the other hand, importing only raw material necessary for production and rejecting the purchase of final goods from abroad. From that initial phase, several countries have initiated processes of commercial opening. (Ribera Rivers 2017)

Latin America underdeveloped countries industrial backwardness was the consequence of the overprotection policies adoption imposed by the "Substitution of Imports", because technology they possessed was unrelated with developed countries, even increasing the imbalance in their commercial balances. (Rivera Rivers, 2017)

Protectionist policies adopted by countries, in terms of machinery and equipment, were not the most appropriate, since, being exempt from competition from foreign producers; they made a little effort to improve themselves and benefited from strong profits, taking advantage of the trade control they owned for state protection. On the other hand, the most developed companies exercised the function of being price fixing entities, causing inflation, since these industries, being inefficient, had higher costs production than those from abroad, consequently, increasing products costs, in addition to the high profits imposed by the monopolistic market conditions. (Rivera Rivers, 2017)

1.5.2 Free trade

When nations felt overwhelmed by the protectionism of their national production, they began to consider radically different measures. Starting from the idea that it is absolutely impossible for an industry to be competitive behind the back of the world market, they promoted trade opening towards foreign countries in search of generating balance in their economies.

It should be remembered that between 1920s and 1930s, different nations around the world had trade barriers with international markets, and a ban on foreign investment. These barriers were imposed through taxes or extremely high tariffs, which impeded imports of manufactured goods. The attempt to protect the entry of foreign industries into different countries national markets was the strongest reason to seek to delimit their trade with the world, but only conditions of repression to the demand for foreign products were achieved, thus contributing to the 30's "Great Depression".

Expansion of trade is given by the need for exchange and freedom to make this process, and, as a positive consequence of this, business growth, both in number and size, as a projection that production will be offered around the world. As soon as sales increase, production costs will be lower.

Two main factors that intervened for the emergence of globalization were: Barriers elimination or reduction to free trade between nations; and technological development,

which allowed industries to have relevant advances in computing, communication and logistic terms.

One of the greatest advantages or benefits offered by the free trade system or "free trade" is the ease of exchange, both of primary goods and domestic production, as well as human capital, natural resources, industrial resources and final consumer goods. The wide range, both national and international, is another of the positive factors of this measure, since it strengthens competition and boosts financial sector's growth.

Just as globalization has had benefits for nations, it should be noted, unlike trade balance declines, since it affects dominant industries on local markets of each country; income of foreign competition offers ease of choice to consumers, so that products' prices tend to decline, so, profits. That is, as soon as globalization is extended, uncertainty is generated in those who had their work protected. (Hill C., 2011)

It is necessary to quote Feenstra Davis (2011), who agrees with Hill, but indicates that even though globalization seems a present phenomenon, it comes from before World War I, since the world markets of that time already were integrated in a fluid way. It is from Great Depression, that this interaction declines until World War II, where trade begins again with the idea of acquiring cheaper external products or with optimal quality compared to the national ones. In this way, WTO, an international organization responsible to make a freer global trade was created. (Feenstra Davis, 2011)

As the author Charles W. L. Hill points out on his book "International Business Competition in the Global Market" (2011), free trade has had a development process that is currently called globalization. This term has been consolidated since the economy and world trade of the last thirty years have changed significantly, since the time of nations with barriers that limited trade with the rest of the world has been left behind, liberating autonomous nations that allow international investment. And although, this was due to the difference that existed between countries in cultural, linguistic, governmental and other topics; currently, national economies and businesses intend to integrate into a single "interdependent world economic system". (Hill C. W., 2011)

1.6 Legal Framework

Next, it refers to applicable legal framework, which has been established based on Ecuadorian government policies, which have adopted protectionist measures. Different agreements and decrees that the State has raised and that have been perfected for the benefit of national production will be presented.

As a starting point, it is important to cite WTO, an organization that brings together 164 country members, whose representatives are responsible for establishing trade system in the world and regulating it, thus promoting fluidity on economic development of nations. It is thus important to detail the so-called "SG Agreement", since it is the most relevant for this study:

1.6.1 SG Agreement

According to WTO, Agreement concerning Safeguards or "SG Agreement" establishes GATT rules for safeguard measures application, and dates back to 1994. To validate this mention, it is important to indicate this agreement was negotiated on the grounds that many of the acceding parties to the GATT had been applying repetitive and frequent measures of so-called "gray area" measures, which are "bilateral export limitations, orderly marketing agreements and similar measures". According to WTO, such measures were uncertain and not truthful on legal sense; for this reason, SG agreement prohibits the application of such measures. (World Trade Organization)

• Objectives of the agreement:

SG agreement, which is applied to all its members equally, has as main objectives:

- i) "Clarify and strengthen the disciplines of the GATT.
- ii) "Restore multilateral control over safeguards and suppress measures that escape such control".
- iii) "Promote structural readjustment by the industries affected unfavorably by the increases in imports, to thereby enhance competition in international markets." (World Trade Organization).

• **Structure of the agreement:**

It is important to bear in mind that SG agreement structure is established as follows:

This Agreement is composed of 14 articles and an annex. In general terms, it consists of four main elements:

- 1) General provisions (articles 1 and 2);
- 2) Rules governing the application by Members of new safeguard measures (ie those applied after WTO Agreement, Articles 3 to 9); takes effect.
- 3) Rules relating to measures already active that applied before WTO Agreement (Articles 10 and 11) validity; and
- 4) Multilateral disciplines on the application of safeguard measures (articles 12 to 14). "(World Trade Organization).

• **Area of application:**

On SG agreement's first article, this is the instrument which measures established in Article XIX of the GATT may be applied. In other words, any measure for which Article XIX is requested as justification must be adapted to the SG agreement. (World Trade Organization)

• **Safeguard measures application conditions:**

Conditions that are contemplated so that safeguards can be applied are established in agreement's article 2. And those according to WTO, says:

- i) "When talking about an imports increase, and
- ii) "When it is a serious damage or a threat of serious damage caused by that increase".

It also talks about the requirement that these measures be applied in an MFN or most favored nation regime. (World Trade Organization)

- **Increase on imports quantity:**

It refers to what is determined as an increase in the amount of imports by a member, so that it can apply safeguards, this can be done in absolute terms or in relation to national production of each member. (World Trade Organization)

- **Damages that may occur:**

Serious damage: According to the SG agreement within the (World Trade Organization), it is known as "serious damage" to a national production great deterioration. Once the existence of such damage has been determined, the authority assigned to the investigation will evaluate all the factors linked to the affected national production. These factors that will have to be analyzed will be: " increase on imports rate and amount in absolute and relative terms and the part of the domestic market absorbed by the increasing imports, as well as the changes on sales level, production, productivity, capacity utilization, profits and losses, and employment on domestic industry. "(World Trade Organization)

Threat of serious damage: According to the (World Trade Organization), in the SG agreement, it is known as "threat of serious injury" to an evident proximity to serious damage, provided that you have the necessary proof, without relying on in suppositions. When there is a threat of this type, so there is no serious harm involved, safeguards measures may be applied. (World Trade Organization)

- **National production branch:**

According to WTO, conglomerate of manufacturers of similar products or direct competences that make their activities within the territory of a member country, or also those manufacturers whose similar products or direct competences have a significant proportion on those products making, is known as the "domestic industry". (World Trade Organization)

- **Causal relationship:**

According to the WTO, in order to reach a determination of "serious damage", there must be a causal relationship between increase of products imports being treated and damage that is being discussed. When reasons other than imports are discussed and

when they cause injury to the domestic industry, such damage will not be blamed on imports increase. (World Trade Organization)

- **Need to conduct an investigation:**

According to WTO official website, only after an investigation carried out by competent authorities, safeguard measures may be applied. (World Trade Organization)

- **Procedure transparency:**

"Investigations must be conducted according to a previously established procedure and made public." (World Trade Organization), based on this stipulation provided by the WTO, it is clear that procedures to be implemented for measures application, is given with public facts; this information should be available to general public. In addition, it is mentioned that authorities in charge of establishing these measures must issue detailed reports with information characterized by their veracity. (World Trade Organization)

- **Participation of the interested parties:**

By holding public hearings, the investigating authority is obliged to convene various interested parties, whether they are: importers, producers, etc., so that they can present their different points of view, related to the research topic. (World Trade Organization)

- **Confidential information:**

According to the WTO, SG agreement includes regulations on how to handle confidential information on investigations context. If the requested information is considered confidential, it must have a summary, which will be non-confidential, or a clear explanation of why it is not possible to present said summary. If, once this is done, the decision is reached that it is not justified as confidential, and the party does not want to present the summary or its authorization to present information, the competent authorities may take this information as invalid, unless proven otherwise by other sources. (World Trade Organization)

- **Definitive safeguards measures:**

Tariff measures: According to the WTO says, unlike what is established in these measures, these should only be applied to prevent or repair a serious damage. "SG agreement does not provide guidance on how the level of a safeguard measure should be

established in the form of a tariff increase above the bound rate." (World Trade Organization)

- **Contingents level and their distribution adjustment**

In the event that safeguard measure takes the form of a quantitative restriction, the level established may not be lower than level established on actual imports of the last three representative years, or there may be cases in which these levels may vary, but there must be a clear justification for this. (World Trade Organization)

Contingent levels may vary in the following cases:

- If, "imports from certain Members have increased by a disproportionate percentage related to imports total increase".
- if, "the reasons for departing from the general rule are justified".
- And, if "the conditions in which this has been done are equitable for all of the product's suppliers in question" (World Trade Organization).

- **General rule:**

As mentioned by the WTO, the Member States that apply safeguards, in general, will have to pay for these, as compensation. It is said that a member applying safeguards must have a level of concessions and other obligations which is equivalent to that of the exporting members seen as affected. For this reason, members who are interested in the application of these measures may agree on an appropriate means of compensation in a period of 30 days. The exporting members that are affected may suspend substantially equivalent obligations or concessions. Or, in other words, apply measures of "retaliation", as long as the Council of Goods Trade does not disapprove that suspension. (World Trade Organization)

- **New measures application to a product:**

In the event that safeguards are applied again to a product that has already been under these measures, there are special rules that establish conditions. Regularly, "safeguards may not be applied again to a product, until a period equal to the duration of the initial safeguard measure passes, as long as the non-application period is at least two years. However, if the new safeguard measure lasts for 180 days or less, it may be applied

when one year has passed since the establishment date of the previous safeguard measure provided that no more than two safeguard measures have been applied to the product for 5 years prior to the date on which the new measure was established. "(World Trade Organization)

- **Temporary Safeguard Measures:**

Temporary measures may be assigned, in critical circumstances, or in those in which any delay would contain a damage that is difficult to solve, when it comes to determining evidence existence on imports increase, and that this causes a threat or serious damage. In addition, these measures may be valid for a maximum period of 200 days. (World Trade Organization)

- **Special and differential treatment**

Special and differential treatment refers to the members developing countries, in terms of safeguard measures this advantage refers to an exemption, provided that imports volume coming from the developing country member is "minimís". It is known developing countries members have special and differentiated treatment in two aspects: "The permitted extensions duration and new safeguard measure application to a product that has already been subject to such a measure". (World Trade Organization)

- **Minimum volume exemption:**

When imports coming from a member developing country, and they are not exceeding 3% of total imports subject to safeguards, these measures will not apply. On condition that "the developing countries whose volume of imports is lower in each case at that threshold do not together represent more than 9% of the total imports of the product to be treated". (World Trade Organization)

- **Provisions that affect developing countries, as members that use safeguard measures.**

Regarding safeguards extensions term, it is stated that: The member developing countries may request a measure extension period application for a term of a maximum of two more years, besides from that allowed in a regular way. (World Trade Organization)

As for the application of new measures to a product that has already been applied safeguards previously in developing member countries, the standards that will be applied will be less strict. "The minimum period of non-application is only for developing countries, referring in most cases equal to half the duration of the previous measure, if this period is at least two years." (World Trade Organization)

1.6.2 Text analysis: Correlation between the Organic Code of Production, Commerce and Investments and its regulations.

As indicated on "Correlation between the organic code of production, trade and investment, and its regulations" book (Guayasamín, 2016), through Executive Decree 733 established on April 27th, 2011, by President of the Republic of Ecuador for that date, Econ. Rafael Correa Delgado, through the supplement of the Official Registry No. 351 of December 29th, 2010, Organic Code of Production, Trade and Investment, COPCI, takes effect, in which, book IV, regulations application in matters of commercial policy establish, its control bodies and instruments.

This book works as a normative basis for foreign trade policy and all instruments to legalize trade negotiations with the foreign market, establishing in some of its articles the need to regulate the procedures and the institutional framework of these.

The body in charge of approving, disapproving or regulating national commercial public policies is the Foreign Trade Committee, COMEX, which is made up of delegates from different Ministries and other organizations established by Decree 733, mentioned above, and has an Executive committee. As established in the first article of COPCI, the COMEX is guided by the objectives of the commercial policy established in the constitution and bases its activities in two instruments: The National Development Plan and the COPCI. (Guayasamín, 2016)

On article 72, book IV, COPCI, (Guayasamín, 2016) the responsibilities of the governing body in matters of commercial policy are detailed, as the following:

- Establish policies on foreign trade and designate each executing agency.
- Issue opinions prior to international trade negotiations, being free to provide tariff or tax preferences for the products entry.
- Establish, change or eradicate tariffs.

- Regulate or restrict export and import of goods.
- Temporarily defer the application of general or sectorized tariff rates for the benefit of national production.
- Apply tariffs in accordance with economic integration treaties.

In accordance with the provisions of Articles 76 and 77, Book IV, COPCI, respectively, when establishing tariff rates, these may be expressed in the following terms:

1. Percentage of the good's value.
2. Monetary value for a specific unit of measurement.
3. Mixed, combination of the two above mentioned.

Tariffs may be under the following technical modalities:

1. Fixed tariffs, through a single tariff.
2. Tariff quotas, applied to a certain amount by differential tariff.

With reference to non-tariff measures, through Articles 19, 78 and 79, Book IV, COPCI, Foreign Trade Committee may apply non-tariff measures to import goods in the following relevant cases:

- Comply with international treaties
- Protection and security of Ecuadorians.
- Temporary requirement to correct imbalance on balance of payments.
- Avoid illicit merchandise trade.
- Defense of consumer rights.
- Avoid shortage of essential products or food.
- National prices adjustment.
- Protection of non-renewable natural resources.
- Supplies of raw materials to domestic producers.

The COMEX will be responsible for adopting these non-tariff measures for imports determined by the COPCI and may be:

- Import licenses.
- Tariff quotas.
- Sanitary measures.
- Customs provisions.
- Other ratified international provisions.

As indicated in articles 88 and 124, book IV, COPCI, the Ecuadorian government as a measure of commercial defense aims to adopt appropriate provisions to prevent any aggravation of national production, in this way restrictions and regulations will be made to any type of import of goods that greatly increase and that affect the commercial interests of the Ecuadorian State. Also, there will be import limitations if production does not meet the needs of the local population or generates instability in domestic prices or their balance of payments. Thus, the Ecuadorian State will counteract any impact on national production based on international conventions ratified by the country. (Guayasamín, 2016)

These aforementioned measures concerning commercial defense may be established as:

- Anti-dumping measures.
- Countervailing duties.
- Safeguard measures.
- Other duly ratified mechanisms.

Each of these provisions will have to meet certain requirements, application and execution procedures and will be subject to a regulation of this organic code.

So they will work to determine the process to be followed as detailed in the regulatory standard and to which products will be destined to be applied. As mentioned on Article 52, Book IV, COPCI, as the only body with the ability to approve or not these measures of commercial defense, is the Foreign Trade Committee.

With reference to the anti-dumping and countervailing duties established in Articles 89 and 93, Book IV, COPCI, they will be valid for the time necessary to counteract national production condition, and will be eliminated within a period of five years from the date to it takes effect. On the other hand, in the case of safeguards, they will only be valid for four years, but, by means of a justification for the need to preserve them, they may be extended for another four years. The duration of the definitive safeguards measures shall not exceed four years unless they are extended. (Guayasamín, 2016)

Referring to articles 82, 86, Section 2A, Book IV, COPCI, the COMEX will approve safeguard measures, both provisional and final, for merchandise that after investigation has been seen to have increased to a greater extent than domestic production of similar or exact goods, threatening it; this safeguard will apply regardless of its origin. These measures will consist in the application of a specific, specific tariff or a combination of both, and only when it is convenient will quantitative restrictions be applied. (Guayasamín, 2016)

With regard to book V, COPCI, it is considered relevant to mention the customs regime by which the items to be analyzed are imported on next chapter. Article 147 "Import Regime for Consumption", from the book mentioned above, it tells us that: "Goods imported from abroad may be freely marketed in the customs territory after paying taxes on imports and in case of sanctions or additional surcharges." (COPCI, 2010)

• **Foreign Trade Committee Resolutions:**

There are several resolutions that Foreign Trade Committee of Ecuador has issued in recent years with respect to safeguards, having been carried out a cautious reading of these to take them into consideration on the bibliography.

As a summary, on March, 2015, safeguards took effect for a total of 2,961 items with surcharges between 5 and 45%. Ecuadorian government justified these measures due oil prices falling impact. Resolution No. 011-2015 was presented to the WTO full Committee of the Balance of Payments Restrictions. This document established that "the tariff surcharge will be in addition to the applicable tariffs, in accordance to national tariff and bilateral and regional trade agreements of which the Ecuadorian State is a contracting party." (Ministry of Foreign Trade, 2015)

On the aforementioned notification, the tariff descriptions and surplus amounts were established for each case. The WTO gave the green light to these measures on October 2015 and decided to resume the examination of the application the following year. In 2016, Ecuador submitted a new notification to the WTO, informing about the modification to the dismantling schedule of the balance of payments safeguard measure, the notification explains the emergency situation that led to this measure: the 7.8-magnitude earthquake that ravaged the country's coast on April 2016. (Ministry of Foreign Trade, 2015)

CHAPTER 2

More import liquors identification and their countries of origin

2.1 Introduction:

On this chapter, a meticulous analysis will be made by the amount of the imported tons of liquor by our country, with their respective items. So, through this, determine which liquors have been imported with greater significance, both in quantity and provenance. This information will be analyzed through the number of items that have been imported and the number of tons imported for each item.

2.2 List of subheadings:

Next, the list of subheadings is presented, with application of tariff surcharge of balance of payments safeguard, and referred to the scope of liquors, of 25% in the majority of the cases. According to this list, a subsequent analysis will be carried out, in order to determine the most relevant items regarding the importation of liqueurs and their countries of origin.

- 2203000000 - Malt beer.
- 2204100000 - Sparkling wine.
- 2204210000 - In containers with a capacity less than or equal to 2 liters.
- 2204291000 - Grape must in which the fermentation has been prevented or cut by adding alcohol.
- 2204299000 - Other wines.
- 2204300000 - Other grape must.
- 2205100000 - In containers with a capacity less than or equal to 2 liters.
- 2205900000 - Other.
- 2206000000 - Other fermented beverages (for example, cider, pear water, mead); mixtures of fermented beverages and mixtures of fermented beverages and non-alcoholic beverages, not elsewhere specified or included.

- 2207100000 Undenatured ethyl alcohol of an alcoholic strength by volume of 80% vol or higher
- 2207200090 Other.
- 2208202100 Pisco.
- 2208202200 Singani.
- 2208202910 Extracts and alcoholic concentrates for brandy production, packed in bulk, with alcoholic strength equal to or greater than 50 degrees Gay Lussac (50 G.L.), not suitable for direct marketing to consumers.
- 2208202990 Others.
- 2208203000 from grape marc ("grappa" and alike).
- 2208300010 Extracts and alcoholic concentrates for whiskey production, packaged in bulk, with alcoholic strength equal to or greater than 50 degrees Gay lussac (50 G.L.), not suitable for direct marketing to consumers.
- 2208300090 Other.
- 2208400010 Extracts and alcoholic concentrates for rum production packed in bulk, with alcoholic strength equal to or greater than 50 degrees Gay Lussac (50 G.L.), not suitable for direct marketing to consumers.
- 2208400090 Other.
- 2208500010 Extracts and alcoholic concentrates for gin production, packed in bulk, with alcoholic strength equal to or greater than 50 degrees Gay Lussac (50 G.L.), not suitable for direct marketing to consumers.
- 2208500090 Other.
- 2208600000 Vodka.
- 2208701000 Aniseed.
- 2208702000 Creams.
- 2208709000 Other.

- 2208901000 Undenatured ethyl alcohol with an alcoholic strength by volume of less than 80% vol.
- 2208902000 Agave spirits (tequila and similar).
- 2208904200 Aniseed.
- 2208904900 Others.
- 2208909000 Other.

Table No. 1 shows the quantity of tons imported, year by year, during the period 2013-2016, for each consignment of liquor entering Ecuador. It has been decided to analyze the tons and not in money, since this information provides a better analysis perspective.

It should be mentioned that Table 1 does not include all the items mentioned in the list of subheadings, given that some did not have imports in certain years. The subheading corresponding to Ethyl Alcohol is not included in subsequent analyzes, since unlike the others it is not a product that has been transformed.

Table 1

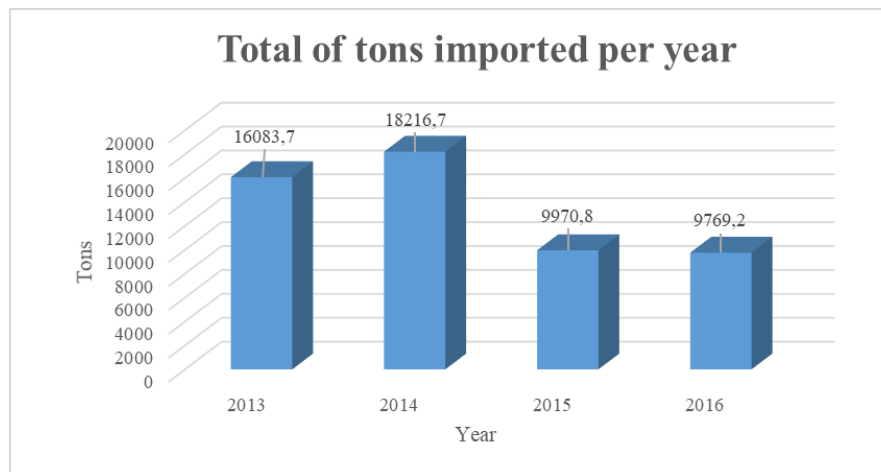
Tariff Headings of liquors imported in Tons (2013-2016)					
Tariff headings		Year 2013	Year 2014	Year 2015	Year 2016
2208901000	Alcohol and undistilled	101,10	80,00	52,00	0,00
2206000000	Fermented beverages	159,90	220,40	177,10	115,60
2203000000	Malta beers	8341,90	8246,50	2155,80	2550,90
2208400010	Rum Concentrates	395,30	529,20	401,90	257,10
2208300010	Whiskey Concentrates	626,10	386,80	639,10	483,90
2208702000	Creams	28,00	39,90	23,60	20,70
2208709000	Other Creams	81,90	232,10	393,60	26,30
2208701000	Anise	1,70	0,00	12,60	258,90
2208904200	From anise 2	0,00	239,30	165,40	37,80
2205100000	In containers inf to 1 l	12,70	3,80	7,60	0,50
2208500090	Others Gin	4,80	19,70	7,20	18,20
2208203000	Grappa and similar	0,00	0,00	0,00	0,40
2207200090	Others	0,00	106,00	77,60	3,40
2208904900	Others	3,80	0,00	0,00	21,60
2208909000	Others 2	148,10	40,80	54,60	45,50
2208202990	Others Brandy	4,00	9,40	1,70	1,00
2204299000	Other wines	83,00	15,50	331,50	38,80
2208202100	Pisco	28,20	62,60	20,80	14,10
2208400090	Others Rum	783,80	481,60	112,30	90,00
2208902000	Tequila and Similar	54,10	48,70	23,30	0,00
2204100000	Sparkling wine	479,20	471,40	451,20	505,00
2204210000	Wines	4443,50	6655,50	4760,30	5200,90
2208600000	Vodka	36,60	50,80	7,40	0,00
2208300090	Others Whiskey	266,00	276,70	94,20	78,60
Total		16083,70	18216,70	9970,80	9769,20

Source: Central Bank of Ecuador

Author's Elaboration.

2.3 Amount of liquor tons imported per year

Graph 1



Source: Central Bank of Ecuador

Author's Elaboration.

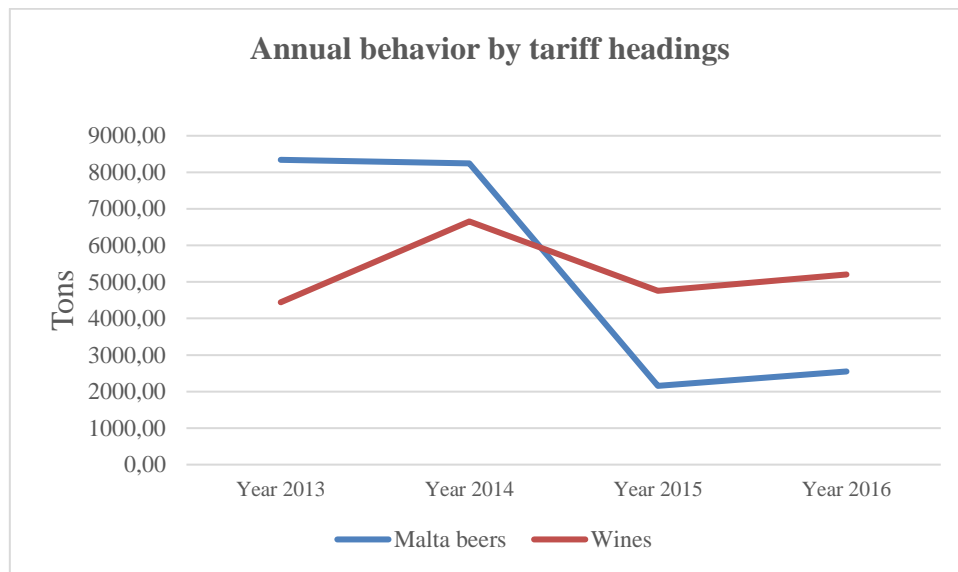
It has been necessary, for a better understanding, to make Graph 1, the same one that exposes the data in total tons imported for each year studied. Clearly, an increase can be observed between 2013 and 2014, and then a large fall between 2014 and 2015. For 2016, the decrease is not as representative as compared to the previous one.

On 2013, total liquor imported was 16,096.4 tons, and for 2014 it had grown 13.2%, reaching 18,216.7 tons. The decrease between the appointed years and 2015 is clear, since it fell by 45.3% compared to 2014, with a total imported of 9,970.8 tons.

For 2016, the variation is not as marked as in previous years, since there is an increase of 2% with respect to 2015. In summary, it can be said that between 2013 and 2016 there was a fall in the import of liqueurs of the order of 39.3%.

2.4 Annual behavior by tariff headings

Graph 2



Source: Central Bank of Ecuador.

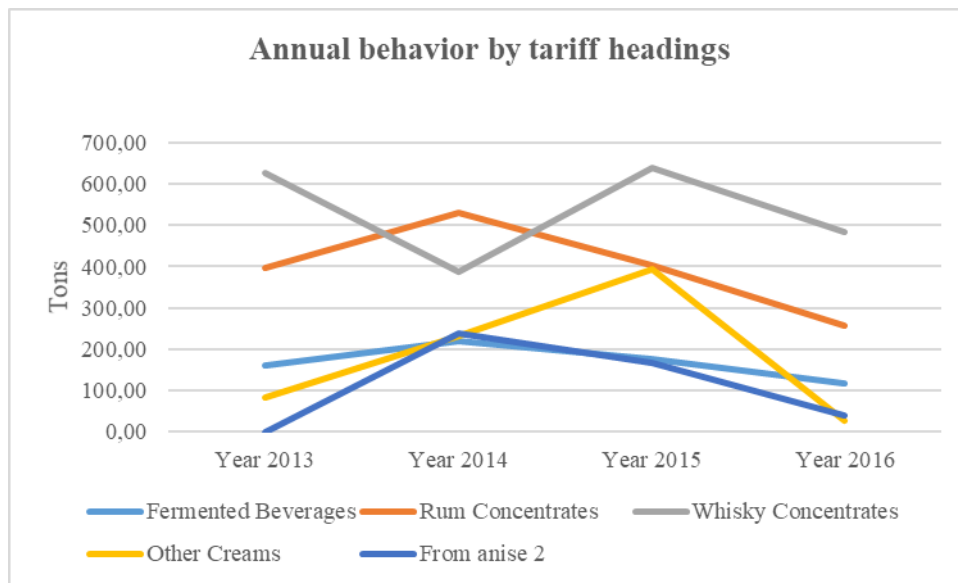
Author's Elaboration.

Graph 2, prepared on the basis of Table No. 1, clearly states that the two liquor items with the most relevance in terms of the quantity of imported tons are the Maltese Beers and Wines.

With reference to the Maltese Beers, it can be mentioned that, in the first year of the study, 2013, there were imports of 8,341.9 tons, an amount that fell dramatically in subsequent years, only 2,550.9 tons on year 2016, situation that represents a decrease of 69% in just 3 years. The most significant change was generated between 2014 and 2015, when there was an import reduction of 73.9%.

The second tariff heading analysis is Wine, which has a more stable behavior, only between the first two years analyzed, 2013-2014, there is an increase of 50%. For the following year, 2015, imports decreased 1,800 tons with respect to the previous year. Finally, in 2016 imports again increased, although not to a greater extent, reaching an increase of 9.3%

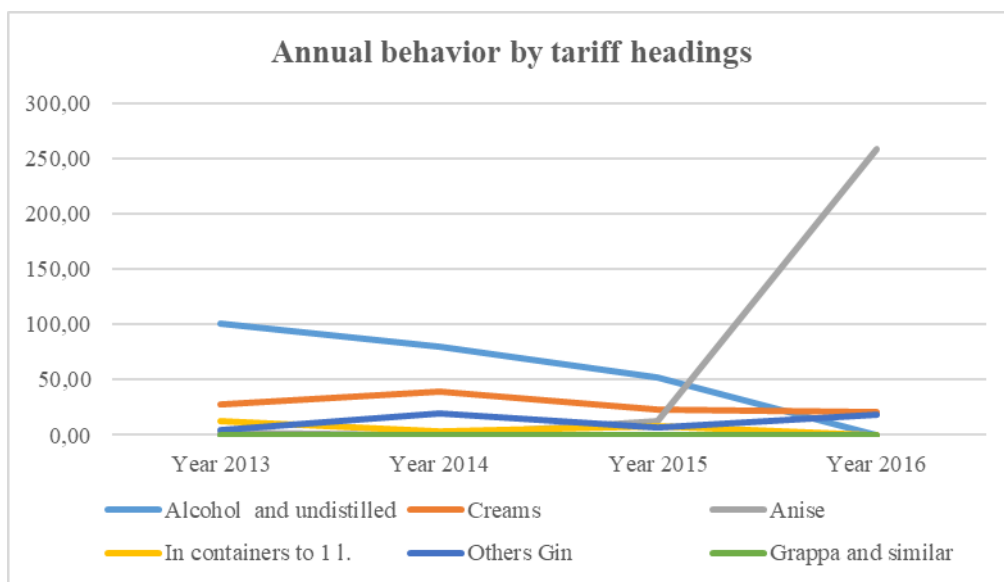
Graph 3



Source: Central Bank of Ecuador.

Author's Elaboration.

Graph 4



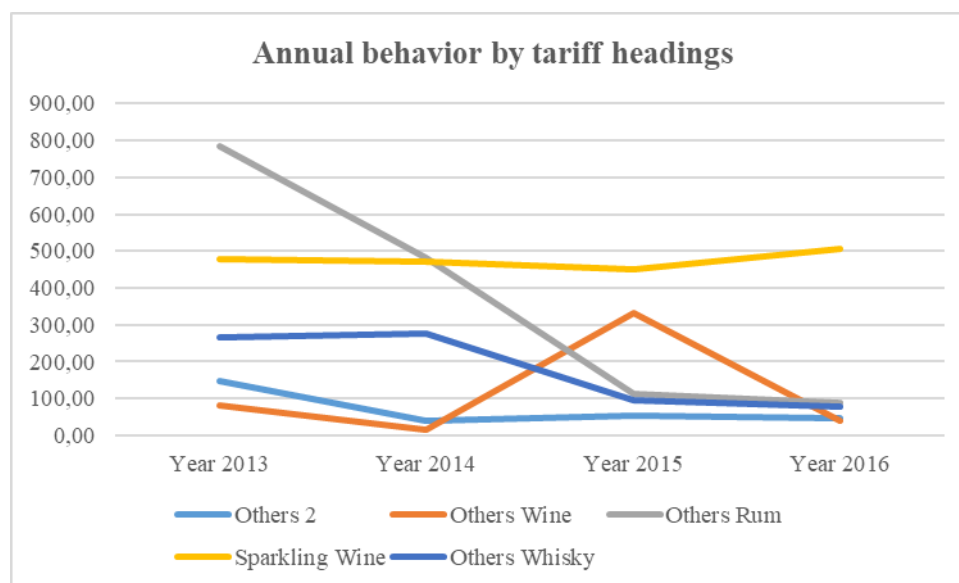
Source: Central Bank of Ecuador.

Author's Elaboration.

For a better graphs appreciation, the 11 least significant tariff headings have been divided into Graphs 3 and 4, in relation to the number of tons imported. The first contains the two most relevant items, which are: Rum concentrates, with an average of 400 tons per year, between 2013 and 2016; and, Whiskey concentrates, with an average of 530 tons per year, within the same period of time. Among other tariff headings considered on the graph, there is none with a higher amount than 180 tons per imported year.

On Graph 4 case, the 6 least relevant tariff headings of the list of liquors are considered, the only one that stands out above the rest is the item referred to Anis Liquor, the same as in the last year of study, 2016, increased its imports on approximately 250 tons, while the Alcohol et Not Distilled item decreased by 100% with respect to imported tons total, when comparing 2016 with the first year of study, ie 2013.

Graph 5

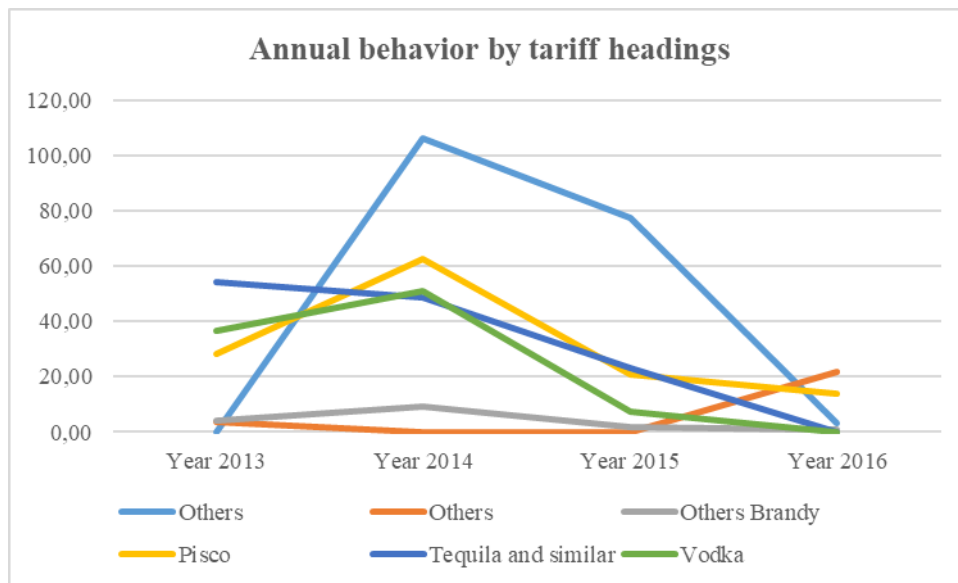


Source: Central Bank of Ecuador

Author's Elaboration.

On Graph 5 it can be seen the behavior of the 5 most relevant tariff headings, the item of Ron and the others through the years of analysis decreased 89%, while the rest of the items did not have greater variations in relation to the imported tons.

Graph 6



Source: Central Bank of Ecuador

Author's Elaboration.

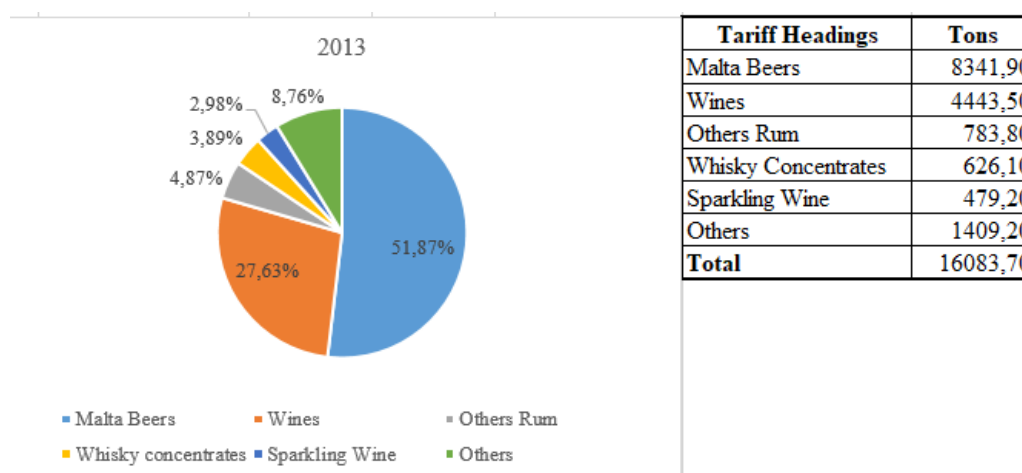
As for Graph 6, others tariff heading on 2013 did not generate imports, but in the following year 106 tons were imported, then on the following years it decreased until falling again to 0 in 2016. It is important to note that, as seen on graph, 5 from 6 tariff headings have 2014 as the most relevant in number of tons imported.

2.5 Imported tons per tariff heading annual analysis

Next, the most relevant import tariff headings are exposed, year after year, during the analysis period:

Graph 7

Liquor tariff headings selected during 2013



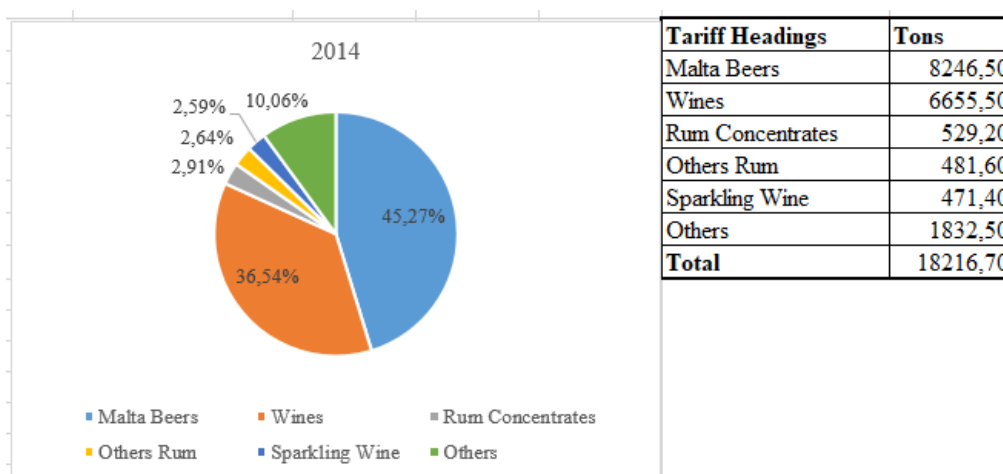
Source: Central Bank of Ecuador

Author's Elaboration.

On Graph 7, it can see the 5 most significant tariff headings by number of tons imported. On the first year of analysis, 2013, the Malt Beers category is the main one with 8,341.9 tons, covering 51.87% of the tariff headings of that year. Second in importance was the wine, which reached 4,443.5 tons, a value that represents 27.63% of the total of tariff headings. The third item, very separated from the previous ones, corresponds to the others with 8.76% of the total, noting that this corresponds to the sum of the rest of the items not named. Fourth, there is the item Others Rum with a participation percentage of 4.87%, followed by Whiskey Concentrates, on the fifth, with 3.89%, and finally Sparkling Wine with 2.98% of the total.

Graph 8

Liquor tariff headings selected during 2014



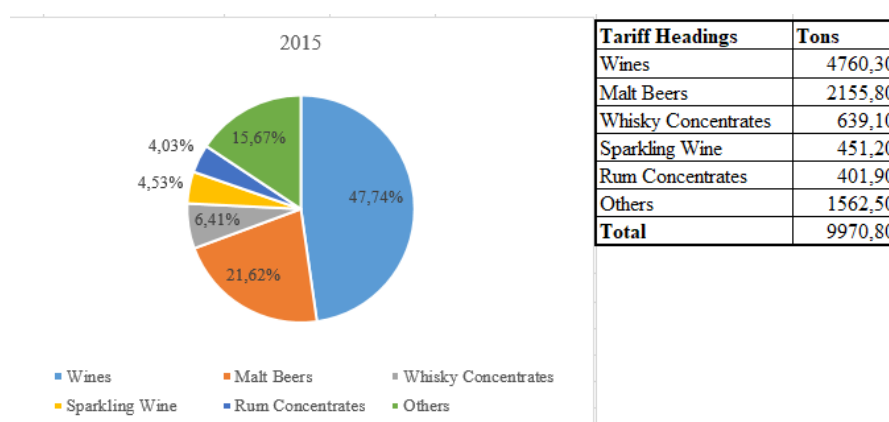
Source: Central Bank of Ecuador

Author's Elaboration.

Graph 8 corresponds to imports analysis of 2014, observing that the highest category is that of Malt Beers, although its percentage of participation fell to 45.27%, 8,246.5 tons. Next, there is the Wines with 36.54% and 6,655.5 tons. The third item in importance corresponds to the others, with a 10.06%. Then there are Rum Concentrates with 2.91% of the total, followed in fifth and sixth place by Other Rum and Sparkling Wine with percentages of 2.64% and 2.59% respectively.

Graph 9

Liquor tariff headings selected during 2015



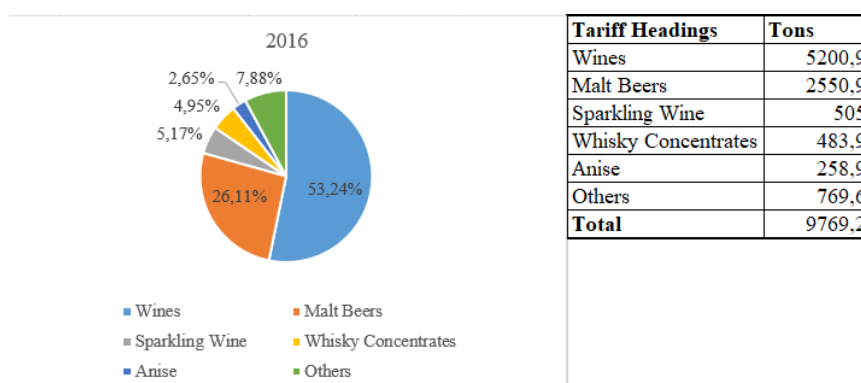
Source: Central Bank of Ecuador

Author's Elaboration.

On Graph 9, refers to the year 2015, unlike the previous years, it can be noted that the item Wines became the most relevant with 4,760.3 imported tons, 47.74% of the total. So, then appears Malt Beers, which represented 21.62% from total imports, 2,550.90 tons. On third place are the others items with the 15.67%, the remaining items: Whiskey concentrates with 6.41%, Sparkling wine with 4.53% and Ron concentrates with 4.03% of the total, were the least significant.

Graph 10

Liquor tariff headings selected during 2016



Source: Central Bank of Ecuador

Author's Elaboration.

Graph 10 shows the data of the last year of study, 2016, in which it is observed on Wine category 5,200.9 tons were imported, which represent 53.24% of participation, being the most important. In second place, with the 26.11% of the total Beer Malt item, 3,550.9 tons was located. Then, very apart from the previous ones, Sparkling Wines appear with only 505 tons imported. In fourth, fifth and sixth place were Others, Whiskey Concentrates and Anise, with 7.88%, 4.95% and 2.65% respectively.

On table No.2, changes on number of tons and in existing variations, year by year, since 2013 are detailed.

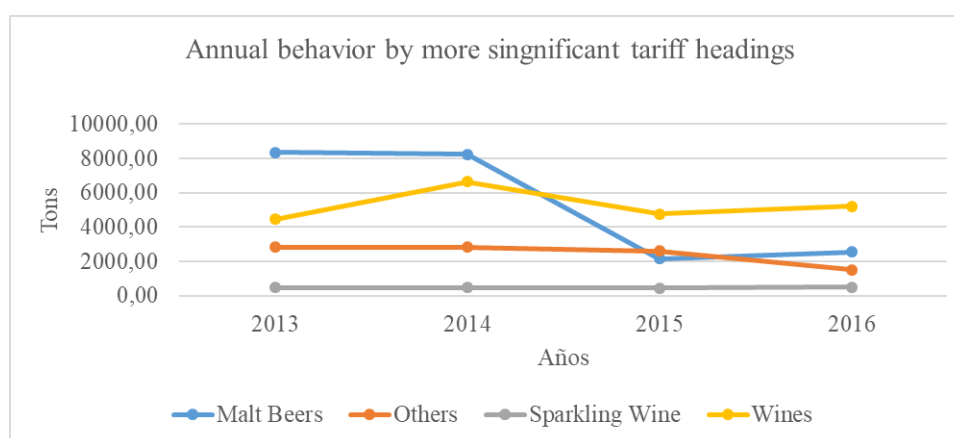
Table 2

Total of tariff headings per year			
Year	Tons	% Variation	% Variation based in 2013
2013	16083,7	-	-
2014	18216,7	13,3%	13,3%
2015	9970,8	-45,3%	-38,0%
2016	9769,2	-2,0%	-39,3%

Source: Central Bank of Ecuador

Author's Elaboration.

Graph 11



Source: Central Bank of Ecuador

Author's Elaboration.

Graph 11 shows the most significant liquor import items during the four years analyzed, that is, between 2013 and 2016. It can be observed that Beer category decreased by

around 6,000 tons between 2014 and 2015, so as to recover the following year, although not in greater extent. Wines category had a variable behavior, growing in the 2013-2014 period and decreasing in the 2014-2015 period, approximately 2000 tons, to stay in 2015-2016. The third item analyzed, others, on the first three years did not have major variations, except in the last period in which a decreasing trend is observed, since it decreased 1,091 tons. The last item under study, Sparkling Wine, behaved in a stable manner, since there were no major variations year after year, fluctuating in a range of 450 to 500 tons. Next, Table 3 shows the exact annual values of each of the import items.

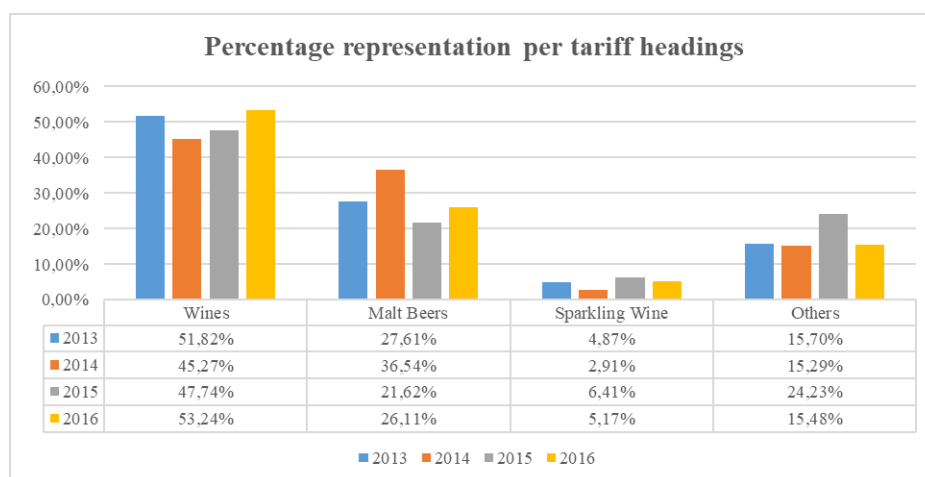
Table 3

	Annual quantities by tariff headings imports			
Tariff headings	2013	2014	2015	2016
Malt Beers	8341,90	8246,50	2155,80	2550,90
Others	2831,80	2843,30	2603,50	1512,40
Sparkling Wine	479,20	471,40	451,20	505,00
Wines	4443,50	6655,50	4760,30	5200,90

Source: Central Bank of Ecuador

Author's Elaboration.

Graph 12



Source: Central Bank of Ecuador

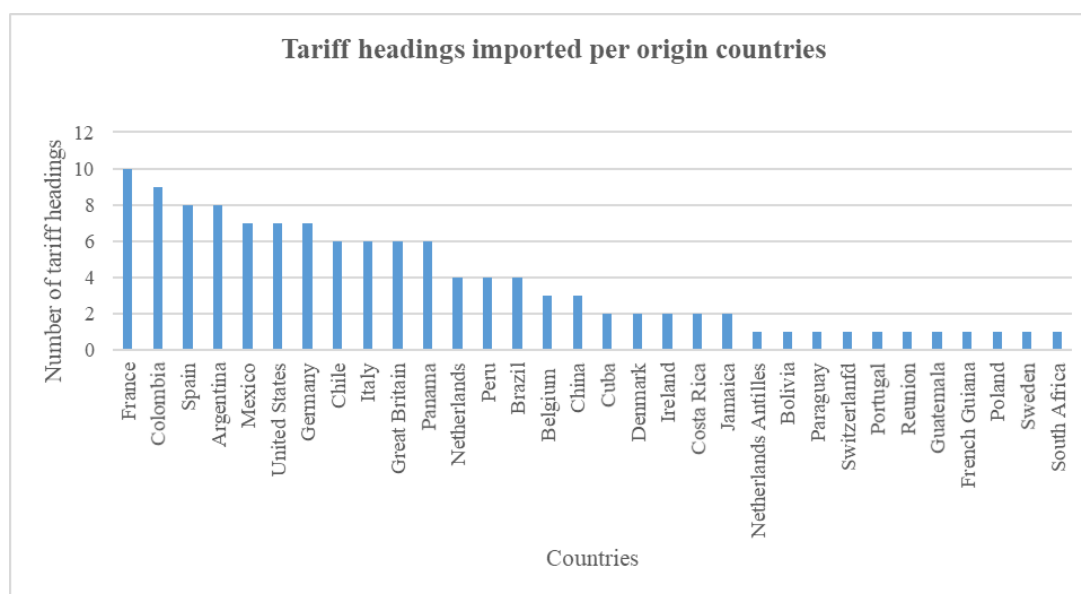
Author's Elaboration.

Graph 12 shows the four most significant items, expressed through percentages of annual participation on liquors imports. Wines, during 4 years of analysis, were constituted in the most transcendent item, representing an annual average of approximately 50% of the total of imports. The second item in importance is Malt Beers with 28% participation. The third item in relevance corresponded to Sparkling Wine, with an average participation of around 5%. Finally, when consolidating the rest of the items on *others*, because they are less representative individually than those mentioned above, it can be observed that they mean an annual average of 17.67% of total imports; it should be noted that 21 items have been included in the latter category.

2.6 Tariff heading analysis by country of origin

From the following graph, different levels of participation are expressed during the period of analysis proposed, referring to the imports origin country.

Graph 13



Source: Central Bank of Ecuador

Author's Elaboration.

Graph 13 shows the contribution to liquor imports from different countries, according to the items mentioned above, regardless of the number of tons imported.

The country with the most tariff headings from Ecuador is France, with 10; then Colombia with 9; then Spain and Argentina with 8; they are followed by Mexico, the United States and Germany with 7; Chile, Italy, Great Britain and Panama with 6; The Netherlands (Holland), Peru, and Brazil with 4; Belgium and China with 3; Cuba, Denmark, Ireland, Costa Rica and Jamaica with 2; and, finally, Netherlands Antilles, Bolivia, Paraguay, Switzerland, Portugal, Guatemala, French Guiana, Poland, Sweden, South Africa and the French overseas department, Reunion, with 1 item.

On table No. 4, exposed below, the detail of the expressed can be observed:

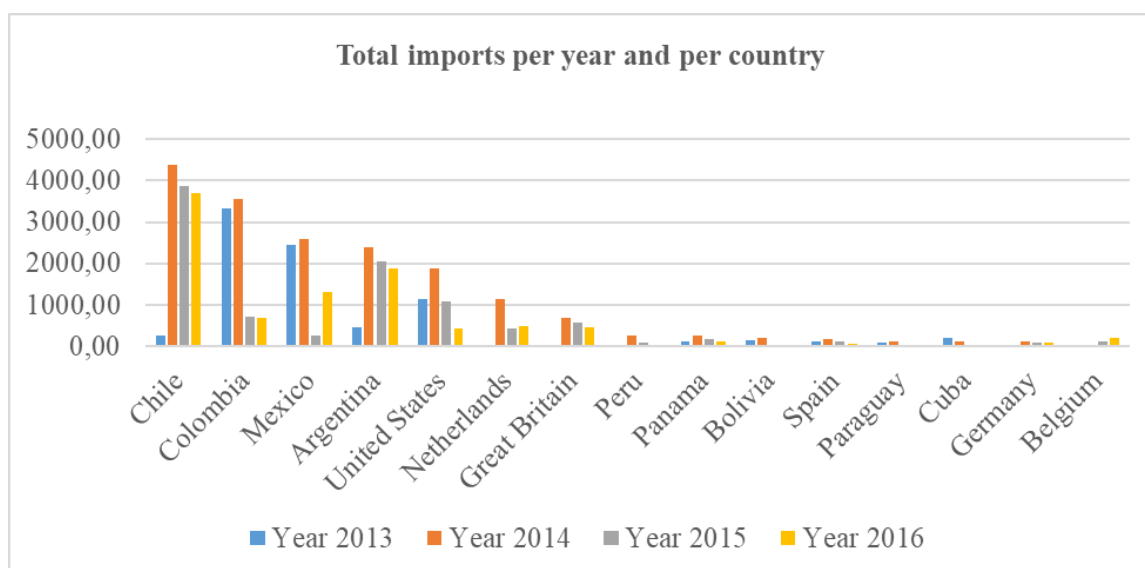
Table 4

Countries	Number of participations per tariff heading
France	10
Colombia	9
Spain	8
Argentina	8
Mexico	7
United States	7
Germany	7
Chile	6
Italy	6
Great Britain	6
Panama	6
Netherlands	4
Peru	4
Brazil	4
Belgium	3
China	3
Cuba	2
Denmark	2
Ireland	2
Costa Rica	2
Jamaica	2
Netherlands Antilles	1
Bolivia	1
Paraguay	1
Switzerland	1
Portugal	1
Reunion	1
Guatemala	1
French Guiana	1
Poland	1
Sweden	1
South Africa	1

Source: Central Bank of Ecuador

Author's Elaboration.

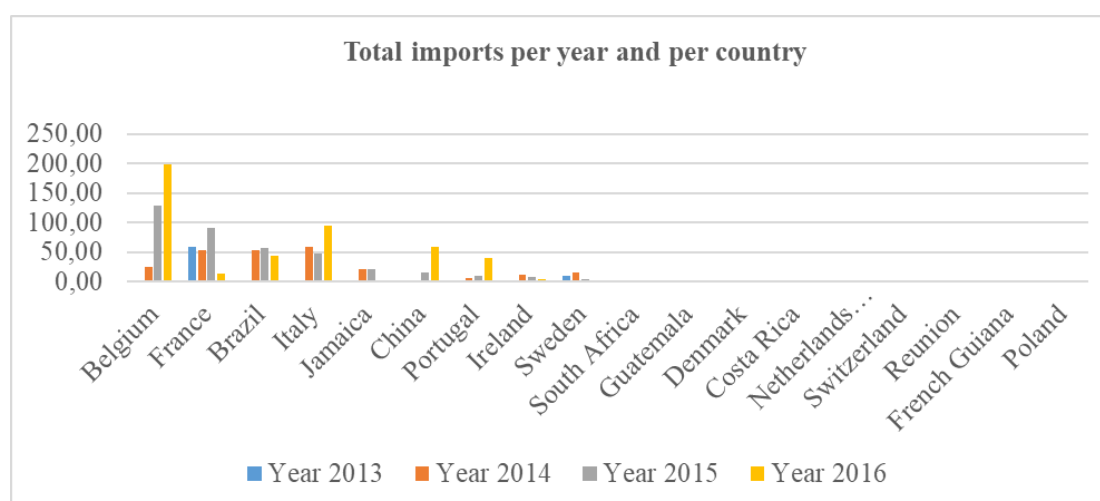
Graph 14



Source: Central Bank of Ecuador

Author's Elaboration.

Graph 15



Source: Central Bank of Ecuador

Author's Elaboration.

Graphs 14 and 15 show the participation different countries have had on liquors imports from Ecuador during 2013-2016 periods. Meanwhile, Table No. 5 shows, in tons, the detail of the quantities imported year after year and country by country:

Table 5

Countries	Year 2013	Year 2014	Year 2015	Year 2016
Germany	227,60	114,40	83,40	97,70
Netherlands Antilles	19,20	0,00	0,00	0,00
Argentina	1496,90	2399,60	2053,30	1890,00
Belgium	127,30	25,60	128,20	199,50
Bolivia	148,90	200,70	0,00	0,00
Brazil	97,50	53,60	56,40	44,60
Chile	3127,10	4385,10	3881,70	3691,70
China	0,50	0,00	14,60	58,50
Colombia	3342,70	3563,60	721,00	699,90
Costa Rica	76,30	0,00	0,00	0,00
Cuba	150,80	133,40	44,50	7,00
Denmark	0,00	0,00	0,00	2,60
Spain	137,70	180,90	125,40	64,70
United States	2646,50	1893,40	1084,80	444,20
France	58,10	53,60	91,60	14,10
Great Britain	767,20	691,90	584,70	458,50
Guatemala	1,80	2,90	0,50	1,00
French Guiana	0,10	0,00	0,00	0,00
Netherlands	660,30	1151,70	424,80	491,50
Ireland	10,40	11,50	8,20	3,80
Italy	66,90	58,50	47,30	94,40
Jamaica	41,40	21,00	21,40	0,00
Mexico	2453,00	2584,00	263,60	1311,20
Panama	194,20	266,30	183,60	131,10
Paraguay	105,20	133,80	0,00	0,00
Peru	111,30	269,20	105,80	20,50
Poland	0,80	0,00	0,00	0,00
Portugal	2,70	5,20	9,80	40,80
Reunion	0,40	0,00	0,00	0,00
South Africa	0,00	0,00	1,80	0,00
Sweden	10,40	14,90	4,00	0,00
Switzerland	0,80	0,00	0,00	0,00

Source: Central Bank of Ecuador

Author's Elaboration.

2.7 Most significant tariff headings analysis

From now on, a more detailed investigation of the annual participation of different countries will be carried out, referring to six pre-selected items in terms of their importance:

2203000000. Beers.

2204100000. Sparkling Wine.

2204210000. Wine.

2208202100. Pisco.

2208600000. Vodka.

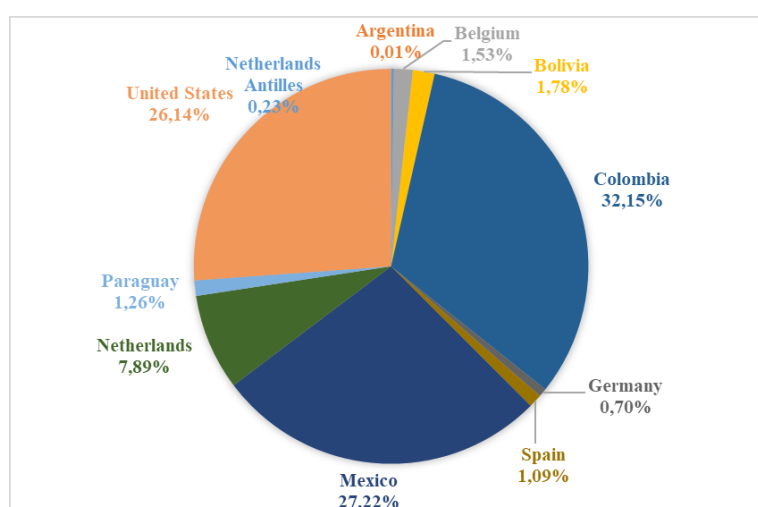
2208902000. Tequila.

Year by year, for the 2013-2016 period, variation on imported tons amount from each country will be analyzed. At first it will be considered Beers, an item in which 14 countries sell to Ecuador.

2.7.1 Beers:

Graph 16

Beers imports by countries during 2013



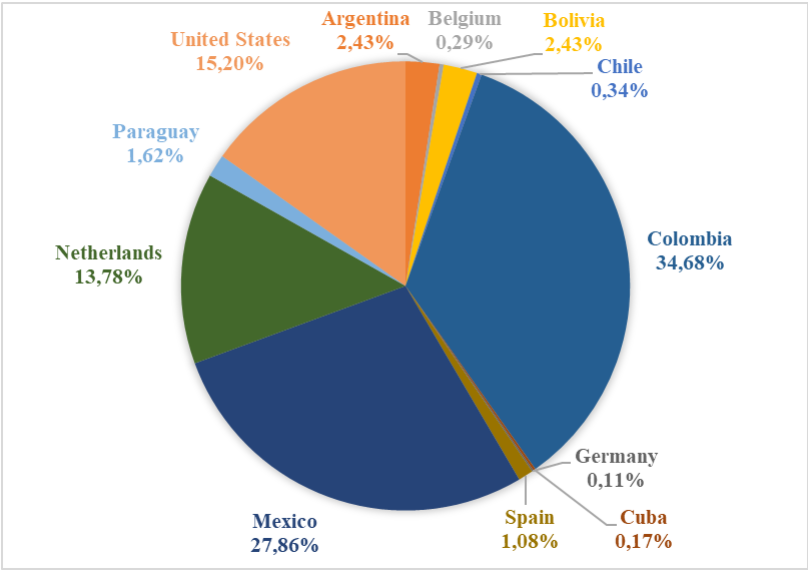
Source: Central Bank of Ecuador

Author's Elaboration.

As can be seen in Graph 14, during 2013, Colombia was the first beers exporter to Ecuador, representing 32.15% of total imports; then, from Mexico, 2,271 tons were imported, 27.22% of the total. From the United States came 26.14% of imported beers, approximately 90 tons less than from Mexico. The Netherlands became the supplier of 7.89%. And, the remaining 7% is divided among 7 other countries, which are detailed in table No. 6.

Graph 17

Beers imports by countries during 2014



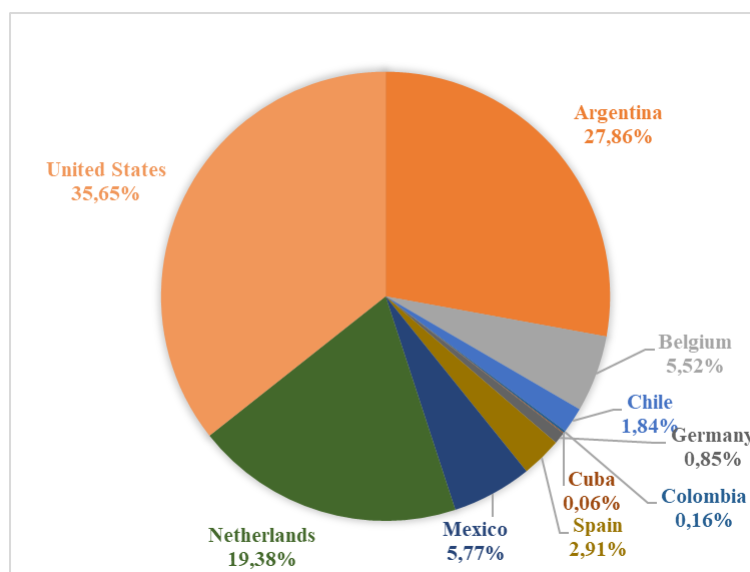
Source: Central Bank of Ecuador.

Author’s Elaboration.

For the following year, 2014, the countries that supply the Ecuadorian beer market remain the same as in 2013, varying in the amount and consequently in the percentage of participation of each of them. Figure 17 shows that Colombia delivers 34.68% of the total imported, Mexico 27.86%, the United States 15.20%, decreasing approximately 11 percentage points, and on the contrary, the Netherlands increased its participation until reach 13.78% of the total. The 8.5% missing is distributed among the countries that are detailed on Table No. 6.

Graph 18

Beers imports by countries during 2015



Source: Central Bank of Ecuador.

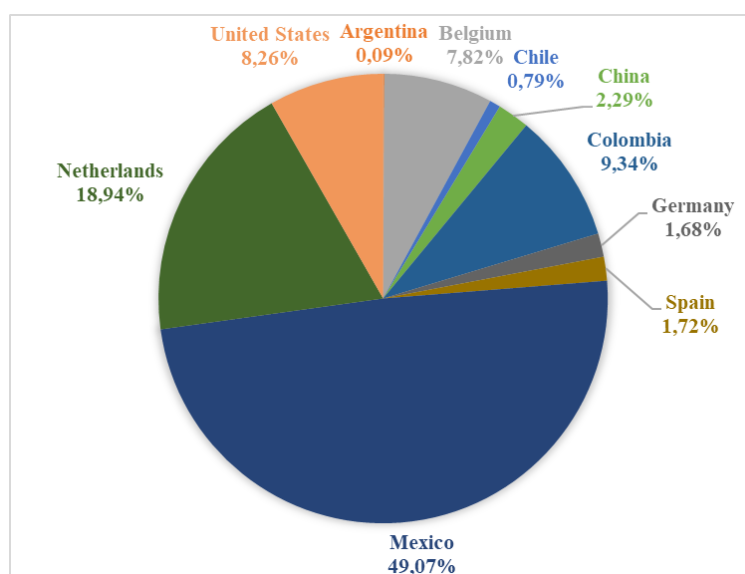
Author's Elaboration.

When analyzing year 2015, it can be seen Beers import contracted drastically by 74.22%. Graph 18 shows that Colombia had almost no participation, the United States became beer first exporter to Ecuador with 757.7 tons representing 35.65% of total imports, then Argentina appears with 27.86%, The Netherlands with 19.38%, Mexico lowered its contribution to only 5.77%. The remaining 11% is distributed among other countries, according to the detail shown on Table No. 6.

It is necessary to mention that Paraguay did not generate exports to Ecuador during the year, when in 2014 it delivered 130 tons, while Mexico radically reduced its presence, 122 tons in 2015, unlike 2,297.5 tons in 2014.

Graph 19

Beers imports by countries during 2016



Source: Central Bank of Ecuador.

Author's Elaboration.

For 2016, the last year of analysis, beer imports recovered reaching 20% growth with respect to 2015. Graph 19 indicates that Mexico increases its participation to approximately 50% of total imports, ranking as the first beer supplier to Ecuador, then as the second supplier country is the Netherlands with 18.94%, Colombia ranks third with 9.34%, then the United States with 8.26%, Belgium with 7.82% and the remaining 6%, to other countries with less presence shown in Table No. 6.

Table 6

Detail of imports according to Malt Beers				
Countries	2013	2014	2015	2016
Germany	58,20	9,30	18,00	42,90
Netherlands Antilles	19,20	0,00	0,00	0,00
Argentina	1,20	200,70	592,20	2,30
Belgium	127,30	24,20	117,40	199,50
Bolivia	148,90	200,70	0,00	0,00
Chile	0,00	28,30	39,20	20,20
China	0,00	0,00	0,00	58,50
Colombia	2681,60	2859,60	3,40	238,20
Cuba	0,00	14,10	1,20	0,00
Spain	90,60	88,80	61,80	43,90
United States	2180,90	1253,30	757,70	210,70
Mexico	2271,00	2297,50	122,60	1251,60
Netherlands	657,90	1136,30	411,80	483,00
Paraguay	105,20	133,80	0,00	0,00

Source: Central Bank of Ecuador.

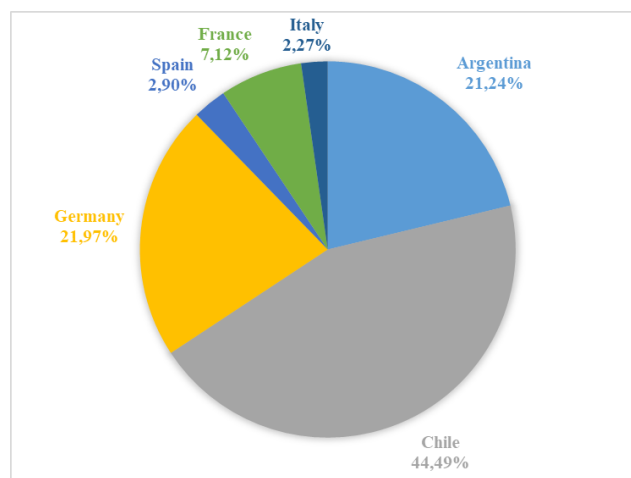
Author's Elaboration.

2.7.2 Sparkling Wine:

The second item to be analyzed corresponds to Sparkling Wines; it is known that Ecuador imports this product from 6 different countries.

Graph 20

Sparkling Wine imports by countries during 2013



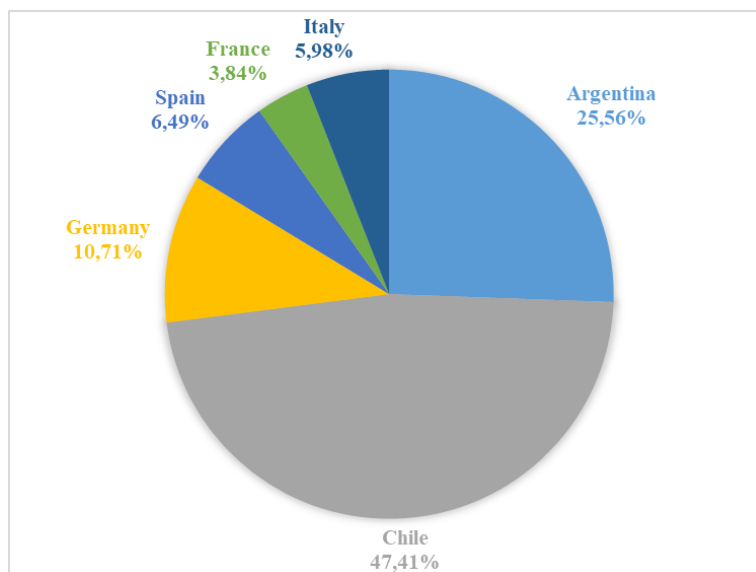
Source: Central Bank of Ecuador.

Author's Elaboration.

For 2013, Graph 20 shows that Chile is the first country from which Ecuador imports Sparkling Wine, 44.49% of total imports, then Germany is 21.97%, with a difference of only 3, 5 tons, Argentina with 21.24% of the total, the remaining 12% comes from France, Spain and Italy, with the amounts shown in Table No. 7.

Graph 21

Sparkling Wine imports by countries during 2014



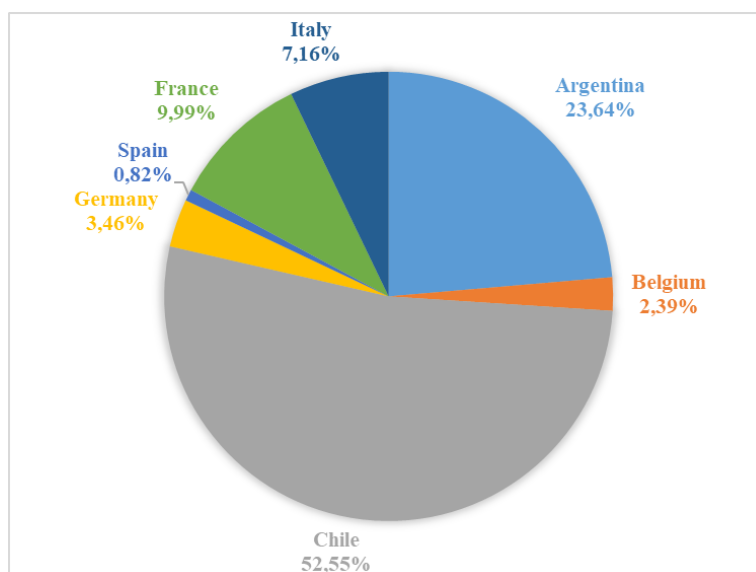
Source: Central Bank of Ecuador.

Author's Elaboration.

For the following year, Graph 21, Chile remains the leading supplier of Sparkling Wines, increasing its share to 47.41% of total imports; Argentina is ranked second, increasing its share by 4%, until it reaches to 25.56%. Unlike, Germany reduces its exports to 10.71%, approximately half of its share compared to 2013. Spain and Italy increased their percentages to 6.49% and 5.98% respectively, while France decreased to 3.84%. See Table No. 7.

Graph 22

Sparkling Wine imports by countries during 2015



Source: Central Bank of Ecuador.

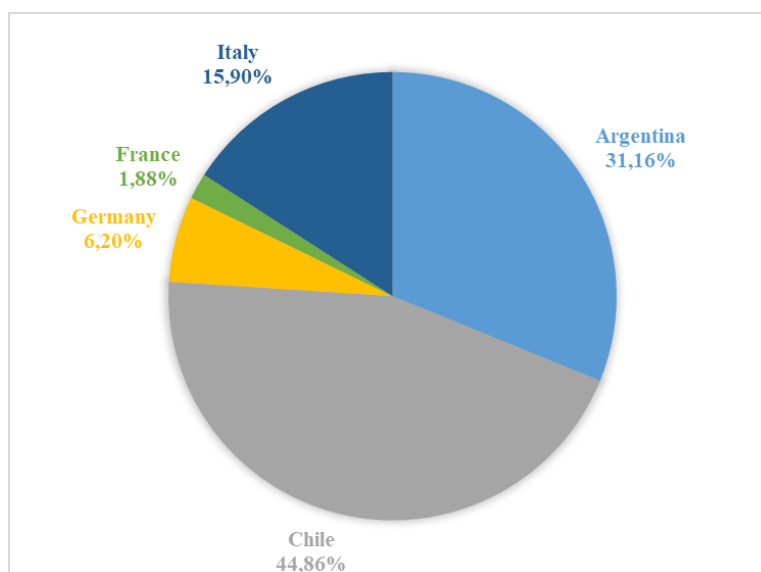
Author's Elaboration.

In 2015, the trend of the previous year was maintained, Graph 22 shows Chile as the leading country in the Sparkling Wine offer, with 52.55% of the total imported, Argentina reached 23.64%, and France became the third exporting country of this item to Ecuador with 9.99%. Germany fell 7 percentage points, to 3.46% of the total. The remaining percentage is divided among the countries detailed on Table No. 7.

It is important to indicate that in this year Belgium joined the list of exporting countries of this item to Ecuador with 10.8 tons.

Graph 23

Sparkling Wine imports by countries during 2016



Source: Central Bank of Ecuador.

Author's Elaboration.

For the last year analyzed, 2016, Graph 23 shows that Chile has reduced its participation by 4%, but remains as the main supplier of Sparkling Wine to Ecuador, 44.86% of the total imported. Argentina remains in second place by increasing its participation to reach 31.16%. Italy for this year becomes the third supplier with 15.9%, Germany comes to sell only 15 tons, which accounted for 6.2% of the total. And, finally it registers to France with 1.88%.

For 2016 no imports were generated from Spain or from Belgium, values are in Table No. 7.

Table 7

Detail of imports according to Sparkling Wine				
Countries	2013	2014	2015	2016
Germany	105,30	50,50	15,60	31,30
Argentina	101,80	120,50	106,70	157,40
Belgium	0,00	0,00	10,80	0,00
Chile	213,20	223,50	237,20	226,60
Spain	13,90	30,60	3,70	0,00
France	34,10	18,10	45,10	9,50
Italy	10,90	28,20	32,30	80,30

Source: Central Bank of Ecuador.

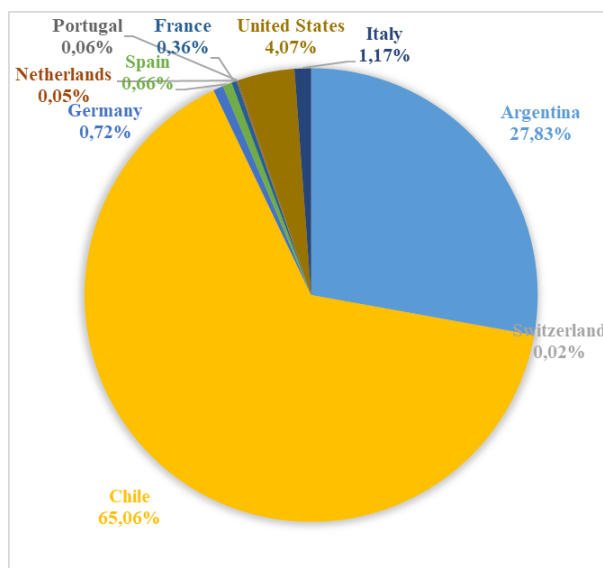
Author's Elaboration.

2.7.3 Wines:

Next tariff heading to be analyzed corresponds to the wines, highlighting that 11 countries participated in the imports generated by Ecuador.

Graph 24

Wines imports by countries during 2013



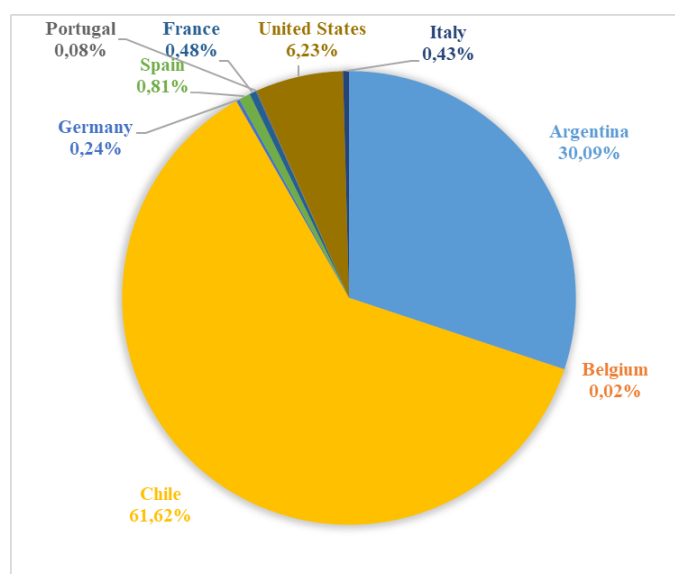
Source: Central Bank of Ecuador.

Author's Elaboration.

Graph 24 shows the high participation of Chile on Wines imports generated from Ecuador in 2013, since it covers 65.06% of the total. Then it is noted that the participation of Argentina with 27.83%, which corresponds to 1,200 imported tons. The United States is well below these values, with a participation of only 4.07%. The remaining percentage corresponds to other countries, which are detailed in Table No.8.

Graph 25

Wines imports by countries during 2014



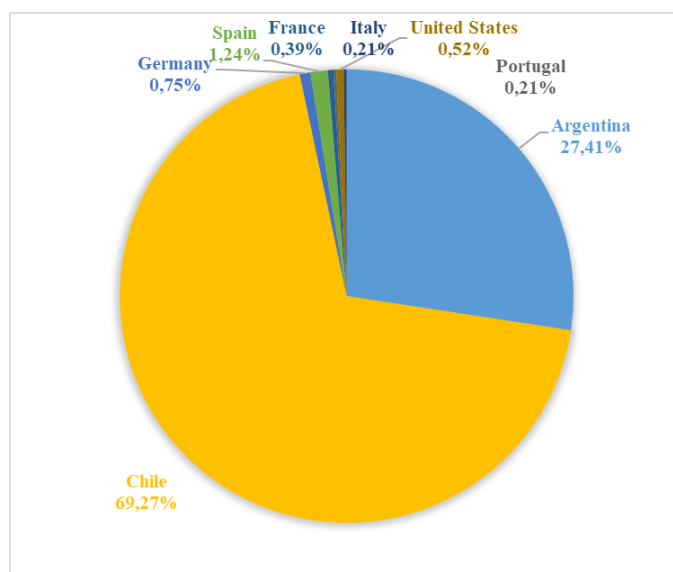
Source: Central Bank of Ecuador.

Author's Elaboration.

When analyzing the year 2014, it is very important to indicate Wines imports increased in reference to the previous year in 2,200 tons, that is to say approximately 50%. As Graph 25 shows, the first supplier country of Ecuador under this tariff heading is still Chile with 61.62% of the total; below it is Argentina with 30.09% and the United States with 6.23%. The remaining 2% is occupied by the countries listed on Table No. 8.

Graph 26

Wines imports by countries during 2015



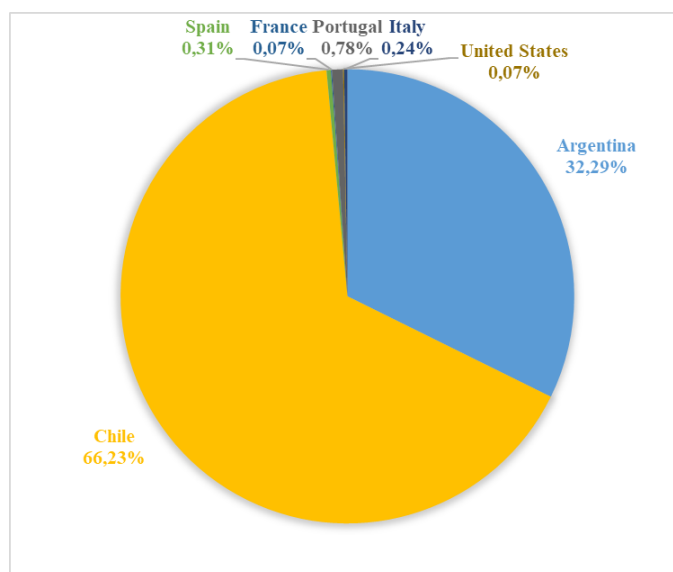
Source: Central Bank of Ecuador.

Author's Elaboration.

As shown on Graph 26, for 2015, countries participation on Wines item continues to be led by Chile with 69.27% of total imports, with an increase of 8 percentage points in relation to the previous year. Argentina maintains its location with 27.41% of the total imported, the other six countries account for only the remaining 3.32%. The exact amounts are detailed on Table No. 8. In general terms, in 2015 wine imports decreased by 27.41% compared to 2014. On this year, Belgium, Switzerland and the Netherlands did not export this liqueur to Ecuador.

Graph 27

Wines imports by countries during 2016



Source: Central Bank of Ecuador.

Author's Elaboration.

On 2016, last year analyzed Wines imports increased by 9% related to the previous year. On Graph 27 it can be seen the participation of Chile mainly and Argentina almost generated all the imports made by Ecuador, Chile contributed with 66.23% and Argentina with 32.39%. The remaining 1.38% corresponds to the 5 countries that are detailed on Table No. 8.

It should be noted that in this year Belgium, Switzerland, Germany and the Netherlands are not Wine exporting countries to Ecuador.

Table 8

Detail of imports according to Wine				
Countries	2013	2014	2015	2016
Germany	32,00	15,90	35,90	0,00
Argentina	1236,60	2002,40	1304,80	1679,50
Belgium	0,00	1,40	0,00	0,00
Chile	2890,70	4101,10	3297,30	3444,80
Spain	29,20	54,10	58,90	16,10
United States	180,70	414,60	24,70	3,60
France	15,80	32,00	18,80	3,80
Italy	52,20	28,70	10,10	12,30
Netherlands	2,40	0,00	0,00	0,00
Portugal	2,70	5,20	9,80	40,80
Switzerland	0,80	0,00	0,00	0,00

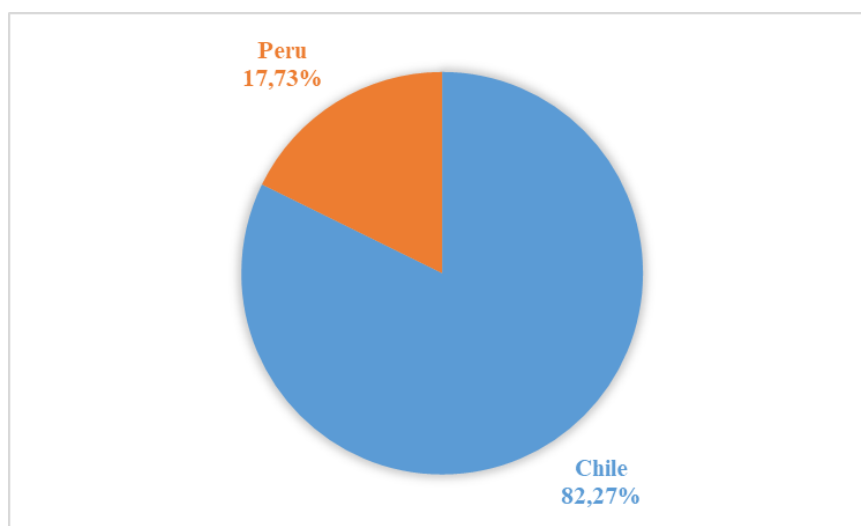
Source: Central Bank of Ecuador.

Author's Elaboration.

2.7.4 Pisco

Graph 28

Pisco imports by countries during 2013



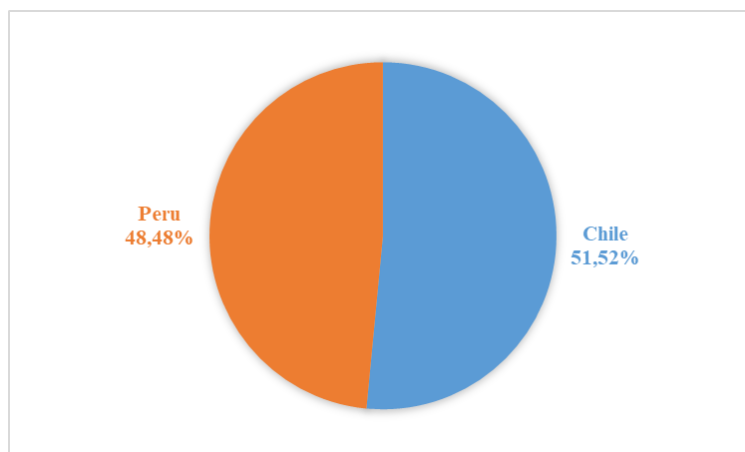
Source: Central Bank of Ecuador.

Author's Elaboration.

As for the Pisco item, on 2013 Chile is the most exporter country to Ecuador, representing 82.17% of the total imported in this item. Peru also had an important participation, 17.73% of the total. Table No. 9 shows the exact amount of tons imported in that year.

Graph 29

Pisco imports by countries during 2014



Source: Central Bank of Ecuador.

Author's Elaboration.

On 2014, Graph 29 shows that the same countries continue to be the main suppliers, with the point that Chile decreased to 51.52% and Peru increased to 48.48% of total import share.

For the following years 2015 and 2016 there have been no graphic representations, given that the only country that exported Pisco to Ecuador was Peru. For greater detail of the above, table No. 9 shows the quantities of tons imported in said item.

Table 9

Detail of imports according to Pisco				
Countries	2013	2014	2015	2016
Chile	23,20	32,20	0,00	0,00
Peru	5,00	30,30	20,80	14,10

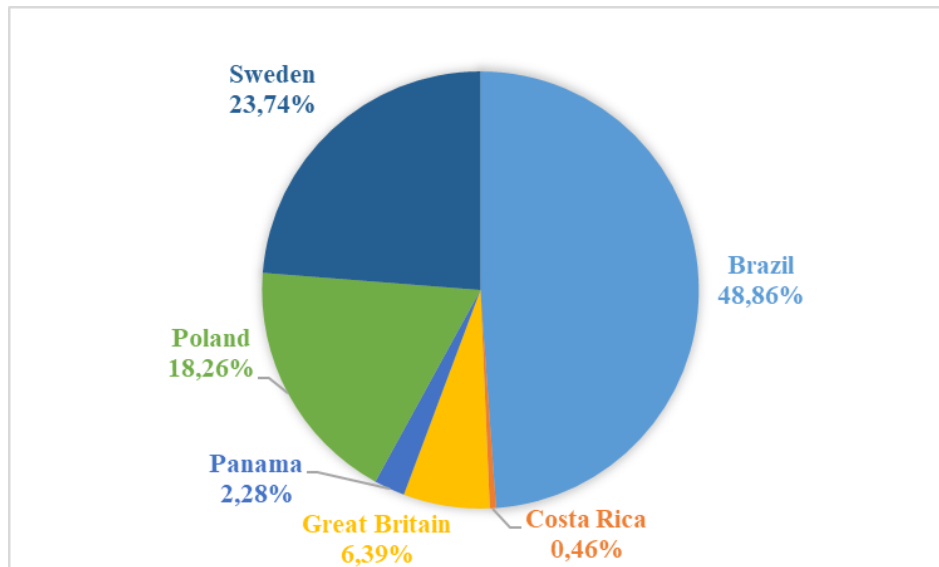
Source: Central Bank of Ecuador.

Author's Elaboration.

2.7.5. Vodka

Graph 30

Vodka imports by countries during 2013



Source: Central Bank of Ecuador.

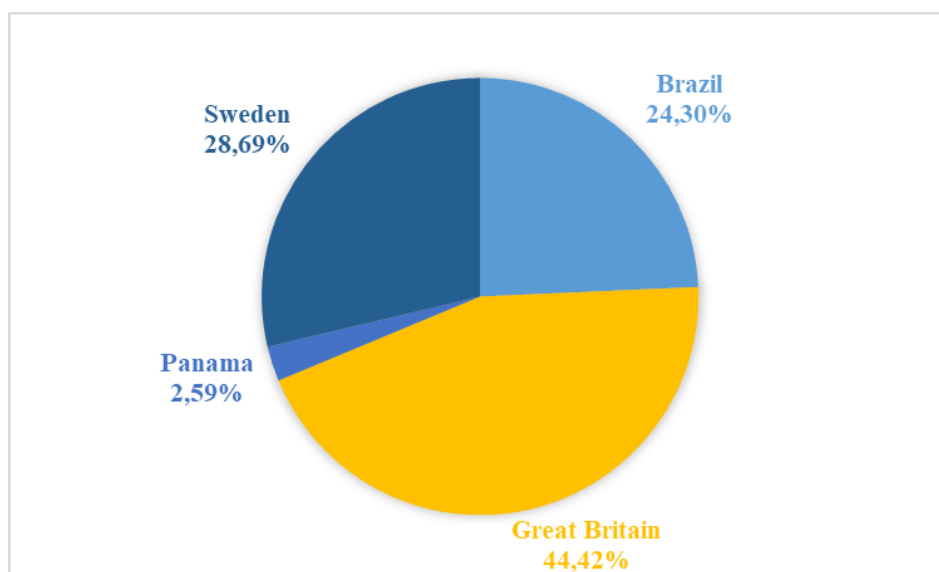
Author's Elaboration.

Regarding to Vodka tariff heading, on 2013 Brazil was the main exporter of this liquor to Ecuador, reaching 48.86% of total imports of that item, followed by Sweden with 23.74% and Poland with 18.26. %. With smaller participations than those of the aforementioned countries, Great Britain appears with 6.39% and also Panama and Costa Rica, the latter with a contribution of less than 3%.

Table No. 10 shows the exact quantities of imported tons.

Graph 31

Vodka imports by countries during 2014



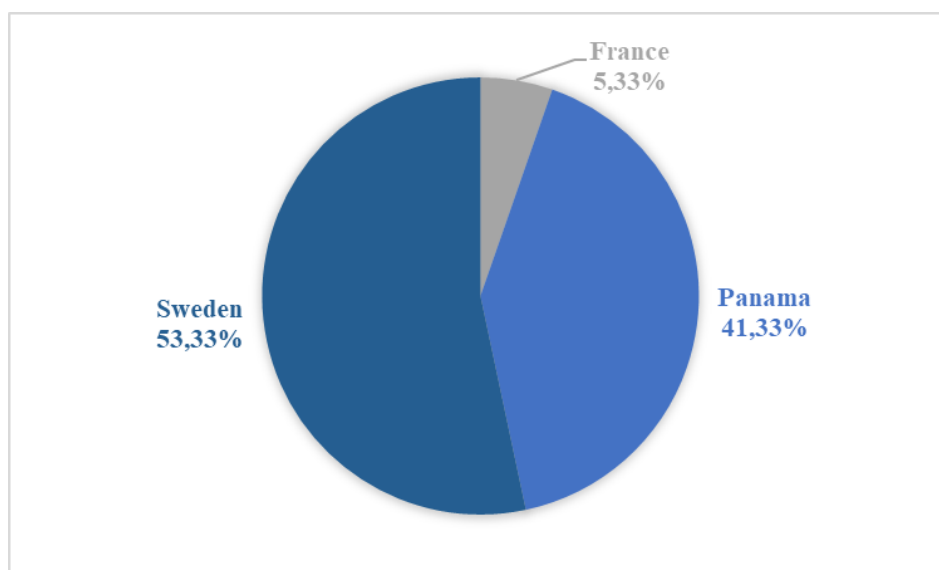
Source: Central Bank of Ecuador.

Author's Elaboration.

For 2014, graph 31 shows that Great Britain has become the main Vodka exporter to Ecuador, 44.42% of total imports. Then Sweden appears with 28.69% and Brazil with 24.30%. Finally, Panama exported 2.59% of the Ecuadorian requirement under this tariff heading. Table No. 10 shows the quantities of tons imported.

Graph 32

Vodka imports by countries during 2015



Source: Central Bank of Ecuador.

Author's Elaboration.

On 2015 was the end of the Vodka imports, being able to observe that the main exporting country of this tariff heading to Ecuador was Sweden, which reached 53.33% of the total imported, then, Panama represented 41.33% and France only 5.33 %.

Table No. 10 shows the quantities of imported tons. It should be noted that in 2016 no imports of Vodka were made.

Table 10

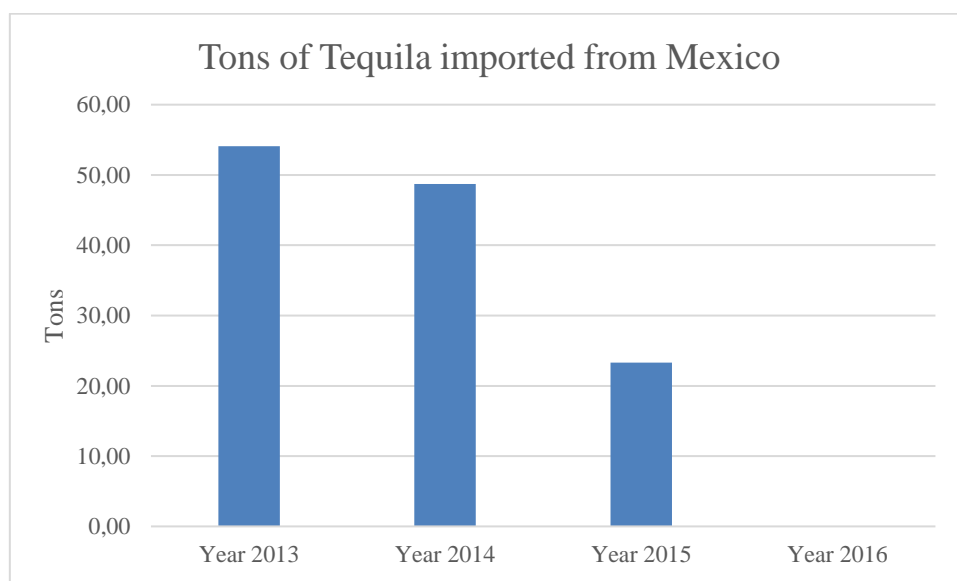
Detail of imports according to Vodka				
Countries	2013	2014	2015	2016
Brazil	21,40	12,20	0,00	0,00
Costa Rica	0,20	0,00	0,00	0,00
France	0,00	0,00	0,40	0,00
Great Britain	2,80	22,30	0,00	0,00
Panama	1,00	1,30	3,10	0,00
Poland	8,00	0,00	0,00	0,00
Sweden	10,40	14,40	4,00	0,00

Source: Central Bank of Ecuador.

Author's Elaboration.

2.7.6 Tequila

Graph 33



Source: Central Bank of Ecuador.

Author's Elaboration.

Finally, Tequila and Similar item, unlike the other items analyzed, has only one exporting country: Mexico. Graph 30 shows the behavior of this item on the analysis period. The year in which most imports of Tequila were made, was 2013, the year in which 42.90% of the total imported entered the country during the entire study period,

on 2014 38.62% arrived and on 2015 the 18.48% remaining. During 2016, Tequila imports are not registered on Central Bank of Ecuador website.

Table No. 11 shows the quantity of imported tons of this liquor.

Table 11

Mexico	
Year 2013	54,10
Year 2014	48,70
Year 2015	23,30
Year 2016	0,00

Source: Central Bank of Ecuador.

Author's Elaboration.

2.8 Analyzed items summary in chapter 2

As conclusion of this chapter, the analysis carried out in the following aspects can be synthesized in:

- The tariff headings corresponding to Malt Beer and Wines, in imported tons, were the most relevant, and it should be noted that during 2015 and 2016, the first one fell drastically.
- By analyzing the total per year of liquor imported tons, through its classification into items, has allowed to have specific perceptions of the liquor behavior consumption market in Ecuador, throughout the period considered.
- Observing the variations registered in the amount of imported liquors, in the context of the classification by established items, has enabled a clear vision of the impact of tariff safeguards application, both on the amount of imported liquor and on its influence on the demand of each specific item.
- The country that exports the most products from the liquor area to Ecuador turns out to be France, however, its contribution in all imported tons is marginal, a situation that is explained by the limited demand of some of the products from that source and also by its Low participation in the items with the highest consumption.

- The largest liquor supplier to Ecuador, it turns out to be Chile, mainly because of its predominance in the supply of Sparkling Wines and Wine. Colombia, in the area of Beers Malta, Mexico, Argentina, the United States, Holland (the Netherlands) and Great Britain, also turn out to be important suppliers.

CHAPTER 3

Pre-selected products safeguards effect evaluation

3.1 Introduction:

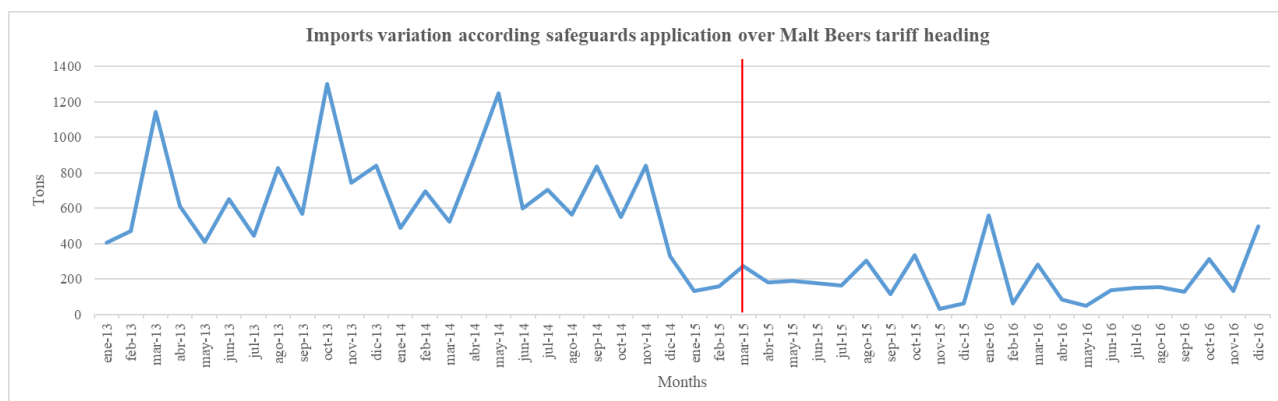
As a result of the analysis carried out so far, it is considered appropriate to detail the liquor import tariff headings with the greatest significance for the study, in the context of consumer preference, which are: Malt Beer, Wine, Sparkling Wine, Pisco, Vodka and Tequila. To this end, has referred the information obtained on Central Bank of Ecuador website, one of the leading Ecuadorian companies importing liquor, "Almacenes Juan Eljuri", so it is estimated that the six considered items, surely are within the list of the highest consumption or preference in the country.

For each of the items under study, a monthly behavior analysis will be conducted, during the 2013-2016 period, noting that some items register imported values only until 2015.

On the other hand, it is considered necessary to divide each one of the exposed graphs into two temporal stages, the first comprising the period prior to the application of safeguards and the second, after its application. It should be noted that measures to apply safeguards to liquors imports took effect on Wednesday, March 11th, 2015.

3.2 Safeguards affection over Malt Beers tariff heading

Graph 34



Source: Central bank of Ecuador.

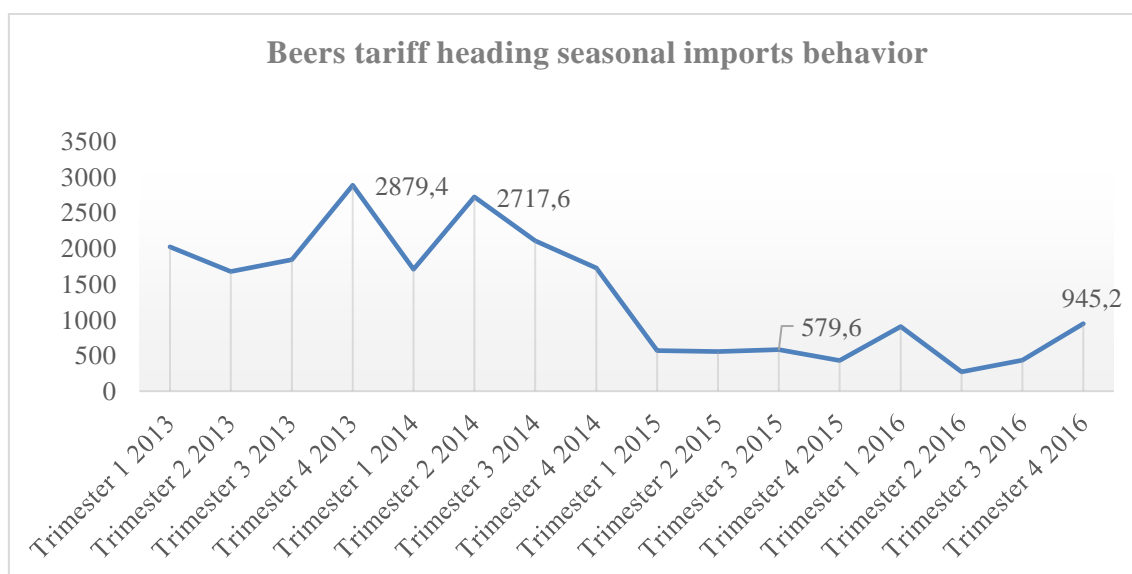
Author's elaboration.

As Graph 34 shows, when analyzing the Beers Malta item with respect to the proposed time limit, March 2015, a marked difference can be observed between these two stages:

On initial stage, period between January 2013 and February 2015 (26 months), it is observed that around 17,000 tons were imported, which translates into a monthly average close to 650 tons.

Meanwhile on second stage, March 2015 to December 2016 (22 months), about 4,300 tons were imported, drastically dropping the monthly average imported to less than 200 tons. It is a situation that shows a decrease of imports in the order of 74.71%.

Graph 35



Source: Central Bank of Ecuador.

Author's Elaboration.

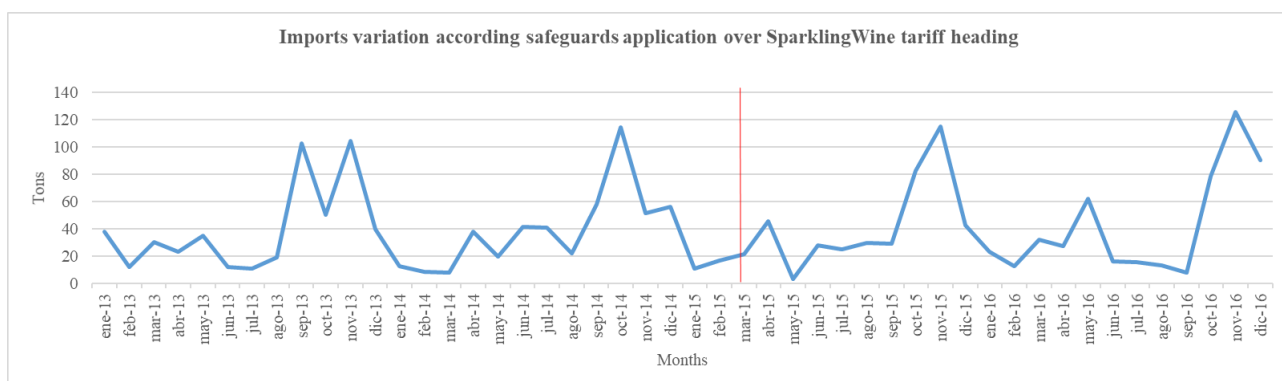
On Graph 35 it can be seen tariff heading of Malt Beers does not show seasonality, since, during the time analyzed, the import peaks occurred in different quarters. Thus, while in 2013 the highest point occurred in the fourth quarter with 2879.4 tons, in 2014 the second quarter is the one that stands out with 2717.6 tons, in 2015 the most significant is the third quarter with only 579.6 tons, and finally in 2016, the fourth quarter turns out to be the largest import.

It should be noted that safeguards that were implemented for this item were 25%, an economic measure that translated into a significant increase in consumer prices of imported beers, approximately 35%. (El Universo, 2013)

The applied safeguard measure was considered beneficial for the national beer industry, and at the same time encouraged the creation of new small production companies of the so-called "Craft Beer".

3.3 Safeguards affection over Sparkling Wine tariff heading

Graph 36

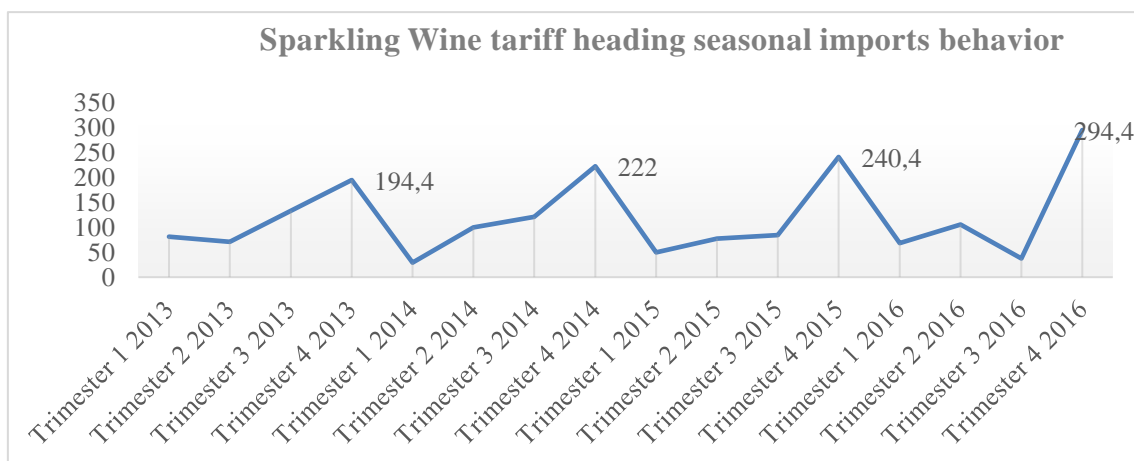


Source: Central Bank of Ecuador.

Author's Elaboration.

Graph 36 shows us that Sparkling Wines item, unlike the category corresponding to the Malt Beers, was not affected by the application of the 25% safeguard measures, since it remained stable throughout the two periods, although with marked irregularities throughout the months.

Graph 37



Source: Central Bank of Ecuador.

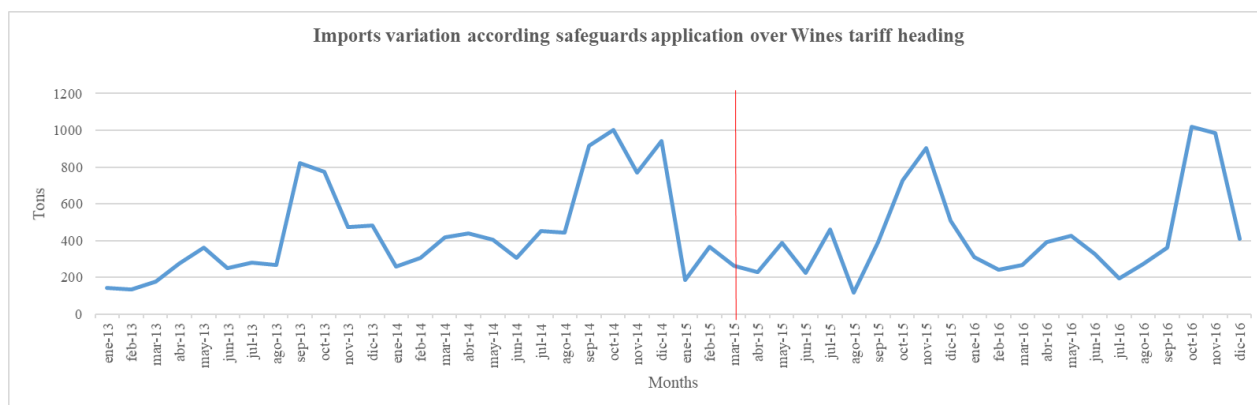
Author's Elaboration.

As shown in Graph 37, Sparkling wines show a marked seasonality, unlike the corresponding item for Malt Beer, since in the fourth quarter of each year of study, a

higher import peak is always generated. Evidently it is noted that the seasonality described corresponds to the Christmas festivities and the end of the year.

3.4 Safeguards affection over Wines tariff heading

Graph 38



Source: Central Bank of Ecuador.

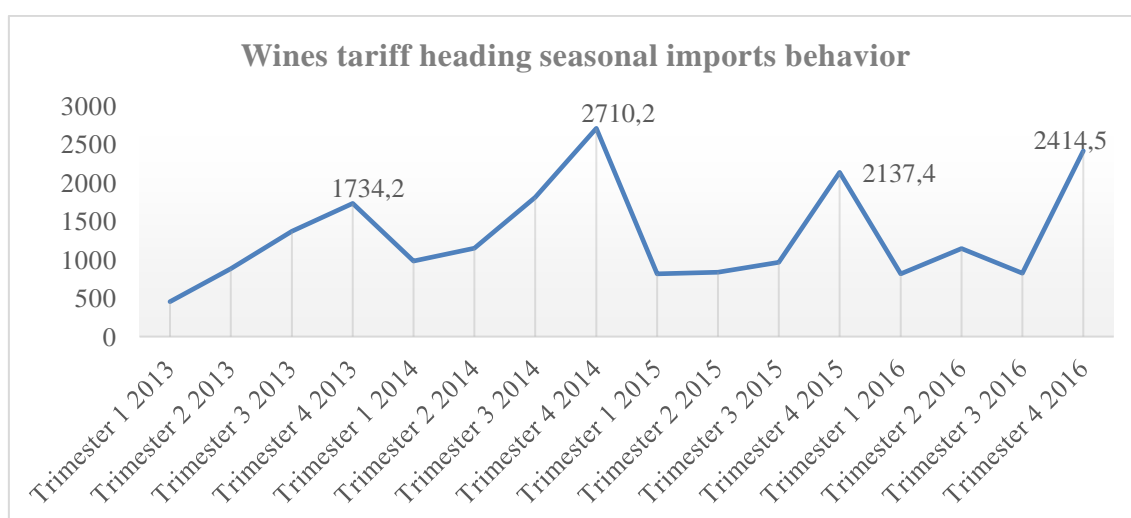
Author's Elaboration.

Graph 38 corresponds to Wines. At first sight, a similar behavior is observed for the two periods considered, before and after the application of the 25% safeguard established by the Ecuadorian government.

However, in the second period, it should be noted that the price of Wines on average increased by 54% (El Telégrafo, 2017); meanwhile, the price of a mid-range product grew considerably, from around US \$ 20 to approximately US \$ 50. (El Comercio, 2017).

It is necessary to indicate the last two items to be analyzed can be classified as products with greater consumption in certain seasons, with an increase in imports during the second half of each year.

Graph 39



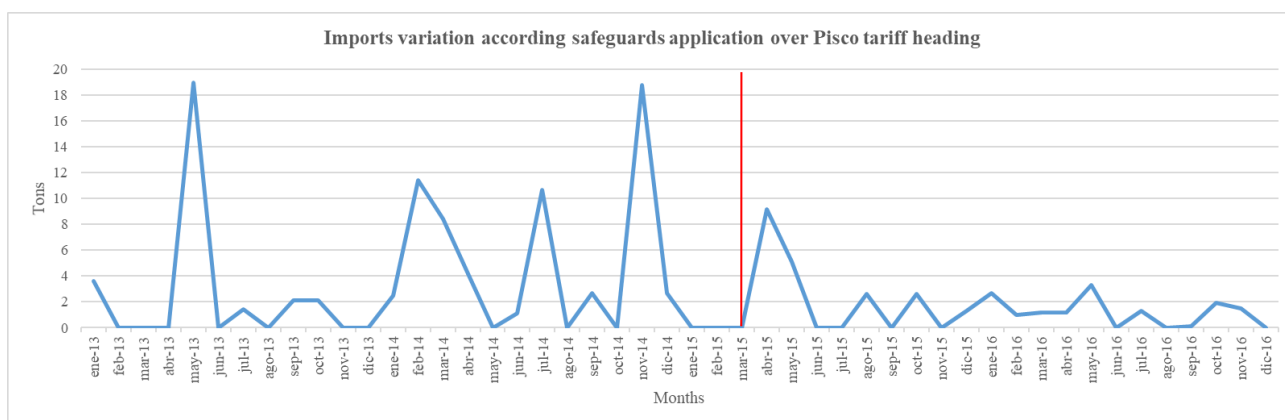
Source: Central Bank of Ecuador.

Author's Elaboration.

Regarding to Wines item, graph 39 shows a seasonality very similar to that of the Sparkling wines item, that is, in the fourth quarter of each year analyzed there is always an increase in imports, since the consumption features are matching for both items.

3.5 Safeguards affection over Pisco tariff heading

Graph 40

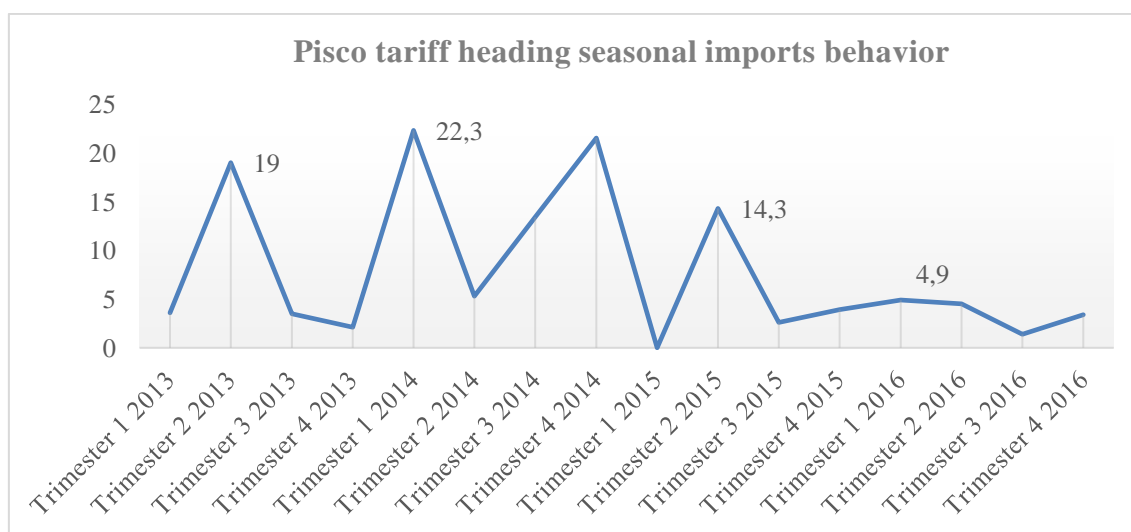


Source: Central Bank of Ecuador.

Author's Elaboration.

Item corresponding to Pisco includes this liquor imports from Chile and Peru. And, as Graph 40 shows, it had completely different behavioral scenarios: The first period, before safeguards application, this item registered imports of around 90 tons; while for the second, after the aforementioned application, these imports declined drastically to 35 tons of product, that is, approximately 61%.

Graph 41



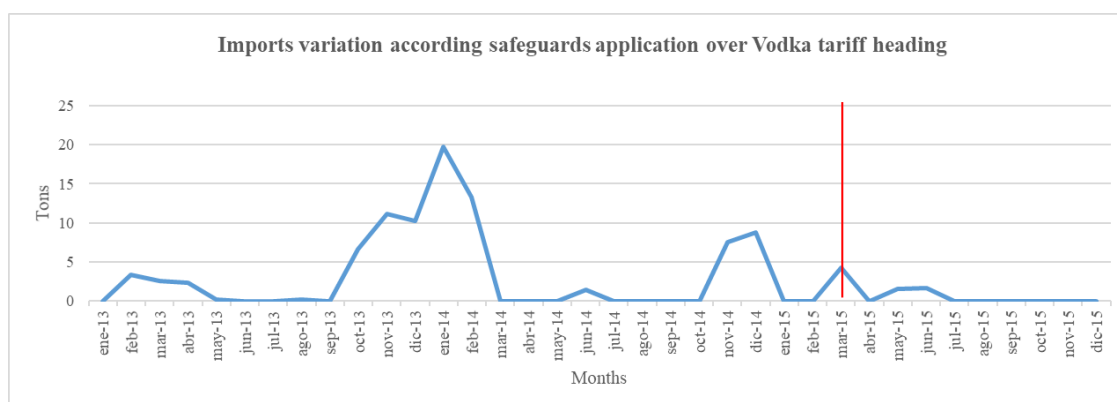
Source: Central Bank of Ecuador.

Author's Elaboration.

Regarding to seasonality, as can be seen in graph 41, there are no variations in specific quarters during the years of analysis, so it is concluded that this item is not characterized by specific consumption occasions.

3.6 Vodka tariff heading safeguards condition

Graph 42



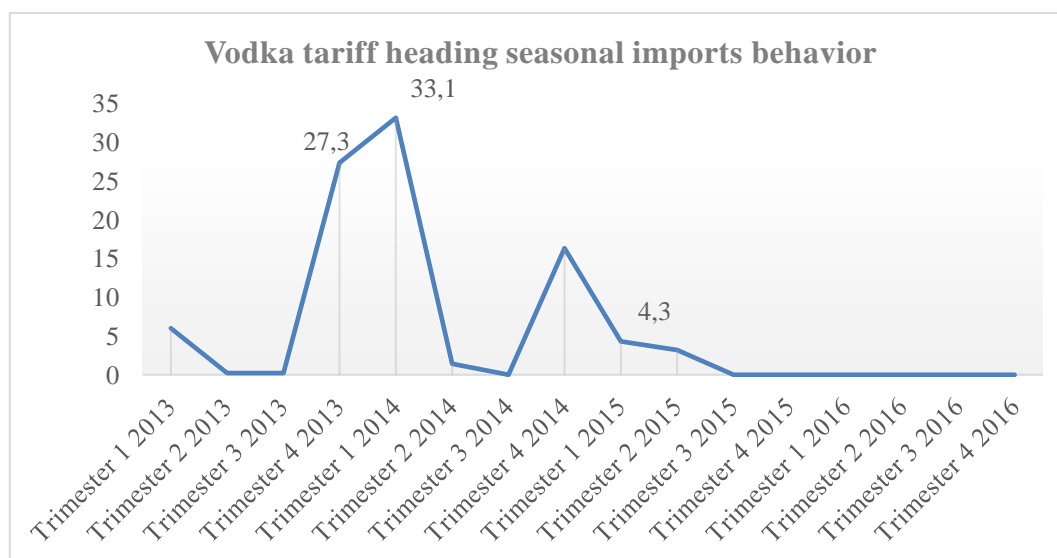
Source: Central Bank of Ecuador.

Author's Elaboration.

Graph 42 shows the significant decrease on Vodka item imports, after safeguard measures application, since adding the imports prior to March 2015, they reached approximately 90 tons, to decay approximately 90% for the second study period, 7.5 tons of imported liquor. It is appropriate to clarify the second period covers only until February 2015, since in 2016, the importer analyzed does not record income from the product.

Safeguard measures application on this product, caused a drastic reduction of imports, and therefore the available supply of Vodka in the market is reduced, causing an increase in prices in addition to the tax burden. As an example, it can be mentioned that a bottle of a certain brand, which had a cost of US \$ 26.5, increased its sale value to the public up to US \$ 62.00 (sixty-two US dollars), that is, approximately an increase of 135%. (El Telégrafo, 2017)

Graph 43



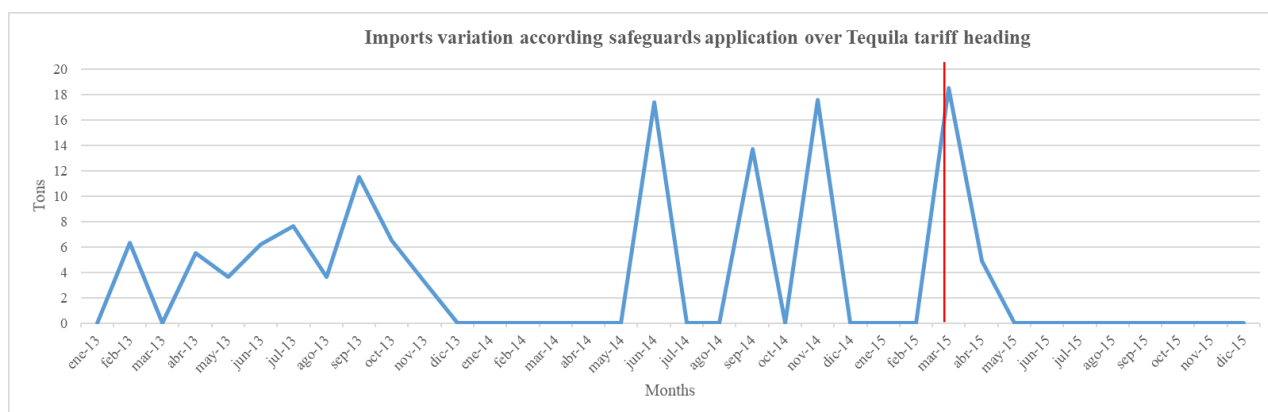
Source: Central Bank of Ecuador.

Author's Elaboration.

As can be seen on Graph 43, the quarters recorded in each year of the study do not reflect any seasonality, since in 2013, the highest import peak was 27.3 tons in the fourth quarter, and for the next year, the first quarter was the one that generated the largest import, 33.1 tons. With reference to 2015, the first quarter was the most relevant, but with only 4.1 tons imported.

3.7 Tequila tariff heading safeguards condition

Graph 44

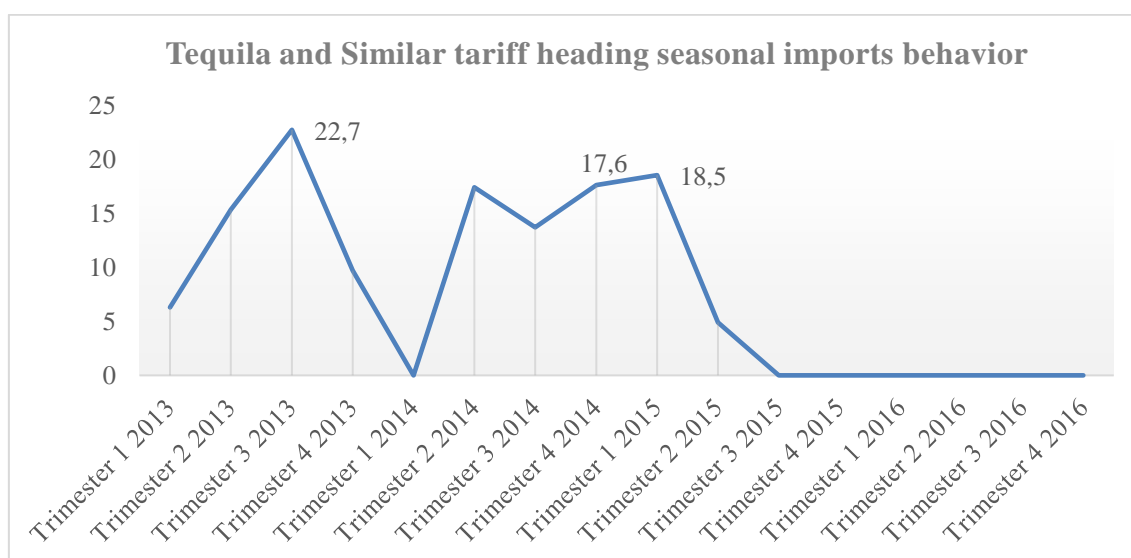


Source: Central Bank of Ecuador.

Author's Elaboration.

The last item analyzed is Tequila. Graph 44 shows the two periods considered, before safeguards application, there are several months of the first period considered in which import peaks are recorded, which summed up to approximately 100 tons until March 2015, after the tariff application, imports decreased substantially until falling to zero as of May of the same year. For the year 2016 there are no records of imports under this item.

Graph 45



Source: Central Bank of Ecuador.

Author's Elaboration.

Graph 45 shows Tequila and similar category in terms of seasonality, can be said to be zero, since over the years of analysis, 2013-2016, no quarter shows similarities with similar ones. Notice that imported tonnage peaks were generated on third quarter of 2013, fourth quarter of 2014 and first quarter of 2015, respectively.

3.8 Analyzed items summary in Chapter 3

As the conclusion of this chapter, the analysis carried out in the following aspects can be synthesized:

- Following safeguard measures application to liquors imports, it can be observed that, in general terms, it fell drastically, to the point that some of them practically ceased to be required.
- Sparkling Wine and Wine imports did not suffer much variation, despite the fact that measures application caused a significant increase in consumer prices.
- Wines and sparkling wines consumption seasonality turns out to be a determining factor on these liquors demand, since imports level begins to grow in the second semester of each year, until reaching the highest peaks in each

fourth trimester. Situation explained because these liquors are traditionally consumed on Christmas and New Year's Eve holidays.

- Different products analyzed imports level variation, reflecting market demand, could be explained by three factors that are considered to be determining factors: Consumption seasonality, as cited; consumers economic level, since wines consumption, it is estimated, is associated with the customs of the population with greater resources, while Beer is consumed by a large part of the population; and, the potentiality of replacing the imported product with of national production liqueurs.

STUDY CONCLUSIONS

Products imports safeguards, including liquors, were implemented to limit the outflow of foreign currency, with the purpose of achieving balance in the country's trade balance. These measures took effect on March 2015, and their application was scheduled for a specific time. The effects and impacts that these tax burdens caused, in the context of the study carried out, are described as follows:

- Imports restriction through safeguards application, has favored domestic production of certain products, since the consumer has sought alternatives to replace those imported. An example of this is the small industries emerging producing craft beers, whose consumption has replaced, in part important, that of beers of foreign origin.
- Liquor imports during the period studied, 2013-2016, decreased by approximately 6,300 tons, which represent a decrease of 39.3%, in relation to the year 2013. This situation evidently limited in an important way the exit of Dollars from the Ecuadorian economy.
- Liquor consumption market is considered to have undergone significant changes, since high prices encouraged consumers to seek lower-cost alternatives, which is why the demand for Vodka, Pisco and Tequila decreased significantly, with the consequent drop in price imports corresponding to those items.
- Although, safeguards application reduced the outflow of foreign currency by limiting imports, it also limited the demand for liquors due to the significant increase in their prices to the consumer, this situation in turn meant less revenue for SRI due to tax charges.
- Liquors that stood out among the others, for the amount of tons imported during the analysis period, were Beers and Wines. This situation is explained by the culture of consumption, and the customs that characterize Ecuadorian population.
- When analyzing liquor imports total made during the years studied, it can be seen safeguards implementation also impacted on the supply of foreign products, since as import costs increased, sale value of some products increased substantially, making its marketing unattractive. What is expressed is shown by

the drop in imports of some liqueurs, practically to zero, in the case of the importer analyzed.

RECOMMENDATIONS BASED ON THE STUDY

- After the study, it would be advisable to apply other types of measures to regulate the trade balance. One of them could be, for example, stimulate the national liqueur production, providing the manufacturers with appropriate labor laws; facilities for obtaining low-cost loans; and, taxes elimination on capital goods. Conditions with which existing companies would consolidate and new ones would be created, since they could produce with better levels of quality and efficiency, and through that they would achieve competitiveness in the liquor market, both at national consumption level and for potential exports.
- Create awareness in the population about the need to consume national products, implementing campaigns such as: "Much better if it is made in Ecuador", as the demand for these products grows, so do the companies that generate them, and with that reactivates the country's economy.
- The future safeguards could be implemented, it is estimated that they should be applied only for those products or goods, whose imports could directly affect national industries; in this way, consumers would not be affected by the price increase in all market goods, but only in those substitute products the country already has.
- In the future, it is estimated, tools should be implemented to know the impact generated by the application of safeguard measures, ie not only measure the increase or decrease in the volume of imports or consumer price changes, but also other relevant factors like unemployment or poverty.
- Ecuador has economic dependence on its foreign trade, mainly because it imports raw materials and capital goods, as well as exports goods of low added value; and that although in the short term safeguards implementation has caused positive effects on certain commercial imbalances control, it is also necessary to have tools that allow to solve any existing imbalance in the long term, either with commercial partners or international markets.
- Finally, it would be recommended that safeguards be measures of a transitory nature, since, as its concept indicates, they are restrictions imposed on trade for a limited time, and only to overcome a certain situation.

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