

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, D.C.

JULY 22, 2008

DEAN RULE- E.G.HILL COMPANY INC.

Ms. Chair, Commissioners,

Thank you for the opportunity to address you regarding the Ecuadorian flower industry, and the importance the ATPA can have in its future development. I have lived in Quito, Ecuador, for nearly 20 years, and in recent years have worked primarily representing breeders of roses, but have also been involved in the sourcing of flowers, transportation of flowers, and many other areas of the industry. One of these breeders is the E.G. Hill Company based in Richmond, Indiana, the most important US breeder of greenhouse roses.

The production of greenhouse roses and many other flowers has been in the process of moving from near key areas of consumption to the high altitude tropics, based on the benefits of high light and better temperatures being more important than distance to market.

Location	Monthly temperature average in F												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Low
Chicago, IL	25	31	40	50	61	71	75	74	67	55	42	30	-24
Salinas, CA	52	54	54	56	58	61	62	63	64	61	55	51	22
Amsterdam, NL	36	37	41	46	54	59	62	62	57	51	43	38	
Bogota, Columbia	55	56	57	57	57	56	56	56	56	56	56	55	
Nairobi, Kenya	64	66	67	67	64	61	60	61	63	65	65	65	
Kunming, China	46	49	55	61	66	67	68	66	64	59	52	46	
AddisAbaba, Eth.	59	60	62	63	63	59	60	59	59	59	58	59	
Quito, Ecuador	58	58	58	59	58	58	58	58	58	58	58	58	

Modeling work done by Dr. Jerry Robertson for his doctoral thesis at Purdue predicted that the US greenhouse flower production industry would continue to move to Colorado and California and eventually concentrate in California, a change from the old pattern of clustering around population centers. The data above comparing monthly temperatures and record low temperatures in Chicago, Illinois and Salinas, California illustrates the differences. What the model did not yet take into account was offshore production for consumption in the United States.

Before going on to specifics related to the ATPA, I would like to point out several things on the temperature chart.

1. The Netherlands has been the most important center for flower production and distribution, in spite of having less than an ideal climate, but having a concentrated and high level of technology and government support in their industry.
2. The area in the Sabana of Bogota, Colombia developed more rapidly than Ecuador, due in part to simpler labor regulations.
3. The fastest growing player in Africa has been Nairobi, Kenya, but the flowers produced are generally smaller than in Ecuador and Colombia as the temperatures are warmer.
4. Not on the chart but possibly of interest is the production of roses in Zimbabwe, which had surpassed 2200 acres but is down to around 400 now due to destruction of the economy in that country.
5. The area selected by the Chinese government for support is around Kunming, in Yunnan province, an area just above Viet Nam and adjacent to the province where the epicenter of the recent tragic earthquake took place. As you can see, the temperatures vary significantly, causing a great drop in production in the key winter months and a great drop in quality in the warm summer months. In spite of this I have been amazed at the fast growth of the industry there and some production is already hitting the west coast of the United States.
6. Although Mexico is a major producer, the large domestic market and some of the same quality variation due to latitude has affected their exports to the United States.
7. Please look at the data for Ecuador. The running average temperature barely changes (only 1 F) from the coldest to the warmest month.

This brings us to the subject of the ATPA . Countries that have climates that are conducive to the competitive production of high quality flowers also have been shown to have zones that serve for the production of horrible destructive and life destroying drugs. We are all aware of programs in some areas that pay growers to take out the bad and plant the good, but the prices have caused many who don't see or perhaps in some cases care about the damage caused for revert to the illegal crops for economic benefit or survival.

Let us look at the growth of the production area in the Ecuador of flowers for export in the past twenty years, the time I have lived there with my family.

Year	Acres	Export value FOB (millions of US Dollars)
1988	220	
2000	6547	194
2001	7058	233
2002	7174	289

2003	7176	293
2004	7471	340
2005	7515	396
2006	7949	444
2007	8703	506 estimated
2008	8703	575 projected

I do not believe the initial projections for 2008 will be met due to oil prices, the reduction in exports to the US and the poor climate reducing production in Ecuador.

Perhaps I have spent too much of the allotted time background, but I do feel it is essential to understand why the ATPDEA/ATPA has worked. We will go back to Ecuador, but first I want to discuss some key points in how this has affected the United States economy.

1. Direct production jobs in cut flowers have been lost. Many of these have been replaced by production of flowering and bedding plants in the same greenhouses with modifications as these crops can be much more automated and generally cannot be shipped into the United States with soil. This area has grown so the net loss, if there is one, is minimal. When the breeding company I represent closed the last of their flower production area in Indiana almost ten years ago, and at one time they were the largest rose growers in the world, it was costing about \$0.85 to produce a flower inferior in quality to what could be produced for under \$0.20 in Ecuador and Colombia.
2. Many more jobs have opened up in the United States in the processing, distribution and sale of fresh cut flowers than were ever lost from the production areas. From the time of the most common port of entry, Miami, Florida, to getting the product in the hands of the final consumer, the lower cost products and changes in technology have opened up many new markets. These include internet sales and big box retailers, along with traditional channels such as retail florist and in recent decades, summer markets and other mass marketers. In some statistics with companies where I have had direct access to information, the total number of jobs grew from about 400 with domestic production to nearly 1000 positions once production and part of the sourcing was moved offshore. The difference was that the new jobs included many that were more high tech to meet the demands modern distribution.
3. This does not include the jobs in related industries. Flowers always require some labor at the different points in the distribution channel. I calculate that a flower in one way or another has about 100 touch points from the point of checking if it is

ready to harvest until it is throw away by the ultimate consumer. A very significant percentage of those take place in the US.

4. Unlike competitive gift items such as stuffed animals, many of the components of flower arrangements and bouquets are made in the United States and the final product assembled here. A flower arrangement may have flower foam made in Ohio, a container from an injection molding company in Indiana, a tag printed in Michigan, flower food made in South Carolina and a lot of TLC from whoever put it together in one of the 50 states or the District of Columbia. The value added in the US is about 300% at the low end and can easily be over 1000% at the higher end.
5. This is typical of what comes out of Ecuador under the ATPA. Almost all of the cotton used in the Ecuadorian textile industry is from the US. In contrast, the suit I have on cost me about \$50 US in a shop on the second floor of a building up an alley near a market in Shanghai. I would doubt that there is much US content in the product.
6. Ecuadorian producers are already pulling out plants of varieties destined for the tastes of the US market and replanting with varieties for the Russian and to a lesser extent, the European markets. One of the reasons is the current weakness of the US dollar at a time when costs of production inputs such as fertilizer have skyrocketed. That affects flowers produced for all their export markets, but is accentuated by the comparatively lower prices paid by US importers. What is the effect? I have seen this summer some sale prices to consumers that have risen nearly 30% from a year ago.
7. Percent market share by year of key export markets.

Export market	2003	2005	2006
	%	%	%
USA	71	60	58
The Netherlands	9	12	10
Russia	7	11	16

8. Another very important factor is that the short term extensions the ATPA has been receiving are shorter than the planning period for many flower species. From the time you decide to plant a rose variety until you are in full production, it takes about a year. Ten month extensions are causing many growers with whom I have contact to see the US as a country that uses what I will call dangling diplomacy. They feel they are hanging on a thread that can be cut at any time. They are choosing when possible to produce more for markets that seem more defined and stable than a market which due to government policies keeps them guessing. North America is the natural market but no longer the preferred market for many.

9. Fertilizers, agricultural chemicals, equipment, genetic material, etc. come into Ecuador from the United States duty free for flower production. For example, for one of the companies we represent we brought in about \$1.2 million US of test plants earlier this year duty free. I hear many in Washington talk about unilateral benefits. There are unilateral benefits on both sides that hopefully will form the basis for a bilateral agreement in the future.
10. Most of the flowers leave Ecuador on planes from US flag carriers such as UPS.
11. The IP laws for genetic material are good and enforceable in Ecuador, unlike many other developing countries.
12. How about drug production in Ecuador? It is a country free of the production of cocaine. We pay corporate and individual taxes to cover much of these costs. If the ATPA is pulled, most companies will be losing money and income tax receipts will disappear, hindering the government's very successful efforts in fighting the war against drugs. I go many times a year to southern Colombia for Bible studies and have asked people who have neighbors that have headed to the drug fields in Putumayo about the wages. The flower, broccoli, and many other activities outpay and have far better benefits than the producers of illegal crops. This has caused movement of workers from northern Peru and southern Colombia into Ecuador and migration from the cities to the countryside within the country.
13. The cost per worker per month is much higher than competing producers in other areas of the world.

Country	Cost per month
	US \$
Ethiopia	50
China	120
Ecuador	380
USA	2000
Netherlands	3200

14. The Ecuadorian flower industry employs about 70,000 people directly and about 35,000 indirect jobs support the activity. That means about 400,000 Ecuadorians live from the benefits of the ATPA. Children can be children. I have a close friend, Robin Penaherrera, who has a program called Flowers for Kids, that trains children in the care of fresh flowers and at the same time shows how children can still be children when their parents have work. If the ATPA is pulled, the

benefits will be lost. The majority of the workers are females, and they have a better track record of all the funds going the actual needs of their families.

15. Farms generally provide up to 11 meals a week, medical care, uniforms, transportation, government mandated profit sharing, affiliation with the Social Security system which provides both health and retirement benefits, and other social benefits which may include in some cases school, summer camps, etc. We will have 20 volunteers coming starting this week to our house and an adjacent construction to help with a camp we put on with two of the farms for over 140 of the children of their workers. IF the ATPA is cut, the camp will sadly have to go in the future. We volunteer the time but the expenses of 5000 additional meals and many other costs will make it impossible to continue.
16. These workers and their families are much less likely to immigrate into the US. No wall can be built high and wide enough to keep out someone who has no other way to feed their family.

What do I think the future brings? With no ATPA, and with the other cost pressures, many farms in Ecuador will close. Some workers will attempt to migrate to the US. Exports of materials and royalties collected by US companies will drop. Jobs will be lost not only in Ecuador but also in the US. This is like the disclaimer on college blue book: No aid given, received or observed. We are not asking for a penny, just opportunity.

Thanks for listening.

Dean E Rule

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