

TESTIMONY OF HIS EXCELLENCY
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TO THE UNITED STATES OF AMERICA

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In the Matter of:

Andean Trade Preference Act: Impact on the U.S. Economy and on Andean Drug Crop Eradication, Investigation No. 332-352

Thank you, Ms. Chair, members of the US International Trade Commission for the opportunity to present this statement to you.

I. Introduction:

As you are aware and as the trade figures reveal, in the 17 year period since 1991 when the Andean Trade Preference Act first came into existence, trade between Ecuador and the United States has increased dramatically. This expansion in trade has worked to the benefit of both countries by:

- 1) generating jobs in both Ecuador and the U.S.;
- 2) lifting hundreds of thousands of Ecuadorians out of poverty;
- 3) containing the spread of illicit drug production and narcotics trafficking in Ecuador, the U.S., and the broader Hemisphere;
- 4) contributing to the political and economic stability of Ecuador; and
- 5) consolidating long-standing commercial, political, and cultural ties between both countries.

Since its inception, the ATPA, and its successor the ATPDEA, have been a stabilizing force for Ecuador. The preferential access it provides Ecuadorian exporters to the U.S. market has spurred the growth of a number of non-traditional industries that employ hundreds of thousands of Ecuadorians and have helped to reduce poverty levels. Furthermore, the jobs created in these industries have acted as a disincentive to emigration and involvement in the illicit drug trade.

The program's duty benefits have also encouraged private sector investment in the economy with a heavy participation from U.S. based investors, as you will hear from witnesses later today. Finally, the ATPA has led to the consolidation of export

production chains which have resulted in the development of truly globalized industries that can compete and export anywhere in the world.

II. The Importance of the ATPA Within the Context of Ecuador's Political Reforms:

President Rafael Correa took office in late 2006 with a mandate from the electorate to root out corruption, combat crime, reduce poverty, strengthen Ecuador's weakened political institutions, and consolidate the country's democracy. President Correa has taken these challenges head on. In early 2007 he called for the establishment of a Constitutional Assembly which is currently in the process of drafting a new constitutional framework for the country. This proposed constitution will be submitted to Ecuadorians for ratification during a referendum scheduled for late September of 2008.

In addition, President Correa has taken a number of concrete steps to reduce corruption and strengthen the rule of law by holding those guilty of crimes committed in previous administrations accountable for their actions. The Correa administration has also implemented important labor law reforms that are designed to protect worker rights and are consistent with concerns being addressed by the U.S. Congress in recent free trade agreements.

Not surprisingly, after years of instability and inaction by successive governments, President Correa's administration has garnered the support of a majority of Ecuadorians and enjoys approval ratings of 80%. The ultimate objective is to build a political structure that is more responsive to the concerns of the Ecuadorian population and will alleviate the poverty that affects the majority, and in particular the indigenous peoples and Afro-Ecuadorian minorities.

Within the context of the Correa administration's political reforms, the ATPA will continue to play a fundamental role in ensuring Ecuador's economic stability, its commercial diversification, and its ability to maintain viable, labor-intensive, export industries.

III. The Impacts of the ATPA and Trade with Ecuador on the US Economy:

A. Impacts on Ecuador

The U.S. is currently Ecuador's largest trading partner being the market for 44% of Ecuador's total global exports according to 2007 figures. Ecuador's exports to the U.S. are mainly oil and derivatives; minerals; bananas; niche agricultural products such as broccoli, mangoes, and flowers; pouched tuna; and farmed shrimp and fish. Most of these products enter the U.S. duty free under the ATPA.

Trade between Ecuador and the U.S. has increased substantially since 2002 when the original ATPA expired and was replaced by the ATPDEA. The ATPDEA extended duty benefits to an additional 700 products including oil and its derivatives, tuna, footwear, and apparel. According to the U.S. Department of Commerce from 2002 to 2007, exports

from Ecuador to the US tripled and grew in value from \$2.1 billion to \$6.1 billion. This increase was due in large part to Ecuador's oil exports which constitute 75% the value of its total ATPA exports. These exports are of strategic importance to the U.S. as worldwide prices for oil continue to rise.

However, a significant portion of Ecuador's export revenues, more precisely 24% are also dependent on the ATPA and are new industries that got started under this program. Non-oil ATPA dependent industries generated revenues of \$504 million in 2007 according to Ecuadorian government figures. A study commissioned by the Ecuadorian Ministry of Trade and Integration found that roses, broccoli, pigeon peas, and pineapple exports to the U.S. – all of them covered by the ATPA – grew by 30% from 2003 to 2005. It is important to note that many of the producers in these industries are medium to small businesses that have invested heavily in improving their standards in order to export to the U.S. market.

Unfortunately, the instability caused by the expiration of the ATPDEA in 2006 and the political uncertainties surrounding the two subsequent extensions of the program have frightened investors and U.S. based importers. This has contributed to a relative decline in the participation of these labor-intensive industries in total export revenues to the U.S. from 38.8% in 2000 to 24.4% in 2007. In the longer-term these trends could impact efforts to control illicit drug production.

B. Impacts on the U.S.

According to a recent study by the Andean Community, imports to the U.S. from the ATPA beneficiary countries constitute only 1.1% of all U.S. imports. Imports from Ecuador and the other ATPA countries, therefore, do not constitute a threat to the U.S. economy.

For its part, U.S. exports to Ecuador almost doubled in value in the five year period from 2002 to 2007 jumping from \$1.6 billion to \$2.9 billion per Department of Commerce figures. The bulk of the U.S.' exports are constituted by machinery related to the oil industry and refined oil products.

Ecuador recently dropped duties on approximately 2300 duty categories to zero. The categories covered are mostly imports of machinery and agricultural inputs. These duty eliminations should be of benefit to a number of U.S. exporters, including cereal producers, which last year exported \$123 million worth of cereals to Ecuador. Ecuador, for example, imports about 90% of its wheat from the U.S.

The growth in trade between both countries is proof that the ATPA is a mutually beneficial program and that trade between both countries is largely complementary. It is also indicative that as the Ecuadorian economy grows, the country's demand for imports grows as well. As is the case with other Latin American economies, a higher percentage

of the revenues generated by Ecuadorian exports to the U.S. are spent on U.S. goods than is the case with Asian economies.

By way of example, the Ecuadorian flower industry estimates that up to 75% of every dollar generated by sales of Ecuadorian flowers in the U.S. is in turn spent on U.S. goods and services such as U.S. air, maritime, and ground carriers, fertilizers, seeds, packaging materials, and other inputs necessary for the flower business. In addition, a large portion of the investment in the Ecuadorian flower industry originates in the U.S. These activities generate a large number of jobs among U.S. ports, transportation and distribution networks, wholesalers, and retail companies. According to the ITC's 2005 report on the matter, imported flowers generated approximately 226,000 direct and indirect jobs in the U.S. Since Ecuador is the second largest exporter of flowers to the U.S. in the world a large portion of these jobs can be attributed to trade with Ecuador.

A similar picture of beneficial impacts on the US economy can be drawn for other important Ecuadorian export industries such as bananas, pouched tuna, broccoli, and textiles & apparel.

IV. Impacts of the ATPA on Drug Eradication Efforts:

Ecuador has been one of the success stories in regional efforts to eradicate coca-leaf and other narcotics production notwithstanding the difficulties in the broader Andean region.

Ecuador has achieved these successes by:

- 1) aggressively eradicating any acreage dedicated to drug production;
- 2) seizing drugs being trafficked through Ecuadorian territory;
- 3) passing and enforcing legislation designed to control money laundering; 4) controlling the trade in precursor chemicals used to process drugs; and
- 5) cooperating closely with U.S. agencies such as AID through such programs as the Plan Ecuador in the northern border areas.

According to a 2006 UN report, Ecuador came in sixth place in terms of total seizures of cocaine in the world.

The ATPA program has played a key role in these successes by encouraging the development of new industries and the creation of legal employment opportunities. Moreover, some of the ATPA dependent industries such as flowers and broccoli are largely concentrated in the north-central highland areas of Ecuador near the Colombian border. As such, these industries have helped to prevent the establishment of coca-leaf and opium growing operations coming from Colombia.

According to an official government report, up to 350,000 jobs would be lost or jeopardized in Ecuador should the ATPA not be renewed. Of significant social importance is that a majority of the workers in these industries are female heads of household who have remained in Ecuador to raise their families.

Without ATPA Ecuador would also see a significant drop in its ATPA dependent exports. According to a government report, non-renewal of the ATPA would result in losses of \$87 million per year on Ecuador's GDP and lost investments totaling \$90 million per year. Such prospects could potentially weaken the to-date successful efforts by Ecuador and the U.S. to contain drug production and narcotrafficking in Ecuador.

V. ATPA, Ecuador, and Regional Stability:

Notwithstanding Ecuador's successes in the War on Drugs, Ecuador has been impacted by narcotrafficking and by the political strife in the Andean region. Some of the impacts are as follows:

- Ecuador's northern agricultural areas, have been affected by the glyphosate spraying activities designed to eradicate coca-leaf production in Colombia. A legal case has been brought to the Court of International Justice on this issue;
- Organized crime and violent gang activity coming in from the northern border is increasingly affecting Ecuador;
- Ecuador is successfully combating the use of its ports and airports as transshipment points by narcotrafficking syndicates and their money laundering activities which cause distortions in the local economy; and
- The oil pipelines leading from the Amazon rainforest to the coast are repeatedly ruptured by narcotrafficking groups in order to steal oil that is subsequently transported to Colombia and used in illicit drug production. The severe impacts on sensitive ecologies of these actions are unquantifiable.

It is also important to note that Ecuador has acted as a "safety valve" by receiving up to 500,000 Colombians into its territory, which have strained the country's health, housing, and educational infrastructures. This population is equivalent to 3.5% of Ecuador's total population of nearly 13 million. Extrapolated to the U.S., this percentage would represent 11 million persons out of a total U.S. population of over 300 million. According to the Ministry of Foreign Affairs during the 2000 to 2007 period, Ecuador received 45,000 requests for refuge from Colombians and granted 16,000 of them.

Most of the Colombian refugee and displaced population live in the border areas where they are employed primarily in agricultural activities, and where they rely on local services and infrastructure. Many of the agricultural activities that employ this Colombian population are dependent on the ATPA.

VI. Conclusion:

President Correa's efforts to strengthen the country's political institutions are designed in part to help to counter the scourge of narcotrafficking which thrives in countries with

political instability and weak institutions. Ecuador is clearly doing its part in the War on Drugs.

As stated earlier, the ATPA has been an invaluable tool in limiting the spread of illicit drug production and narcotrafficking within Ecuador by spurring economic growth in new industries and generating substantial licit employment opportunities. The growth of these industries in Ecuador has also benefited the U.S. as increased imports generate new jobs in import-related activities. Non-renewal of the program could put many of these gains at risk and provide an opportunity for narcotraffickers to regroup.

Finally, I wanted to thank the ITC for the opportunity to present this statement. I look forward to receiving any questions or concerns you may have.

ATTACHMENT A

On a case by case basis, the following is a summary of the revenues generated and jobs that are dependent on some of the leading non-petroleum ATPA dependent industries:

A. Flowers:

According to the Association of Flower Growers and Exporters, the rapidly growing flower industry generates approximately 130,000 direct and indirect jobs of which 60% correspond to female heads of household. For example, rose exports to the U.S., which account for the bulk of Ecuador's flower trade, grew from \$79 million to \$175 million from 2001 to 2005.

Nearly 20,000 jobs in this industry would be lost if the ATPA is not extended as reported by the Ecuadorian Ministry of Trade and Integration. It is important to note that about 68% of Ecuador's flower production takes place in the provinces located near the Colombian border.

B. Broccoli:

The broccoli industry reportedly accounts for 15,000 direct and indirect jobs and is similarly located in the strategic north-central highlands. Broccoli exports to the U.S. reportedly grew from \$770,000 in 2000 to \$17 million in 2006.

It is estimated that 3000 jobs would be lost in the broccoli industry without ATPA and the industry would witness a 60% drop in export revenues. Both Mexico and Guatemala, which have FTAs with the U.S. and are major broccoli producers, would be well-positioned to take over Ecuador's market share.

C. Pineapples:

Ecuador is the second largest supplier of pineapples to the U.S. Revenues generated by exports to the U.S. stood at \$12 million in 2006 with approximately 50,000 jobs dependent on this industry of which 15,000 would be lost if the ATPA was not renewed.

D. Tuna/Fish:

The canning industry in Ecuador reports that the processing and extracting activities in this industry employ 23,500 persons directly and another 20,000 to 30,000 indirectly. According to 2006 data, revenues generated by this industry stood at \$76 million.

E. Textiles & Apparel:

According to the Ecuadorian textile industry association, up to 150,000 direct and indirect jobs depend on this industry, in addition to the 900 families employed in the production of cotton. It is important to note that the U.S. supplies more than 90% of Ecuador's cotton needs.

As can be observed, employment in a number of growing industries would be severely impacted without the ATPA.