

**BEFORE
THE UNITED STATES
INTERNATIONAL TRADE COMMISSION
(USITC)**

2012 GSP ANNUAL REVIEW

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**STATEMENT BY CRISTIAN ESPINOSA, EXECUTIVE DIRECTOR OF THE
ECUADORIAN AMERICAN CHAMBER OF COMERCE (AMCHAM QUITO) ON
BEHALF AMCHAM QUITO AND I.A.E. INDUSTRIA AGRÍCOLA EXPORTADORA
INAEXPO C.A.**

**IN SUPPORT OF THE DESIGNATION OF “ARTICHOKES, PREPARED OR
PRESERVED OTHERWISE THAN BY VINEGAR OR ACETIC ACID, NOT FROZEN”
AS ELIGIBLE ARTICLES FROM ECUADOR UNDER THE GENERALIZED SYSTEM
OF PREFERENCES**

INVESTIGATION NO. 332-538

February 27, 2013

Mr. Chairman, and fellow commissioners, thank you very much for allowing us to testify in today's hearing. My name is Cristian Espinosa; I am the Executive Director of the Ecuadorian American Chamber of Commerce, also referred to as AMCHAM Quito in our briefs. I render testimony today on behalf of AMCHAM Quito and on behalf of "I.A.E. Industria Agrícola Exportadora INAEXPO C.A." who have requested that the Government of the United States consider including "Ecuadorian artichokes, prepared or preserved otherwise than by vinegar or acetic acid, not frozen" as an eligible article under the Generalized System of Preferences (GSP) so that they can enter duty-free to the United States.

Since I have testified earlier on before the Commission, allow me to make a reference to what I have said before. Ecuadorian artichokes have been present in the U.S. market fewer years than broccoli. Exports of Ecuadorian artichokes to the U.S. are smaller than those of broccoli and the production of artichokes in Ecuador is also a fraction of imports when compared to broccoli. However, a simple comparison of the behavior of both products *vis a vis* the relevant U.S. tariff preference schemes renders a fair amount of similitudes. The path transited by broccoli few years ago, which increased its share in the American market, is very similar to that which is currently faced by the newer artichoke industry in Ecuador. Similar difficulties and challenges that were faced by the broccoli producers and exporters are being encounter by artichoke producers and potential exporters trying to be part of this market. To that extent, the opportunities granted by the U.S. tariff preferences are of a similar kind, and so are the risks of losing the current preferential market access conditions. However, we should consider an additional caveat, the artichokes industry is smaller and therefore weaker and faces a serious treat of being wiped out of the market.

The AMCHAM and INAEXPO petition has been made taking into consideration that Ecuadorian exports of artichokes to the United States have increased continuously during the last years both in value and volume (19.9% annual average during the last three years), generating an important alternative for economic development, especially among population in Ecuadorian highlands.

This increase has been possible due to trade preferences under the Andean Trade Preference Act (ATPA), which allowed Ecuadorian artichoke to enter U.S. markets duty free. However, there is a high risk that ATPDEA may not be renewed, therefore Ecuadorian artichokes currently benefiting from this preference program will have to pay a custom tariff of 14.9% to access US market. We understand that ATPA is a preferential system designed over 20 years ago and now Ecuador is the only beneficiary country of ATPA preferences; Peru and Colombia now enjoy the benefits of their respective bilateral free trade agreements. Moving Ecuadorian artichokes from current ATPA status to GSP eligible status does not represent any advantage in terms of tariffs, nor does it constitutes a significant disruption of current market conditions of competitiveness in the United States.

Currently, the United States is the main partner for Ecuadorian artichoke exports, representing 79% of total sales abroad. The market share of Ecuador, in terms of US imports, has reached 4% mainly due to tariff preferences under ATPDEA.

The main competitors of Ecuadorian artichoke in the U.S. market are Peru, Spain, Egypt, Chile and Italy. Two of these countries, Peru and Chile, have already signed free trade agreements, which grants them long-term tariff preferences. Spain and Italy are not eligible under the GSP. If Ecuadorian artichokes lose tariff preferences, and are forced to pay duties of 14.9% to enter the U.S. market, those countries will become stronger competitors due to the relative change in prices, and might even completely replace the Ecuadorian product in the American market in the short term, which would result in losing an increasingly important supplier for a market in which consumers traditionally have had a wide arrange of sources from where to choose the best products.

In our petition we have submitted an analysis of the benefits derived form GSP treatment to the USTR, which basically points in the direction of a continuous presence and growth of Ecuadorian artichokes in the U.S. market. We have also provided a counterfactual analysis, which presents a scenario in which Ecuadorian artichokes face full MFN tariff levels. We have made use of partial equilibrium models that support our estimates. It is estimated that under current conditions if Ecuadorian artichokes lose the benefit, the exports to the United States would be reduced in the first year by 14.4%, which, consequently, would lead to an annual reduction of 11.2% in the number of direct jobs it generates. This does not consider the employment that would be generated if Ecuadorian artichoke exports maintain their increasing trend, as shown during the last years due to the preferences.

Partial equilibrium models demonstrate that the negative impact on Ecuadorian artichokes resulting from the loss of preferences is not static. When considering a continuous reduction similar as the one observed on the first year of impact (-14.4%) in a three-year period, Ecuadorian exports of artichokes to the United States would decrease by almost \$2 million with respect to the actual value which is equivalent to a 40% reduction over a three-year period. As 79% of the artichokes exported by Ecuador go to the U.S. market, the negative impact could fatally wound the industry and eliminate one of the suppliers that provide quality products to U.S. consumers. American importers will feel the adverse effect all the way down the distribution chain due to the limited suppliers. In other words, we can predict without any hesitation similar negative effects as those indicated for broccoli by the U.S. importers earlier on during this hearing.

It should be noted that imports of Ecuadorian artichokes have been entering the U.S. market free of tariffs during the last years. This has benefited the U.S consumers and the American food industry and not caused any adverse effects on the economy. U.S. production will not face new significant competition that will disturb current market conditions.

In summary, the statistical model used in the analysis included in our petition shows that if Ecuadorian artichoke exports to the United States were to keep the current preferential treatment, the increase in exports and production determine that the current capacity would be fulfilled in two years, necessarily leading to

increased investment in order to have a greater capacity. Current upgrades of industrial and processing plants have been postponed due to the uncertainty generated by that the continuous short term renewals of trade preferences under ATPA. Access to the GSP treatment will provide investors with a long-term timeframe that guarantees market access conditions into the American market. It is clear that investors' confidence on the export side will mirror conditions on the importers business expectations, with the corresponding greater gains for the all the participants in the U.S market.

The American economy would benefit from adding artichokes as GSP eligible products by allowing a diversity of suppliers to compete for their markets. Ecuadorian producers have a comparative advantage due to their ability to produce throughout the year, their soil composition, proximity to the sun, and availability of labor.

Time constrains during this hearing do not allow us to enter into details and elaborate on figures regarding the estimates on the effect of maintaining the preferences for artichokes or the correspondent counterfactual analysis of loosing the preferences. Our petition and pre-hearing submission develop these analyses in detail. We would be glad to elaborate our views and supply even further details of this argument if you require additional information, either responding to your questions in writing or presenting an additional post hearing submission.

Thank you for your attention.