WRITTEN STATEMENT OF JEFF SHEEDY, CEO OF TEXTILES LA ESCALA, BEFORE THE I.T.C REGARDING THE EFFECTS OF THE ANDEAN TRADE PREFERENCE ACT ON THE U.S. ECONOMY AND ON DRUG ERADICATION AND CROP SUBSTITUTION

Investigation No. 332-352

July 7, 2010

I. Background

Mr. Chairman, and fellow commissioners, I thank you for allowing me to testify today and give you the perspective of an American who has lived and worked in Ecuador for 13 years. My name is Jeff Sheedy. I am the CEO of Textiles La Escala, a Quito based yarn spinning mill and fabric manufacturing company. I am also the president of the Ecuadorian Textile Association. The Association has 230 member companies and employs approximately 60,000 individuals. I am also involved in the flower, dairy, chocolate, and construction businesses, so I believe I have a good perspective of the real business climate in Ecuador.

The primary goal of the ATPA is to promote viable economic alternatives to illegal drug cultivation and trafficking by offering a wide range of products from three Andean countries broader access to the U.S. market. While ATPA benefits are granted, in this case, to the government of Ecuador, it is critical to note that it is the private sector that has given the program life by developing new and globalized ATPA-dependent industries. Industries such as textiles, pouched tuna, broccoli, fresh-cut flowers, and mangoes have helped to make the ATPA a success story in Ecuador. Much of the investment and expertise in these industries comes from Americans like me who for various reasons live and work in Ecuador.

When the program started, businessmen like me were essentially told that: "it is the objective of the U.S. government to eliminate illicit coca-

leaf production, but we would like you guys to do it for us in a non-traditional manner." Our orders were basically the following: "go to an area of the world where our own U.S. diplomats still only go with security details. Produce goods that compete for the labor of the drug trade and at the same time generate jobs in the U.S. You will not receive any special financing or help, but if you want to work hard, go ahead." To the surprise of everyone, it worked. We built these industries from nothing up along the Colombian border and in rural areas where cocaine cultivation would be ideal. Yet the coca-leaf plantations do not exist. Ecuador is free from coca cultivation precisely because we have offered an alternative where people can have a dignified, safe, and well paying job.

II. U.S.-Ecuador Trade: A Mutually Beneficial Relationship

Where are those jobs and who benefits? The beauty of the ATPA is that it is a two way street: the ATPA generates jobs in both the United States and Ecuador

For example, in the industry I represent, 93% of the cotton consumed in Ecuador is from the United States. The cotton comes the southern states, Texas, and California. Ecuador is the highest market share in the world for a consuming nation of American cotton. All that cotton comes in duty free. The US has consistently maintained a textile trade surplus with Ecuador. In 2008, the US had a surplus of $44.3 million; in 2009, $36.7 million; and in the first three months of 2010 a surplus of $9.2 million.

In addition to the direct benefits to the U.S. cotton and textile industry, apparel imports from Ecuador under the ATPA have generated benefits to the U.S. economy across the entire transportation, distribution, and retail chain. For example, if a clothing garment has a FOB Guayaquil-Ecuador value of US $6.00, the price at which the same garment is sold in the U.S. generally ranges from US$ 40 to 50. This price differential indicates that a greater portion of the value chain involved in Ecuadorian apparel exports remains in U.S. hands.

These considerable benefits are distributed among U.S. sea, air, and land transporters; couriers; ports; warehouses and distribution facilities; and finally retailers.

In the textile industry, the most important aspect of the ATPA is maintaining rules of origin and cumulation between Ecuador, Peru, Colombia, and the U.S. It is the integration of the supply chains between the 4 countries that allows them to leverage each nations' natural competitive advantage and compete successfully against other areas of the world, namely Asia.

In addition to textiles, here are other Ecuador specific examples that are worth mentioning:

1. Most of the flower varieties (DNA) are developed in Richmond, Indiana at Hills Flowers. The plants are tested and developed in Watsonville, California before being shipped out of Los Angeles to Ecuador where they enter duty free. The flowers are grown, shipped out on American cargo planes to Miami and then on to stores and homes. It is estimated that $0.75 of every $1 spent on flowers stays in the U.S.

2. The Ecuadorian broccoli industry is over 30% American owned. Ecuador exports basically only frozen broccoli. There are no major frozen processing plants in the United States which still process broccoli. Preparing frozen broccoli requires thousands of workers to hand cut and shape the final product for packaging. On Sunday, I walked through the processing plant of Provefrut, an American owned company of a friend that produces and ships frozen vegetables to the American, European, and Japanese markets. This product is bought by the major industries , distributors and retailers in the USA to be used in their specific uses. Names such as Heinz, Birds Eye, Nestle, Sysco, Costco, Wall-Mart, Kroger are just a few of these well known companies that are being delivered with Ecuadorean product, that I can mention at this moment. The following is a list of the machinery from 18 companies in 14 different states that make up that plant:

Cleaver-Brooks,Iinc	11950 West Lake Park Drive [map]	Milwaukee, WI 53224
Vilter Manufacturing, LLC	5555 S Packard Ave	Cudahy, WI 53110-8904
Ingersoll-Rand Company	One Centennial Ave	Piscataway NJ 08854
Carrier	One Carrier Place	Farmington, CT 06034-4015
Caterpillar Corp.	100 North East Adams Street	Peoria, Illinois USA 61629
Kerian Machines Inc.	1709 Hwy 81 S, PO Box 311	Grafton, ND 58237 USA
Mettler-Toledo Inc.,	1900 Polaris Parkway	Columbus, OH 43240
Key Technology Corp.	150 Avery Street	Walla Walla, WA 99362 USA
Heat and Control Inc	21121 Cabot Blvd.	Hayward, California 94545-1132
Videojet Technologies Inc.	1500 Mittel Boulevard	Wood Dale, IL 60191
HayssenSandiacre	225 Spartangreen Blvd.	Duncan, SC 29334
Bell-Mark Corporation	331 Changebridge Road	Pine Brook, NJ 07058
3M Global Headquarters	3M Center	St. Paul, MN 55144-1000
Lantech Inc	11000 Bluegrass Parkway	Louisville, KY 40299
Hansen Technologies	400 Quadrangle Drive, Suite F	Bolingbrook, IL 60440
Baldor Electric Company	5711 R.S. Boreham, Jr. St.	Fort Smith, AR 72901
Twin City Fan & Blower	5959 Trenton Lane North	Minneapolis, MN 55442-3237
Audubon meshbelt	850 Pennsylvania Blvd	Feasterville, PA 19053

The rest of frozen broccoli imports to this market are from Mexico, Guatemala and Chile, all of which have a duty free status today thanks to free trade agreements signed with the U.S. China is also a major exporter of this product.

The fresh broccoli market, which requires speed, is served by our fellow farmers in California and Arizona. This is a great example of how two areas of the same industry work together.

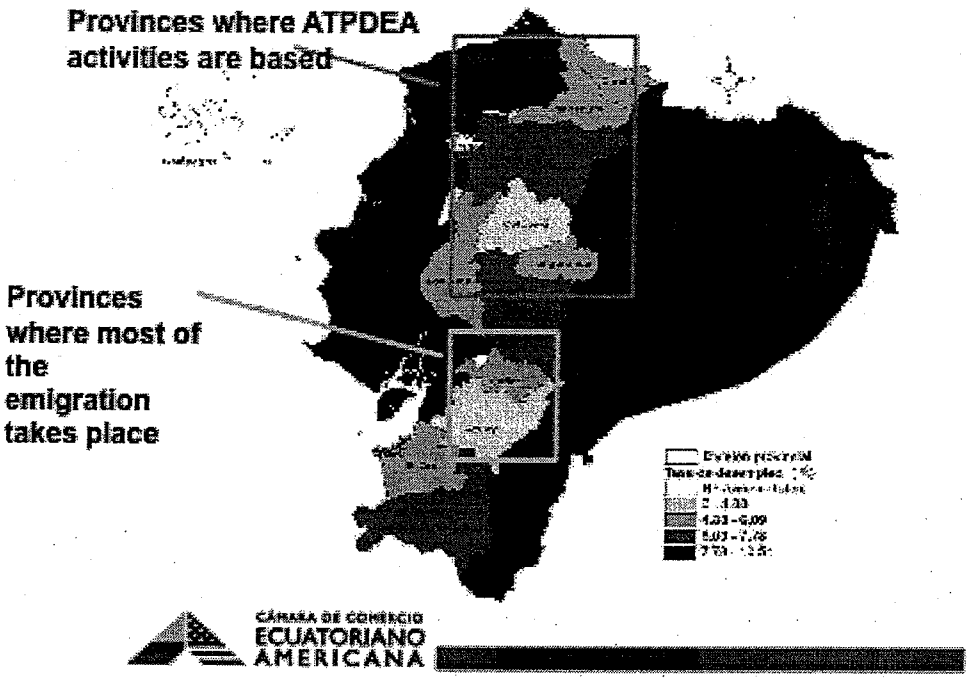
3. In tuna, ATPA benefits extend to pouched tuna. The canned tuna market is dominated by American plants in Guam and the American Samoa. Jobs are preserved in America in a geographically strategic area and created in another as an alternative to narcotics.

The above examples are proof that Americans are benefiting from the ATPA. Common to all of the above industries is the fact that they use American capital goods to process the product and American distribution networks to efficiently get their product to market.

The ATPA has excelled at promoting investment, export-oriented production, and the development of regional and supply chain integration, all of which have stimulated the generation of employment both in Ecuador and in the U.S. In its thirteenth report on the impact of the ATPA on U.S. industries and consumers, and on drug crop eradication and crop substitution, the USITC estimated that 220,000 direct and indirect jobs in the U.S. are dependent on imported flowers. As the second largest exporter of flowers to the U.S. in the world, a large portion of these jobs can be attributed to Ecuador.

In addition to traditional exports such as petroleum, bananas, shrimp, coffee and cocoa, in 2009 over US$ 365 million worth of exports to the U.S. are generated in newer, non-traditional ATPA dependent industries such as flowers, broccoli, wood articles, tropical fruit (mangoes, pineapples), tuna and textiles. These industries alone have generated over 400,000 jobs in Ecuador, and the most important ATPA-dependent sectors are located in the Northern provinces near the border with Colombia, a region known both for its poverty and its susceptibility to drug cultivation.

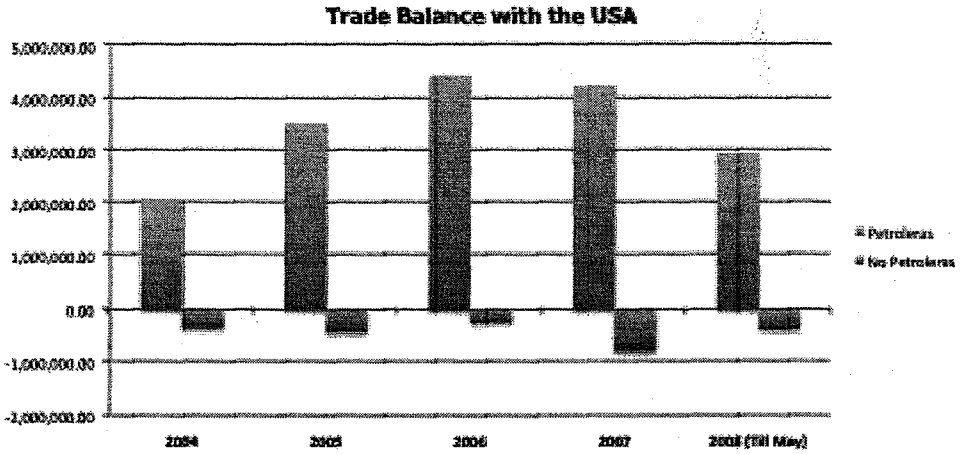
ATPDEA related activities help reduce unemployment in provinces close to the Colombian border...



Despite the pressure that Ecuador faced in early 2009 on its balance of payments in the midst of the global economic crisis, Ecuador maintained its unilateral elimination of tariffs on capital goods and raw materials. Its commitment to maintain a zero tariff for these goods has remained unaltered. It is clear that U.S. exports have benefited greatly from these tariff reductions and it is thus understandable why the non-oil trade balance between the two countries remained positive for the U.S. It is also worth noting that Ecuadorian imports from the U.S. actually increased during a year of challenging economic conditions.

Overall, while the decrease in Ecuador's exports in 2009 was due mainly to the sharp decline of oil prices, it is worth noting that the balance of trade between the two countries for that same period and for non-oil products favored the United States by US$ 1.1 billion

Non-Oil Trade Balance is favorable to the US



With Ecuador having taken during the past year significant unilateral measures to grant access at zero tariff to capital goods and raw materials (over 2,300 customs classified products)

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III. Labor Standards and Issues

Ecuador has ratified all eight of the International Labor Organization's core labor standards. In addition, Ecuador's 2008 Constitution establishes workers' rights and social security and prohibits child labor. I would like to highlight three key points:

1. Social Security in Ecuador encompasses both pension and healthcare benefits. 100% of the workers in Ecuador have coverage in both areas. Most ATPA- dependent companies go beyond that by providing such extra benefits as free meals, subsidized transport, and additional subsidized health care insurance.

2. By law, 15% of all pre-tax profits are divided equally between all the employees of a company.

3. ATPA-dependent industries are some of the most forward looking companies in maintaining high labor standards, since customers in the U.S. and Europe increasingly demand such

compliance. The fact of the matter is that Ecuadorian labor law is far stricter than U.S. labor law in both the benefits it provides and protections against abuse.

IV. Effects on the Illegal Drug Cultivation and Drug Trade

The ATPA has been a success story in preventing the spread of illegal drug cultivation in Ecuador. To date, unlike its Andean neighbours, Ecuador has remained largely free of coca-leaf cultivation. In addition, Ecuador's efforts at countering the many scourges of the illegal drug trade, including money laundering and drug shipments through its ports, have been praised by the U.S. State Department.[1] The U.S Ambassador to Ecuador, Heather Hodges, recently indicated that "[w]hen it comes to counter-narcotics, cooperation between the United States and Ecuador is superb..."

There is no question that by spurring the creation of globally competitive industries that provide well-paying employment opportunities to close to 400,000 individuals, the ATPA has assisted both Ecuador and the U.S. in their joint efforts to contain the spread of narcotics trafficking. As noted earlier, many of these ATPA-dependent industries, such as textiles, fresh-cut flowers and broccoli, have developed in the northern border provinces adjacent to Colombia that are most vulnerable to the illicit drug trade. As such, the ATPA has in effect created a barrier in northern Ecuador to the spread of illicit coca-leaf cultivation. In addition, it has helped to stabilize the situation in neighbouring Colombia by providing employment opportunities to the over 50,000 Colombian refugees who reside in Ecuador, mainly along the northern border.

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[1] See: *International Narcotics Control Strategy Report,* Bureau of International Narcotics and Law Enforcement Affairs, U.S. Department of State (March 2010) available at: http://www.state.gov/p/inl/rls/nrcpt/2010/vol1/index.htm

V. Conclusion

To conclude, I would like to make some general comments about the business and investment regime in Ecuador.

The image of Ecuador is unfortunately set in the minds of many Americans by some companies with investment disputes. Ecuador, like every country where I have done business, must make reforms to improve its competitive environment and to provide a stable socio-political environment for economic growth. Some of those reforms have already taken place, and others are planned over the next year. The reality is that hundreds of American companies from large multinationals to smaller private firms like my own successfully do business on a daily basis.

I am proud that my government establishes U.S policy for the common good of ALL Americans. I am also proud to be associated with what I believe to be the most successful anti-narcotics program in the world. Through equality of opportunity and hard work, American and Ecuadorean businessmen are successfully competing against the illicit drug industry by creating good paying jobs in both countries. The ATPA is a textbook example of how trade should be mutually beneficial and improve both the economic and social conditions of those countries involved. It is for the above reasons, that this program should not be allowed to lapse and Ecuador's beneficiary status should be maintained.

In addition, it must be stated that the recent short-term renewals of the program by the U.S Congress have been extremely destabilizing and counterproductive. Renewals of the program should be for longer periods of 3-5 years so that companies can make the appropriate investments to further expand our success. The ATPA has been an invaluable program for both Ecuador and the U.S. Moreover, its impacts on the economies of both countries as well as their counternarcotics efforts, has been extremely successful.

I thank you for your time and am happy to answer questions or research and send to you any clarifying information that you require.