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Assessing the economic impact of the Trade Agreement between the European Union and Ecuador

Trade

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Assessing the economic impact of the accession of Ecuador to the EU-Colombia/Peru Trade Agreement

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An analysis prepared by the European Commission's Directorate-General for Trade — Chief Economist Unit

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1. EXECUTIVE SUMMARY

This report updates the economic impact assessment for Ecuador that was included in the original Sustainability Impact Assessment (SIA) prepared in relation to a possible agreement between the European Union (EU) and the signatory countries of the Andean Community. The original SIA covered the full Andean Community and was finalised in 2009. Colombia and Peru were the first Andean Community countries to sign the Trade Agreement with the EU, in 2012. The economic assessment carried out further to the signing of the Agreement, on the basis of the text of the final Agreement, therefore only considered these two countries (Francois et al., 2012). This report focuses on Ecuador and provides an economic assessment of the accession of Ecuador to the EU-Colombia/Peru Trade Agreement.

The main aims of the EU's Trade Agreement with the Andean countries are: to improve trade between the two regions; to develop and modernise the economies of the Andean countries; to attract investment to the Andean countries; and to help local businesses compete internationally. In addition, Ecuador is currently classified as a high-middle income country, which means that, as of 2015, it is no longer eligible for unilateral trade preferences under the Generalised System of Preferences (GSP)[1] and would have faced 'most favoured nation' (MFN) tariffs instead. Concluding an Agreement with the EU meant that Ecuador could avoid losing competitiveness on the European market relative to Colombia and Peru. Negotiations with Ecuador on its accession to the Agreement between the EU and Colombia-Peru were therefore resumed and were concluded in July 2014.

The Agreement ensures that the majority of products from Ecuador and the EU, respectively, will benefit from free access to the other party's market from the entry into force of the Agreement. Other products will gradually also start to benefit from free access, and only a very small number of products will not be added until 17 years later. Some sensitive agricultural products have been excluded on each side, or will only benefit from limited access in the form of tariff rate quotas. Specific products of particular importance for Ecuador, such as bananas, will also benefit from a reduction in tariffs. The Agreement also provides more secure market access for services, a reduction in non-tariff measures for agricultural and industrial goods, and improved trade facilitation measures.

A dynamic computable general equilibrium (CGE) model of the accession of Ecuador to the EU-Colombia/Peru Free Trade Agreement forecast that there would be positive effects on the gross domestic product (GDP) of both Ecuador and the EU. The relative size of the two economies means that the effect on EU GDP is negligible, while the effect on Ecuador's GDP is significant. The difference is even more marked if the economic effect is calculated taking into account the fact that Ecuador would have faced MFN tariffs after losing its GSP+ preferences. The gains shown by this model are of comparable magnitude to those estimated in the economic study carried out before the signing of the EU-Colombia/Peru Trade Agreement.

The EU-Ecuador Free Trade Agreement (FTA) will lead to significant increases in bilateral trade. EU exports to Ecuador would be 42 % higher and exports from Ecuador to the EU 30 % higher, compared to a situation where Ecuador does not sign the Agreement and loses its GSP+ preferences. In the scenario modelled, Ecuador's exports of agricultural and food

[1] More specifically under GSP+.

products experience a strong increase while, on the EU side, exporters of manufacturing and machinery stand to gain considerably. Ecuadorian importers will benefit from lower import prices (-0.01 %) while exporters will be paid a higher price for their products (0.23 %).

In addition, significant welfare and wage gains for both skilled and unskilled labour suggest that the Agreement could help reduce Ecuador's poverty rates.

2. INTRODUCTION

The EU and Ecuador concluded negotiations on Ecuador's accession to the Trade Agreement between the EU and Colombia and Peru on 17 July 2014. The Andean countries have been pursuing regional integration for a number of decades[2] and the conclusion of these negotiations sees Ecuador join Colombia and Peru in their Agreement with the EU. This is the first Trade Agreement of this level of ambition and scope concluded by Ecuador. For the EU, the Agreement forms part of a set of ambitious and complementary trade agreements with Latin American countries[3]. The agreements strengthen bilateral political and economic relations, promote regional integration, and facilitate investment and the movement of goods.

The EU's political dialogue with the Andean Community began in 1996 with the Declaration of Rome. In 2004, the EU and the Andean countries confirmed at the EU-Latin America and Caribbean Summit in Guadalajara (Mexico) that they would launch an assessment process to begin negotiations for a region-to-region Association Agreement. This Agreement was to have three strands: political dialogue, cooperation and trade. A decision was taken to start the negotiating process in 2006, with negotiations being formally launched in June 2007. Negotiations were suspended in 2008, however, following discussions between Andean countries on their approaches to a number of critical trade issues.

Following the failure of these negotiations, which had focused on the idea of a comprehensive Association Agreement covering the three strands named above, a new negotiating format was adopted, which allowed the negotiations to be split into a number of thematic and geographical parts. This made it possible to continue regional negotiation on political dialogue and cooperation with the entire Andean Community, and multi-party trade negotiations with those Andean Community countries willing to conclude an agreement compatible with World Trade Organisation rules.

During its negotiations with the Andean countries on an Association Agreement, the European Commission launched a Sustainability Impact Assessment (SIA), so as to have an independent view of the likely economic, social and environmental effects of a potential multi-party trade agreement between the European Union and its Member States, and the Andean countries of Colombia, Ecuador and Peru. The SIA made it possible to gain input from a wider range of interested parties in both the EU and Andean countries. The final report

[2] Bolivia, Colombia, Ecuador and Peru form a regional integration block called the Andean Community. The process began in 1969 (at which time Chile was also involved in the negotiations) with the signing of the Andean Pact, the aim of which was to create a customs union and a common market. The free trade area created by the four Andean Community members became fully operational in 2006, after Peru was fully incorporated.

[3] The EU has preferential trade agreements in place with Mexico (since 2000), Chile (since 2003), Peru, Colombia, Honduras, Nicaragua, Panama, Costa Rica, El Salvador and Guatemala (all since 2013).

was made available in October 2009.[4] It concluded that a potential EU-Andean trade agreement would have no significant effect on the EU's global trade flows. For the Andean countries, meanwhile, imports and exports were expected to increase by between 3 and 10 per cent. The effects on overall employment and wages for both skilled and unskilled labour were predicted to be minor, while foreign direct investment in Andean countries was expected to increase as a result of an Agreement with the EU, particularly in the service sector. This positive effect would be reinforced by associated growth in domestic investment and social benefits. An increase of up to 1.5 per cent of gross output was attributed directly to increased foreign investment.

The analysis also showed modest income gains for all economies, in all settings and scenarios, with the biggest absolute gains occurring in the EU and Colombia, where long term real income was projected to increase by between EUR 1.6 billion and EUR 4 billion and between EUR 1 billion and EUR 2.8 billion, respectively. In relative terms, the expected GDP gains were estimated to be highest for Bolivia and Ecuador, where real GDP was expected to increase by between 0.5 and 2 per cent. The impact in the EU would be only marginal, at less than 0.1 per cent of GDP.

The EU concluded negotiations with Colombia and Peru in March 2010, leaving the option open for Bolivia and Ecuador to join the Trade Agreement at a later date. The structure and content of the final Agreement now having been decided, the European Commission conducted analysis of the economic impact of the Agreement to update the analysis of the economic impact provided in the original SIA. This study was finalised in July 2012[5] and sets out the main economic effects of the Trade Agreement.

The Trade Agreement has been provisionally applied since 1 March 2013 for Peru and 1 August 2013 for Colombia.[6]

In 2013, Ecuador signalled its interest in resuming negotiations with a view to accession to the Trade Agreement. Following technical consultations that took place during the course of that year, negotiations were formally resumed in January 2014. Negotiations were concluded in July 2014, thus opening the way for Ecuador to join the Trade Agreement. On 12 December 2014, Commissioner Cecilia Malmström and Ecuador's Minister for Foreign Trade, Francisco Rivadeneira, initialled the Protocol that will allow Ecuador to join its neighbours, Colombia and Peru, in their preferential trade relationship with the EU.

This study serves as an update to the economic component of the original SIA, and focuses specifically on the Agreement now concluded with Ecuador. According to SIA results, the Agreement could have a larger economic and social impact on Ecuador.

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[4] The SIA was carried out by external consultants selected on the basis of an open call for tender by the European Commission Directorate-General for Trade. The final report is available here http://trade.ec.europa.eu/doclib/docs/2010/april/tradoc_146014.pdf.

[5] Economic impact of the Trade Agreement between EU and signatory countries of the Andean Community (Colombia and Peru), July 2012 (http://trade.ec.europa.eu/doclib/docs/2012/september/tradoc_149939.pdf).

[6] The Agreement is being provisionally applied in the EU until all Member States have ratified it. The status of the ratification is posted on the Council's website: http://www.consilium.europa.eu/policies/agreements/search-the-agreementsdatabase?command=details&lang=en&aid=2011057&doclang=EN.

The report contains five main sections: the first discusses the context within which the negotiations with Ecuador took place and the rationale behind the Agreement concluded; the second section provides an overview of EU-Ecuador trade relations; the third summarises the content of the Trade Agreement; the fourth section focuses on the economic assessment and results of the Agreement with Ecuador; and the fifth section draws some overall conclusions from the report.

3. BACKGROUND AND CONTEXT

3.1 The rationale for Ecuador acceding to the EU-Colombia/Peru Trade Agreement

The conclusion of the Protocol for the accession of Ecuador to the EU-Colombia/Peru Trade Agreement forms part of the EU's political and economic engagement with Latin America and the Caribbean, and is one of a number of trade deals concluded with countries in these regions.

The main benefit of the Trade Agreement is the creation of an improved, stable, enforceable and predictable framework for businesses and investors in all countries party to the Agreement - Ecuador, Columbia, Peru and the EU Member States.

The Agreement also provides a point of reference for Ecuador's development agenda. The Agreement includes provisions on the protection of human rights, commitments on employment rights, environmental protection and the country's contribution to regional integration with other Andean countries. The possibility for Bolivia to join the Agreement has been kept open.

Factors beyond global trade and investment should, however, also be taken into account when assessing the importance of Ecuador's accession to the Trade Agreement, The level of ambition and the scope of the Agreement mean that it can also be expected to have wider positive effects on EU-Ecuador relations.

Given the relative size of the two economies, this Agreement is expected to have a proportionally larger economic and social impact on Ecuador than it will have on the EU.

The Agreement will allow Ecuador to benefit from improved access to the EU market for its main exports — fisheries products, bananas, cut flowers, coffee, cocoa, fruits and nuts. The benefits offered exceed those enjoyed by Ecuador under the unilateral EU Generalised Scheme of Preferences (GSP), for which the country is no longer eligible. Improving market access and facilitating customs procedures should be particularly beneficial for small and medium sized companies (SMEs) in Ecuador, which, according to a report issued by the OECD and the Economic Commission for Latin America and the Caribbean, represent 99 % of the country's businesses.[7] In addition, the Agreement is expected to create a stable and predictable business environment that will help boost and diversify trade and investment for both parties.

By contrast, Ecuador's accession to the Trade Agreement will have a limited effect on the EU economy. Nonetheless, the EU will gain preferential access to a fast growing market with

[7] Perspectivas económicas de América Latina 2013; Políticas de PYMES para el cambio estructural (http://www.aecid.es/Centro-Documentacion/Documentos/documentos%20adjuntos/PYME%20ALyC%20CEPAL%20OCDE.pdf) .

significant potential, and will secure Ecuador's place in an open and transparent trading environment. Gains can be expected in specific sectors (e.g. cars and spirits) in terms of new market access and investment opportunities.

In addition, imports from Ecuador could be beneficial for some European industries. For example, Ecuador is one of the main sources of fisheries products used by the EU processing industry.

If Ecuador had not joined the Agreement, it would have lost preferential access to the EU market. Ecuador has been classified as an upper-middle income country since 2011 by the World Bank. Following the introduction of the new EU Regulation[8], which applies a scheme of generalised tariff preferences (GSP), Ecuador was no longer eligible for the preferences provided for in this Regulation as of 1 January 2015, and would, instead, have been required to pay MFN duties on exports to the EU.

The implication of this for Ecuador's exporters was a reduction in savings of over EUR 200 million a year, Ecuador having benefited significantly from the GSP Regulation, with close to 60 % of its exports to the EU being eligible for the tariff preferences. In addition, Ecuador no longer being covered by the GSP Regulation removed the only existing bilateral mechanism for addressing issues of interest in the area of trade and sustainable development (e.g. labour rights and commitments to environmental protection).

The absence of an Agreement with the EU would also have reduced Ecuador's competitiveness, in particular relative to its neighbours (Colombia and Peru), which have a Free Trade Agreement with the EU. This is particularly important for bananas, which are the single largest Ecuadorian export to the EU, representing almost 30 % of the country's total exports to the EU. Bananas are not subject to a preferential duty under the GSP Regulation. The Trade Agreement between the EU and Colombia-Peru will, however, reduce the MFN duty from EUR 124/tonne (when the Agreement with Colombia and Peru came into application in 2013) to EUR 75/tonne by 2020.

4. OVERVIEW OF EU-ECUADOR TRADE RELATIONS

4.1 *Ecuador's economy*

Ecuador has a population of 16 million people. The country had a real gross domestic product (GDP) of around USD 100 billion (EUR 92 billion) and a gross national index (GNI) per capita of USD 6 100 (EUR 5 500) in 2014.[9]

Until recently, Ecuador had been experiencing significant economic growth, with an average annual growth rate of 4.5 %, supported by positive terms of trade and high public investment. Nevertheless, the fall in commodity prices and declining investment have seen expansion slow in all Latin American and Caribbean economies.

[8] Regulation (EU) No 978/2012 of 25 October 2012 applying a scheme of generalised tariff preferences and repealing Council Regulation (EC) No 732/2008 (http://trade.ec.europa.eu/doclib/docs/2012/october/tradoc_150025.pdf).

[9] World Bank Data (http://data.worldbank.org/).

The strong economic growth recorded in Ecuador in earlier years was the result of an increase in oil and commodity prices, which allowed reforms to be introduced in a number of areas of social welfare. Public spending and investment rose, with the additional resources being used to finance measures to improve the quality of, and widen access to, basic services in health, education and housing. This increased spending contributed to the notable progress made by Ecuador in reducing poverty and unemployment and improving quality of life. World Bank data shows the poverty rate (based on the national poverty line) to have dropped from 33 % in 2010 to 23 % in 2014. Similarly, the Gini coefficient fell from 0.53 in 2006 to 0.49 in 2014, indicating a reduction in inequality, and life expectancy at birth increased from 73 years in 2001 to 76 years in 2013.

Since the end of 2014, the collapse in oil prices has caused significant damage to Ecuador's public finances and export revenues. This has been exacerbated by the appreciation in the US dollar, the currency used by Ecuador as its official currency since 2000. Ecuador's dollarisation has left the government with limited policy tools for absorbing the shock caused by the drop in oil prices and has damaged competitiveness in non-oil sectors.

Authorities have responded to the external shocks in oil prices by, for example, cutting public spending, introducing balance of payments safeguards and restricting growth in the minimum wage. This has allowed the government to contain the fiscal deficit, but has, in turn, resulted in a fall in imports and a tightening of access to international credit. Furthermore, despite the economic slowdown, inflation is rising as a consequence of rises in food prices and utilities.

Given the continued uncertainty around oil prices, and Ecuador's ongoing dependency on oil exports, it is unlikely that the country's economy will recover significantly in 2016. In view of this, in April 2016 the Economist Intelligence Unit forecast Ecuador's real GDP to contract by 1.5 % in 2016, despite growth of 0.3 % in 2015.[10]

The World Bank's Logistics Performance Index for 2014 ranks Ecuador 86th out of 160 countries for its overall performance in terms of customs, infrastructure, logistics quality and competence.

4.2 *Trade and investment relations between the EU and Ecuador*

Trade in goods

Ecuador's exports and imports of goods have increased rapidly in recent years. Both imports and exports have increased from around 7 to 17 billion euros between 2005 and 2014 (Table 1).

Ecuador's largest trading partner is the US. In 2014, the US received 50 % of Ecuador's exports and was the source of 36 % of Ecuador's imports (Table 1). The EU and the Andean Community are also important trading partners for Ecuador. They each accounted for around 12 % of Ecuador's imports and exports in 2014. China has, however, also become an important exporter to Ecuador, accounting for 15 % of Ecuador's total imports in 2014, although Ecuador's exports to China remain small.

[10] http://country.eiu.com/article.aspx?articleid=1733801757&Country=Ecuador&topic=Economy.

Table 1. Ecuador's trade in goods by main trade partner

	Ecuador imports of goods (million euros)					Ecuador exports of goods (million euros)				
	2005	2008	2011	2014	Share	2005	2008	2011	2014	Share
World	**7 388**	**11 485**	**15 634**	**17 780**	**100 %**	**7 066**	**11 057**	**14 033**	**16 545**	**100 %**
USA	1 633	2 402	4 397	6 405	36 %	4 059	5 684	7 209	8 233	50 %
EU	862	1 063	1 667	2 207	12 %	1 041	1 411	1 896	2 175	13 %
Andean countries	1 432	1 606	2 422	2 438	14 %	1 123	1 697	1 990	1 859	11 %
China	517	1 101	1 645	2 615	15 %	6	261	138	366	2 %
Rest of World	2 943	5 314	5 504	4 115	23 %	837	2 003	2 801	3 912	24 %

Source: IMF

The EU's imports from and exports to Ecuador have increased rapidly between 2004 and 2012 (Figure 1). Since then, however, while EU imports from Ecuador have continued to rise, the level of exports from the EU to Ecuador remained relatively stable in 2013, and fell in 2014 and 2015.

Figure 1. EU exports to and imports from Ecuador (2002-2015)

Source: Comext EU imports and exports

Total EU imports from Ecuador were worth almost EUR 2 600 million in 2015, while exports to Ecuador reached just over EUR 2 000 million, resulting in a slight trade deficit for the EU (around EUR 600 million).

A sectoral breakdown of the bilateral trade between the EU and Ecuador shows oil exports to be of negligible value as a proportion of Ecuador's total exports to the EU, despite oil being the country's single largest export good in its worldwide exports. Table 2 shows the sectoral bilateral trade between Ecuador and the EU and the tariffs applied. The sectoral aggregation is based on the Global Trade Analysis Project (GTAP) project, which is used for the model-based assessment discussed later in the report.

The products that account for the largest part of the EU's imports from Ecuador are bananas and plantains, which are also, for Ecuador, its most important non-oil exports in total exports. These products fall under the 'vegetables and fruit' sector, and make up most of the value of this sector, EUR 851 million. The 'other food products' sector includes a variety of foods including shrimps and canned fish, which are also important exports to the EU. As a result, exports of 'other food products' to the EU were worth over EUR 1 300 million in 2014.

Ecuador's exports faced low or duty-free tariffs due to most products being covered under GSP+ preferences. The only exceptions were the sectors 'vegetables and fruit' and 'sugar', as fresh bananas and sugar products were not covered under this preferential scheme.

Most of the EU's exports to Ecuador are in manufacturing, within which the most important sectors are machinery (EUR 593 million), oil products (EUR 437 million), heavy manufacture (EUR 248 million) and transport equipment (EUR 225 million). Most EU exports face tariffs, with the exception of forestry, coal and crude oil, which are subject to tariffs below 1 %.

Table 2. EU exports to and imports from Ecuador, bilateral EU and Ecuador weighted average tariffs

	GTAP sectors in the study	Exports from EU (million euros)	Imports to EU (million euros)	Ecuador weighted average tariff	EU GSP+ weighted average tariff
1	Vegetables and fruit	2.4	850.8	19.70	*18.00
2	Cereals	0.2	1.5	19.20	6.88
3	Other Agricultural products	8.8	290.4	1.58	0.05
4	Cattle	0.9	0.1	7.61	0.01
5	Forestry	0.3	0.3	0.11	0.03
6	Fishing	0	0	2.79	0.01
7	Sugar	0	1.1	4.98	*50.9
8	Dairy	0.5	—	12.00	0
9	Meat	0.7	0.5	16.50	0.24
10	Vegetable oils	12.3	23.8	8.33	0
11	Other food products	97.3	1 312.1	12.80	1.44
12	Beverage and tobacco	8.1	0.4	14.60	1.60
13	Coal	0.3	—	0	0
14	Crude Oil	0	47.8	0	0
16	Textiles and materials	44.3	22.1	8.73	0.06
17	Wood products	6.8	27.9	17.80	0
18	Paper products	67.9	0.5	5.00	0
19	Oil products	436.6	0	2.59	0
20	Metal and mineral products		—	8.81	0
21	Chemicals	412	7.7	2.59	0
22	Heavy manufacture	247.8	18.7	4.04	0
23	Transport equipment	225.4	4.8	6.69	0
24	Machinery	592.9	10.3	2.76	0.01
	Total	**2 171.3**	**2 621.0**	**4.1**	**6.6**

Source: Trade data from Comext (for 2014), weighted tariffs and own estimated MFN tariff from GTAP database (2011)

* EU GSP+ average tariffs for 'vegetable and fruit' and 'sugar' sectors are similar to MFN tariffs as the most traded products in these categories are not covered by GSP+.

Ecuadorian businesses' trade with the EU

Bills of lading[11] from Ecuadorian business can be used to assess the importance of the EU market to Ecuadorian importers and exporters, and, in particular, to examine to what extent businesses specialise in the EU market.

The discussion in this section refers to 'entities', as the information available has not been matched to the Ecuadorian business register, meaning that it is not possible to know if an importer/exporter is a business or an individual person. In addition, without the information from the business register, it is not possible to discuss the size distribution of the businesses.

A significant number of Ecuadorian entities import/export products to/from the EU (Table 3). In some cases, entities are both importers and exporters, but most entities do either one activity or the other.

[11] Ecuadorian bills of lading provide individual shipment information, such as the name of the importer and exporter and specific details of the commodity traded. The importer/exporter displayed can be a company or an individual person.

Many Ecuadorian entities trade with the EU. In 2015, 25 % (5 782 out of 22 528) of Ecuadorian entities imported from the EU and 34 % (1 549 out of 4 490) exported to the EU. This is to be expected given that the EU is a significant market for Ecuador (see Table 1).

When considering only those Ecuadorian entities that trade with the EU, many of these are specialised in the EU market. A total of 41 % (2 376 out of 5 782) of importing entities in Ecuador and 26 % (403 out of 1 549) of exporting entities only traded with the EU in 2015.

Whilst the literature on the subject, and OECD and Eurostat statistics on trade by enterprise characteristics show that most enterprises trade with one or very few markets, it is interesting that so many Ecuadorian entities choose to only trade with the EU despite other major markets (e.g. US and the Andean countries) being geographically closer.

Table 3. Ecuador bills of lading, number of exporting and importing entities (2015)

Entities	Imports to Ecuador		Exports from Ecuador	
	No of entities	No of transactions	No of entities	No of transactions
Trade only with the EU	2 376	211 247	403	2 950
Trade with both the EU and others	3 406	3 320 123	1 146	425 636
Of which EU represents	--	19 %	--	23 %
Unknown	10	23	5	2 298
Total (including non-EU)	**22 528**	**6 494 891**	**4 490**	**624 282**

Source: Data from Datamyne

Over 2.5 million people, or 17 % of the total population, depend directly or indirectly on the banana sector for income and livelihood.[12] In addition, around one third of non-oil exports (tropical fruits, tuna fish, flowers, shrimps and cocoa) originate from SMEs, largely in rural and coastal areas, where the majority of the poor parts of the population live. Due to their location, these businesses are exposed to a number of natural hazards that affect production. The EU-Ecuador Free Trade Agreement will facilitate the participation of small producers in the international supply chain and create more opportunities for these vulnerable groups.[13]

While there are no statistics on Ecuadorian bills of lading for SMEs, it is nevertheless possible to assess the number of Ecuadorian entities that trade with the EU and in which sectors the largest numbers are to be found. Figures 2 and 3 show the number of Ecuadorian entities exporting to and importing from the EU, respectively. These entities have been aggregated according to the different sectors assessed in this study.

Based on these two figures, it can be shown that there is a relationship between the number of entities trading in different sectors and the value of bilateral trade in these sectors[14] (i.e. the

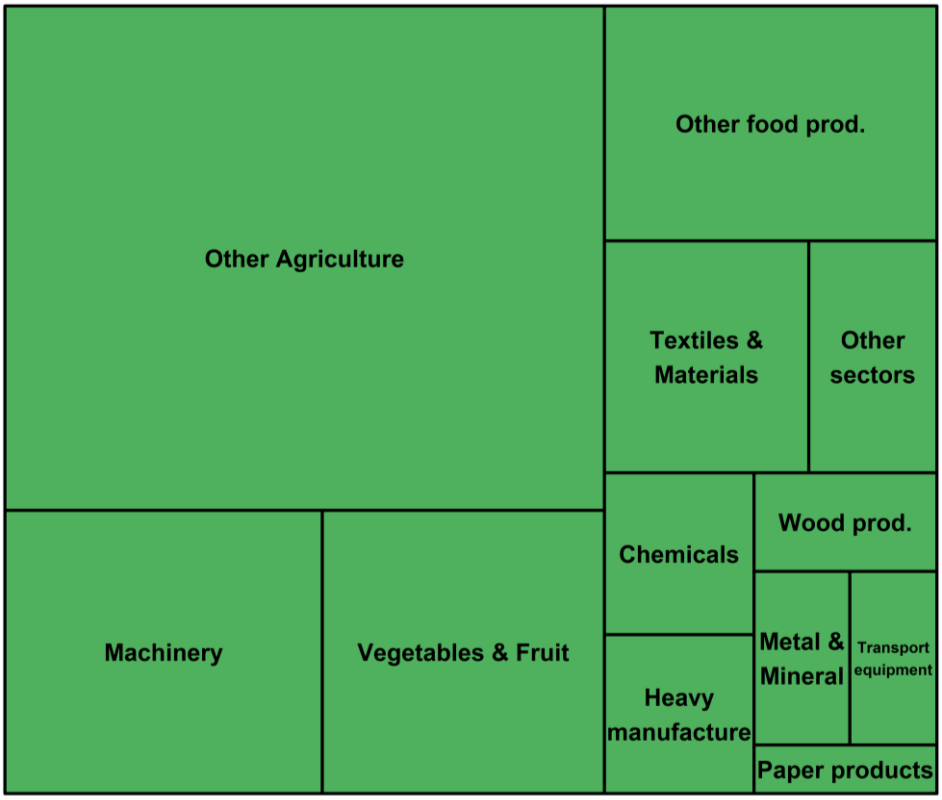
[12] http://www.fao.org/economic/est/issues/est-climatechange/ecuador/en/.

[13] https://ec.europa.eu/europeaid/sites/devco/files/mip-ecuador-2014-2017_en.pdf.

[14] A significant number of entities reported transactions across different sectors. In these cases, the number of entities in different sectors is estimated based on the proportion of their transaction values in the sectors. As an example, an entity exporting to the EU half of whose Free On Board value falls under the 'other agriculture' sector and the other half under 'other food products' sector would be counted as 0.5 and 0.5 of 1 entity in these two sectors.

higher the bilateral trade value, the more entities trade in that sector). As such, it is not surprising that the largest numbers of Ecuadorian entities export agricultural products and import machinery and chemicals.

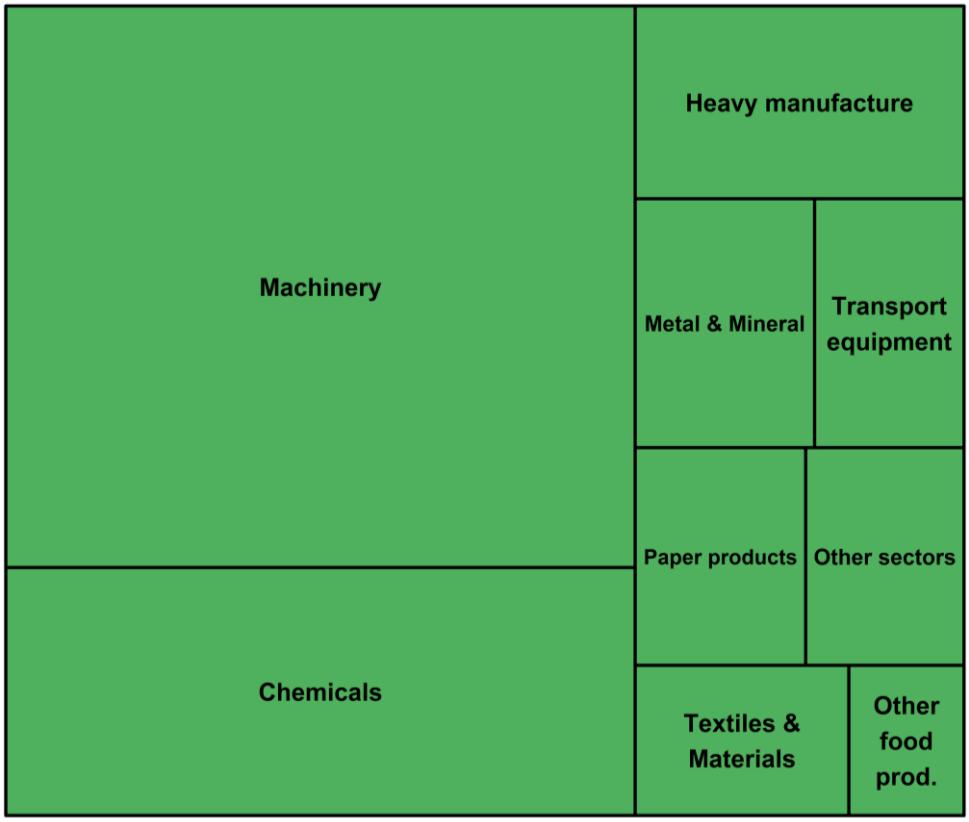
Figure 2. Distribution of Ecuadorian exporters to the EU, by economic sector



Source: Datamyne

There are, nevertheless, some surprises. A significant number of entities report exports of 'machinery' (around 12 % of 1 549 exporting entities) despite this sector representing a relatively low value (see Table 2, EUR 10 million). Furthermore, very few entities reported imports of 'oil products' (approximately 0.4 % of 5 782 importing entities) despite the significance of this commodity (see Table 2, EUR 437 million). The explanation for this could be that a large number of small entities export 'machinery' to the EU while very few (and potentially large) entities import large values of 'oil products' into Ecuador from the EU.

Figure 3. Distribution of Ecuadorian importers from the EU, by economic sector



Source: Datamyne

Trade in services

Ecuador's international trade in services has continued to increase, with exports and imports growing at average annual rates of 12 % and 4 %, respectively, between 2010 and 2014 (WTO).

Table 4 shows Ecuador's trade in services. The breakdown by sectors is based on the Global Trade Analysis Project (GTAP) database, which is used for the CGE model-based assessment presented later in the report. Ecuador's transport service sector accounts for more than half of the country's total import and export of services.

Table 4. Ecuador's trade in services with the world (2011, million euros)

	Exports		**Imports**		**Trade balance**
	Value	Share (%)	Value	Share (%)	Value
Transport	425	56.9	925	63.9	-501
Communication	91	12.2	21	1.5	71
Other services	231	30.9	502	34.7	-271
Total	747		1448		-701

Source: GTAP database.
Note: Utility sectors (e.g. electricity) are classified separately in the GTAP.

The EU is an important source of and destination for Ecuador's trade in services. Ecuador's exports and imports to the EU account for a significant proportion of the country's total international trade in services.

Table 5 shows Ecuador's trade in services with the EU, based on information from the GTAP database. The sector accounting for the largest proportion of Ecuador's trade in services is again the transport sector. Ecuador's overall trade deficit in services reflects the trade deficit in transport and other services.

Table 5. Ecuador's trade in services with the EU (million euros)

	Exports		**Imports**		**Trade balance**
	Value	Share (%)	Value	Share (%)	Value
Transport	172	60.5	441	66.3	-269
Communication	49	17.3	9	1.4	40
Other services	63	22.2	215	32.3	-152
Total	284		665		-380

Source GTAP database.
Note: Utility sectors (e.g. electricity) are classified separately in the GTAP.

Foreign direct investment (FDI)

The value of Ecuador's FDI abroad (outward stocks) was EUR 281 million in 2012,[15] having decreased slightly compared to the previous year. The main destinations for Ecuador's FDI are Panama and Peru, which together account for 74 % of its recorded stocks, followed by the US and the EU (11 % and 6 % respectively).

The value of foreign investment in Ecuador is, meanwhile, just above EUR 3 billion. Ecuador's main FDI sources are Mexico, the US and Switzerland, which together represent 74 % of the recorded stocks in Ecuador, followed by China and Chile (10 % each).

[15] Data on FDI refer only to recorded stocks and are available for a limited set of countries.

Table 6. Ecuador's FDI stocks with the EU and selected economies (million euros)

Ecuador	FDI inward stocks			FDI outward stocks		
	2010	**2011**	**2012**	**2010**	**2011**	**2012**
From/to selected economies	3 907	3 641	3 046	292	287	281
From/to the EU	1 540	1 658	80[16]	23	31	18
EU share	39 %	46 %	3 %	8 %	11 %	6 %

Source: UNCTAD FDI/TNC database, own calculations.[17]
Note: FDI inward stocks refer to the value of investment from the EU and the world in Ecuador, and FDI outward stocks refers to investment made by Ecuador in the EU and the world.

5. THE CONTENT OF THE TRADE AGREEMENT

The aim of the Trade Agreement that Ecuador is joining is to open markets for goods, services, government procurement and investment. The new market opportunities are the result of a negotiation, and are stable and reciprocal. This marks a change from the past situation where preferential trade conditions were unilaterally conceded by the EU, in the form of GSP+ benefits. The commitments made to improving market access take the form of full or partial tariff liberalisations, the opening of substantive duty free quotas, the removal of non-tariff (regulatory or technical) barriers and the introduction of measures that facilitate trade in general (e.g. customs procedures). In addition, the Agreement includes provisions that commit the parties to respecting human rights, guaranteeing employment rights and ensuring environmental protection.

The normative provisions of the EU-Colombia/Peru Trade Agreement that Ecuador is joining are to remain largely unchanged, although some specific provisions were agreed to take account of Ecuador's specificities and needs. The negotiations on these points mainly related to the countries' respective commitments on liberalisation of the goods, services and procurement markets.

This section discusses the bilateral commitments agreed by the EU and Ecuador, and outlines the main characteristics of the sections of the Agreement to which Ecuador will accede. As such, this section should be seen as complementary to the detailed outline of the Trade Agreement produced in 2012[18] when the Agreement was signed by Colombia, Peru and the EU.

[16] The decrease in the value of Ecuador's inward stocks from the EU is mainly due to the fall in stocks from Spain, which recorded EUR 1 294 million in 2011 and zero in 2012. Moreover, 2012 data are not available for Germany (investment from Germany having been worth EUR 231 million in 2011).

[17] The average annual exchange rate used for the conversion from USD to EUR was EUR 1 = USD 1.3257 in 2010, EUR 1 = USD 1.3920 in 2011 and EUR 1 = USD 1.2848 in 2012 (Eurostat). Data were downloaded in May 2015. It is important to note that there are differences between UNCTAD data on Ecuador's inward/outward stocks from/to the EU and Eurostat data on the EU's outward/inward stocks to/from Ecuador. This might be due to differences in definitions or confidentiality of data. Only the countries for which data are available are included in this table.

[18] Trade Agreement between the EU and Colombia and Peru (http://bookshop.europa.eu/en/trade-agreement-between-the-eu-and-colombia-peru-pbNG3__212119/).

5.1 Trade in goods

The core of all trade agreements is the reduction, and potentially elimination, of all duties levied on trade in goods between the parties. Paired with this liberalisation of trade in goods, agreements may also include provisions to safeguard domestic industry from any potential immediate negative effects and to ensure scope for adjustments to the Agreement. Comprehensive trade agreements, such as this one, also address a range of technical barriers to trade and facilitate trade for products of animal or plant origin, which can create considerable 'behind the border' obstacles to trade. All of these points are addressed below.

Tariffs and rules of origin

In terms of **tariff liberalisation**, the ambition and scope of the concessions agreed by the EU and Ecuador are comparable to other trade agreements negotiated by the EU. In accordance with the WTO conditions for concluding preferential trade agreements, the final Agreement incorporates Ecuador into the Trade Agreement and substantially liberalises all trade on both sides.

The concessions agreed by the EU and Ecuador (see Table 7) provide for a full liberalisation by both parties of more than 96 % of tariff lines. The other 4 % correspond to agricultural products and will be partially liberalised (1.5 % EU and 1.8 % Ecuador) or excluded (2.1 % EU and 1.3 % Ecuador).

The immediate liberalisation agreed between the parties reflects a degree of asymmetry in favour of Ecuador: the EU will liberalise almost 95 % of its tariff lines at the point of the entry into force of the Agreement, while Ecuador will liberalise close to 60 % (see Table 7). With regard to agricultural products, the EU will immediately liberalise 75.4 % of all tariff lines, increasing to 83 % after 10 years, whereas Ecuador will immediately liberalise 44.2 % of its agricultural tariff lines, rising to a total of 76.7 % after 17 years. Frontloading has, however, been agreed for products that are central to the two parties' respective export markets, such as passenger cars (seven years) and alcoholic beverages (immediate liberalisation), in the case of the EU, and fishery products and flowers (immediate liberalisation) for Ecuador.

The EU will partially liberalise 1.5 % of tariff lines and Ecuador 1.8 % (Table 7). Partial liberalisation is being used in particular for agricultural products, with 7 % of the EU's tariff lines to be subject to partial liberalisation and 13.5 % of Ecuador's. This represents potentially significant duty savings. This is particularly the case for Ecuador's banana exports to the EU, for which the duty will be reduced to 75 euros/tonne by 2020, thus coming into line with the schedule offered by the EU to Colombia and Peru. In recognition of particular market sensitivities, some products are, however, only being liberalised within limited quotas (e.g. dairy products for which Ecuador will open a duty-free quota for a total of 1 500 tonnes, and rice, raw and refined sugar and maize, for which the EU opened duty-free quotas of, respectively, 5 000 tonnes, 15 000 tonnes[19], 10 000 tonnes[20] and 37 000 tonnes[21]) or have

[19] Duty free quota of 15 000 tonnes, covering raw sugar, expressed in raw sugar equivalent (raw sugar of the standard quality is sugar with a yield in white sugar of 92 %), with a yearly increase of 450 tonnes.

[20] Duty free quota of 10 000 tonnes, covering refined sugar of sub-headings 170191 and 170199 expressed in raw sugar equivalent (raw sugar of the standard quality is sugar with a yield in white sugar of 92 %) and covering products with a high sugar content, with a yearly increase of 150 tonnes.

been granted longer transitional periods (up to 17 years for some cheese products in the case of Ecuador).

It should be noted that the excluded tariff lines (2.1 % of the EU's tariff lines and 1.3 % of Ecuador's tariff lines, Table 7) represent 0.001 % of the EU's imports from Ecuador and 0.09 % of Ecuador's imports from the EU.

[21] Duty free quota of 37 000 tonnes of maize under headings 100590, 110220.10 and 110220.90 with a yearly increase of 1 110 tonnes.

Table 7. Summary of the Tariff line offers

Liberalisation option	EU TARIFF OFFER TO ECUADOR					ECUADOR TARIFF OFFER TO EU				
	-Agricultural products	-Fishery products	-Industrial products	Total	Total (accumulated)	-Agricultural products	-Fishery products	-Industrial products	Total	Total (accumulated)
Liberalised	83.0 %	100.0 %	100.0 %	**96.4 %**		76.7 %	100.0 %	100.0 %	**96.9 %**	
at entry into force	75.4 %	100.0 %	99.9 %	94.8 %	94.8 %	44.2 %	100.0 %	61.3 %	59.9 %	59.9 %
after 3 years	0.2 %	0.0 %	0.0 %	0.1 %	94.8 %	1.8 %	0.0 %	0.0 %	0.2 %	60.2 %
after 5 years	0.7 %	0.0 %	0.1 %	0.2 %	95.0 %	16.3 %	0.0 %	18.4 %	17.7 %	77.9 %
after 7 years	5.7 %	0.0 %	0.0 %	1.2 %	96.2 %	0.7 %	0.0 %	2.0 %	1.8 %	79.7 %
after 10 years	1.0 %	0.0 %	0.0 %	0.2 %	**96.4 %**	12.9 %	0.0 %	18.3 %	17.2 %	96.8 %
after 15 years	0.0 %	0.0 %	0.0 %	0.0 %	**96.4 %**	0.4 %	0.0 %	0.0 %	0.1 %	96.9 %
after 17 years	0.0 %	0.0 %	0.0 %	0.0 %	**96.4 %**	0.3 %	0.0 %	0.0 %	0.0 %	**96.9 %**
Partial liberalisation, tariff rate quotas	7.0 %	0.0 %	0.0 %	**1.5 %**		13.5 %	0.0 %	0.0 %	**1.8 %**	
Exclusion	10.0 %	0.0 %	0.0 %	**2.1 %**		9.8 %	0.0 %	0.0 %	**1.3 %**	

Bananas and GSP+ preferences

Primary products make up a large proportion of Ecuador's exports to the EU. Fresh bananas alone account for 32 %, and, at volumes of almost 1.5 million tonnes per year, make Ecuador the main provider of bananas to the EU. Of all goods exported from Ecuador to the EU, 60 % of exports benefited from GSP+ preferences, highlighting Ecuador's dependence on these concessions. More than two thirds of the products that were eligible for the GSP+ scheme belonged to just two product groups (tuna and shrimps), with a further 21 % coming from an additional three product groups (cut flowers, coffee extracts and cocoa).

This particular market structure means that Ecuador is potentially vulnerable to losing market access to the EU for these products. It should also be noted that these established trade links are of critical importance for both longstanding EU investment in Ecuador and for the EU domestic processing industry, in both cases notably for the tuna and shrimp products.

Fresh bananas are not covered by GSP+ preferences. Since the entry into force of the Agreements between the EU and Colombia, Peru and Central America, Ecuador has therefore increasingly been losing competitiveness in fresh bananas. The difference in the rates at which duties on banana imports were being reduced meant that the margin between the duties paid by Ecuador and those paid by its main competitors was rapidly increasing. The difference stood at EUR 14 per tonne in 2014, and was to increase to EUR 39 per tonne in 2020.

The Trade Agreement concluded with the EU will see this gap reduced from EUR 22 per tonne in 2015 to only EUR 1 per tonne at the point of entry into force of the Agreement, and eliminated entirely as of 2020 (see Table 8).

Table 8. Customs duties for banana imports to the EU

Year	Duties agreed with Central America and Andean countries (EUR/tonne)	Duty agreed with Ecuador (EUR/tonne)	MFN duty (EUR/tonne)
2014	117	118	132
2015	110	111	132
2016	103	104	127
2017	96	97	122
2018	89	90	117
2019	82	83	114
As of 1 January 2020	75	75	114

Source: Explanatory note on the tariff elimination schedule of the EU party for goods originating in Ecuador (part of the draft Protocol of Accession to the Trade Agreement between the European Union and its Member States, of the one part, and Colombia and Peru, of the other part, to take account of the accession of Ecuador) http://trade.ec.europa.eu/doclib/press/index.cfm?id=1261.

Similarly, if the negotiations had not succeeded, from 1 January 2015 Ecuador would no longer have been eligible for the preferential tariffs set by the GSP regulations and would have faced MFN duties instead. On the basis of 2014 trade flows, it was estimated that close to 60 % of Ecuador's exports to the EU that had previously benefited from these preferences would have faced duties ranging from 3.8 % to 24 % and would have become subject to additional costs of over EUR 200 million.

Any Trade Agreement leading to a preferential reduction of tariffs contains **rules of origin**. In many sectors, the successive steps in the production process form part of international value chains, as a result of which, the final products are composed of components and inputs from various countries of origin. Rules of origin are used to determine the origin of a product, with Ecuadorian origin being one of the requirements for a product to benefit from the agreed preferences.

The negotiations with Ecuador did not bring about any major changes in the rules of origin set out in the Trade Agreement beyond the adjustments needed to ensure equal treatment for Ecuador. With the exception of a specific rule on an Ecuadorian Geographical Indication (for the Montecristi straw hat), the changes introduced provide for similar exceptions to the rules as those agreed for the EU, Colombia and Peru. As is the case for Colombia and Peru, Ecuador will also be able to benefit from 'cumulation' of origin,[22] which will allow exporters to continue using materials and production parts from other Andean countries and Central America. The Agreement also leaves the way open to discussing the future extension of this 'cumulation' to other Latin American countries with which the EU has, or is to conclude, trade agreements.

Customs and trade facilitation

The provisions on customs and trade facilitation contained in Chapter 3 of the Agreement are designed to increase transparency, and promote the facilitation of trade by simplifying customs procedures. For example, companies need there to be a simple method by which they can demonstrate the origin of their product and carry out the administrative steps required. The Agreement therefore aims to simplify customs measures by, for example, only requiring companies to provide a single administrative document when filing customs declarations. The Agreement also requires the parties to ensure that customs procedures for authorised exporters (AEO) are based on the Customs-to-business partnership introduced by the World Customs Organisation.

Each party will grant AEO security status and trade facilitation benefits to companies that meet the customs security standards set out in their domestic legislation. The benefits granted to AEOs are an integral part of the EU legislation governing AEO status. The benefits include, for example, being subject to fewer physical and document-based inspections, priority treatment if selected for inspection, and the option of requesting a specific site for customs inspections. There are also a number of other indirect benefits, such as: recognition as a secure and safe business partner, improved relations with Customs and other government authorities, reduced theft and losses, fewer delayed shipments, improved planning, improved customer service and lower costs for inspecting suppliers. This can reduce costs and help new traders, including SMEs.

Safeguards

Pursuant to Article XIX of GATT 1994, the Trade Agreement does not curtail the parties' rights under the Agreement on Safeguards. In addition, the Agreement includes provisions for a bilateral safeguard that can be enacted if, as a result of concessions under the Agreement, a product originating in the country of one party is being imported into the territory of another

[22] Cumulation is the term used to describe a system that allows originating products of country A to be further processed or added to products originating in country B, just as if they had originated in country B. The country of origin of the resulting product would be country B.

party in such increased quantities as could cause or threaten to cause serious damage to domestic producers of similar or directly competing products. As such, the bilateral safeguard is explicitly linked to imports that would increase as a direct consequence of lower duties, and its application is limited to the transitional period allowed for the product in question. Ecuador, similarly to the other parties to the Agreement, will be able to make use of such a measure were the conditions for its application met.

The Agreement also provides for Colombia and Peru to use a safeguard specifically designed for certain agricultural products. This safeguard has also been extended to Ecuador in respect of a limited number of products (such as onions, shallots, some dried vegetables and some types of cheese) for which a measure of this type could be employed.

Non-tariff barriers — technical barriers to trade

Chapter 4 of the Trade Agreement, on technical barriers to trade (TBT), reaffirms the rights and obligations set under the WTO TBT Agreement, and aims to eliminate technical or procedural obstacles to trade through cooperation and improved procedural measures.

The Agreement addresses technical barriers to trade by setting concrete and targeted provisions, such as, for example, provisions on labels that simplify the format so as to provide only information that it is strictly relevant to consumers. The main way in which the Agreement addresses technical barriers is, however, by providing for systematic cooperation on market surveillance and improvements to transparency, which will improve communication in the area of technical regulations, standards and conformity assessment. These measures allow partners to provide comments on each other's draft technical regulations by granting extended deadlines, and oblige all parties to post the comments received and the final regulations publically on official websites.

This type of cooperation can be particularly valuable to Ecuador, in view of the country's desire to ensure high quality, safe products for its consumers by modernising technical regulations and conformity assessment procedures. To ensure that this process does not result in unnecessary short-term barriers to trade, Ecuador has agreed to accept the self-declaration of conformity with EU technical regulations provided by the supplier as sufficient proof of conformity with Ecuadorian technical regulation in all sectors.

Barriers to trade for products of animal or plant origin — sanitary and phytosanitary requirements

Most jurisdictions give particular attention to products of animal and plant origin (e.g. meat and meat products, and fruits and vegetables, respectively) in their regulations on imports, in order to ensure that these products do not compromise human, animal and plant life and health. Whilst these concerns are legitimate, such rules can potentially create significant barriers to trade or even *de facto* bans on the import of products which may be deemed safe for consumption in other countries. In addition, the procedures for approving imports of products of animal or plant origin can be lengthy and unnecessarily complicated, and can involve considerable costs.

Chapter 5 of the Trade Agreement, on sanitary and phytosanitary measures, is designed to prevent these requirements from acting as barriers to trade and puts in place an approval procedure that is based on mutual trust. This procedure has been developed on the basis of international standards on auditing, is non-discriminatory, transparent and reduces disruptions

to trade, whilst maintaining the required level of sanitary protection. In practical terms, the agreed system provides for the importing party to audit the exporting party's relevant sanitary and phytosanitary inspection and certification systems to evaluate whether these are deemed to comply with the importing party's sanitary and phytosanitary requirements. Once satisfactory conclusions have been reached, all companies exporting this product from the country that was subject to the audit will be eligible to export.

5.2. Trade in services

As is the case for trade in goods, the liberalisation of trade in services agreed between the EU and Ecuador matches the ambition and scope of the commitments already in place between the EU and Colombia and Peru, while safeguarding both sides' right to regulate. These commitments consolidate the opportunities for cross-border supply of services, thus creating predictable and stable conditions for companies to be set up locally in the market of the other party. Imports of services provide scope for possible gains in efficiency and improvements to welfare. The availability of cheaper services could lead to a reduction in production costs for local businesses, and consumers could benefit from access to a wider set of high quality services, at lower prices.

The EU's commitments to Ecuador are largely identical to those agreed for Colombia and Peru, and go beyond the commitments made in the WTO General Agreement on Trade in Services. The Agreement fixes the regulatory framework in place in the EU Member States in its current form in respect of Ecuador, in the same way as it has for Colombia and Peru. Ecuador's access to important sectors such as telecommunications, financial and business services, environmental services, distribution services and non-services sectors has thus been consolidated, as the Agreement fixes the market access provided for in current legislation, while reserving the parties' right to change aspects of particular importance (e.g. restrictions on the minimum percentage of the labour force that must be local, the computer services used in cross-border activity and auxiliary services used in air transport).

5.3 Public procurement

The Trade Agreement provides for the parties to have full access to the respective procurement markets above financial thresholds equivalent to those set by the WTO Government Procurement Agreement (GPA) (SDR 130 000 for goods and services in central government bodies, SDR 200 000 for goods and services in sub-central level entities and SDR 5 000 000 for construction services) and outlines general principles and rules for ensuring transparency and cooperation.

Ecuador agreed to applying the same disciplines as agreed between the EU, Colombia and Peru, and committed to an ambitious and wide-reaching opening of its procurement market. The transitional periods (e.g. temporary higher thresholds) and the flexibilities and exceptions to coverage introduced specifically for Ecuador will safeguard against any potential adverse effect that opening up procurement markets could have and will allow for adjustments to be made. Ecuadorian, Peruvian and Colombian bidders will have access to the procurement of EU central and sub-central authorities, for goods, services and works concessions.

5.4 Protection of intellectual property rights, including geographical indications

In the area of intellectual property rights (IPR), the Agreement achieves a balance between the two guiding principles: ensuring that intellectual property right-holders have incentives and rewards for investment in research and innovation and in cultural creativity, on the one hand,

and respecting other public interests (e.g. relating to education, health and the environment), on the other. The rights and obligations set out in the Agreement are thus consistent with the Doha Declaration on the TRIPS Agreement[23] and Public Health.

The provisions on IPR included in the Agreement also cover the protection of a large number of geographical indications. The geographical indications currently held by products in Ecuador were added to these. Ecuador has been granted an additional five years to comply with the provisions on regulatory data protection for marketing authorisations for pharmaceuticals and agro-chemicals, so as to allow it time to introduce the necessary national framework.

5.5 'Essential elements' clause

Democratic principles, human rights and the rule of law are 'essential elements' of the Agreement, as stated in Article 1. If a Party fails to respect these fundamental principles and rights, the other party may take measures, proportionate to the infringement, including terminating the Agreement, or partly or totally suspending it. These measures can be adopted and applied immediately, without prejudice to continued dialogue between governments.

5.6 Trade and sustainable development

The Agreement includes legally binding provisions on sustainable development, in particular on labour issues and environmental protection. It is thus consistent with the objectives of the EU's external action, and contributes in particular to the sustainable economic, social and environmental development of the EU and of its partner countries. The Agreement is also aligned with the new trade and investment strategy for the European Union, 'Trade for All: Towards a more responsible trade and investment policy'.

The chapter on sustainable development lays down provisions on the protection of the environment and of labour rights. It explicitly recognises the rights of the EU and Ecuador to decide their own levels of environmental and employment protection, and to determine if and how higher protection standards should be strived for.

The chapter includes a commitment to implementing the core labour standards set out in the International Labour Organisation (ILO) Fundamental Conventions (freedom of association, elimination of forced labour, abolition of child labour, and non-discrimination in employment), both in law and in practice. The Agreement also includes commitments to implementing eight major multilateral environmental agreements, which are especially relevant for trade.

In addition, this chapter of the Agreement sets out a general obligation to refrain from 'race-to-the-bottom' practices with regard to labour and environmental laws (i.e. protection standards should not be waived, or left unenforced as a means of encouraging trade or investment). The obligation applies across different sectors, e.g. in the labour area, employers must not only respect the core labour standards, but must also consider issues such as occupational health and safety and working conditions.

The chapter also includes provisions designed to ensure that the development of trade does not preclude the sustainable management of sensitive natural resources (e.g. forests and fish

[23] The WTO Agreement on Trade-Related Aspects of Intellectual Property Rights.

stocks). It also encourages the adoption of trade and investment policies that may contribute to the deployment of low-carbon technologies.

Furthermore, the chapter includes extensive provisions on the conservation of biological diversity, recognising *inter alia* the role played by indigenous and local communities. The parties also make commitments to cooperating in the areas of conservation and sustainable use of biodiversity. These provisions are of particular relevance for Ecuador, which is recognised as a 'megabiodiverse' country.

The chapter provides for structures for its implementation to be put in place at national level. These give a role to bodies made up of civil society representatives, which can submit opinions or make recommendations on the implementation of the chapter, including on their own initiative.

The chapter also specifies that regular intergovernmental meetings must be held. Each meeting is to include an open session, during which civil society organisations and members of the public can raise issues directly. Decisions taken or reports issued under this chapter should, in principle, be public.

The chapter on sustainable development puts in place a specific arbitration system to handle any disagreements on the implementation of its provisions. An independent group of experts can be asked to assess the signatories' fulfilment of their obligations and to issue public reports, on the basis of which an action plan or other corrective action would be implemented.

5.7 Dispute settlement

The Agreement includes an efficient and streamlined dispute settlement system, which is consistent with the principles that the EU considers most important, such as transparency (open hearings and *amicus curiae* briefs) and sequencing (there being no right to impose retaliation until non-compliance has been verified). In addition, the Agreement includes a mediation mechanism for non-tariff barriers to trade in goods that allows solutions to be found more quickly and in a more conciliatory spirit.

6. THE POTENTIAL ECONOMIC EFFECTS OF ECUADOR ACCEDING TO THE TRADE AGREEMENT

This section presents the analysis of the economic effects of the Trade Agreement between the EU and Ecuador, with regard to the overall economy of the two partners, and trade both between them and with the rest of the world. Subsection 5.1 describes the model that is used as a basis for the economic analysis, and subsection 5.2 presents the economic results of the simulations.

6.1 Economic modelling

The economic analysis is based on a dynamic computable general equilibrium (CGE) model of the world economy. This type of model is widely used to simulate the effects of events such as changes in trade policy, on a range of macroeconomic variables including income, prices, production, trade and wages.

Standard CGE trade analyses reflect the difference between the economic outcome of a specific policy change scenario (e.g. signing of a Trade Agreement) and a baseline that simulates the scenario of there being no changes in trade policy during a specific time period.

In this study, however, an additional complication is created by the fact that Ecuador's status quo with the EU changed as of 2015, and the assumption of no policy change used in the baseline is therefore not a possible scenario. If Ecuador had not signed the Agreement, the tariffs applied to Ecuadorian products would have risen from GSP+ to MFN levels as of 2015, as a consequence of Ecuador losing GSP+ beneficiary status.

In order to assess the difference in economic outcome of a situation where Ecuador accedes to the Trade Agreement, and a situation where it does not accede and thus faces MFN tariffs, i.e. the opportunity cost of not acceding to the Trade Agreement, the study considers two alternative scenarios. These scenarios are built against a baseline that assumes no changes in trade policy (i.e. Ecuador keeps its GSP+ preferences). The two scenarios are then compared.

An alternative approach would have been to create the Trade Agreement scenario from a baseline scenario under which Ecuador is subject to MFN tariffs instead of GSP+ tariffs. This would, however, have implied an irrational production strategy in the baseline scenario, due to the underlying effect of having a substantial amount of trade subject to MFN tariffs. This is because, under high tariffs (in this case, MFN tariffs), the sectors subject to these tariffs would become less important for the country, and vice versa. If Trade Agreement tariffs were applied to a baseline scenario of having MFN tariffs, the change in the model would be being measured relative to the already existing 'MFN reality'. In the model, therefore, the resulting Trade Agreement scenario would reflect a different *change* in production, trade and other macroeconomic variables than was the case in reality, where the change was from a baseline reflecting GSP+ tariffs.

The CGE model used for the analysis is a dynamic version of the Global Trade Analysis Project (GTAP) model (Ianchovichina and McDougall, 2000). The database used was GTAP version 9 (base year 2011), a fully-documented, publicly available global database that represents the world economy and contains complete information (from 2011) on bilateral trade and on the links created by transport and protectionist measures, for 140 regions and all 57 GTAP commodities.[24] The model produces projections for up to 2035. The initial tariffs are contained in the standard GTAP database and are therefore available in the model.

Regional and sectoral aggregation

The 140 different countries/regions have been grouped into a total of eight regions: Ecuador, the EU, the US, Canada, the Andean Community excluding Ecuador, Central America, EFTA and the rest of the world. Grouping the countries in this way makes it possible to analyse the effects of Ecuador acceding to the Trade Agreement on its trade and on that of its main trade partners.

Similarly, 57 sectors of the GTAP database have been aggregated to form 27 sectors for the purpose of the analysis. The sectors have been grouped on the basis of the importance of trade between the EU and Ecuador. Grouping the regions and sectors according to their main features reduces the computation time and highlights the most significant results.

The baseline scenario takes into account both Trade Agreements that are currently in force and those involving the EU and/or Ecuador for which negotiations are being finalised. The GTAP model already includes any trade agreements in place in 2011. It is therefore only the

[24] https://www.gtap.agecon.purdue.edu/databases/v9/.

Trade Agreements not included in the GTAP model that need to be added separately.[25] The baseline scenario will thus take account of the Trade Agreements the EU has concluded with Central America, and the EU-Colombia/Peru Trade Agreement, which are both very relevant for this analysis.

Scenario design

Two simulations have been built from the baseline: an MFN scenario and a Trade Agreement scenario. The tariff structures of the two simulations are summarised in Table 9.

The MFN simulation models the counterfactual scenario of Ecuador not signing the Trade Agreement with the EU and facing MFN tariffs as of 2015, as would be the case due to it losing GSP preferences.

The Trade Agreement scenario is based on the assumption of the agreed cuts being brought in at three points in time: (i) initial implementation of the agreement (2017); (ii) mid term (10 years after implementation); and (iii) long term (when the agreement has been fully implemented, 17 years).

The results section (section 6.2) only presents the results forecast for the long term. The model incorporates the effect of the implementation of the cuts at the three points in time, and includes one extra year during which the Trade Agreement would take full effect.

The tariff elimination for goods used in the model reflects the tariff dismantling schedule as specified in the agreement. The base rates set in the schedule for Ecuador are mostly *ad valorem*, whilst those for agricultural products in the EU schedule are mainly specific, tariff or combined (*ad valorem* plus specific). In Ecuador, the tariff rates applied to goods subject to the price stabilisation mechanism[26] have been reduced to zero for products where duties have been eliminated entirely. For products subject to partial duty liberalisation, the fixed element of the tariff rate has been eliminated and the variable element kept. Product categories subject to quotas have been assessed qualitatively to determine whether the quotas could be filled.[27]

[25] The trade agreements included were those where the trade covered by them represented at least 1 % of trade value.

[26] The price stabilisation mechanism follows the fluctuation of specific product prices against established floor and ceiling prices. The price band aims to protect domestic products by keeping tariffs high when world prices fall and dropping tariffs when world prices rise.

[27] Only category 'P' (sausages, hams, belly ('streaky'), and cuts thereof) and category 'PA' (potatoes) were found to potentially go above the quota, and the MFN rate was used if a lower base rate was not available.

Table 9. Average weighted tariffs introduced in the Trade Agreement and MFN scenarios

	GTAP sectors in the study	Ecuador Trade Agreement weighted average tariff [1]			EU Trade Agreement weighted average tariff [1]				EU MFN tariff [2]
		Short term	Mid term	Long term	Short term	Mid term		Long term	
1	Vegetables and fruit	0.0	0.0	0.0	16.1	11.6	11.6	16.1	18.0
2	Cereals	8.0	3.8	3.5	0.0	0.0	0.0	0.0	8.5
3	Other agricultural products	0.5	0.1	0.1	0.0	0.0	0.0	0.0	1.7
4	Cattle	1.8	1.1	1.1	0.0	0.0	0.0	0.0	2.9
5	Forestry	0.1	0.0	0.0	0.0	0.0	0.0	0.0	1.3
6	Fishing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	7.1
7	Sugar	4.7	3.4	3.4	5.6	5.6	5.6	5.6	51.0
8	Dairy	3.0	3.0	3.0	0.0	0.0	0.0	0.0	63.7
9	Meat	12.8	10.6	10.5	0.2	0.2	0.2	0.2	30.4
10	Vegetable oils	5.9	4.6	0.2	0.0	0.0	0.0	0.0	10.6
11	Other food products	10.2	7.2	6.1	0.7	0.4	0.4	0.7	13.2
12	Beverage and tobacco	8.3	0.8	0.2	0.0	0.0	0.0	0.0	5.2
13	Coal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
14	Crude oil	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
16	Textiles and materials	8.0	0.0	0.0	0.0	0.0	0.0	0.0	4.9
17	Wood products	14.6	0.0	0.0	0.0	0.0	0.0	0.0	1.2
18	Paper products	3.3	0.0	0.0	0.0	0.0	0.0	0.0	0.1
19	Oil products	1.4	0.0	0.0	0.0	0.0	0.0	0.0	1.3
20	Metal and mineral products	7.4	0.0	0.0	0.0	0.0	0.0	0.0	1.3
21	Chemicals	1.8	0.0	0.0	0.0	0.0	0.0	0.0	2.6
22	Heavy manufacture	2.8	0.0	0.0	0.0	0.0	0.0	0.0	1.0
23	Transport equipment	6.7	0.0	0.0	0.0	0.0	0.0	0.0	3.1
24	Machinery	1.8	0.0	0.0	0.0	0.0	0.0	0.0	1.3

1 Tariffs introduced in the Trade Agreement scenario simulation.

2 Tariffs from 2015 introduced in the MFN scenario simulation.

The reduction in non-tariff barriers and the measures taken to further facilitate trade in goods are modelled in the same way as in the previous study for Colombia/Peru (Table 10), as the Ecuador Agreement and the Colombia/Peru Agreement have many similarities (Francois et al., 2012). Overall, the non-tariff barriers and trade facilitation measures considered will lead to a reduction in trade costs on all goods and a simplification of labelling requirements in textiles and clothing.

The measures considered for reducing non-tariff barriers include extended deadlines for submitting comments on draft technical regulations, and the introduction of an obligation to make the comments and the regulations adopted publicly available through official websites. The provision on labelling refers to limiting labelling requirements to only those necessary for consumers. This is modelled as a reduction in trade costs for textile products.

Table 10. Reduction in non-tariff barriers, reflecting the approach in the Colombia/Peru study

Reduction in non-tariff barriers	3 % reduction in non-tariff measures on all goods in the long run (1.5 % in the medium term)
Textiles and clothing	2 % cost reduction to reflect changes in labelling requirements

Source: Francois et al., (2012)

The agreement also includes changes to the conditions that apply to cross-border and establishment-based trade in services. While the actual degree of liberalisation of services that will occur is difficult to predict, the analysis assumes the agreement will bind the autonomous level of liberalisation. This should have a positive effect on services trade, as it decreases the level of uncertainty and makes the trade policy regime more predictable.

The quantification of the reduction in tariff cost equivalents takes the work of Decreux and Fontagné (2011) as a starting point. They estimated bound tariffs introduced in the context of the Doha Development Agenda to be equivalent to an average reduction in services barriers of 3 % across the 46 countries for which data was available. Based on this finding, the value was scaled to take account of country-specific risk and the gap between Uruguay round commitments and the actual level of protection in place in the services sector (i.e. binding overhang or water). It was assumed that the reduction would materialise in the long term (Table 11).

The country risk score was based on two categories (legal and regulatory risk, and foreign trade and payment risk) and was taken from the Economist Intelligence Unit. Information on the actual level of protection and the level post the Uruguay round of negotiations is available from the Services Trade Restrictiveness Index database produced by the World Bank for a sample of 61 countries.

Table 11. Reduction schedule of *ad valorem* equivalents (AVEs) in service sectors for Ecuador and the EU

	GTAP sectors	Baseline *	Short term	Mid term	Long term
Ecuador	Transport service	20.0 %	20.0 %	20.0 %	16.8 %
	Mail and telecommunications	20.0 %	20.0 %	20.0 %	16.8 %
	Other services	24.0 %	24.0 %	24.0 %	20.1 %
EU	Transport service	11.0 %	11.0 %	11.0 %	10.7 %
	Mail and telecommunications	14.0 %	14.0 %	14.0 %	13.6 %
	Other services	15.0 %	15.0 %	15.0 %	14.6 %

Source: Own estimation using AVEs for service sectors in the baseline. * The Baseline AVEs are also applied in the short and mid term.

6.2 Modelling results

This section analyses the main economic effects that the CGE simulation predicts the EU-Ecuador trade agreement to have. The results of the modelling highlight the benefits of Ecuador acceding to the Colombia-Peru Free Trade Agreement and the opportunity cost to the country of not signing the Agreement and thus facing MFN tariffs relative to a baseline that assumes no changes in trade policy (i.e. maintains GSP+ preferences).

The first section below discusses the macroeconomic effects on GDP, welfare, CPI and wages. The second section then examines total trade effects, and the final section considers changes in trade and output effects across sectors.

Macroeconomic effects

GDP and welfare

Twenty-five years after its entry into force, the Trade Agreement will have a positive effect on both real GDP and economic welfare for both the EU and Ecuador (Figures 4 and 5).

The value of GDP in 2035 in the baseline scenario is around USD 130 billion for Ecuador and USD 27 500 billion for the EU.

As expected, the effect on the EU's GDP in real terms is positive but very small (0.002 %, approximately USD 0.6 billion) compared to the base values (Figure 4). The impact on Ecuador's real GDP is, however, significant (0.47 %, approximately USD 0.6 billion). This figure reflects the combined effect of the benefit derived from the EU-Ecuador Trade Agreement (0.387 %, approximately USD 0.5 billion) and the potential opportunity cost of losing GSP+ preferences (0.086 %, approximately USD 0.1 billion).

The GDP estimates are similar to those obtained by Francois et al. (2012) in the economic analysis of the EU-Colombia/Peru Free Trade Agreement (real GDP change was 0.36 % for Colombia and 0.25 % for Peru).[28] The real GDP results for the EU predicted by this study

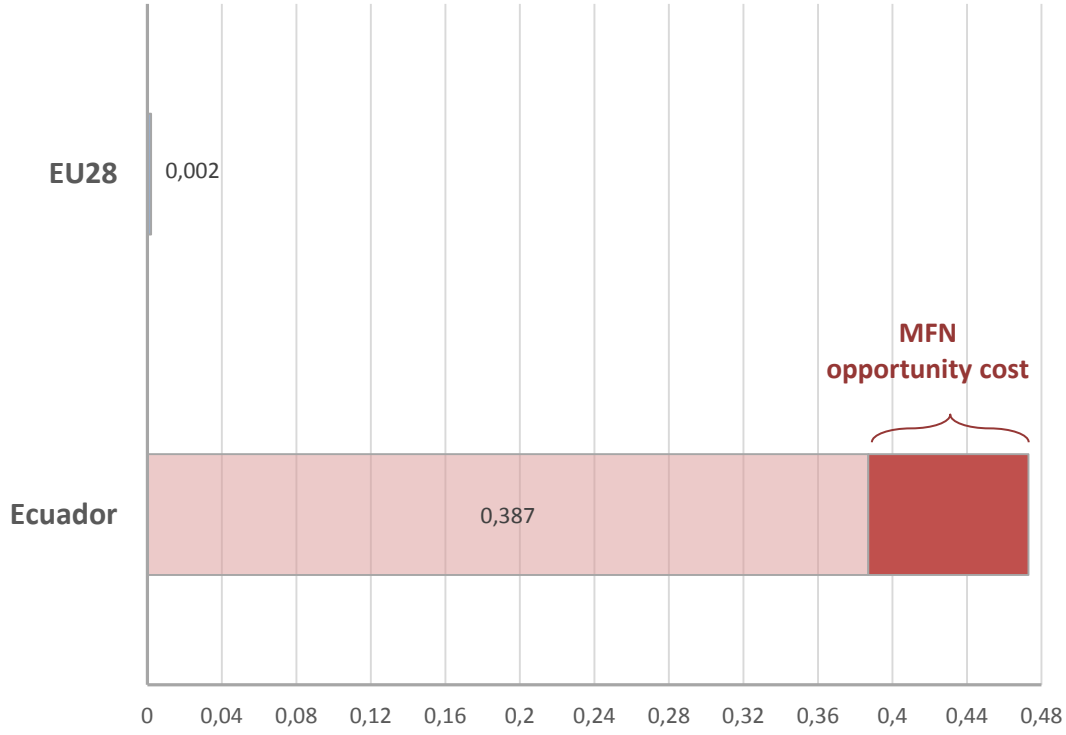
[28] Baseline B considered the fact that the EU would change its GSP+ coverage in January 2014 so that some Latin American countries would start facing MFN tariffs.

were slightly larger (0.02 %). This could be due to Colombia and Peru having a larger combined effect on the EU's GDP.

Welfare is an economic indicator that compares the change in consumer utility, valued at base year prices. The welfare effect for both the EU and Ecuador is positive (Figure 5). The welfare effect for the EU is USD 258 million, and is thus negligible relative to the size of its GDP (0.001 %). For Ecuador, the welfare effect is significant (USD 300 million, 0.32 % of its GDP). This figure can be broken down into USD 103 million directly linked to the Trade Agreement and USD 197 million from avoiding the opportunity cost of losing GSP+ preferences and facing MFN tariffs.

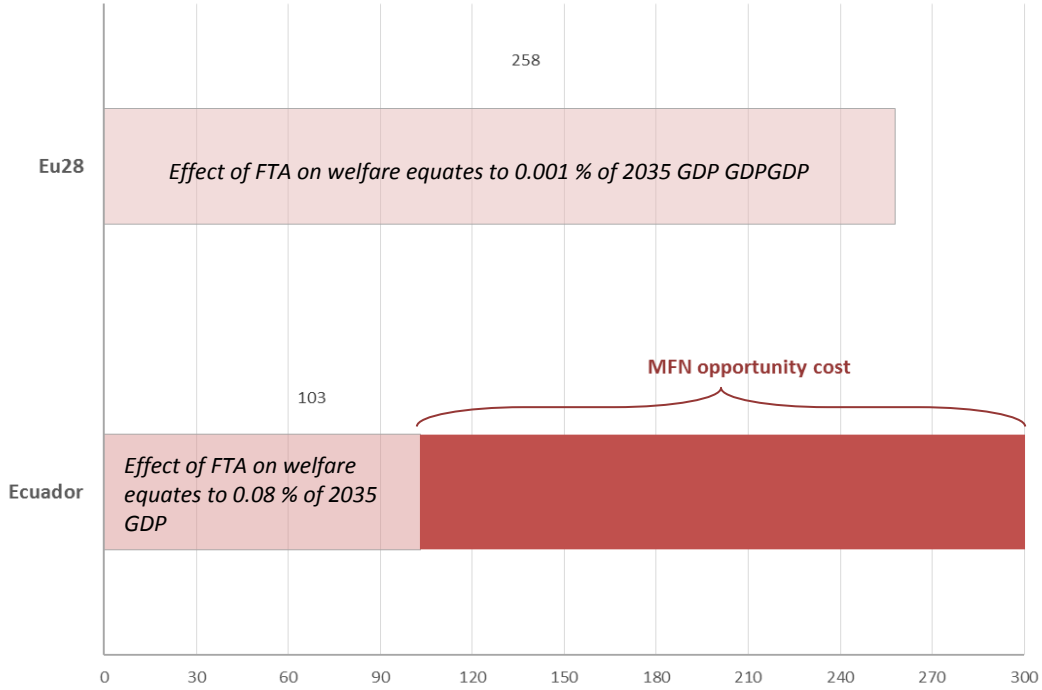
Relative to the effect of the Trade Agreement, the opportunity cost of losing GSP+ tariffs thus has a larger effect on welfare than on real GDP (comparison between Figures 4 and 5). This is because welfare is specific to consumers — it indicates the value to the consumer of the price changes that occur due to a shock, whereas GDP concerns the entire economy. On the income side, it reports the total national income from the wages and rents earned by all factors of production, from taxes on economic activity and from depreciation. Under MFN tariffs, Ecuador would be obliged to adjust its production pattern: it would reduce output and reallocate exports to other markets, which would, in turn, have a substantial impact on wages and prices, and, consequently, on welfare.

Figure 4. Effect on real GDP, percentage points



Source: Directorate-General for Trade modelling results

Figure 5. Effect on welfare (USD millions, long term)



Source: Directorate-General for Trade modelling results

Import prices, export prices and real wages

This section breaks down the welfare effect (as discussed in the previous section) further, welfare being dependent on real wages.[29] It also discusses import and export prices under the Trade Agreement and MFN scenarios.

Table 12 shows the estimated effect on import and export prices, nominal and real wages under the Trade Agreement and under MFN tariffs (taking as the baseline GSP+ in both scenarios).

For Ecuador, the Trade Agreement scenario brings a small decline in import prices (-0.01 %) and an increase in export prices (0.23 %). Ecuadorian importers will, therefore, benefit from lower prices while exporters will be able to demand higher prices for their products. In addition, the Trade Agreement could bring a significant increase in real wages for skilled and unskilled labour (approximately 0.6 %), relative to the GSP+ status quo. This is due to a significant increase in nominal wages (approximately 0.7 %).

These results suggest that the Trade Agreement could benefit both consumers and producers and also reduce poverty, without, however, having any effect on inequality. In addition, these results are similar to those of the EU-Colombia/Peru study with respect to unskilled wages, although the increase predicted in skilled wages is slightly larger (Francois et al., 2012).

[29] The term real wages refers to wages received by workers that have been adjusted for changes in consumer prices (CPI).

In the MFN scenario, Ecuador's import prices increase (by 0.04 %) while export prices fall (by 0.24 %), suggesting that Ecuadorian consumers and producers would become worse off. In addition, real wages would increase slightly, although the reason for this would be the drastic drop in consumer prices rather than an increase in nominal wages.

The increase in tariffs (MFN) would change Ecuador's production structure, and, while the opportunity cost to the overall economy (GDP) is not very large (Figure 1), it has a significant effect on nominal wages. While real wages are still positive, the overall effect is a substantial loss in welfare (Figure 2).

The effect on prices and wages in the EU would be, as expected, negligible, as trade with Ecuador represents a very small proportion of European foreign trade.

Table 12. Effect of the Trade Agreement and MFN scenarios on prices/wages in Ecuador and the EU (percentage change in the long term)

		Import prices (index)	Export prices (index)	Nominal wage		Real wage = Wage - CPI	
				Unskilled labour	Skilled labour	Unskilled labour	Skilled labour
TA	Ecuador	-0.01	0.23	0.67	0.69	0.55	0.57
	EU	0.00	0.00	0.01	0.01	0.00	0.01
MFN	Ecuador	0.04	-0.24	-0.26	-0.28	0.16	0.14
	EU	0.00	0.00	0.00	0.00	0.00	0.00

Source: Directorate-General for Trade modelling results

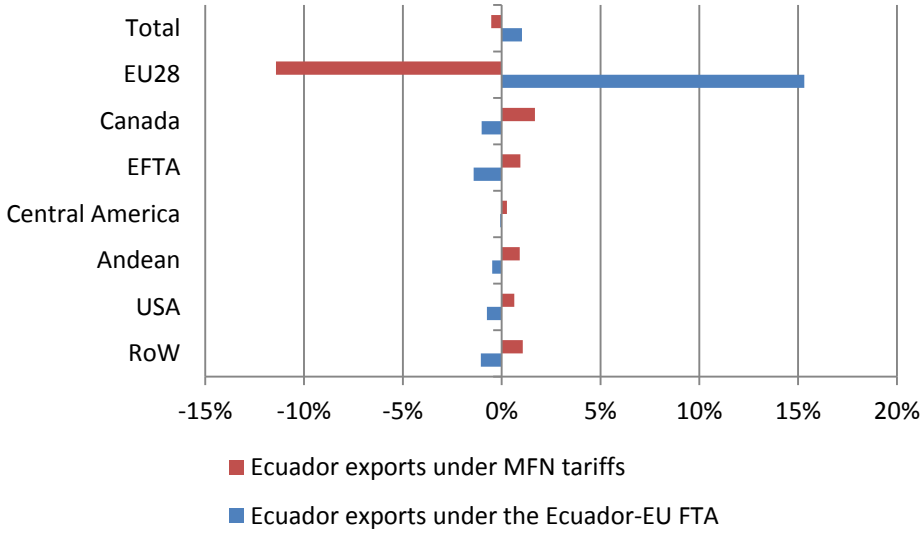
Total trade

The agreement will slightly increase Ecuador's exports to and imports from the world (by 1.6 % and 1.2 % respectively), with no change seen for the EU.

Figure 6 shows the change in Ecuador's trade with different partners under the two alternative scenarios. The CGE model predicts that, if Ecuador had not signed the Trade Agreement and had lost its GSP+ preferences, the higher tariffs would have caused the country to reduce its exports to the EU and increase exports to other destinations. Nevertheless, the situation would have still caused total Ecuadorian exports to decline by 0.5 %.

On the other hand, signing the Trade Agreement with the EU brought a potential increase in Ecuador's exports. The increase in total exports is due to an expansion in exports to the EU. Furthermore, the EU will also receive proportionally more of Ecuador's exports due to a reallocation of trade from other major partners (USA, the Rest of the World and other Andean countries).

Figure 6. Changes in Ecuador**'s** exports by destination in the long run (percentage change, under MFN tariffs and under the Ecuador-EU Trade Agreement)



Source: Directorate-General for Trade modelling results

Sectoral impact on trade and output

The Trade Agreement is shown to increase exports from Ecuador to the EU and from the EU to Ecuador, by 30 % and 42 %, respectively, compared to the MFN scenario. The sectors for which figures are given in bold are those which represent a large proportion of exports and experience a large change in trade. The sectors shown in grey see a very large change in trade but only represent a very small proportion of exports.

Table 13. Ecuador's exports to the EU and the EU's exports to Ecuador, by sector, long-term percentage change

GTAP sectors included in the study		Ecuador export flows FTA vs MFN (%)	Ecuador Size of sector (%)	EU export flows FTA vs baseline (%)	EU size of sector (%)
1	Vegetables and fruit	**28.8**	**30.7**	117.1	0.0
2	Cereals	77.1	0.2	162.4	0.0
3	Other agricultural products	19.2	10.0	29.3	0.3
4	Cattle	12.5	0.1	28.6	0.0
5	Forestry	21.2	0.0	8.5	0.3
6	Fishing	16.2	0.0	12.7	0.0
7	Sugar	669.4	0.7	25.5	0.0
8	Dairy	4 071.4	0.1	110.1	0.1
9	Meat	945.0	0.4	97.1	0.0
10	Vegetable oils	118.3	2.4	97.9	0.2
11	Other food products	**64.2**	**23.6**	33.2	6.7
12	Beverage and tobacco	16.0	0.1	33.8	0.7
13	Coal	-0.4	12.7	0.0	0.0
14	Crude oil	-0.3	0.7	#	#
16	Textiles and materials	93.9	3.1	154.2	1.3
17	Wood products	28.7	0.5	228.0	1.9
18	Paper products	15.3	0.8	46.8	2.5
19	Oil products	16.0	2.2	22.3	0.6
20	Metal and mineral products	27.6	0.3	83.3	5.1
21	Chemicals	38.9	1.9	**35.2**	**22.0**
22	Heavy manufacture	30.9	1.0	61.8	7.4
23	Transport equipment	42.1	0.4	72.7	6.6
24	Machinery	37.4	0.3	**45.0**	**30.4**
25	Electricity	14.5	0.0	14.4	0.1
26	Gas	0.0	0.0	1.6	0.0
27	Transport services	-0.4	12.7	9.6	8.5
28	Communication services	1.0	3.6	9.7	0.1
29	Other services	0.5	3.9	10.9	5.0
	TOTAL	**30.2**		**41.8**	

Source: Directorate-General Trade modelling results

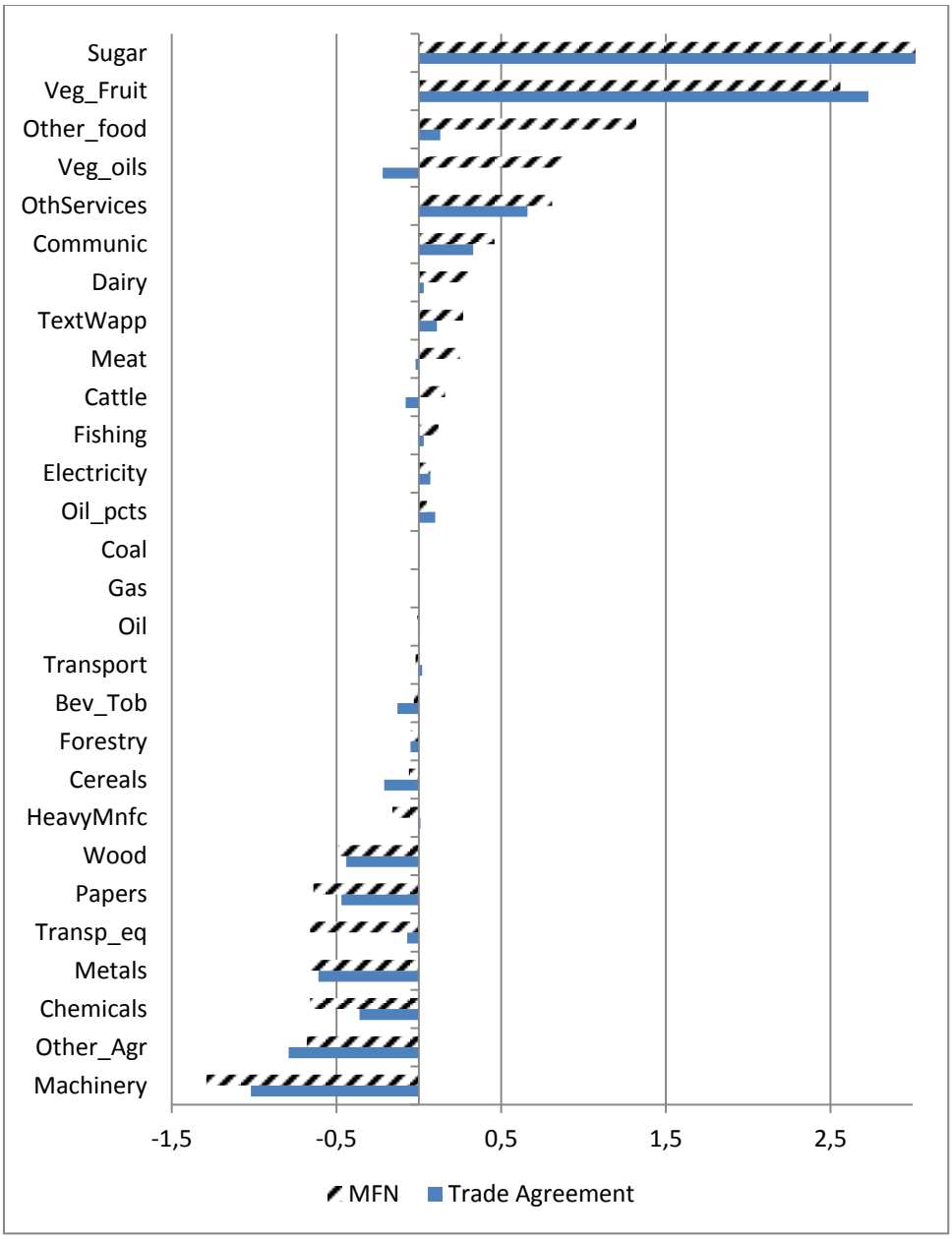
Ecuador is predicted to see an increase in its exports of 'vegetables and fruit' (mainly bananas) (28.8 %) and other food products (including canned fish) (64.2 %). For the EU, meanwhile, the main increases are in exports of machinery and chemicals (45.0 % and 35.2 % respectively). (These are the most significant increases taking into account both the percentage change and the initial share of exports that the categories represented).

The export volumes of some products, such as dairy products and meat from Ecuador, show the potential to grow under the Trade Agreement, but this will not have a significant impact on export volumes overall as they represent a small proportion of the country's exports.

The importance of the EU's banana market for Ecuador, and of the markets for a number of other agricultural and food products, means that the Trade Agreement will lead to an increase in the export of these products. Considering both the composition of Ecuador's total exports and the predicted trade expansion in different sectors (as shown in Table 13), it can be seen that the growth in total exports from Ecuador is mostly due to agricultural products.

The expansion in the EU's exports, meanwhile, is mainly due to growth in exports from the machinery and chemicals sectors, which are liberalised in the medium term under the Trade Agreement, and represent a large proportion of total exports.

Figure 7. Percentage change in Ecuador's output by sector valued at initial prices, Trade Agreement and MFN scenarios



Source: Directorate-General for Trade modelling results

Figure 7 presents the effect on the output of various economic sectors of the Trade Agreement and the MFN tariffs, respectively. The provisions set out in the Trade Agreement (notably the differing levels of tariff reductions to be introduced across sectors) are predicted to lead to a reallocation of resources towards the sectors that have the largest preferential margins. The benefits of the Trade Agreement are expected to prompt Ecuador to increase agricultural output, in particular of fruit and vegetables (bananas) and sugar. Manufacturing output would, however, decline slightly relative to the MFN scenario.

Were it to face high MFN tariffs, Ecuador would not find it beneficial to export as much to the EU as it did under GSP+. It would, however, also find it difficult to find other markets to export to in place of the EU, as export to the EU represents a significant proportion of Ecuador's total export. Output is predicted to decline in agriculture and to increase slightly in manufacturing.

7. CONCLUSIONS

This study analyses the economic effects of the Trade Agreement between the EU and Ecuador, the negotiations having been concluded but the Agreement not yet signed.

The Trade Agreement gives Ecuador the opportunity to benefit from improved access to the EU market, relative to that offered under the unilateral EU Generalised Scheme of Preferences (GSP), for which Ecuador is no longer eligible. By contrast, the Agreement will have a limited overall effect on the EU, due to the difference in the size of the two parties' economies.

The analysis carried out for the study was based on the actual outcome of the negotiations, so as to provide a comprehensive picture of the overall effect of the Trade Agreement on the EU and Ecuador respectively.

While every effort has been made to quantify the terms of the Agreement, some trade-related aspects could not be quantified in such a way as to make it possible to model them, and they were therefore left out of the analysis. Examples of these include the benefits, in terms of lower costs and increased transparency, of opening the respective public procurement markets, and the marketing benefit of protecting respective geographical indications in the other party's territory. Indirect benefits of the Trade Agreement, such as increased certainty and the encouragement given to new businesses to consider exporting, have also not been considered. This means that the benefits of the Agreement could be larger than quantified in the study.

Previous studies on the potential effect of an agreement between the EU and Ecuador suggested that there would be the potential to increase welfare and reduce poverty. This study reaches the same conclusion. The long run economic gains predicted by this study can be summarised as follows:

- Ecuador's real GDP could increase by 0.4 % compared to the baseline scenario where Ecuador would maintain GSP+ tariffs. Taking into account the fact that Ecuador was to lose its GSP+ rates, the effect on GDP is even more significant.

- Ecuadorian traders would also benefit from the Trade Agreement due to the resulting small decline in import prices (-0.01 %) and increase in export prices (0.23 %).

- The effect on welfare in Ecuador is positive and significant. The effect can be quantified as USD 103 million directly linked to the EU-Ecuador Trade Agreement and USD 197 million from avoiding the opportunity cost of losing GSP+ tariffs and facing MFN tariffs.

- The Trade Agreement could increase real wages for skilled and unskilled workers in Ecuador by around 0.5 %.

- Real GDP, welfare and real wages for skilled and unskilled workers in the EU are also expected to increase. The macroeconomic impact is, however, insignificant relative to the size of the EU economy.

- Changes to total trade are positive for both parties and the change in bilateral trade in the long run is significant.

- Ecuador’s exports to the EU would be 30 % higher and imports from the EU 40 % higher compared to a situation where Ecuador had not signed the agreement and had lost GSP+ tariffs.

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