

## **A Primer on Exporting to Ecuador<sup>1</sup>**

---

Christina D. Storz, Timothy G. Taylor, and Gary F. Fairchild<sup>2</sup>

### **Introduction**

Every year the U.S. Department of State publishes extensive Country Commercial Guides for a large number of countries. These guides provide a great deal of information useful to individuals interested in developing export markets either through direct exports or through direct foreign investment. This paper provides an abridged version of the Country Commercial Guide for Ecuador as well as supplemental information of direct relevance to agribusiness firms. It is hoped that the information contained in this report provides a useful starting point for individuals interested in exploring export or investment opportunities in Ecuador.

Note: County Commercial Guides are available for U.S. exporters from the National Trade Data Bank's CD-ROM or via the Internet. Please contact Stat-USA by telephone (1-800) STAT-USA for more information. Country Commercial Guides can be accessed via the World Wide Web at <http://www.stat-usa.gov>, <http://www.state.gov>, and <http://www.mac.doc.gov>. They can also be ordered as a hard copy or on diskette from the National Technical Information Service (NTIS) by telephone (1-800) 553-NTIS. American exporters seeking

general export information/assistance and country-specific commercial information should contact the U.S. Department of Commerce, Trade Information Center by telephone (1-800) USA-TRADE; or by fax (202) 482-4473.

### **Economic and Political Overview**

Ecuador is a country of 12.4 million inhabitants located on the equator in South America. The economy generated an estimated GDP (Gross Domestic Product) of US\$27.1 billion in 2003. With 271,000 square kilometers, Ecuador is the size of the state of Colorado and contains dramatic geographical and biological diversity with rich economic potential. The country consists of four distinct regions: the tropical lowlands of the Pacific coast, the mountains and valleys of the Andean Sierra, the Amazon rain forest of the Oriente, and the Galapagos Islands.

Ecuador is politically unstable. After two decades of civilian rule, Ecuador's political institutions remain fragile. Despite its impressive wealth of natural resources and other advantages, Ecuador is impoverished as a result of years of political mismanagement and staggering corruption. Poverty more than doubled between 1995 and 2000

- 
1. This document is FE511, one of a series of the Food and Resource Economics Department, Florida Cooperative Extension Service, Institute of Food and Agricultural Sciences, University of Florida. Original publication date January, 2005. Reviewed March, 2008. Visit the EDIS Web Site at <http://edis.ifas.ufl.edu>.
  2. Christina D. Storz, Research Assistant; Timothy G. Taylor, Professor; and Gary F. Fairchild, Professor, Department of Food and Resource Economics, Florida Cooperative Extension Service, Institute of Food and Agricultural Sciences, University of Florida, Gainesville, FL.

The Institute of Food and Agricultural Sciences (IFAS) is an Equal Opportunity Institution authorized to provide research, educational information and other services only to individuals and institutions that function with non-discrimination with respect to race, creed, color, religion, age, disability, sex, sexual orientation, marital status, national origin, political opinions or affiliations. U.S. Department of Agriculture, Cooperative Extension Service, University of Florida, IFAS, Florida A. & M. University Cooperative Extension Program, and Boards of County Commissioners Cooperating. Larry Arrington, Dean

because of Ecuador's economic difficulties. According to UNICEF, 70% of the population (8.4 million) lived in poverty in 2000. Transparency International ranks Ecuador as the second most corrupt country in Latin America. There are few effective checks or balances in place to deter corruption.

Ecuador's public sector continues to be inefficient and suffers from endemic corruption. Although the economy would benefit from increased privatization, little progress has been made in this area in recent years. The government has made some efforts to reform and streamline Ecuador's outdated tax system; tax collection accounts for an increasing share of government revenues. The dysfunctional judicial, public pension, and education systems remain in desperate need of reform. Ecuadorian banks turned a profit in 2001 and 2002 for the first time in years. However, the financial system remains weak, with few viable banks and virtually no effective regulation.

In 1999 and 2000, Ecuador's economy collapsed spectacularly, precipitating the adoption of the U.S. dollar as legal tender. Today, all commerce is conducted in the dollar, and currency risk is absent. In 2002, Ecuador's economy expanded at a 3.4% rate, and the Central Bank projects that GDP will grow by 3.5% in 2003. Key factors underlying growth include recovering domestic demand, resources from the IMF and other international financial institutions, and the initiation of a substantial inflow of private investment capital to build a Heavy Oil Pipeline across the Andes. In 2002, the oil sector accounted for about 22% of public sector revenue and 37% of export earnings. Further increases in oil production are expected when the new Trans-Andean Heavy Oil Pipeline (OCP, in Spanish), which will transport Ecuador's crude oil to market, becomes operational in 2003.

Ecuador is the world's largest exporter of bananas (US\$969 million in 2002). The country is also a major exporter of shrimp (US\$251 million in 2002). Exports of non-traditional products are also significant, such as cut flowers (US\$291 million in 2002) and canned tuna (US\$58 million in 2002). Ecuadorian farmers also produce a variety of

domestic consumption crops. Ecuador's protected industrial sector is largely oriented to producing for the domestic market. Tourism plays an increasingly important role in the Ecuadorian economy; as an export, it is the third-largest source of foreign exchange (after petroleum and bananas). Tourism revenues were up 4% in 2002, with 654,000 visitors spending US\$447.2 million.

Ecuador is a member of the Andean Community, the Latin American Integration Association (ALADI), and the World Trade Organization (WTO). In addition, Ecuador has concluded bilateral free trade agreements with Colombia, Bolivia, Peru, Venezuela, and Chile. Ecuador has liberalized its trade regime since 1990, resulting in a reduction of tariffs, elimination of most non-tariff surcharges, and enactment of an in-bond processing industry law. It is relatively open to U.S. exports and direct investment.

Ecuador is highly receptive to U.S. products and services, which locally enjoy a reputation for high quality and reliability. For the most part, U.S. standards are accepted, with relatively simple registration procedures required before entering the market. The best prospects for U.S. exports include telecommunication equipment and services, franchising, paper products, cosmetics and personal care products, yarn, and vitamins.

## **Marketing U.S. Products and Services**

There are a number of factors that should be considered in exporting products to Ecuador. This section provides a brief overview of many critical factors that must be considered.

### ***Establishing a Business***

The procedure for establishing an office is usually entrusted to local lawyers, international accounting firms, and professional advisers. Costs vary depending on the size of the company's capital share. Foreigners may own 100% of an Ecuadorian enterprise in most sectors.

Foreign investors starting up a business in Ecuador prefer corporations and branches. Other forms include limited liability, partnerships, and

mixed economy companies. Corporations, branches, limited liability companies, and mixed economy companies are registered with and controlled by the Superintendency of Companies and governed by the Companies Law. The legal representative may either be Ecuadorian or a third-country national with an Ecuadorian resident visa.

### ***Distribution / Sales Channels***

A local agent or representative is legally required for sales to the government, and is often a practical requirement when first entering the Ecuador market. Until local sales and brand recognition are sufficiently established to support a direct presence, most companies minimize risk and required capital by selling to or through an Ecuadorian representative. American industrial market exporters may have so few local customers that a local presence will never be economic. These companies often sell directly from the United States or through indent sales with orders taken by a local or regional representative.

Ecuadorian buyers prefer to purchase directly from the manufacturer to remove intermediaries and to lower product cost. For sales of machinery and equipment, the provision of parts and after-sales service is a key competitive factor.

Quito and Guayaquil are the major distribution centers for imported products, while Cuenca and Santo Domingo de Los Colorados serve as secondary national distribution centers. Virtually all distributors cover the whole country with their own sales force, and most have branches and warehouses in each major city.

Options for distribution in Ecuador include:

- *Distributors*: These are commonly medium-to large-size firms that purchase and import relatively large quantities from foreign companies and then distribute wholesale within the country. Distributors typically maintain local inventories and set local prices independently of foreign manufacturers. Distributors on occasion place orders with foreign manufacturers for direct delivery to in-country customers.

- *Commissioned Agents*: These are usually specialized firms or individuals that take orders in Ecuador for foreign goods by means of a well-trained and experienced sales force. Agents are paid a commission by the U.S. companies filling these orders. Occasionally, agents may import goods with their own funds for resale in the local market.

- *Direct Importers*: Direct importers are generally large manufacturing companies and government agencies purchasing equipment or materials for their own use. Purchases are normally made directly from the manufacturer.

### ***Agents / Distributors: Finding a Partner***

When appointing a local distributor, U.S. firms should seek counsel from an Ecuadorian law firm to ensure that their distribution agreements provide appropriate protection. It is advisable to appoint non-exclusive representatives for a limited period of time and to include an international arbitration clause as a means to resolve any disputes that may arise. Enforcing legal rights in Ecuador, as is the case in many other Latin American countries, remains problematic for a plethora of reasons; it is strongly recommended that American companies ensure that U.S. law governs in any contract and that payments are routed through reliable financial intermediaries.

When negotiating an agent or distributor agreement with an Ecuadorian counter-party, there are many dimensions to consider. The Commercial Section strongly recommends that U.S. firms consider conceding some ground on quantities, delivery timing, price, and shared marketing expense or training while holding the line firmly on which law governs contracts, the selection of financial intermediaries, and credit.

American firms have many options, including local lawyers, consultants, and banks, when searching for a suitable local agent or distributor. The U.S. Commercial Service of the American Embassy offers a customized search program to interested U.S. exporters.

### ***Direct Marketing***

Direct marketing is still limited. Consumer goods, electrical appliances, and physical fitness products are often advertised on local and cable television, with local sales and telephone contact points provided. A local company stocks products and fills orders, which are often delivered to the home. Cosmetics are increasingly marketed direct to the consumer, with brands from Colombia experiencing strong market share growth using this distribution method.

### ***Franchising***

The use of franchising has increased in Ecuador over the past few years. There are no specific laws that regulate franchising, except for some legal specifications established under Decision 291 of the Cartagena Agreement. Franchising is governed by the Commercial Code, the Civil Code, the Companies Law, and the Intellectual Property Law. Franchising is considered to be a private negotiation between two or more private entities. The Commercial Code indicates that the commissioned merchant or agent is obligated directly and personally for his own franchise as if the business were entirely his. The principal and the agent are totally independent, even with respect to legal action, except for the rights and obligations indicated by their mutual commission contract and the Civil and Commercial Codes.

### ***Joint Ventures / Licensing***

Two or more parties may enter into a contract to carry out a particular business activity. No obligation exists to record this contract in the Mercantile Register. According to Ecuador's Companies Law, a joint venture may be considered as an association or as a participation agreement.

Under the Companies Law, a business entity may give others (associates) the right to participate in its business, but the rights are limited to obtaining information on the funds contributed, the profits made, or losses incurred. Associates are not liable to third parties. If the business enters bankruptcy, each is liable only for his share of the investment. All other matters are regulated by the terms of the contract of association.

In Ecuador, this type of joint venture occurs primarily when foreign corporations are contracted as associates to carry out specific projects with government entities. It is normal for foreign corporations entering into this type of agreement to establish a local branch.

In Ecuador, the Intellectual Property Rights (IPR) Law governs licenses, patents, and trademarks. Licenses are also governed by Decision 344 of the Cartagena Agreement and the Patents, Trademarks, and Licenses Law. The contracts for license of trademarks, patents, patterns for usage, industrial designs, and commercial names and logos must be registered at the Ecuadorian Institute of Intellectual Property (IEPI). The contracts for the transfer of technology must be registered at the same Institute, but when they are considered as foreign investment, they must also be registered at the Banco Central del Ecuador and at the Ministry of Foreign Trade, Industrialization and Fisheries (MICIP).

To register the use of specific brands, a notarized contract-permitting brand use and a request signed by a lawyer must be presented to IEPI at the following address (licenses are granted within six months of their request): IEPI; Av. Republica 396 y Diego de Almagro; Edif "Forum 3000", P. 1; Quito, Ecuador (telephone 011-593-2-250-8000; fax 011-593-2-250-8000, extension 303; email [iepi@interactive.net.ec](mailto:iepi@interactive.net.ec)); Contact person is Mauricio Sanchez, Industrial Property Director.

### ***Selling Factors / Techniques***

Most U.S. products do not require any changes to be readily acceptable. Price competitiveness is a very important sales factor. For practical rather than legal reasons, U.S. firms selling high-tech products must provide training and maintenance support to their distributors and agents. Local distributors frequently expect their foreign suppliers to underwrite marketing and promotion costs as well as sales support and training. Sales materials should be in Spanish.

Under the new invoicing system, a sales invoice must be submitted for every transaction, regardless of the amount, even when carrying out a free transfer of title. Likewise, this obligation applies to the provision

of professional services of any nature and transactions where a 0% VAT tax rate applies.

### ***Advertising / Trade Promotion***

The advertising market and the media in Ecuador are centered in Quito, Guayaquil, and Cuenca. The principal means of advertising in Ecuador is through television. There are five national TV networks and four cable television networks showing U.S. and European programming. Newspapers are the second most important advertising media. There are five newspapers with nationwide circulation. El Comercio is the most important paper in Quito and the surrounding highlands and El Universo is the key newspaper for Guayaquil and the Coast.

There are approximately 473 radio stations in Ecuador, including medium-wave, short-wave, and FM, broadcasting to approximately eight million daily listeners. There are an estimated 6.5 million radio sets in Ecuador. Radio is very important in terms of penetrating to suburban areas.

The Commercial Service provides a full range of trade promotion services for U.S. exporters. For detailed information, please contact the Commercial Service at the U.S. Embassy in Quito (telephone 011-593-2-256-1404 or 011-593-2-250-5752; fax:011-593-2-250-4550).

### ***Sales Service / Customer Support***

Very few products are sold in Ecuador with warranties. The availability of trained and competent service technicians and spare parts are important in purchasing decisions for technically sophisticated products. American companies exporting products that require maintenance and spare parts should ensure that their Ecuadorian distributor provides both.

### ***Product Pricing***

Electric power and petroleum products (diesel, gasoline, and natural gas) are subject to government price controls, as are pharmaceutical products. Prices for other imported products are defined by market forces and are not subject to official price controls.

Ecuadorian markets are more highly concentrated than is typical of larger, more

competitive markets, which means that relatively few players dominate most market sectors. This conveys considerable pricing power on distribution companies, and creates the opportunity for collusive pricing practices. In the case of packaged consumer products, retail chains are few in number and well positioned. Vertical integration, where the manufacturer controls its own distribution, is a particularly strong market position to hold.

### ***Selling to the Government***

Ecuador is not a signatory to the WTO Agreement on Government Procurement. The Public Contracting Law 95 issued in August of 1990 and significantly modified through Law No. 112 in January of 1991 regulates government procurement of goods, equipment, and services. However, in some instances the military is not required to use this law for its purchases. Foreign bidders in both cases must be legally represented in Ecuador, and when participating in a bid financed by international loans, they must be associated with an Ecuadorian company in order to bid.

### ***IPR Infringement Protection***

Law 83 and its Regulations govern intellectual and industrial property protection.

### ***Need for a Local Attorney***

A local attorney or a professional adviser is imperative when setting up a business in Ecuador or in collection matters and trade complaints. The Commercial Service office in Ecuador has lists of lawyers for Quito and Guayaquil.

## **Agribusiness Industry Prospects**

### ***Wheat***

Ecuador is a net importer of wheat, with around 97% of the total consumption being imported. Imports of wheat for 2004 are forecasted at 450,000 metric tonnes (MT). American market share remains strong at more than 40%. The suspension of USDA's GSM-102 Credit Guarantee Program starting in 1998 has increased the difficulty of maintaining this market for U.S. wheat. Another way to look at the challenge is to consider that U.S. market share in

1997 was 90% of Ecuador's wheat supply, whereas the U.S. market share in 2003 was below 50%. This situation, along with an innovative proposal to Ecuadorian importers from the Canadian Commercial Corporation (CCC) to finance wheat imports with US\$14 million, could reduce U.S. market shares in the future. Canada is the main competitor for U.S. wheat, followed by Argentina to a lesser extent. The government of Ecuador is committed to monitoring prices closely. The government's objective is to lower prices for wheat by-products by reducing the price of wheat flour.

### ***Cotton***

The Ecuadorian textile industry has focused on developing new export markets in recent years. Cotton imports are rising somewhat as a result of increased textile exports and decreased local cotton production, which has been hit hard by unfavorable weather conditions. In addition, white fly disease has hurt the competitiveness of Ecuadorian cotton farmers. Ecuador's textile industry has been encouraged to incorporate cotton in quality textile products for export to the U.S. market, where they enter duty-free under the Andean Trade Preference and Drug Eradication Act (ATPDEA). The U.S. cotton export industry has an agreement with local producers using U.S. cotton to place the "Cotton USA" label on textile products, which has boosted U.S. exports to Ecuador.

### ***Yellow Corn***

Demand for feed meal inputs, including corn (60% of the feed formulation), has consistently increased over the past decade. Local production is unable to satisfy that demand, and as a result Ecuador has become a net corn importer. However, Ecuador does export corn to Colombia when prices are high.

Ecuador imported 254,000 MT of corn in 2002 and 320,000 MT of imports in 2003, with an estimated 350,000 MT in 2004. The US market share remains strong at 75%, with Argentina as the main competitor.

### ***Soybean Meal***

Ecuador has become a very good market for U.S. soybean meal over the past several years. American market share has remained above 50% of Ecuador's total soybean meal imports. Between June 2001 and May 2002 meal imports increased in response to temporary government permission to import soybean and soybean meal with zero tariff rates. Ecuador bought under this program 120,000 MT of U.S. soybean meal. The United States maintains a freight and quality advantage over Bolivia, although Bolivian meal generally costs less. Colombia and Argentina are the main competitors for the United States. For 2003, Ecuador did not export soybean meal from the United States. Instead Uruguay, Argentina, and Bolivia supplied the soybean meal because they have bilateral agreements with Ecuador.

### ***Consumer-Ready Food Products***

Ecuadorian consumers are avid purchasers of U.S. products, despite their generally higher cost. Following an overall decline in 2000, sales of U.S. consumer-ready foods have recovered well.

### ***Red Meats***

American red meats are recognized by importers as high quality and safe, but still expensive to start a profitable import/distribution business. Local meats are mainly taken from old animals, which have already reached the end of their productive life in the dairy industry. Therefore, most meat offered in wet markets, supermarkets, and butchery stores is not high quality, and not offered in chilled presentations or in special cuts. After educating consumers towards use of high quality meat cuts, Ecuador should present a great opportunity for imports of meats, mainly due to the lack of sanitary control and low quality of local meat.

### ***Fresh Fruit***

Ecuadorian families continue to follow the trend towards healthier food consumption habits. As dollarization brought price stability to the economy and prices of national products almost equaled imported products, consumption of higher quality imported fruit has increased. In terms of competition,

Chile holds 85% of the market due to their bilateral agreement with Ecuador; however, U.S. participation has been growing due to higher quality and appreciation by consumers.

## **Trade Regulations and Standards**

### **Trade Barriers**

Ecuador has liberalized its trade regime since 1990, resulting in a reduction of tariffs and tariff dispersion, elimination of most non-tariff surcharges, and enactment of an in-bond processing industry law. It is relatively open to U.S. exports and direct investment.

When Ecuador joined the WTO in January of 1996, the country set most of its tariff rates at 20% or less. Ecuador's average applied tariff rate is about 11% ad valorem. The Andean Community common external tariff (CET) has a four-tiered structure with levels of 5% for most raw materials and capital goods, 10% to 15% for intermediate goods, and 20% for most consumer goods.

Ecuador requires prior authorization from several ministries for a number of goods, including: processed foods, cosmetics, liquors, certain medical disposables and agricultural products, gambling equipment, animal feed, mineral fertilizers, and vegetable seeds. Agricultural commodities are occasionally prevented from entering Ecuador through the arbitrary use of sanitary/phytosanitary rules as a means of restricting import quantities.

Several agricultural goods are subject to the Andean price band system, which applies common tariff rates among Andean Community members. Under this system, a variable additional duty is established for third-country imports in relation with international market prices.

The following government agency is in charge of foreign trade policy and regulations: Ministry of Foreign Trade, Industrialization, and Fishing; Foreign Trade Council; Av. Amazonas y Eloy Alfaro, Piso 1; Edificio MAG, Ofc. 111; Quito, Ecuador (telephone 011-593-2-2 23-9258; fax 011-593-2-254-3897; e-mail [comexil@micip.gov.ec](mailto:comexil@micip.gov.ec)).

### **Tariff Rates**

Ecuador's tariff schedule is based on the Harmonized System of Nomenclature. Consistent with the Andean Common External Tariff (CET), the tariff range is 0% to 20%; the highest duty (35%) is levied on automobile imports to protect the local assembly industry. Most consumer goods imports pay 20%, while intermediate goods are usually imported at 10% or 15% rates. Raw materials and capital goods generally pay 0% or 5%. Ecuador has negotiated exceptions under the Andean Common Tariff, which allow for lower duties for certain capital goods and industrial inputs.

### **Customs Valuation**

Ecuadorian Customs procedures can be difficult, but in general they are not used to discriminate against U.S. products.

Due to the dollarization process, currency exchange calculations are now unnecessary. This has simplified international trade procedures, including Customs. For Customs information, please contact: Ecuadorian Customs Corporation; Avenida 25 de Julio, Km. 24 1/2 Via al Puerto Maritimo; Edif. CAE; Guayaquil, Ecuador (telephone 011-593-4-250-0101, or 011-593-4-248-0875, or 011-593-4-248-0640; fax 011-593-4-248-4251; e-mail [customer\\_service@corpae.com](mailto:customer_service@corpae.com), or [helpdesk@aduana.gov.ec](mailto:helpdesk@aduana.gov.ec)). General manager is Cml. Guillermo Vasconez ([jsantillan@corpae.com](mailto:jsantillan@corpae.com)).

### **Labeling Requirements**

The Ecuadorian Standards Institute (Instituto Ecuatoriano de Normalizacion, or INEN) sets all requirements. Labeling must be done in Spanish and should include the name of the company, address and phone number, the commercial tag number, country of origin, unit, net weight, and sanitary registration number if required.

For additional information, please contact the following government agency: Ecuadorian Standards Institute; Casilla 17-01-3999; Baquerizo Moreno; E8-29 y Diego de Almagro; Quito, Ecuador (telephone 011-593-2-252-8556; fax 011-593-2-256-7815; e-mail

inentu@andinanet.net). The Director is Mr. Felipe Urresta.

To determine current regulations, exporters can also contact their Ecuadorian importers and representatives.

### ***Temporary Entry Provisions***

Ecuador allows temporary entry for up to 15 days of items used for demonstration or fairs, and up to 180 days for duty free zones and special projects. In the case of special projects, the time period may be extended once for up to six months by presenting an extension request to the Customs District Administrator. During this period, the obligation to pay taxes and duties is suspended, with the condition that the commodities be re-exported. Commodities may also be nationalized, after paying the corresponding taxes and fees.

### ***Import Controls***

Prohibited imports include used clothing, used tires, used shoes, used vehicles (with certain exceptions as previously noted), certain pesticides, certain epoxies and esters, reptile hides, and worked ivory and ivory articles.

In addition to import duties, all imports are subject to a 125 value-added tax, 0.25 per thousand for the Exports and Investment Promotion Corporation (CORPEI), and an additional 0.5% tax for the Children's Development Fund. Except for the 0.25%, which is based on the FOB value, all other charges are based on the CIF value of the merchandise. Also, an inspection fee of up to 0.8% on the FOB value (with a minimum of US\$180) is required.

Since September of 1998, new excise taxes are levied on all liquor (26.78%); beer (30.9%); soft drinks (10.3%); cigarettes (light 77.25%, dark 18.54%); motor vehicles up to three tons (5.15%); and aircraft, helicopters, and ships (10.3%). As excise taxes on imports are calculated on CIF value plus import duties, the effective rate is higher for imports than domestic products. Ecuador has not yet equalized the application of excise taxes between imported and domestic products.

Ecuador does not have a bilateral tax agreement with the United States to avoid double taxation. Since 1975, Ecuador has signed agreements with other countries, including, Germany, Canada, Brazil, Italy, France, Switzerland, Mexico, Rumania, Spain, and the Andean Community.

Importers must register with the Central Bank of Ecuador through approved banking institutions to obtain an import license. Import licenses, known as Documento Unico de Importacion (Import Document Authorization, or DUI), are obtained before incoming goods are shipped from the port of origin.

The following documentation is required to obtain an import permit: the commercial invoice, the import number assigned by the Central Bank, and the income tax registry number. The license is valid for an unlimited time, but it can only be used for one shipment. In an effort to modernize the import license system, the Ecuadorian Central Bank now accepts license requests via Internet.

### ***Export Controls***

The Ecuadorian government prohibits the export of artistic, cultural, archeological, and historical products that are part of the national patrimony, as well as endangered species of wildlife and flora. Products pertaining to the national patrimony may be exported on a temporary basis for exhibition purposes when authorized by the National Patrimony Institute. Endangered wildlife and flora species may be exported for scientific and educational purposes when authorized by the Ecuadorian Forestry and Wildlife Institute (INEFAN).

Narcotics and psychotropic substances need authorization from the National Council of Narcotic Control (CONSEP) before they can be exported. The export of radioactive minerals is subject to control by the Atomic Energy Commission.

Certain basic consumption products and raw materials may be subject to export restrictions and quotas. Such products may not be exported in amounts exceeding those authorized by the Central Bank.

Corpei is Ecuador's agency for promoting Ecuadorian exports and investment. Using a World Bank loan, Corpei offers matching grants for a maximum of US\$50,000 to exporters to help fund international promotion events and export certifications.

### ***Free Trade Zones / Warehouses***

A Free Trade Zone law has been in effect since 1991. This law provides for: the import of raw materials and machinery free of duty, the export of finished and semi-processed goods, raw materials without duty, and a tax exemption for all business transactions and contracts that take place in the zone. Foreign investments in such zones are exempt from any current or future restrictions on capital repatriations. Companies established in the Free Trade Zone may develop industrial or commercial activities and must pay up to a 2% fee of their investment to the National Council of Free Trade Zones to operate in the Free Trade Zone.

A maquila (in-bond processing) law has been in effect since 1990, but only a few firms in the textile and fish processing sectors make use of it.

Five free trade zones are established in Ecuador. For more information on Free Trade Zones, please contact the following government agency: Ministry of Foreign Trade, Industrialization and Fisheries; Free Trade Zones Council; Av. Amazonas y Eloy Alfaro, Piso 3; Edificio MAG; Quito, Ecuador (telephone 011-593-2-222-3612, or 011-593-2-255-6686; fax 011-593-2-255-4260; e-mail conazofra@andinanet.net).

### ***Membership in Free Trade Agreements***

Ecuador is a member of the Andean Community, ALAD, and WTO. In addition, Ecuador has concluded bilateral free trade agreements with Chile, Venezuela, and Colombia who are also engaged in trade negotiations with Mercosur (Brazil, Argentina, Paraguay, and Uruguay) and participates in the Free Trade Area of the Americas (FTAA) working groups.

## **Investment Climate in Brief**

- The Ecuadorian economy remains one of the most static and protected in Latin America. There are restrictions or limitations on private investment in many sectors that apply equally to domestic and foreign investors (e.g., cumbersome labor laws).
- Lack of enforcement of contracts is one of the main concerns of foreign investors in Ecuador.
- Under current regulations, foreign investors receive the same rights of entry as Ecuadorian private investors. Foreign investment with up to 100% foreign equity is allowed without prior authorization or screening in most sectors of the Ecuadorian economy currently open to domestic private investment. Foreign investors must register their investments with the Central Bank for statistical purposes.
- Foreign investment in domestic fishing operations is restricted to 49% of equity, with exceptions permitted with appeal to the National Fishery Development Council.
- Ecuador announced its intention to adopt the dollar as its official currency in January 2000. The official conversion rate was fixed at 25,000 sucres to the dollar during the transition period. Despite minor glitches, such as an initial lack of small change and low-denomination bills, the implementation process proceeded remarkably smoothly.
- Foreign investors may remit 100% of net profits and capital without restriction.
- Expropriation is provided for in Ecuadorian law with appropriate compensation. The Agrarian Development Law restricts the grounds for expropriation of agricultural land and makes land cases subject to regular courts. It can be difficult to enforce property and concession rights, particularly in the agriculture and mining sectors.
- The Ecuadorian judicial system is plagued by processing delays, questionable and unpredictable judgments in civil and commercial

cases, inconsistent rulings, limited access to the courts, and impunity, particularly in corruption cases.

- There are no performance requirements associated with foreign investment in Ecuador.
- Foreign and domestic private entities can own business enterprises and engage in almost all forms of business activity.
- For the most part, Ecuadorian law provides adequate protection for property rights. However, it is sometimes difficult to gain effective protection via the legal system due to problems in transparency and endemic corruption.
- Ecuador's regulatory system is not transparent. There are no antitrust laws, and industry is fairly concentrated. In addition, Cabinet ministries, parastatals, and regional and municipal governments all impose their own requirements and regulations on commercial activity. A recent Price Waterhouse Coopers survey gave Ecuador the highest "opacity" (i.e., lack of transparency) rating in Latin America. It was estimated that society-imposed costs (e.g., over regulation, corruption, nuisance lawsuits, and unpredictable policy framework) were equivalent to an additional corporate tax of 31%.
- The U.S.-Ecuadorian bilateral investment treaty provides for binding international arbitration of disputes with the government at the investor's option.

## **Business Customs**

### ***Travel Advisory and Visas***

A valid U.S. passport is required to enter and depart Ecuador. Tourists must also provide evidence of return or onward travel. American citizens do not need a visa for a stay of 90 days or less. Those planning a longer visit must obtain a visa in advance. American citizens whose passports are lost or stolen in Ecuador must obtain a new passport at the U.S. Embassy in Quito or the U.S. Consulate General in Guayaquil and present it, together with a police report of the loss or theft, to the main immigration offices in

those cities to obtain permission to depart. An exit tax must be paid at the airport when departing Ecuador. For further information regarding entry, exit, and customs requirements, travelers should contact the Ecuadorian Embassy.

### ***Business Infrastructure***

Business customs in Ecuador are similar to those in other Latin American countries. Ecuadorians are formal in their business relations, with suits and ties as the norm. Business meetings are conducted in offices or restaurants, with the latter often used to become better acquainted with a potential business partner. While meetings normally start somewhat after the appointed time, Americans are expected to be punctual. Normal office hours are 9:00 a.m. to 6:00 p.m. Whatever the venue, small talk usually precedes business discussions.

With regard to social courtesies, Ecuadorians are relatively polite and well-mannered. Superiors are treated in a friendly but respectful way, and the use of a title (e.g., doctor or professor) before the name is common. Business is conducted in Spanish, and the effort by Americans to speak Spanish is appreciated. Interpreters are available for Americans who do not speak Spanish. When invited to an Ecuadorian home, a gift such as flowers is appreciated.

There are about ten flights between Quito and Guayaquil (travel by road between these cities requires seven to eight hours) and less frequent flights to other main cities. Highways are almost all two-lane and can be hazardous. Spanish is the official language and the norm for both spoken and written business communications. However, the business elite often speak English. Telephone service within the country is poor, but international connections are decent although expensive. There are cellular telephone services now available in a large portion of the country. Comfortable modern housing is readily available in Quito and Guayaquil.

Foreigners more commonly use apartments and town houses than they do freestanding houses. There are numerous health hazards in Ecuador, principally caused by contaminated water and food. Gastrointestinal problems are frequent. Cholera is present in some parts of the country. Visitors who

follow proper precautions about food and drink usually are not at risk. There have been cases of rabies in Guayaquil and Quito. All types of food are readily available, but proper preparation is essential. There are a wide variety of excellent restaurants in the main cities.

#### Useful Web Sites

#### **ECUADOR:**

- American Chamber of Commerce  
<http://www.ecamcham.com>
- Ecuador Embassy of the United States  
<http://www.ecuador.org>
- EcuadorExplorer.Com  
[http://www.ecuadorexplorer.com/html/business\\_links.html](http://www.ecuadorexplorer.com/html/business_links.html)
- Lanic Resources on Ecuador  
<http://www.lanic.utexas.edu/la/ecuador>
- How to Establish a Business in Ecuador  
<http://www.ecuadorexports.com/business.htm>
- US Trade with Ecuador 2001  
<http://www.census.gov/foreign-trade/sitc1/2001/c3310.html>
- CIA-Factbook-Ecuador  
<http://www.odci.gov/cia/publications/factbook/geos/ec.html>

#### **UNITED STATES:**

- USDA Foreign Agricultural Service  
<http://www.fas.usda.gov>
- Small Business Administration Export Express  
<http://www.sba.gov/OIT>
- US Export Information Center  
<http://www.export.gov>
- Basic Guide to Exporting  
<http://www.unzco.com/basicguide/index.html>

#### **HEMISPHERIC:**

- Hemispheric Guide on Customs Procedures  
[http://alca-ftaa.iadb.org/hgcp\\_eng.htm](http://alca-ftaa.iadb.org/hgcp_eng.htm)
- Hemispheric Trade and Tariff Database  
[http://alca-ftaa.iadb.org/eng/ngmadb\\_e.htm](http://alca-ftaa.iadb.org/eng/ngmadb_e.htm)