

>> **Ecuador: The change of the productive matrix and the challenge of the import substitution**

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Companies that operate and/or the ones that want to invest in Ecuador have a challenge: to align with the President Rafael Correa's agenda. This agenda involves some challenges of coordination built up as a benefit of the productive matrix in the country, which focuses on strengthening the local production, reducing imports in raw material as much as in finished products. In circles closed to the Government, it has been said that "it is the time of the foreigner investment" but in the practice, companies can find some difficulties leading them to enlist in the very well known "change of the productive matrix".

The motivations of the Executive of Rafael Correa trying to replace about \$6 billion USD up to 2017 are many but, overall, the imbalance in the trade balance: in 2013 (January - October period) the exportations have reached out USD 22.764 million while the imports were 23.852 million. The fact of 1.088 million deficits is hidden behind the official speech, on one side the quality of the products that enter the country, and, on the other side, changing the productive matrix through enhancing domestic production and exportations encouragement.



But the reasons keep on the side when the Ministry of Industries and Productivity (MIPRO) requires the Company owners to enter in a negotiation process that leads out the commitment to restrain or reduce the importations and contribute to the exportations of products with the Ecuadorian stamp.

On December 2013, companies found the news of the Foreign Trade Committee with the issued resolution No. 116 introducing new rules for the importation of almost 250 items for supplies as goods, matches, cement, tires, ceramic, footwear and electric appliances. Which must meet quality standards requested by the Ecuadorian Institute of Normalization (INEN), being a requirement the certificates of "Recognition" and "Origin". But the surprise is that not any certified Company in the countries where the items proceed from, is guaranteed by the Ecuadorian regulation.

Then the obstacles appear for the entrance of the products to Ecuador and, trying to resolve the problems in a short period of time, the companies' owners have to look for ways to approach the Executive, asking mainly for more time. The first feeling generated is: Why the Government has not consulted the companies if they were ready to face the challenge? The Government has not given any answer and will not answer this concern. The only aspiration is to get immediate results that, by the end of the year, will allow to state that Ecuador has taken a step forward in millions of dollars during its industrialization process.

The companies do not have another choice beyond making a proposal to the Ministry of Industry and Productivity to fit with both, the interests of the Government and with their business goals and their investment opportunities/ the betting country. This is to build up a negotiation and conciliation speech starting from a deep understanding of current and future expectations, (short term) from the executive and, with hard work, leave the doors open for more consulting on future decisions related to industries, production and employment. This means, using this alert to start a relationship of mutual construction.

The landing of the business owners in the runway of negotiations during the current situation of the imports is not easy. It looks like an auction in which the government has a negotiation base having its back up in the amount of billings and the declared taxes, the new jobs created, the local production vs the exportation and the acknowledgment of the countries where the products come from to enter the country.

On the other side, the business owners, especially at the beginning, have preferred to be conservative to enter in the game of "pull and loose".

The Government is achieving its purpose as a result of these deals. It is proud, to express for example, that Mc Donald's will import USD 800 thousand in products and will export USD 7 million in Ecuadorian ice cream to different countries. Or to mention the case of Procosméticos, association which gathers the producers and importers of cosmetics, which is committed to produce \$54 million USD in Ecuador during 2014 and 64 million USD in 2015. In addition to this, Avon, Yanbal, Quala and Belcorp have assumed the responsibility of using 100% of the Ecuadorian alcohol to manufacture fragrances produced in the country.

These are only two of the great results obtained by the government in the middle of this negotiation. Companies have also achieved that upper-level employees of the Ministry of Industries and Productivity pick up the phone and make a call to the authorities of the customs Service of Ecuador (SENAE) to unblock the shipments retained in the port and allow their access to the market of 14 million of potential Ecuadorian consumers, a number that cannot compete with markets as Brazil or Mexico in Latin America, but for many companies the results are not worthless, despite that, other companies consider the chance of leaving the country.

The profit of the Government is unprecedented and can be unbelievable. Just by taking a "walk" through the facilities of the Ministry of Industry and Productivity, one can see the long lines of dozens of company owners or its representatives trying to find a positive negotiation by the executive. Nevertheless, and surpassing the administrative process that this negotiation involves, it has become necessary to learn about the government, and built or try to build a close relationship based

"With all the measures we are taking, the substitution of imports, the restriction of useless importations, we believe that until 2017, this is the goal, more than 6 thousand million dollars of imports will be replaced"

Rafael Correa, President of the Republic of Ecuador

on confidence in order to avoid possible future affectations.

The truth of the Resolution No. 116 of Comex will not be the last of its kind. Official voices have already revealed that at the beginning of 2015 the Government will ask something else to the companies and, more than that, during this year, if companies aspire to enter different products from the ones that are part of the agreements that are being signed during these weeks, it is 100% sure that for these new items, different rules will apply or exclusive arrangements will be negotiated for the new merchandise. Although these are rumors, the need of a solid approach

with the government is imminent. Prove of this is that even the Ministry Coordinator of Production, Richard Espinosa and the President of the Republic, Rafael Correa himself, have suggested that if this normative has to be reviewed, it will be reviewed but after eight weeks of application there are no signs of a step back from the executive.

But on the other side, some sort of apathy has been noticed from the private area, however sectors as footwear, textile, cosmetics, ceramics... have risen their voice referring to the damage that the companies will have with the application of the normative, their presence has been shown sporadically and they have not reached a position, nor marked 100% evidence in the public opinion about the impact over the companies, due to the situation that most part of the speech about this point has been leaded by the government and its different control entities.

The opportunity, then, is enormous: greater proximity with the government, increased generation of opinion and credibility from the private business and buildup of proposals and permanent agreements that guaranty the companies from emergent scenarios tempting to be absolutely negative, as in the case of this regulatory crisis about importations.



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