SUMMARY

1. The social structure of the Ecuadorian economy underwent considerable changes during the period under review (2011-2018). In particular, there was a notable decline in the oil sector's share of GDP, which decreased from 13.2% in 2011 to barely 4.8% in 2017. At the same time, there was a growth in the share of services in GDP, driven above all by construction, trade and education, and health and social services. The fastest growing sector during the review period was aquaculture and shrimp fishing. The negative effects of the balance-of-payments crisis caused several sectors and branches of economic activity to contract in 2015 and 2016, and led to the adoption of safeguard measures and a cut in spending. The economic contraction triggered by the crisis had an impact on oil operations and repercussions in most industries.

2. In 2017, per capita GDP reached USD 6,217, compared to USD 5,193 in 2011. The rate of poverty fell during the review period from 29.6% in June 2011 to 24.5% in June 2018, while extreme poverty declined from 12.4% to 9%. Nevertheless, poverty rates are still high and represent a significant economic challenge for Ecuador.

3. The Ecuadorian economy grew at an annual average rate of 3.3% between 2011 and 2017, although unevenly, fluctuating between a GDP growth rate of 7.9% in 2011 and a 1.3% contraction in 2016. Inflation remained moderate during the period under review. The growth in the Consumer Price Index (CPI) began to slow down in 2012, and has remained below 4% since then. In 2017 the economy entered a deflationary phase, with the CPI decreasing slightly, by 0.2%, over the year. This phase continued in the first half of 2018, with the CPI contracting by 0.7% over the 12-month period ending in June 2018.

4. The US dollar has been the currency of legal tender in Ecuador since March 2000. Consequently, Ecuador cannot implement an active and independent monetary policy, which limits its ability to respond to external risks, although it does contribute to securing macroeconomic stability. Because Ecuador has a dollarized economy, fiscal policy is its main tool for macroeconomic adjustment. The Organic Law on Fiscal Responsibility, Stabilization and Transparency sets a limit on the annual growth of primary Central Government expenditure of 3.5% in real terms (excluding capital spending), and stipulates that the fiscal deficit as a percentage of GDP (excluding oil export revenue) must decrease by 0.2% each year. A limit is also set for the public debt at 40% of GDP. However, these objectives have not been attained, since public spending has continued to increase while revenue has fallen. As a result, Ecuador posted a fiscal deficit every year from 2011 to 2017. In 2017, the fiscal deficit was 4.5% of GDP. The Organic Law on the Promotion of Production, Attraction of Investment, Generation of Employment, and Fiscal Stability and Balance of 2018 aims to achieve fiscal adjustment and progressively reduce the fiscal deficit to 2.3% of GDP by 2021.

5. The current account of Ecuador's balance of payments is marked by certain specific structural characteristics, such as a deficit in the services balance, a substantial deficit in the income account balance and a strong reliance on current transfers, in particular remittances. The merchandise trade balance varied considerably under the influence of crude oil price fluctuations. The deficit in the income account balance was due mainly to payments relating to direct investment and other investments in Ecuador largely linked to the petroleum sector and to mining activities. Remittances, which totalled USD 2,840 million in 2017, are a significant source of funding for private consumption in Ecuador, and are an important source of support for domestic demand. The current account of Ecuador's balance of payments posted moderate deficits in the period between 2011 and 2014. In 2015, however, the deficit increased to the equivalent of 2.2% of GDP, owing in particular to a sharp fall in exports caused primarily by lower oil prices.

6. In order to offset the Central Bank's loss of assets, in March 2015 Ecuador adopted a balance-of-payments safeguard that affected 38% of tariff lines and resulted in a significant reduction in imports. It remained in effect until 1 June 2017. Ecuador traditionally runs a capital and financial account surplus. The main source of capital flows into the country has traditionally been direct investment, usually – but not always – related to the oil sector. However, since 2014 this type of investment has dwindled and been replaced by portfolio investment, primarily relating to foreign debt securities issued by Ecuador. The public sector's consolidated external debt reached USD 39,500 million at the end of 2017 (37.9% of GDP), up from its 2011 level of USD 15,200 million, or 19.2% of GDP.

7. Despite the sharp fall in their prices, mineral products, in particular oil, are Ecuador's main export goods. In 2017, they accounted for some 36.7% of total exports, compared to 57.9% in 2011. Agricultural products are the second largest export category, accounting for almost a quarter of total exports. Ecuador's main agricultural export is bananas. Exports of fish and crustaceans, especially shrimp, increased substantially, accounting for 17.2% of total exports in 2017 compared to 6.6% in 2011. Manufactured goods accounted for more than two thirds of Ecuador's imports. Although Ecuador is a major oil producer, it lacks the refining capacity to meet domestic demand for refined products and imports oil derivatives: fuel imports accounted for 17% of total imports in 2017.

8. The principal destinations for Ecuador's merchandise exports continue to be its trading partners in the Americas, although their share of the total declined from 79.1% in 2011 to 59% in 2017. The main destination for Ecuador's exports is the United States, which received 31.7% of total exports in 2017, followed by the European Union (28) (16.6%), Peru (6.7%), and Chile (6.5%). Over the review period, Ecuador's exports have managed to penetrate or gain a foothold in non-traditional markets such as China, and the Russian Federation and Viet Nam. The main sources of imports in 2017 were the United States (20% of the total), China (18.6%), the EU (28) (13.1%), Colombia (8.1%) and Panama (4.5%).

9. The general outline and objectives of Ecuador's trade policy are set out in the Constitution, which stipulates that the State shall have sole control of "strategic" sectors: energy in all its forms, telecommunications, non-renewable natural resources, transport and refining of hydrocarbons, biodiversity and genetic heritage, the radio spectrum and water. The National Development Plan (PND) establishes targets and general objectives to be achieved. Amendments to trade policy and to the actual trade measures, which can be quite frequent, are implemented by means of laws, regulations and resolutions depending on the level of the issuing state entity. Transparency and predictability of trade policy would benefit from regulatory streamlining and consolidation in order to make it easier to implement the measures adopted and provide some policy continuity.

10. Ecuador participates actively in the multilateral trading system, and believes that trade should be fair and inclusive, so that its benefits extend to both large enterprises and small craft businesses, promoting development and offering greater employment opportunities. Ecuador is of the view that any outcome from the multilateral negotiations should prioritize development and special and differential treatment, and to take into account flexibilities for developing and least developed countries. During the review period, Ecuador submitted a significant number of notifications to the WTO Secretariat.

11. Regional integration with Latin American and the Caribbean countries is a strategic objective of the Ecuadorian State. Ecuador is a member of the Andean Community (CAN) and the Latin American Integration Association (LAIA), and has agreements with other Latin American countries. The review period saw the entry into force of agreements with Guatemala (2013), Nicaragua (2017) and El Salvador (2017). The Protocol of Accession of Ecuador to the Trade Agreement between the European Union and its member States, of the one part, and Colombia and Peru, of the other part, also entered into force in 2017 as the only agreement that Ecuador has signed outside of the region.

12. Ecuador's Constitution stipulates that the State reserves the right to administer, regulate, monitor and manage strategic sectors and that in those sectors, foreign investment must be in addition to national investment. There are no restrictions on foreign investment in the other sectors and foreign investors must undergo the same procedures and obtain the same authorizations as Ecuadorians. Ecuador grants general tax incentives for investments in any part of the country. It also grants sectoral incentives for new businesses that are set up in priority sectors, incentives for investments in "depressed areas", and, since 2015, incentives for public projects implemented by public-private partnerships. There is also an incentives regime for Special Economic Development Zones (ZEDEs), which are customs destinations in delimited zones in the national territory that enjoy specific tax incentives.

13. As of December 2018, Ecuador had not yet submitted its instrument of ratification of the Agreement on Trade Facilitation. However, since 2012 it has taken measures to facilitate trade, including the implementation of an electronic customs system, ECUAPASS, and the Ecuadorian Single Window (VUE) in 2018; the introduction of risk management as the procedure for carrying out checks; the use of automatic inspections and X-ray inspections; and the Authorized Economic Operator (AEO) programme. But though it has adopted measures to facilitate trade, Ecuador uses a

number of pre-import control documents, including the register of importers, permits, prior import authorization, certificates of inspection or verification of classification issued at origin, the customs destination document, certificates of recognition, and automatic and non-automatic licensing. In addition, some of the products subject to technical regulations issued by the Ecuadorian Standardization Service (INEN) require a "Certificate of Recognition" as a supporting document for importation, and products subject to phytosanitary and animal health requirements need the appropriate certificates. The Foreign Trade Committee (COMEX) determines what accompanying documents or import permits are required, which vary according to the product, and is responsible for issuing rules on import procedures other than customs procedures.

14. Ecuador applies both *ad valorem* and compound tariffs. The latter apply to 418 tariff subheadings, or 5% of the total, primarily clothing. The simple average of Ecuador's applied MFN duties increased between 2011 and 2018 from 9.3% to 10.9%, excluding *ad valorem* equivalents (AVEs), or 12.2% if they are included. Tariff protection for agricultural products (WTO definition) is substantially higher than that for non-agricultural products. In 2018, the average tariff on agricultural products was 18.5%, compared to 17.3% in 2011, whereas the average tariff on non-agricultural products, which was 8.2% in 2011, rose to 9.7% in 2018 excluding AVEs, or 11.2% including them. The increase in the average tariff is due to in part to the proportional decrease in the number of tariff lines subject to a zero tariff rate from 46.7% of the total in 2011 to 37.3% in 2018, and an increase in tariff lines with rates higher than 20% from 14.2% of the total in 2011 to 19.8% in 2018.

15. Ecuador continues to apply the Andean Price Band System (SAFP) to a 189 ten-digit tariff lines (HS 2017) (roughly 2.5% of its entire tariff schedule).

16. Ecuador has bound its entire tariff schedule at rates ranging from 5% to 85.5%. Comparing the applied MFN tariff in 2018 with the bound tariff, and taking into account only the lines that are strictly comparable in view of the change in nomenclature, the MFN applied tariff exceeds the bound rate for eight subheadings and six items.

17. Ecuador is not a frequent user of trade defence measures. During the period 2012-2018 it neither adopted nor maintained any anti-dumping or countervailing measures, nor did it initiate any investigations in that respect. In 2012, Ecuador issued new regulations governing safeguard investigations. In 2015, it imposed a definitive global safeguard measure (WTO) for a period of three years, consisting of an additional, non-discriminatory tariff surcharge on top of the current tariff. Also, in the Andean Community framework, Ecuador imposed an exchange-rate safeguard for products originating in Peru and Colombia, which was eliminated in 2015. A further two safeguard measures were also imposed in the CAN Framework, one relating to imports of powder for the preparation of detergents, and the other to sugar imports. In addition, Ecuador maintains a system of "surveillance" of products which consists in monitoring import trends that could cause threat of injury to the domestic industry and where necessary adopting appropriate surveillance measures. During the review period, Ecuador adopted four surveillance measures to analyse import conditions.

18. In 2015, in accordance with paragraph 9 of the Understanding on the Balance-of-Payments Provisions of the General Agreement on Tariffs and Trade 1994, Ecuador notified the WTO that it had introduced a temporary and non-discriminatory *ad valorem* tariff surcharge in order to regulate the general level of imports and thereby resolve its critical balance-of-payments problems and remedy the lack of liquidity in its economy. The tariff surcharge covered almost 40% of Ecuador's tariff schedule and affected only imports for consumption. The safeguard was in place from March 2015 to June 2017, and was progressively dismantled according to a timetable that had been proposed and discussed in the Committee on Balance-of-Payments Restrictions. During the imposition of the tariff surcharge, a number of changes were made in the way it was applied. Some of these changes were made in the interests of consistency with other government policies and in accordance with the needs of domestic industry or the government. Thus, certain rates were modified, certain products were exempted and others were excluded.

19. Ecuador uses a number of prior documents to accompany the export customs declaration (DAE) for definitive exports, including export authorization, export registration, export certificates, export permits and export licences. In general, Ecuador guarantees the free export of goods with the exception of those that may affect public health, environmental conservation, animal and plant health, and the cultural heritage. COMEX may also regulate and/or restrict exports to ensure the supply of raw materials for the domestic industry and thus promote the incorporation of value added,

pursuant to the country's industrial development policy. These measures may be imposed *ex officio* or at the request of an industry.

20. During the period under review, Ecuador suspended the export levy collected on some of its main export products, such as bananas and coffee. In 2015, it eliminated minimum reference prices for coffee, but continued to use minimum reference prices for bananas and cocoa. The reference price for bananas is set on the basis of the support price that exporters must pay producers.

21. Ecuador implements various export promotion schemes, but exporters may avail themselves of only one scheme at a time. The granting of Tax Credit Certificates (CATs) was reactivated between 2013 and 2016 to support exporters whose access to international markets had become more difficult. COMEX was responsible for identifying the beneficiaries of the CATs, fixing the maximum annual amount of the benefit for each exporter, and determining the international markets to which Ecuadorian exports had lost access. Exporters of goods that use or incorporate imported packaging or packing, raw materials or inputs are eligible under the conditional drawback scheme that provides for the total or partial refund of foreign trade levies paid on imports of goods that are subsequently exported. Between 2015 and 2016, a simplified conditional drawback scheme was applied which enabled certain imported products to benefit from a fixed percentage for the drawback of up to 5% of the export value.

22. The Free Zones were replaced by Special Economic Development Zones (ZEDEs). The administrators and operators who set up in ZEDEs are eligible for specified tax incentives. Goods produced in the ZEDEs should, *inter alia*, contribute to diversifying the domestic supply for export, and be specifically export-oriented. However, they may exceptionally be authorized to enter the national territory for sale on the domestic market in limited percentages, depending on the product.

23. Ecuador grants fiscal incentives for the development of production in general, as well as for specific sectors such as agriculture and basic industry, and also for the popular, solidarity and community-based economy. The micro, small and medium-sized enterprises (MSMEs) are also granted incentives in the form of preferential financing and access to government procurement, and by facilitating the setting-up of business.

24. Technical regulations as well as phytosanitary measures are issued to protect human, animal and plant life, preserve the environment, and ensure consumer safety and protection. Technical regulations must be in the interests of the national economy and in line with the current state of development of science and technology as well as the country's climatic and geographical specificities. During the period under review, a number of changes were introduced in the regulatory framework governing plant and animal health in order to update the country's legislation and bring it into line with the international legal framework. The entities operating in this area were also reformed. Ecuador requires a certificate of recognition or Conformity Verification Certificate as a supporting document for the import customs declaration for certain goods subject to technical regulations when the value exceeds USD 2,000. For textiles, clothing and footwear, there is no threshold, and the Conformity Verification Certificate is required in all cases.

25. Competition legislation applies across all economic sectors, including the strategic sectors and those for which regulatory bodies exist. The technical body in charge of competition policy may initiate an investigation *ex officio*, at the request of another body of the public administration, or in response to a complaint by any public or private person showing a legitimate interest. Generally speaking, however, prices in Ecuador are market-driven. However, the State has the obligation to regulate, control and intervene, when necessary, to define a price policy aimed at protecting domestic production.

26. State-owned enterprises are entrusted with a major role in the Ecuadorian economy: under the Constitution, the State reserves the right to administer, regulate, control and manage strategic sectors. Accordingly, State-owned enterprises have been set up in different areas such as the management of strategic sectors, the provision of public services, and the sustainable supply of natural resources or public goods. There are currently no government support programmes directly aimed at public enterprises. However, State-owned enterprises are exempt from income tax (25% of the tax base) and the advance payment of income tax. In 2014 and 2018, Ecuador notified that it had a State-trading enterprise falling within the definition of GATT Article XVII. This enterprise is responsible for the temporary storage and domestic marketing of agricultural products (especially

yellow flint maize, rice and cereals), the management of strategic food reserves, and support for the marketing and distribution of inputs. It is involved only in domestic marketing, and does not import or export.

27. Ecuador is not a party to the WTO Agreement on Government Procurement and does not participate as an observer in the Committee on Government Procurement. Through its national Public Procurement System, Ecuador seeks, *inter alia*, to ensure the quality and transparency of public expenditure and avoid discretionary action in government procurement, as well as to promote domestic production and the participation of craftworkers and MSMEs. Ecuador uses government procurement as a strategic element of public policy to achieve some of the objectives established in the National Plan for Good Living 2013-2017, such as, for example, changing the production matrix through public investment and procurement. In order to achieve the objective of changing the production matrix, public procurement policy promotes import substitution and reserves markets, in particular for MSMEs and the popular and solidarity economy (EPS).

28. During the review period, a number of changes were made in the legal framework governing intellectual property rights (IPRs). In 2016, the Organic Code of the Social Economy of Knowledge, Creativity and Innovation (Code of Knowledge) was promulgated, replacing the earlier Intellectual Property Law (LPI) of 1998. The Code of Knowledge contains provisions governing both industrial property and copyright and related rights, as well as plant varieties and traditional knowledge. Its implementing regulations were adopted in 2017. However, they do not regulate all IPR matters. Those not governed by the Regulations to the Code of Knowledge continue to be governed on a transitional basis by the 1998 LPI Regulations.

29. The Agricultural Sector is of considerable importance for Ecuador because of its contribution to GDP and employment, and as the second-largest generator of foreign exchange after petroleum. Ecuador is a net exporter of agricultural products, and its principle export product is bananas. One of its main public policy objectives is to achieve food sovereignty, and to that end it has introduced preferential financing mechanisms for small and medium-sized producers, facilitating their access to inputs and promoting productivity in the agricultural sector. In 2018, Ecuador notified a series of domestic support measures for agriculture in relation to pest and disease control, research, marketing and promotion services, and inspection and infrastructure services, and a State programme to promote the use of agricultural insurance. Generally speaking, these programmes do not target specific products. Ecuador has notified to the WTO that, during the period 2012-2016, it did not grant any export subsidies for agricultural products.

30. Agricultural products (WTO definition) received more tariff protection that non-agricultural products. Ecuador uses the Andean Price Band System (APBS) for certain agricultural products with a view to stabilizing their import price. In general, imports of agricultural products require a sanitary or phytosanitary import permit and may also require other prior control documents. During the review period, certain agricultural products were subject to non-automatic import licences. These licences are granted to permit importation in the event of shortages when it is necessary to supplement domestic production in order to be able to keep the country permanently supplied with food. Under the legislation in force, import licences are not granted in periods when domestic goods are being produced. Ecuador intervenes in the marketing of certain agricultural commodities by establishing "minimum support prices" to ensure that the producer gets a "fair price". For some of these products, a domestic crop "absorption commitment" is also required.

31. The share of the fisheries and aquaculture sector in GDP is modest (1.1% in 2017) and did not vary substantially during the period from 2011 to 2017. However, the sector is considered fundamental to the economy as a generator of foreign exchange. Fisheries and aquacultural exports accounted for 24.1% of total exports in 2017. Shrimp is the fisheries and aquaculture sector's main export product and has become the largest generator of foreign exchange, excluding petroleum. The authorities have notified that with the exception of training programmes, there are no specific incentives to promote the fisheries and aquaculture sector.

32. The mining sector, made up of artisanal and small-scale operations, accounted for 1.5% of GDP in 2017. Since this sector was declared strategic in 2009, a number of regulatory and institutional reforms have been introduced to help with its development. One of the principal changes was the opening up of the sector to foreign investment, which is permitted up to 100% in small, medium and large-scale operations. It is prohibited only in the artisanal mining regime.

33. The hydrocarbons sector remains the pillar of the Ecuadorian economy. It is the chief contributor to the State budget and the largest foreign exchange earner. As the country's leading export product, crude oil is the most important item. The sector was badly affected by the slump in international prices between 2014 and 2016, which was a major shock to government income and the trade balance. State-owned companies account for a considerable share of the hydrocarbons market, since they are the country's main producers and exporters. In 2017 they produced 78% and exported 86% of the country's oil.

34. On the energy consumption front, Ecuador is aiming for self-sufficiency as well as a reduction in its use of fossil fuels and substitution of non-renewable sources. Consequently, public investment in the energy sector was significant during the review period. The result was an improvement in the infrastructure and an increase in production. State participation in the sector remains considerable. In the specific case of electricity, private investment is permitted only for generation and, in some cases, transmission, while all other activities are reserved for the State.

35. The share of services in GDP increased during the period under review from 60.8% in 2011 to 64.6% in 2017. Services generated 62.2% of total employment in 2017, as compared to 61.1% in 2011. Although the balance of services in Ecuador has traditionally posted a deficit, during the review period a sharp increase in travel earnings helped to reduce the deficit from 2014 onwards.

36. During the review period, Ecuador made significant regulatory and institutional changes to strengthen the financial system, increase lending to the production sector, promote microcredit and develop the securities market, among other things. In spite of the large number of banking and insurance institutions, these markets continue to be dominated by just a few companies. Foreign investment is generally allowed, albeit subject to requirements mainly relating to setting up a business and its legal structure. In the insurance market sector, restrictions apply to cross-border trade, except for the commitments made with the European Union and EFTA on maritime transport and aviation insurance.

37. The telecommunications sector underwent various regulatory and institutional changes during the review period, including the enactment of a new law in 2015 which seeks to modernize the sector, and the creation of a regulation agency. The new law promotes the provision of the universal telecommunications service, including Internet, and contains provisions on authorizations for the supply of communication and audiovisual services, consumer rights, service fees, conditions of competition, and penalties. In addition to a number of private firms, two public companies operate in the sector. One of these companies (CNT EP) has a share in all of the telecommunications service markets and competes with the other companies. However, it has a dominant market share in the fixed-line telephony (85%) and fixed Internet (51%) markets.

38. As regards the provision of air transport services, one of the most important changes during the review period was the adoption, in 2018, of a policy to deregulate air traffic, except for cabotage, along with more detailed and flexible provisions on charter flights. For the most part, the provision of air transport services may be delegated to national or foreign private companies. Only domestic air transport services (cabotage) are reserved for Ecuadorian nationals. In general, foreign investment is allowed in the maritime transport and port sector, albeit subject to certain requirements. Certain activities are the exclusive responsibility of the State, such as the transportation of hydrocarbons, and others are reserved for Ecuadorian flag vessels, such as inland waterway transport for passengers and cargo.