STATEMENT OF DAVID ROTHKOPF

I, David Rothkopf, state as follows:

1. I am the President and CEO of Garten Rothkopf, an international advisory firm. I was formerly Managing Director at Kissinger Associates and I have also served as Acting Undersecretary of Commerce for International Trade and Deputy Undersecretary of Commerce for International Trade Policy and Development. Over my career, I have developed a specialization in international trade issues, among others, and I regularly write and speak on a variety of economic and national security issues.

2. In preparation for this hearing, my firm, Garten Rothkopf, conducted an analysis of the impact to the U.S. economy if duty-free treatment under GSP is not granted to Ecuadorian roses ahead of the expiration of the Andean Trade Promotion and Drug Eradication Act. This analysis was undertaken using the REMI macroeconomic model, which uses four quantitative methodologies - input-output tabulation, econometrics, general equilibrium, and economic geography – to capture inter-industry transactions, behavior, market-level concepts like labor and housing, and economies of scale. This modeling software relies on government economic, demographic, and multiplier data in order to track changes in economic output, employment, personal income, and government revenues, broken down into direct, indirect, and induced impacts. The REMI model and has been used extensively by government agencies including the EPA and U.S. Army Corps of Engineers.

3. We found that failing to preserve the duty free status of Ecuadorian rose imports would have negative consequences in three major areas: immediate increased costs for US consumers, costing growth and jobs; reduced competition in the US rose market in

the medium term, which can be expected to lead to higher prices, poorer rose quality, and more limited choices; and the undermining of hundreds of millions of dollars in U.S. Government investments to promote the growth of a strong rural industry that today provides a critical alternative to growing illicit crops in Ecuador.

4. The U.S. consumer would feel the negative impact of not including Ecuadorian roses in the GSP. There is no immediate alternative to Ecuadorian roses that can be met with current suppliers. Ecuador, with 27% market share, is currently the second largest rose exporter to the U.S. Potential alternative rose producers – such as Colombia, Guatemala and Mexico – already send 80% to 95% of their rose exports to the U.S. and do not have the spare capacity to immediately take over Ecuador's market share. Given the four to five years necessary to bring a rose plantation to full production, new sources of supply are at least four more years away from making an impact in the U.S. rose import market. Therefore, Ecuadorian roses would continue to be necessary to meet U.S. demand in the near-term.

5. With the ATPDEA expiring this August, without GSP status, Ecuadorian roses will enter the U.S. with a 6.8% duty. Based on an extensive examination of peer reviewed studies on the demand for roses and similar types of cut flowers by Girapunthong and Ward from the University of Florida and Wohlgenant, Safley, and Rezitis from North Carolina State University, we assume a relatively inelastic demand of 0.8. With limited substitutes, this would translate into a reduction in demand of 5.4% and, of greater significance, an increased cost to the U.S. consumer of $8 million a year. Analyzing the impacts on key consumer sectors, their intermediate demands, and changes to worker

compensation, the entire economy would see $12 million in lost yearly economic activity and the loss of 188 jobs.

6. With higher prices for Ecuadorian roses, one might expect to see increased jobs for U.S. rose producers. However, U.S. rose producers contribute less than 3% of total U.S. consumption and are confined to local growers that sell specialized, climate-specific roses to local shops and do not compete with Ecuadorian roses. A decline in Ecuadorian roses in the U.S. actually hurts overall U.S. flower production, as florists often combine domestically produced flowers with Ecuadorian roses to produce different arrangements and bouquets.

7. While the negative impacts to consumers would be felt around the country, the impacts to intermediary providers – including importers and wholesalers – will be acutely felt in Florida, particularly Miami. The state of Florida accounts for 90% of the volume of Ecuadorian rose imports, with the Miami metropolitan area alone seeing 42% of all imports. This would come at a time when Florida is still struggling compared to the rest of the nation. Since the start of the recession in 2008, Florida's unemployment rate has consistently stayed above the U.S. average, reaching 8% in December 2012 compared to the national average of 7.8%. Growth in state GDP is also well below the national average, growing just 2.5% between 2010 and 2011 compared to 4% nationally. A new duty on Ecuadorian rose imports would impose the greatest burden on the 4th largest state in the country when it can least afford further setbacks in its economic and job growth.

8. In addition to the immediate negative impacts on the U.S. economy resulting from a duty on Ecuadorian roses, in the medium to long term we would expect to see a

significant shift in rose imports that would disadvantage both U.S. businesses and consumers. If Ecuadorian roses lose their duty-free status, within 4 years, these imports could be shut out of the U.S. market as producers with duty free access ramp-up production. This would lead to increased concentration in the market and a lack of diversity in the supply of rose imports, hurting consumers and small businesses. Lack of supply diversity has been shown to be associated with higher prices, poorer quality goods, and limited consumer choice. Fewer suppliers make the rose import market more susceptible to extreme weather events such as frosts and further exposes the market to exchange rate risks.

9. As the Ecuadorian rose export industry declines over this time period, additional impacts will be seen along each stage of the rose supply chain. This begins with rose breeders in the U.S. that develop new types of rose seeds for growers in Ecuador. Breeders such as Dean Rule and EG Hill attest to more than $20 million in rose variety royalties over the past 20 years. Small flower shops are also especially vulnerable to the negative impacts of limited supply. This includes 1,500 flower shops in the U.S that buy their roses directly from Ecuadorian rose producers.

10. In addition, while the U.S. rose market will continue to be served, this would produce needless dislocation and hardship for those Americans working as wholesalers, freight and logistics professionals, truck drivers, and even grocery store and flower shop clerks dependent on the Ecuadorian rose trade. Creating this upheaval during uncertain economic times further strains an economy in recovery.

11. Failure to include roses in the GSP also undermines millions of dollars in investments made by the U.S. government over the past several decades. Since the

ATPDEA took effect, the U.S. government has provided Ecuador with nearly $1 billion in economic assistance, with $475 million dedicated to promote alternative agriculture. This investment continues today, with an estimated $14.4 million allocated in 2012, and $16 million requested in the 2013 budget. The results of this effort have been highly encouraging. Ecuador continues to be essentially free of all illegal crop cultivation. Creating a disadvantage for these industries through a new duty would not only discourage further growth in the rose industry, but also likely damage a key pillar of the rural economy and employment. This means undermining the intended purpose of millions in U.S. government investment that has already been spent and acting directly counter to our continued investment in encouraging and growing Ecuador's agricultural export industry.

12. Today, the rose export industry, which accounted for 58% of agricultural exports in 2011, provides an important source of jobs and economic security for Ecuador's rural poor. In rural areas of Ecuador, three out of five households currently live in poverty. Rose production, which is highly concentrated in rural areas, provides workers with subsidized meals, access to child support, and wages that are 25% higher than the country's minimum. However, the benefits created by the U.S.-supported rose industry are at risk if roses are not included in the GSP and a new U.S. duty is imposed on Ecuadorian rose imports. Rose producers in Ecuador are predominately small operations. In a survey of 275 producers representing 28% of the industry, less than 10% of producers had farms larger than 20 hectares. The median size of a rose plantation in all of Ecuador is just 9.3 hectares. These small farms would not be able to absorb the added costs of exporting to the U.S., which runs counter to decades of U.S. government

investment in alternative agriculture that provides important options for Ecuador's most at-risk populations.

13. Not including roses in the GSP also undermines U.S. government investments made in partnership with Ecuadorian law enforcement agencies. Ecuador has received over $200 million from the U.S. to fight drug trafficking over the past ten years, including a new $2 million dollar police facility funded by the U.S. in 2011 that will substantially increase police presence on Ecuador's southern border. However, these investments would be undermined by the erosion or elimination of a key alternative industry for rural economies that would occur if roses were not covered by the GSP.

14. Ecuador will also see disproportionate economic harm if roses fail to qualify under the GSP. Ecuadorian roses will be the only regional industry experiencing added economic costs because competing countries – including Colombia, Mexico, and Guatemala – will all maintain preferred trade status under existing treaties. Ensuring that cumulative investments in Ecuador's rose industry and general economy are not undermined requires granting roses preferred trade status – not to give the industry an advantage, but to level the playing field among its competitors and ensure that U.S. investment over the last twenty years does not go to waste.