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The Impact of the Andean Trade Preference Act

Twelfth Report 2005

Investigation No. 332-352
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Address all communications to
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U.S. International Trade Commission

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Andean Trade Preference Act: Impact on U.S. Industries and Consumers and on Drug Crop Eradication and Crop Substitution

Twelfth Report 2005

Investigation No. 332-352

Publication 3888 **September 2006**

This report was prepared principally by

Country and Regional Analysis Division
James Stamps, *Acting Chief*

Project Leader
Walker Pollard
walker.pollard@usitc.gov; (202) 205-3228

Contributing Authors
Joanne Guth, Magdolna Kornis, and Edward C. Wilson

Office of Industries
Timothy McCarthy, *Coordinator*
Joanna Bonarriva and Laura Rodriguez

Technical Assistance
Office of the Chief Information Officer
Barbara Bobbitt

Supporting assistance was provided by
Patricia M. Thomas and Cecelia N. Allen, *Office of Economics*

Primary Reviewers
Cathy Jabara and Nannette Christ

PREFACE

The submission of this study to Congress continues a series of reports by the U.S. International Trade Commission ("the Commission" or "USITC") on the impact of the Andean Trade Preference Act (ATPA) on U.S. industries and consumers. The current study fulfills the Commission's reporting requirement for calendar year 2005 and represents the 12th in the series.

ATPA, enacted on December 4, 1991, authorized the President to proclaim duty-free treatment for eligible articles from Bolivia, Colombia, Ecuador, and Peru. ATPA expired 10 years later on December 4, 2001, but was renewed and modified under the Andean Trade Promotion and Drug Eradication Act (ATPDEA) on August 6, 2002. ATPA duty preferences are scheduled to end on December 31, 2006. Section 206 of ATPA requires the Commission to assess the economic impact of the Act "on United States industries and consumers, and in conjunction with other agencies, the effectiveness of this Act in promoting drug-related crop eradication and crop substitution efforts of beneficiary countries." The Commission is required to submit its report to Congress biennially by September 30 of the year following the period covered in each report.

ABSTRACT

The Andean Trade Preference Act (ATPA) provides preferential treatment of U.S. imports from Bolivia, Colombia, Ecuador, and Peru. The overall effect of ATPA-exclusive imports (those ineligible for other tariff preferences) on the U.S. economy and consumers continued to be negligible in 2005. However, U.S. imports of ATPA-exclusive products (as defined by 8-digit Harmonized Tariff Schedule classifications) were estimated to have potentially significant effects on domestic industries producing asparagus; fresh-cut roses; and fresh-cut chrysanthemums, carnations, anthuriums, and orchids. U.S. imports of all of the 20 leading ATPA-exclusive items produced net welfare gains for U.S. consumers in 2005. The probable future effect of ATPA on the United States is also expected to be minimal in most sectors, even if trade preferences were to continue in some form following the expiration of ATPA at the end of 2006.

ATPA continued to have a small, indirect effect on drug-related crop eradication and crop substitution efforts in the ATPA countries in 2005. Net coca cultivation in the Andes continued at roughly its lowest point in two decades, although cultivation has increased slowly in Bolivia and Peru since 2001. However, an expanded survey area in 2005 in Peru revealed a large increase (38 percent) in net coca cultivation compared to the survey scope used in 2004. ATPA trade preferences remained to support industries that provide jobs for workers who might otherwise have participated in illicit coca cultivation. In 2005, exports to the United States under ATPA increased further, supporting job growth in industries producing goods such as flowers in Colombia and Ecuador, asparagus and other agricultural products in Peru, and textiles and apparel throughout the ATPA region.

The information provided in this report is for the purpose of this report only. Nothing in this report should be construed as indicating what the Commission's determination would be in an investigation involving the same or similar subject matter conducted under other statutory authority.

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List of Frequently Used Abbreviations and Acronyms

A.P.I.	American Petroleum Institute
ATPA	Andean Trade Preference Act
ATPDEA	Andean Trade Promotion and Drug Eradication Act
CAFTA	Central American Free Trade Agreement
CBERA	Caribbean Basin Economic Recovery Act
CBTPA	Caribbean Basin Trade Partnership Act
c.i.f.	cost, insurance, freight
CNC	Crime and Narcotics Center, Central Intelligence Agency
Commission, the	U.S. International Trade Commission
ECLAC	United Nations Economic Commission for Latin America and the Caribbean
EIU	Economist Intelligence Unit
f.a.s.	free alongside ship
FDI	foreign direct investment
FTA	free trade agreement
FTAA	Free Trade Area of the Americas
FY	fiscal year
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
GSP	Generalized System of Preferences
HS	Harmonized System
HTS	Harmonized Tariff Schedule
INCSR	International Narcotics Control Strategy Report
IPR	intellectual property rights
MFN	most favored nation
NAFTA	North American Free Trade Agreement
n.e.s.o.i.	not elsewhere specified or otherwise included
NTR	normal trade relations
ONDCP	Office of National Drug Control Policy
OTEXA	Office of Textiles and Apparel, U.S. Department of Commerce
SME	square meter equivalent
TPA	Trade Promotion Agreement
TPSC	Trade Policy Staff Committee
TRQ	tariff-rate quota
UNCTAD	United Nations Conference on Trade and Development
UNODC	United Nations Office on Drugs and Crime
URAA	Uruguay Round Agreements Act
USAID	United States Agency for International Development
USITC	U.S. International Trade Commission
USTR	United States Trade Representative
WTO	World Trade Organization

EXECUTIVE SUMMARY

This report, the 12th in a series, covers the impact on the United States of the Andean Trade Preference Act (ATPA) during calendar year 2005. Section 206 of ATPA requires the U.S. International Trade Commission (the Commission or USITC) to prepare a biennial report assessing the actual and the probable future effects of ATPA on the U.S. economy generally, on U.S. industries, and on U.S. consumers, as well as the estimated effect of ATPA on drug-related crop eradication and crop substitution efforts of the beneficiary countries.

ATPA was enacted on December 4, 1991, and expired 10 years later on December 4, 2001. On August 6, 2002, the President signed into law the Andean Trade Promotion and Drug Eradication Act (ATPDEA). ATPDEA renewed ATPA trade preferences retroactive to December 4, 2001, through December 31, 2006, and authorized the extension of ATPA preferences to additional products. ATPDEA trade preferences were implemented on October 31, 2002, by presidential proclamation. The year 2005 marked the third full year that ATPDEA was in effect.

ATPA, as amended by ATPDEA (hereinafter ATPA), authorizes eligible products from four Andean countries—Bolivia, Colombia, Ecuador, and Peru—to enter the United States free of duty. The primary goal of ATPA is to promote broad-based economic development and viable economic alternatives to coca cultivation and cocaine production by offering Andean products broader access to the U.S. market. Whereas ATPA applies to the same tariff categories covered by the more restrictive U.S. Generalized System of Preferences (GSP) program,[1] it also adds a broader product coverage and has more liberal product-qualifying rules.

Partial-equilibrium analysis was used to estimate the impact of ATPA on the United States. The probable future effect of ATPA on the United States was estimated by an examination of ATPA-eligible investment in the beneficiary countries during 2005. Sources of information included data from the U.S. Department of Commerce, interviews with other government agencies, reports from U.S. embassies, and other published sources. In addition, the Commission solicited public comment for this investigation by publishing a notice in the *Federal Register*.[2]

Main Commission Findings

- Of the $11.5 billion in U.S. imports that entered under ATPA in 2005, imports valued at $10.6 billion could not have received tariff preferences under any other program. The five leading products benefiting exclusively from ATPA in 2005, as defined by 8-digit Harmonized Tariff Schedule (HTS) classifications, were heavy crude oil; light crude oil; heavy fuel oil; copper cathodes from Peru, which had exceeded its GSP competitive need limit; and naphthas. All of these products except copper cathodes became eligible for duty-free treatment under ATPDEA in 2002.

[1] All four ATPA beneficiary countries are also GSP beneficiaries.

[2] Appendix A contains a copy of the *Federal Register* notice and appendix B contains summaries of submissions received in response to the notice.

- The overall effect of ATPA-exclusive imports on the U.S. economy continued to be negligible in 2005. In 2005, the value of duty-free U.S. imports under ATPA accounted for about 0.7 percent of total U.S. imports, or 0.09 percent of the U.S. gross domestic product (GDP).

- Men's or boys' knitted cotton shirts provided the largest gain in consumer surplus ($30 million to $34 million) from lower prices and higher consumption resulting exclusively from ATPA tariff preferences in 2005. Knitted cotton t-shirts provided the second-largest gain in consumer surplus ($22 million to $24 million). U.S. imports of all of the 20 leading ATPA-exclusive products produced net welfare gains (consumer surplus net of U.S. Treasury losses) for U.S. consumers in 2005. Men's or boys' knitted cotton shirts yielded the largest net welfare gain, valued at $4.0 million to $6.6 million, followed by knitted cotton t-shirts and men's or boys' woven cotton trousers and shorts.

- The Commission's economic and industry analyses indicate that U.S. industries that may have experienced displacement of more than 5 percent of the value of U.S. production in 2005, based on upper estimates, were those producing asparagus (2.9 percent to 10.8 percent displacement, valued at $4.0 million to $14.8 million); fresh-cut roses (1.3 percent to 8.1 percent displacement, valued at $0.5 million to $3.2 million); and chrysanthemums, carnations, anthuriums, and orchids (1.1 percent to 6.5 percent displacement, valued at $0.3 million to $1.7 million).

- The probable future effect of ATPA on the United States is expected to be minimal on the U.S. economy overall and in most economic sectors, even if U.S. trade preferences were to continue in some form. Uncertainties related to the expiration of ATPA in December 2006 and the negotiation and implementation of bilateral free trade agreements with the United States constrained investments in non-oil ATPA-related sectors in 2005. Despite these uncertainties, the Commission was able to identify ATPA-related investments in textiles and apparel, flowers, jewelry, wood products, ethanol, fruits and vegetables, including asparagus and avocados, as well as oil, which may generate increased exports to the United States in the future. However, stiff competition from China in the textile and apparel sector could limit future exports to the United States, even if trade preferences are continued.

- In 2005, ATPA continued to have a small, indirect effect in support of illicit coca eradication and crop substitution efforts in the Andean region. Net coca cultivation in the ATPA region remains at roughly its lowest level in two decades, although the dramatic declines in cultivation seen in Colombia since 2001 are being offset partly by annual average increases in Bolivia and Peru of approximately 5 percent since 2001 . (The reported 38-percent surge in coca cultivation in Peru from 2004 to 2005 is due in large part to expanded survey mapping, which counts areas not included in previous U.S. Government estimates.) However, U.S. imports under ATPA continued to increase during 2005 and supported job growth in areas such as the asparagus and flower industries, thereby expanding alternatives to workers who might otherwise engage in drug-crop production. In addition, ATPA benefits appear to have directly supported the expansion of jobs for the production of other agricultural products as well as textiles and apparel in 2005.

Trade-Related Activities in 2005

- In 2005, U.S. imports from ATPA countries, U.S. exports to ATPA countries, and the U.S. deficit in trade with the ATPA countries all reached record levels at $20.0 billion, $8.9 billion, and $11.1 billion, respectively.

- Despite the volatile political environment of ATPA countries, their economic growth and large export revenues resulted in a steady regional market for U.S. exports in 2005.

- Rising U.S. imports from ATPA countries reflected higher commodity prices and a steep contraction in the dutiable portion of U.S. imports from the region.

- Mainly because of the implementation of ATPDEA late in 2002, the dutiable portion of total U.S. imports from ATPA countries continued to shrink in 2005 to 7.7 percent, from 9.5 percent in 2004 and 39.7 percent in 2001. All 20 leading U.S. imports from ATPA countries entered free of duty in 2005 under either ATPA, GSP, or normal trade relations (NTR) tariff rates.

- In 2005, imports under the expanded ATPA (the original ATPA and ATPDEA combined) accounted for 57.1 percent of all imports from the region. This share compares with 54.0 percent in 2004 and 17.5 percent under the original ATPA in 2001.

- Mineral fuels and apparel—both of which became eligible for trade preferences under ATPDEA—were jointly responsible for nearly four-fifths of all imports under ATPA in 2005. The two largest import product groups under the original ATPA in 2001 were copper articles and flowers, which together accounted for approximately one-half of the total.

- In 2005, 12 products on the list of 20 leading imports under ATPA were eligible under ATPDEA preferences, and eight were eligible under original ATPA preferences.

- Colombia and Ecuador, the two regional crude oil exporting ATPA countries, together accounted for almost four-fifths of all U.S. imports under ATPA in 2005. Colombia accounted for 40.6 percent; Ecuador for 38.1 percent; Peru for 19.9 percent; and Bolivia for 1.4 percent of the total.

CHAPTER 1
INTRODUCTION

The U.S. Congress enacted the Andean Trade Preference Act (ATPA)[3] in 1991 to encourage the Andean countries of Bolivia, Colombia, Ecuador, and Peru to reduce drug-crop cultivation and production by granting tariff preferences to qualifying Andean products to foster trade, including the production and export of nontraditional products. ATPA expired on December 4, 2001, but was renewed retroactively and amended on August 6, 2002, by the Andean Trade Promotion and Drug Eradication Act (ATPDEA) as part of the Trade Act of 2002.[4] ATPA, as amended by ATPDEA, authorizes the President to grant duty-free treatment to many Andean products entering the United States. The preferential trade benefits provided under ATPA are scheduled to expire on December 31, 2006. To enhance the trade relationship, the United States and three ATPA beneficiary countries began negotiating a free trade agreement (FTA) in 2004.[5] The United States and Peru concluded work on a bilateral FTA in December 2005, and the agreement was signed in April 2006.[6] The United States and Colombia reached agreement on a bilateral FTA in February 2006.[7]

This report fulfills a statutory mandate under ATPA that the U.S. International Trade Commission (the Commission) report biennially on the economic impact of ATPA on U.S. industries, consumers, and the economy in general, as well as on the estimated effect of ATPA on drug-related crop eradication and crop substitution efforts of the beneficiary countries.[8] The report is the 12th in the series and the last mandated under current statutory authority. The report covers calendar year 2005.

Throughout this report, the term "ATPA" refers to ATPA as amended by ATPDEA. The term "original ATPA" will be used to identify the original ATPA program that expired in December 2001, so that the scope and requirements of that statute can be discussed appropriately.

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[3] ATPA was passed by Congress on Nov. 26, 1991, and signed into law on Dec. 4, 1991 (Public Law 102-182, title II; 105 Stat. 1236, 19 U.S.C. 3201 et seq.). Minor amendments to ATPA were made by Public Law 102-583. ATPA became effective July 22, 1992, for Colombia and Bolivia (Presidential Proclamation 6455, 57 F.R. 30069, and Presidential Proclamation 6456, 57 F.R. 30087, respectively); Apr. 30, 1993, for Ecuador (Presidential Proclamation 6544, 58 F.R. 19547); and Aug. 31, 1993, for Peru (Presidential Proclamation 6585, 58 F.R. 43239).

[4] Public Law 107-210, title XXXI. ATPDEA duty-free treatment became effective for all four beneficiary countries on Oct. 31, 2002 (Presidential Proclamation 7616, 67 F.R. 67283).

[5] On May 18-19, 2004, Colombia, Ecuador, and Peru launched FTA negotiations with the United States. See USTR, "Peru and Ecuador to Join with Colombia in May 18-19 Launch of FTA Negotiations with the United States," press release, May 3, 2004.

[6] USTR, "United States and Peru Sign Trade Promotion Agreement," press release, Apr. 12, 2006. See also USITC, *U.S.-Peru Trade Promotion Agreement: Potential Economy-wide and Selected Sectoral Effects*, USITC Publication 3855, June 2006.

[7] USTR, "United States and Colombia Conclude Free Trade Agreement," press release, Feb. 27, 2006. Consistent with statutory requirements, the President notified Congress of his intention to enter into a free trade agreement with Colombia on Aug. 24, 2006. FTA negotiations between the United States and Ecuador were suspended after Ecuador cancelled its contract with Occidental Petroleum in May 2006. Congress has not yet voted on the FTAs with Peru or Colombia.

[8] The reporting requirement is set forth in sec. 206(b) of ATPA (19 U.S.C. 3204(b)).

Organization of the Report

This chapter summarizes the provisions of ATPA and describes the analytical approach used in the report. Chapter 2 analyzes U.S. trade with ATPA beneficiaries during 2005. Chapter 3 estimates the effects of ATPA in 2005 on the U.S. economy generally, as well as on U.S. industries and consumers. Chapter 3 also examines the probable future effects of ATPA. Chapter 4 assesses the estimated effect of ATPA on the drug-crop eradication and crop substitution efforts of the beneficiary countries.

Appendix A reproduces the *Federal Register* notice by which the Commission solicited public comment, and appendix B contains summaries of submissions received by the Commission in response to the *Federal Register* notice. Appendix C explains the economic model used to derive the findings presented in chapter 3.

Summary of the ATPA Program

ATPA authorizes the President to grant certain unilateral preferential trade benefits to Bolivia, Colombia, Ecuador, and Peru in the form of duty-free treatment of eligible products imported into the customs territory of the United States, based on importer claims for this treatment.[9] ATPDEA amended the original ATPA to authorize duty-free treatment for certain products previously excluded from ATPA trade preferences. In Presidential Proclamation 7616 of October 31, 2002, the President designated all four original ATPA beneficiary countries as ATPDEA beneficiary countries and designated most of the additional ATPDEA-eligible products as eligible for duty-free treatment.[10] The following sections summarize ATPA provisions concerning beneficiaries, trade benefits, and qualifying rules, and the relationship between ATPA and the Generalized System of Preferences (GSP).

Beneficiaries

Bolivia, Colombia, Ecuador, and Peru are the only countries eligible under the statute to be designated by the President for ATPA benefits.[11] The statute authorizes the President at any time to withdraw or suspend the designation of any country as a beneficiary country under ATPA or ATPDEA or withdraw, suspend, or limit application of duty-free treatment to any article of any country;[12] the President can withdraw, suspend, or limit ATPDEA benefits even if preferences under the original ATPA are continued. The statute requires the President, when determining whether to designate a country for benefits under the original ATPA, to take into account a number of considerations, including whether that country has

[9] The World Trade Organization's (WTO) waiver for the original ATPA program expired on Dec. 4, 2001. The United States requested a waiver for ATPA, as amended by ATPDEA, in February 2005 for the period ending Dec. 31, 2006. The request is pending. A waiver is required because benefits are not extended on a most-favored-nation (MFN) basis. WTO, "Request for a Waiver, Andean Trade Preference Act (ATPA As Amended)," G/C/W/510, Mar. 1, 2005.

[10] Presidential Proclamation 7616, 67 F.R. 67283. See the section in this chapter on "Trade Benefits under ATPA" for more specific information on the exception for import-sensitive products.

[11] 19 U.S.C. 3202(b). Although Venezuela is a member of the Andean Community along with the four ATPA beneficiary countries, it is not eligible under the statute to be designated as an ATPA beneficiary country.

[12] 19 U.S.C. 3202(e).

met the criteria for U.S. narcotics cooperation certification.[13] The statute also requires ATPA beneficiary countries, among other things, to take steps to afford internationally recognized worker rights as defined under the GSP program[14] and to provide effective protection of intellectual property rights (IPR), including copyrights for film and television material.[15] By 1993, the President had designated all four countries as eligible for ATPA benefits,[16] and during the 10 years that the original ATPA was in effect, he did not withdraw or suspend the designation of any country or any article.[17]

Each ATPA beneficiary country is eligible to be designated by the President for the additional trade benefits under the ATPDEA. The statute provides the President with a list of criteria that must be considered in designating countries as ATPDEA beneficiary countries.[18] The list includes those criteria that apply to country eligibility under the original ATPA,[19] as well as several new criteria.[20] The new criteria include the extent to which the country (1) has implemented its World Trade Organization (WTO) commitments and participated in the Free Trade Area of the Americas (FTAA) process; (2) provides protection of IPR; (3) provides internationally recognized worker rights; (4) has implemented its commitments to eliminate the "worst forms" of child labor; (5) has cooperated with the United States on counternarcotics initiatives; (6) has implemented an international anticorruption convention; (7) has applied transparent, nondiscriminatory, and competitive procedures in government procurement; and (8) has cooperated with the United States to combat terrorism. Following enactment of ATPDEA on August 6, 2002, the Office of the U.S. Trade Representative (USTR) conducted a review of ATPA beneficiaries' compliance with these requirements. On October 31, 2002, the President designated all four beneficiary countries of the original ATPA as ATPDEA beneficiary countries.[21]

ATPDEA provides for an annual review of the eligibility of articles and countries for ATPA benefits similar to the annual reviews performed for GSP.[22] On July 25, 2003, USTR published regulations, effective that date, establishing procedures for petitions for withdrawal or suspension of country eligibility or duty-free treatment under ATPA.[23] No

[13] 19 U.S.C. 3202(d)(11). These criteria are set forth in 22 U.S.C. 2291(h)(2)(A).
[14] 19 U.S.C. 2462(b)(2)(G) or 2462(c)(7).
[15] 19 U.S.C. 3202(c).
[16] Bolivia and Colombia were designated for ATPA benefits in 1992; Ecuador and Peru were designated in 1993.
[17] Commission staff interview with USTR official, June 18, 2002.
[18] 19 U.S.C. 3203(b)(6)(B).
[19] 19 U.S.C. 3202(c) and (d).
[20] 19 U.S.C. 3203(b)(6)(B).
[21] President, Proclamation, "To Implement the Andean Trade Promotion and Drug Eradication Act," Proclamation No. 7616, Nov. 5, 2002 (67 F.R. 67283). For more information on the eligibility criteria and beneficiary country compliance with these criteria, see USTR, *Second Report to the Congress on the Operation of the Andean Trade Preference Act As Amended*, Apr. 30, 2005. ATPA, as amended, required USTR to submit a report by Apr. 30, 2003, and requires similar reports every two years thereafter on the operation of ATPA, including a general review of the beneficiary countries based on the eligibility criteria and considerations described in the statute.
[22] Sec. 3103(d) of ATPDEA (Public Law 107-210).
[23] 15 CFR part 2016, announced in 68 F.R. 43922 (July 25, 2003).

actions to withdraw or suspend country eligibility or duty-free treatment have been taken on the basis of the annual reviews.[24]

Trade Benefits under ATPA

ATPA provides duty-free treatment to qualifying imports from designated beneficiary countries.[25] For some products, duty-free entry under ATPA is subject to certain conditions in addition to basic preference eligibility rules. Imports of sugar, like those of some other agricultural products, remain subject to any applicable and generally imposed U.S. tariff-rate quotas (TRQs) and food-safety requirements.[26] In-quota shipments of such products subject to TRQs are eligible to enter free of duty under ATPA. Under the original ATPA, certain leather handbags, luggage, flat goods (such as wallets and portfolios), work gloves, and leather wearing apparel from ATPA countries were eligible to enter at reduced rates of duty.[27] Not eligible for any preferential duty treatment under the original ATPA were most textiles and apparel, certain footwear, canned tuna, petroleum and petroleum derivatives, certain watches and watch parts,[28] certain sugar products, and rum and tafia.[29]

ATPDEA authorizes the President to extend duty-free treatment to some of the products previously ineligible for preferences under the original ATPA, including certain textiles and apparel, footwear, tuna in foil or other flexible airtight packages (not cans), petroleum and petroleum derivatives, and watches and watch parts (including cases, bracelets, and straps). Certain handbags, luggage, flat goods, work gloves, and leather wearing apparel, previously eligible for reduced rates of duty under the original ATPA,[30] are also eligible for duty-free treatment under ATPDEA. ATPDEA authorizes the President to proclaim duty-free treatment for qualifying additional articles if he determines that such articles are "not import sensitive in the context of imports from ATPDEA beneficiary countries." When ATPDEA

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[24] See 68 F.R. 48657 (Aug. 14, 2003), 69 F.R. 43656 (July 21, 2004), 69 F.R. 51138 (Aug. 17, 2004), 69 F.R. 65674 (Nov. 15, 2004), 70 F.R. 2921 (Jan. 18, 2005), 70 F.R. 38238 (July 1, 2005), 70 F.R. 48622 (Aug. 18, 2005), 70 F.R. 70652 (Nov. 22, 2005), and 71 F.R. 9851 (Feb. 27, 2006).

[25] General note 3(c) to the Harmonized Tariff Schedule (HTS) summarizes the special tariff treatment for eligible products of designated countries under various U.S. trade programs, including ATPA. General note 11 covers ATPA. ATPA does not cover trade in services.

[26] These U.S. measures include TRQs on imports of sugar, dairy products, beef, certain food preparations, and cotton fibers established pursuant to sections 401 and 404 of the Uruguay Round Agreements Act (URAA), with the exception of quotas on sugar, which had already been converted to TRQs in 1990 as a result of a General Agreement on Tariffs and Trade (GATT) ruling. The TRQs replaced absolute quotas on imports of certain agricultural products; U.S. quotas had been imposed under section 22 of the Agricultural Adjustment Act of 1933 (7 U.S.C. 624) and under the Meat Import Act of 1979 (Public Law 88-482). The URAA also amended ATPA by excluding from tariff preferences any imports from beneficiary countries in quantities exceeding the new TRQ global trigger levels. Imports of agricultural products from beneficiary countries remain subject to sanitary and phytosanitary restrictions, such as those administered by the U.S. Animal and Plant Health Inspection Service.

[27] This provision applied to certain articles that were not designated for GSP duty-free entry as of Aug. 5, 1983 (the date of enactment of the Caribbean Basin Economic Recovery Act (CBERA). Under the provisions of the original ATPA, beginning in 1992, duties on those goods were reduced by a total of 20 percent, not to exceed 2.5 percent ad valorem, in five equal annual stages (19 U.S.C. 3203(c)). ATPDEA eliminated this provision and allowed the President to determine if duty-free entry is appropriate.

[28] The original ATPA excluded watches and watch parts containing components produced in countries subject to column 2 duty rates—effectively, communist countries. Since 1989, the number of countries subject to column 2 rates of duty has diminished to two–Cuba and North Korea.

[29] 19 U.S.C. 3203(b).

[30] As mentioned above, ATPDEA repealed 19 U.S.C. 3203(c), which had previously provided duty reductions for certain handbags, luggage, flat goods, work gloves, and leather wearing apparel.

was implemented, the President extended ATPDEA duty-free treatment to most newly eligible products. However, he did not include 17 footwear tariff lines on the basis of their import sensitivity in the context of imports from ATPDEA countries.[31]

Nearly 6,300 tariff lines or products are now covered by ATPA trade preferences, of which about 700 were added by ATPDEA.[32] The following products continue to be excluded by statute from receiving preferential treatment: textile and apparel articles not otherwise eligible for preferential treatment under ATPDEA; canned tuna; above-quota imports of certain agricultural products subject to tariff-rate quotas, including sugars, syrups, and sugar-containing products; and rum and tafia.

Qualifying Rules

To be eligible for ATPA treatment, ATPA products must either be wholly grown, produced, or manufactured in a designated ATPA country or be "new or different" articles made from substantially transformed non-ATPA inputs.[33] The cost or value of the local (ATPA region) materials and the direct costs of processing in one or more ATPA countries must total at least 35 percent of the appraised customs value of the product at the time of entry. ATPA countries are permitted to pool their resources to meet the value-content requirement and to count inputs from Puerto Rico, the U.S. Virgin Islands, and countries designated under CBERA[34] toward the value threshold. In addition, goods with an ATPA content of 20 percent of the customs value and the remaining 15 percent attributable to U.S.-made (excluding Puerto Rican) materials or components,[35] as well as goods containing inputs that undergo double substantial transformation within the ATPA countries and are counted with other qualifying inputs to total 35 percent, are deemed to meet the 35 percent value-content requirement.[36]

ATPDEA extended for the first time duty-free treatment to specified textile and apparel articles imported from designated ATPDEA beneficiary countries, effective on October 31, 2002. ATPDEA authorized unlimited duty-free and quota-free treatment for imports of

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[31] USTR, *First Report to the Congress on the Operation of the Andean Trade Preference Act As Amended*, Apr. 30, 2003, p. 6.

[32] USTR, "New Andean Trade Benefits," fact sheet, Sept. 25, 2002. Accordingly, approximately 90 percent of rate lines provide duty-free treatment to U.S. imports from the ATPA region (60 percent fall under ATPA and 30 percent have normal trade relations (NTR) rates of free). U.S. imports under the approximately 10 percent of rate lines remaining are dutiable.

[33] Products undergoing the following operations do not qualify: simple combining or packaging operations, dilution with water, or dilution with another substance that does not materially alter the characteristics of the article (19 U.S.C. 3203(a)(2)).

[34] CBERA countries are Antigua, Aruba, the Bahamas, Barbados, Belize, British Virgin Islands, Costa Rica, Dominica, Dominican Republic, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Montserrat, Netherlands Antilles, Nicaragua, Panama, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago.

[35] 19 U.S.C. 3203(a).

[36] Double substantial transformation involves transforming foreign material into a new or different product that, in turn, becomes the constituent material used to produce a second new or different article in the beneficiary country. Thus, ATPA countries can import inputs from non-ATPA countries, transform the inputs into intermediate material, and transform the intermediate material into ATPA-eligible articles. The cost or value of the constituent intermediate material can be counted toward the 35 percent ATPA content requirement. For additional information, see U.S. Department of Commerce and U.S. Agency for International Development, *Guidebook to the Andean Trade Preference Act* (Washington, DC: Government Printing Office, July 1992), p. 5.

textile and apparel articles made in beneficiary countries from fabrics or fabric components wholly formed, or components knit-to-shape, in the United States from yarns produced in the United States or one or more ATPDEA beneficiary countries, provided the fabrics are also dyed, printed, and finished in the United States.[37] ATPDEA also includes unlimited preferential treatment for apparel assembled from ATPDEA-country fabrics or fabric components formed, or components knit-to-shape, of llama, alpaca, or vicuña.

Apparel items assembled in ATPDEA countries from regional fabrics or regional components formed or knit-to-shape from yarns produced in the United States or one or more ATPDEA beneficiary countries are also eligible to enter free of duty and ordinary quota but subject to a cap.[38] The cap on U.S. imports of apparel made in the ATPA countries from regionally knit or woven fabrics was set at 2 percent of the aggregate square meter equivalents (SMEs) of total U.S. imports of apparel from the world for the one-year period beginning on October 1, 2002, and increasing in each of the four succeeding one-year periods by equal increments up to a maximum of 5 percent for the three-month period beginning October 1, 2006.[39] For the one-year period from October 1, 2004 through September 30, 2005, the cap was 3.5 percent of total U.S. apparel imports or 709.8 million SMEs; the fill rate was just 3.53 percent or 25.1 million SMEs.[40] As such, the expansion of the cap from 2 percent to 5 percent allows for significant growth of exports of apparel from the ATPDEA countries made from regional fabrics. The principal textile and apparel provisions of ATPDEA are summarized in table 1-1.

ATPA and GSP

The four ATPA beneficiaries also are GSP beneficiaries.[41] ATPA and GSP provisions are similar in many ways, and many products can enter the United States free of duty under either program. Both programs offer increased access to the U.S. market. Like ATPA, GSP requires that eligible imports: (1) be imported directly from beneficiaries into the customs territory of the United States, (2) meet the (usually double) substantial transformation requirement for any foreign inputs, and (3) contain a minimum of 35 percent qualifying value content. The documentary requirements necessary to claim either ATPA or GSP

[37] The dyeing, printing, and finishing requirement does not refer to post-assembly and other operations such as garment dyeing and stone washing.

[38] This provision is one of the most important for apparel in ATPDEA. See discussion of U.S. imports of apparel made from regional fabric in chapter 2.

[39] ATPA, including ATPDEA, is scheduled to expire Dec. 31, 2006.

[40] U.S. Department of Commerce, Office of Textiles and Apparel (OTEXA), found at *http://otexa.ita.doc.gov/agoa-cbtpa/agoa-cbtpa_2005.htm*.

[41] The U.S. GSP program originally was enacted for 10 years pursuant to title V of the Trade Act of 1974 (Public Law 93-618, 88 Stat. 2066 et seq.) and was renewed for an additional 10 years pursuant to title V of the Trade and Tariff Act of 1984 (Public Law 98-573, 98 Stat. 3018 et seq.), as amended (19 U.S.C. 2461 et seq.). Since that time, the GSP program has expired and been renewed several times. GSP expiration and renewal issues are discussed later in this section.

Table 1-1 Andean Trade Promotion and Drug Eradication Act: Key textile and apparel provisions

Articles eligible to enter free of duty and quota	Criteria
Apparel assembled in one or more ATPDEA beneficiary countries from fabrics or fabric components wholly formed, or components knit-to-shape, in the United States	*From U.S. or Andean yarn *Knit and woven fabrics must be dyed, printed, and finished in the United States
Apparel assembled from Andean fabrics or fabric components formed, or components knit-to-shape, of llama, alpaca, or vicuña	*From Andean yarn *Fabrics or components must be in chief value of llama, alpaca, or vicuña
Apparel cut and assembled from fabrics or yarns identified in Annex 401 of NAFTA as being not available in commercial quantities (in "short supply") in the United States (HTS 9820.11.24)	*The fabrics and yarns include fine-count cotton knitted fabrics for certain apparel; linen; silk; cotton velveteen; fine-wale corduroy; Harris Tweed; certain woven fabrics made with animal hairs; certain lightweight, high-thread count polyester-cotton woven fabrics; and certain lightweight, high-thread count broadwoven fabrics for use in men's and boys' shirts[a]
Apparel assembled in ATPDEA countries from fabrics or yarns deemed not available in commercial quantities at the request of any interested party	*President determines that such fabrics or yarns cannot be supplied by the domestic industry in commercial quantities in a timely manner based upon advice from the appropriate advisory committee and the USITC within 60 days after the request
Apparel assembled in ATPDEA countries from regional fabrics or regional components formed or knit-to-shape in the region	*From U.S. or Andean yarn *Subject to cap[b]
Certified handloomed, handmade, and folklore articles	*Originating in ATPDEA countries
Certain brassieres cut and sewn or otherwise assembled in the United States, or one or more ATPDEA countries or both	*Producer must satisfy rule that, in each of four one-year periods starting on October 1, 2003, at least 75 percent of the value of the fabric contained in the firm's brassieres in the preceding year was attributable to fabric components formed in the United States (the 75-percent standard rises to 85 percent for a producer found by Customs not to have met the 75-percent standard in the preceding year)
Apparel assembled in ATPDEA countries from qualifying fabrics that contain findings or trimmings of foreign origin	*If such findings or trimmings do not exceed 25 percent of the cost of the components of the assembled product
Apparel assembled in ATPDEA countries from qualifying fabrics that contain certain interlinings of foreign origin	*If the value of such interlinings (and any findings and trimmings) does not exceed 25 percent of the cost of the components of the assembled article
Apparel assembled in ATPDEA countries from qualifying fabrics that contain yarns not wholly formed in the United States or in one or more ATPDEA countries	*If the total weight of such yarns does not exceed 7 percent of the total weight of the good
Textile luggage assembled in ATPDEA countries from U.S. fabrics	*Must be of U.S. yarn

Source: Compiled by USITC staff from ATPDEA statute.

[a] As described in General Note 12(t), chapter rule 2 to Chapter 62 of the Harmonized Tariff Schedule.
[b] Maximum 2 percent of the aggregate square meter equivalents of all apparel articles imported into the United States in the preceding 12-month period for which data are available, increased in equal increments in each succeeding 1-year period to a maximum of 5 percent for the 3-month period beginning Oct. 1, 2006.

duty-free entry are identical—a Certificate of Origin Form A has to be presented at the time the qualifying products enter the United States, although the value-related information required under the two programs differs slightly.

However, the two programs differ in several ways that tend to make ATPA country producers prefer the more comprehensive and liberal ATPA. First, ATPA authorizes duty-free treatment on more tariff categories than GSP, including some textile and apparel articles ineligible for GSP treatment. Unless specifically excluded, all products under ATPA can be designated as having a tariff preference. Second, unlike under the U.S. GSP law, U.S. imports under ATPA are not subject to competitive-need and country-income restrictions. This means that imports of a product under ATPA will not lose their preferential treatment when they exceed a certain threshold, either in absolute terms or as a percentage of U.S. imports (the competitive need limit under GSP), nor will ATPA countries lose preferential treatment if their national incomes exceed a specified amount. Third, ATPA qualifying rules of origin for products are more liberal than those of GSP. GSP requires that 35 percent of the value of the product be added in a single beneficiary or in a specified association of GSP-eligible countries, whereas ATPA allows regional aggregation within ATPA plus U.S. and Caribbean content.

In addition, since July 31, 1995, the tariff preferences of the U.S. GSP program have lapsed on several occasions;[42] even though they have been renewed retroactively, the interruptions reportedly have encouraged suppliers to use ATPA instead.[43] Since GSP tariff preferences are scheduled to end on December 31, 2006, additional uncertainties face ATPA-country producers on top of the uncertainties about implementation of prospective FTAs, as is discussed in the investment section of chapter 3 of this report.

Analytical Approach

The duty elimination for almost all eligible products occurred in single actions when countries were designated as beneficiaries, first under original ATPA and later under ATPDEA.[44] Direct effects of such a one-time duty elimination can be expected to consist primarily of increased U.S. imports from beneficiary countries resulting from trade and resource diversion to take advantage of lower duties in the U.S. market, including (1) a diversion of beneficiary-country production away from sales to domestic and non-U.S. foreign markets, and (2) a diversion of variable resources (such as labor and materials) away from production for domestic and non-U.S. foreign markets. In general, these direct effects are likely to occur within a short time (probably one or two years) after the duty elimination. It is therefore likely that these effects were fully realized in prior years for the original ATPA, because it became effective for all beneficiary countries during 1992-93. Similarly,

[42] GSP tariff preferences expired at midnight on July 31, 1995; the provisions of the program were renewed Oct. 1, 1996, retroactive to Aug. 1, 1995 through May 31, 1997 (61 F.R. 52078-52079). The GSP program expired again on May 31, 1997, but was renewed Aug. 5, 1997, retroactive to June 1, 1997, through June 30, 1998 (62 F.R. 46549-46550). On June 30, 1998, the program expired again but was renewed Oct. 21, 1998, retroactive to July 1, 1998 through June 30, 1999 (63 F.R. 67169-67170). The program expired on June 30, 1999, but was renewed Dec. 17, 1999, retroactive to July 1, 1999, through Sept. 30, 2001 (65 F.R. 11367-11368).

[43] See USITC, *The Impact of the Andean Trade Preference Act: Eleventh Report*, USITC publication 3803, Sept. 2005, pp. 1-8 and 1-9, for a discussion of the lapses in GSP and ATPA during 2002.

[44] A limited number of articles received duty reductions of up to 20 percent under original ATPA phased over a period of five years, as noted in the section "Trade Benefits under ATPA" in this chapter.

the direct, short-term effects on the U.S. economy as a whole and on U.S. industries and consumers of duty-free treatment for products that became eligible under ATPDEA in 2002, were probably mostly realized by the end of 2004.

Over a longer period, the effects of ATPA likely will flow mostly from investment in industries in beneficiary countries that benefit from the duty elimination. Both the short-term and long-term effects are limited by the small size of the ATPA beneficiary-country economies, and the long-term effects are likely to be difficult to distinguish from other market forces in play since the programs were initiated. Investment data, however, have been collected in past ATPA reports in order to examine the trends in, and composition of, investment in the Andean region.

The effects of ATPA on the U.S. economy, industries, and consumers are assessed through (1) an analysis of imports entered under the program and trends in U.S. consumption of those imports; (2) estimates of gains to U.S. consumers due to lower prices or greater availability of goods, losses to the U.S. Treasury resulting from reduced tariff revenues, and potential displacement in U.S. industries competing with the leading U.S. imports that benefited exclusively from the ATPA program in 2005;[45] and (3) an examination of trends in production and other economic factors in the industries identified as likely to be particularly affected by such imports. General economic and trade data come from official statistics of the U.S. Department of Commerce and from materials developed by country/regional and industry analysts of the Commission. The report also incorporates public comments received in response to the Commission's *Federal Register* notice regarding the investigation.[46]

As in previous reports in this series, the effects of ATPA are analyzed by estimating the differences in benefits to U.S. consumers, levels of U.S. tariff revenues, and U.S. industry production that probably would have occurred if normal trade relations (NTR) tariffs[47] had been in place for beneficiary countries in 2005. Actual 2005 market conditions are compared with a hypothetical case in which NTR duties are imposed for the year. The effects of ATPA duty preferences for 2005 are estimated by using a standard economic approach for measuring the impact of a change in the prices of one or more goods. Specifically, a partial-equilibrium model is used to estimate gains to consumers, losses in tariff revenues, and industry displacement.[48] Previous analyses in this series have shown that since ATPA went into effect, U.S. consumers have benefited from lower prices and higher consumption, competing U.S. producers have experienced lower sales, and tariff revenues to the U.S. Treasury have been lower.

Generally, the net welfare effect is measured by adding three components: (1) the change in consumer surplus, (2) the change in tariff revenues to the U.S. Treasury resulting from the ATPA duty reduction, and (3) the change in producer surplus.[49] The model used in this

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[45] That is, those that are not excluded or do not receive unconditional column 1-general duty-free treatment or duty-free treatment under other preference programs such as GSP.

[46] A copy of the notice appears in appendix A.

[47] This is nondiscriminatory tariff treatment, which is commonly and historically called "most-favored-nation" (MFN) status in trade circles and is called "normal trade relations" (NTR) status in the United States.

[48] A more detailed explanation of the approach can be found in appendix C.

[49] Consumer surplus is a dollar measure of the total net gain to U.S. consumers from lower prices. It is defined as the difference between the total value consumers receive from the consumption of a particular good and the total amount they pay for the good. Producer surplus is a dollar measure of the total net loss to competing U.S. producers from increased competition with imports. It is defined as the return to

(continued...)

analysis assumes that the supply of U.S. domestic production is perfectly elastic; that is, U.S. domestic prices do not fall in response to ATPA duty reductions. Thus, price-related decreases in U.S. producer surplus are not captured in this analysis. However, the effects of ATPA duty reductions on most U.S. industries are expected to be small.

This analysis estimates potential net welfare effects and industry displacement, and these estimates reflect a range of assumed substitutabilities between ATPA products and competing U.S. output. The upper estimates reflect the assumption of high substitution elasticities,[50] whereas the lower estimates reflect the assumption of low substitution elasticities. Upper estimates are used to identify items that could be most affected by ATPA.

The Commission's analysis covers the 20 leading items that benefited exclusively from ATPA tariff preferences.[51] The analysis provides estimates of welfare and potential U.S. industry displacement. Industries for which estimated upper potential displacement is more than 5 percent of the value of U.S. production are selected for further analysis.

Commission analysis of the probable future effects of ATPA is based on a qualitative analysis of economic trends and investment patterns in beneficiary countries and in competing U.S. industries. The primary sources for information on investment in ATPA-related production facilities are U.S. embassies in the region and published sources. To assess the estimated effect of ATPA on the drug-crop eradication and crop substitution efforts of the beneficiary countries, the Commission relied primarily on information from other U.S. Government agencies, such as the Department of State and the Agency for International Development (USAID), as well as other published sources.

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[49] (...continued)
entrepreneurs and owners of capital that exceeds earnings for their next-best opportunities. See Walter Nicholson, *Microeconomic Theory: Basic Principles and Extensions* (New York: Dryden Press, 1989), for further discussion of consumer and producer surplus. The welfare effects do not include short-run adjustment costs to the economy from reallocating resources among different industries.

[50] Commission industry analysts provided evaluations of the substitutability of ATPA products and competing U.S. products, which were translated into a range of substitution elasticities—3 to 5 for high substitutability, 2 to 4 for medium, and 1 to 3 for low. Although there is no theoretical upper limit to elasticities of substitution, a substitution elasticity of 5 is consistent with the upper range of estimates in the economics literature. Estimates in the literature tend to be predominantly lower. See, for example, Clinton R. Shiells, Robert M. Stern, and Alan V. Deardorff, "Estimates of the Elasticities of Substitution Between Imports and Home Goods for the United States," *Weltwirtschaftliches Archiv*, 122 (1986), pp. 497-519; and Michael P. Gallaway, Christine A. McDaniel, and Sandra A. Rivera, "Short-Run and Long-Run Estimates of U.S. Armington Elasticities," *North American Journal of Economics and Finance*, 14 (2003), pp. 49-68.

[51] See table 3-2 in chapter 3. Commission industry analysts provided estimates of U.S. production and exports for the 20 leading items that benefited exclusively from ATPA, as well as evaluations of the substitutability of ATPA-exclusive imports and competing U.S. products. Items were ranked at the 8-digit level of HTS tariff classification.

CHAPTER 2
TRADE WITH THE ANDEAN REGION

Introduction

The principal purpose of this chapter is to present and analyze U.S. imports during 2005 under the provisions of the Andean Trade Preference Act (ATPA), as amended by the Andean Trade Promotion and Drug Eradication Act (ATPDEA).[52] Total U.S. imports from ATPA countries and U.S. exports to ATPA countries in 2005 are also examined. As discussed in chapter 1, calendar year 2005 was the third full year that APTDEA was in effect; thus, for the second year, imports under the expanded ATPA can be compared with such imports in a prior year.

The chapter is organized as follows. First, the chapter presents trends in overall U.S. imports from ATPA countries and the decline in the dutiable share of total imports from these countries caused mostly by the expansion of ATPA preferences. That section is followed by an analysis of the leading U.S. imports under ATPA (which include imports eligible under the original ATPA as well as imports that became eligible later under ATPDEA). Finally, the chapter examines the composition and trends of U.S. exports to ATPA countries. Throughout the chapter, trade is discussed at a 2-digit and 8-digit Harmonized Tariff Schedule (HTS) subheading level. The relative importance of individual beneficiary countries as sources of and destinations for this trade is also covered.

Trade Overview

In 2005, U.S. trade with ATPA countries continued to increase; two-way trade was up by 25 percent from the 2004 level, which in turn was up 27 percent from the 2003 level. Higher commodity prices played an important role in boosting this trade. Between 1991 (when ATPA was enacted) and 2005, U.S. imports from the region quadrupled and U.S. exports to the region more than doubled.

U.S. exports to the region reached a record value in 2005 of $8.9 billion, up by over 16 percent from 2004. ATPA countries collectively accounted for 1.1 percent of total U.S. exports in 2005, as in 2004. However, U.S. imports from ATPA countries grew significantly faster, to a record $20.1 billion in 2005, up by almost 30 percent from 2004. ATPA countries collectively accounted for 1.2 percent of U.S. imports in 2005, compared to 1.1 percent in 2004 and between 0.8 and 1.0 percent during 1991-2003. Rising prices of major commodities imported from ATPA countries were the major cause this surge in the value of imports.

The United States has run a deficit in merchandise trade with ATPA countries as a group since 1999, and this deficit has grown especially fast since 2002.[53] In 2005, the United States registered a trade deficit with each ATPA country, with a combined U.S. deficit of

[52] As discussed in chapter 1, the terms “ATPA” and ”expanded ATPA” refer to ATPA as amended, and the term “original ATPA” refers to the original ATPA program that expired in Dec. 2001.

[53] Exports, imports, and trade balances are defined as merchandise trade given in current U.S. dollars.

$11.1 billion in 2005 compared with $7.8 billion in 2004 (table 2-1, figure 2-1). Notably, U.S. fuel-related trade with ATPA countries (HTS chapter 27) accounted for over four-fifths of this deficit in 2005.

U.S. Imports from ATPA Countries

In 2005, ATPA countries collectively were the 17th largest supplier of U.S. imports (in 2004 they ranked 22nd), larger than Thailand, but smaller than Nigeria. The United States continued to be the leading destination of each ATPA country's exports, except Bolivia's. U.S. imports from ATPA countries consist primarily of raw materials and their derivatives, agricultural and horticultural products, seafood, and apparel.

Table 2-2 shows the composition of total U.S. imports from ATPA countries by major HTS product categories during 2001-2005. Product groups that include natural resources and derivatives dominate this list. Mineral fuels and oils (HTS chapter 27)—specifically petroleum and coal—have accounted for at least 40 percent of the total in the last five years. This share exceeded 50 percent in 2005, mainly because of an increase in the price of these products. HTS chapter 71, which consisted mostly of gold bullion but also included precious stones, metals, and jewelry, ranked second in both 2004 and 2005. This group accounted for some 12 percent of the total in both 2004 and 2005. Knitted apparel, which rose to the third-largest category in U.S. imports from ATPA countries in 2003, continued to rank third in 2005, accounting for close to 5 percent of the total.

Table 2-3 lists the 20 leading U.S. imports from ATPA countries during 2005 on an 8-digit HTS subheading basis, ranked by their 2005 import value. Since October 31, 2002, when ATPDEA entered into effect, all of these products from ATPA countries have been eligible for duty-free entry under ATPA or GSP, or at NTR duty rates.[54] Products that have NTR duty rates of free include many traditional imports from ATPA countries: gold bullion, coffee, coal, bananas, shrimp,[55] and unalloyed tin. Most U.S. imports of the 20 items listed in table 2-3 increased in value in 2005.

Several leading imports shown in table 2-3 also appear as leading imports under ATPA and will be discussed later in this chapter.

Duty Treatment

The dutiable share of total U.S. imports from ATPA countries continued to decline in 2005, mirroring the increase in the portion of U.S. imports from ATPA countries entering under ATPDEA. This dutiable share fell from 14.0 percent in 2003, using adjusted data,

[54] GSP applies to only one item (cut flowers) among the 20 leading products.

[55] However, on Jan. 21, 2005, the Commission determined that an industry in the United States is materially injured by reason of imports of certain frozen or canned warm-water shrimp from Ecuador, among other countries. An antidumping duty order on imports from Ecuador became effective on Feb. 1, 2005 (70 F.R. 5156, Feb. 1, 2005).

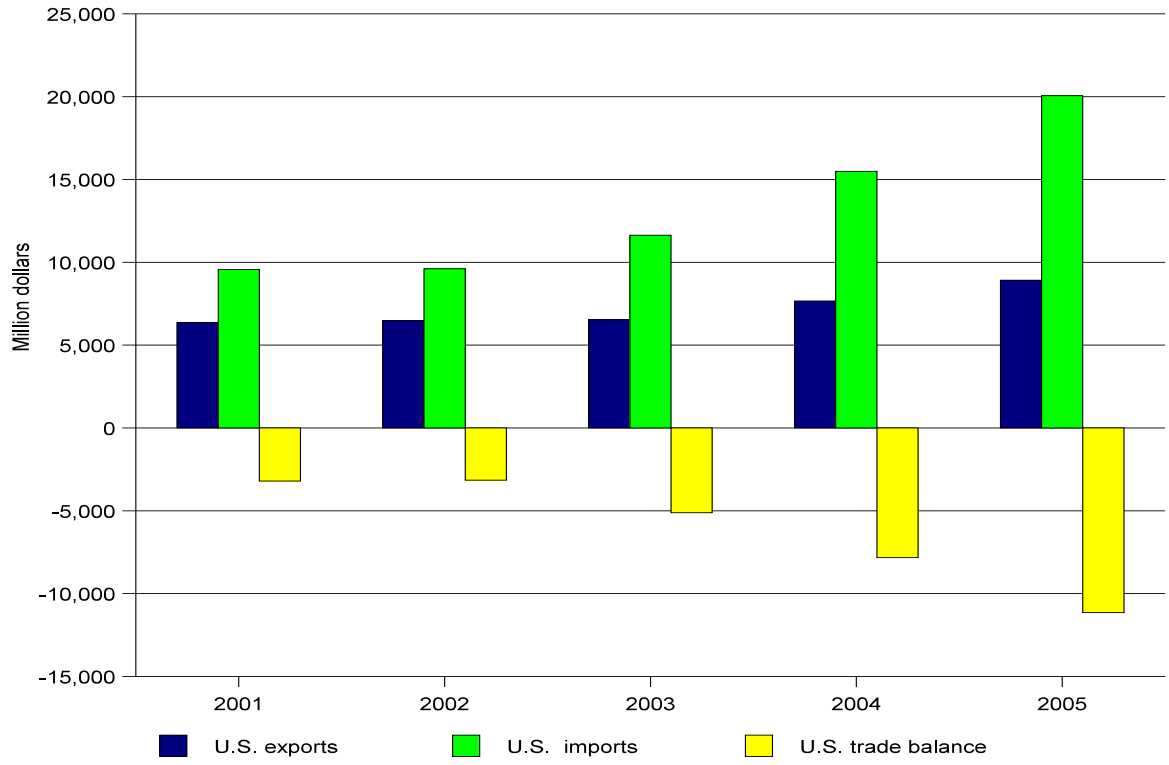
Table 2-1 U.S. trade with ATPA countries, 1991-2005

Year	U.S. exports[a]	Change over previous year	Share of U.S. exports to the world	U.S. imports[b]	Change over previous year	Share of U.S. imports from the world	U.S. trade balance
	Million dollars	*Percent*		*Million dollars*	*Percent*		*Million dollars*
1991	3,798.2		0.9	4,969.5		1.0	-1,171.3
1992	5,319.7	40.1	1.3	5,058.7	1.8	1.0	261.0
1993	5,359.1	0.7	1.2	5,282.3	4.4	0.9	76.8
1994	6,445.0	20.3	1.3	5,879.5	11.3	0.9	565.5
1995	7,820.2	21.3	1.4	6,968.7	18.5	0.9	851.5
1996	7,718.7	-1.3	1.3	7,867.6	12.9	1.0	-148.9
1997	8,681.8	12.5	1.3	8,673.6	10.2	1.0	8.2
1998	8,670.1	-0.1	1.4	8,361.0	-3.6	0.9	309.0
1999	6,263.2	-27.8	1.0	9,830.2	17.6	1.0	-3,567.0
2000	6,295.1	0.5	0.9	11,117.2	13.1	0.9	-4,822.1
2001	6,363.3	1.1	1.0	9,568.7	-13.9	0.8	-3,205.3
2002	6,463.8	1.6	1.0	9,611.5	0.4	0.8	-3,147.7
2003	6,525.7	1.0	1.0	11,639.5	21.1	0.9	-5,113.8
2004	7,663.6	17.4	1.1	15,489.8	33.1	1.1	-7,826.2
2005	8,919.1	16.4	1.1	20,060.1	29.5	1.2	-11,141.0

Source: Compiled from official statistics of the U.S. Department of Commerce.

[a] Domestic exports, f.a.s. basis.
[b] Imports for consumption, customs value.

Figure 2-1
U.S. trade with ATPA countries, 2001-2005



Source: Compiled from official statistics of the U.S. Department of Commerce.

Table 2-2 Leading U.S. imports for consumption from ATPA countries, by major product categories, 2001-2005

HTS chapter	Description	2001	2002	2003	2004	2005
		Value (1,000 dollars)				
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	3,916,000	3,914,722	4,823,358	6,960,270	10,053,832
71	Natural or cultured pearls, precious or semiprecious stones, precious metals; precious metal clad metals, articles thereof; imitation jewelry; coin	358,474	561,067	1,128,173	1,856,858	2,317,475
61	Articles of apparel and clothing accessories, knitted or crocheted	483,580	480,899	688,738	902,635	978,809
09	Coffee, tea, mate and spices	371,385	401,610	452,798	505,822	738,160
74	Copper and articles thereof	506,178	470,012	468,239	470,894	593,902
08	Edible fruit and nuts; peel of citrus fruit or melons	497,762	547,036	519,900	513,874	575,865
06	Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage	408,752	382,941	456,629	558,675	557,182
03	Fish and crustaceans, molluscs and other aquatic invertebrates	365,743	349,116	399,142	407,632	483,117
62	Articles of apparel and clothing accessories, not knitted or crocheted	270,133	270,305	363,129	418,987	449,603
80	Tin and articles thereof	98,452	107,747	123,974	211,819	195,872
	Subtotal	7,276,458	7,485,455	9,424,081	12,807,466	16,943,818
	All other	2,292,203	2,126,027	2,215,383	2,682,299	3,116,299
	Total	9,568,661	9,611,482	11,639,464	15,489,766	20,060,117
		Percent of total				
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	40.9	40.7	41.4	44.9	50.1
71	Natural or cultured pearls, precious or semiprecious stones, precious metals; precious metal clad metals, articles thereof; imitation jewelry; coin	3.7	5.8	9.7	12.0	11.6
61	Articles of apparel and clothing accessories, knitted or crocheted	5.1	5.0	5.9	5.8	4.9
09	Coffee, tea, mate and spices	3.9	4.2	3.9	3.3	3.7
74	Copper and articles thereof	5.3	4.9	4.0	3.0	3.0
08	Edible fruit and nuts; peel of citrus fruit or melons	5.2	5.7	4.5	3.3	2.9
06	Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage	4.3	4.0	3.9	3.6	2.8
03	Fish and crustaceans, molluscs and other aquatic invertebrates	3.8	3.6	3.4	2.6	2.4
62	Articles of apparel and clothing accessories, not knitted or crocheted	2.8	2.8	3.1	2.7	2.2
80	Tin and articles thereof	1.0	1.1	1.1	1.4	1.0
	Subtotal	76.0	77.9	81.0	82.7	84.5
	All other	24.0	22.1	19.0	17.3	15.5
	Total	100.0	100.0	100.0	100.0	100.0

Source: Compiled from official statistics of the U.S. Department of Commerce.

Note: Because of rounding, figures may not add to totals shown.

Table 2-3 Leading U.S. imports for consumption from ATPA countries, by HTS provisions, 2003-2005

HTS provision	Description	2003	2004	2005	Change 2004-2005
		1,000 dollars			*Percent*
2709.00.10	Petroleum oils and oils from bituminous minerals, crude, testing under 25 degrees A.P.I.	1,666,478	3,300,957	5,584,358	69.2
2709.00.20	Petroleum oils and oils from bituminous minerals, crude, testing 25 degrees A.P.I. or more	1,926,054	2,055,427	1,961,724	-4.6
7108.12.10	Gold, nonmonetary, bullion and dore	812,168	1,498,710	1,856,045	23.8
2710.19.05	Distillate and residual fuel oil (including blends) derived from petroleum or oils from bituminous minerals, testing under 25 degrees A.P.I.	468,754	521,905	797,156	52.7
0901.11.00	Coffee, not roasted, not decaffeinated	390,187	434,084	637,974	47.0
2701.12.00	Bituminous coal, whether or not pulverized, but not agglomerated	395,547	515,773	637,934	23.7
7403.11.00	Refined copper cathodes and sections of cathodes	447,665	422,392	556,350	31.7
2710.11.25	Naphthas, not motor fuel/blending stock, from petroleum oils/oils from bituminous minerals, minimum 70 percent by weight of such products	234,356	371,388	553,154	48.9
0803.00.20	Bananas, fresh or dried	388,366	359,049	394,157	9.8
2701.19.00	Coal, other than anthracite or bituminous, whether or not pulverized, but not agglomerated	5,962	65,484	312,989	378.0
3061.30.00	Shrimps and prawns, cooked in shell or uncooked, dried, salted or in brine, frozen	230,591	241,043	309,446	28.4
6110.20.20	Sweaters, pullovers, sweatshirts, waistcoats, and similar articles, knitted or crocheted, of cotton, n.e.s.o.i.	223,833	301,697	297,409	-1.4
0603.10.60	Roses, fresh cut	204,617	239,063	263,349	10.2
6105.10.00	Men's or boys' shirts, knitted or crocheted, of cotton	127,312	157,139	195,258	24.3
8001.10.00	Unwrought tin, not alloyed	117,605	201,781	181,693	-10.0
6203.42.40	Men's or boys' trousers, breeches, and shorts, not knitted or crocheted, of cotton, not containing 15 percent or more down	127,429	132,227	177,246	34.0
6109.10.00	T-shirts, singlets, tank tops, and similar garments, knitted or crocheted, of cotton	99,056	132,786	165,914	24.9
0603.10.80	Cut flowers and flower buds suitable for bouquets, n.e.s.o.i.	124,748	182,010	159,793	-12.2
7106.91.10	Silver bullion and dore, unwrought	88,753	112,964	151,732	34.3
2523.29.00	Portland cement	71,375	91,004	103,830	14.1
	Subtotal	8,150,856	11,336,883	15,297,512	34.9
	All other	3,488,608	4,152,882	4,762,605	14.7
	Total	11,639,464	15,489,766	20,060,117	29.5

Source: Compiled from official statistics of the U.S. Department of Commerce.

Note: The abbreviation "n.e.s.o.i." stands for "not elsewhere specified or otherwise included."

and 9.5 percent in 2004 to 7.7 percent in 2005 (table 2-4). In 2002, the last year of imports mostly under the original ATPA, the dutiable share was still 47.8 percent. In 2005, the remaining dutiable imports from the region included principally those petroleum and apparel products that were not eligible or for some reason were not entered under ATPA preferences.

Calculated duty revenues from ATPA countries dropped to $31 million in 2005, shrinking by $9.5 million or 23 percent from their 2004 amount. The 2005 duty revenues from the region were less than one-fourth of the amounts calculated during 2001and 2002. The average rate of duty of the small portion of total imports from the region that still remained dutiable dropped to 2.0 percent in 2005 from 2.7 percent in 2004.

Table 2-5 shows that imports from ATPA countries entered free of duty in 2005 in one of the following ways: (1) unconditionally free under NTR tariff rates (32.1 percent of all imports), (2) conditionally free under GSP (2.3 percent), (3) conditionally free under the original ATPA (10.9 percent), and (4) conditionally free under ATPDEA (46.9 percent). Before 2003, imports under NTR tariff rates had been consistently the largest duty-free group of entry. However, in 2003, following the implementation of ATPDEA, imports under the expanded ATPA (the sum of imports under the original ATPA and under ATPDEA) became the largest group. In 2005, imports under the expanded ATPA dwarfed all other categories of duty treatment, accounting for 57.8 percent of all imports from the region. This share compares with 54.9 percent in 2004 and 17.1 percent (for the original ATPA) in 2001.

Imports under ATPA

In this report, data on 2005 imports under the expanded ATPA are directly comparable with the data of only two prior years, since 2003 marked the first full year that ATPDEA provisions were effective.

Table 2-4 U.S. imports for consumption from ATPA countries: Dutiable value, calculated duties, and average duty, 2001-2005

Item	2001	2002	2003[a]	2004	2005
Dutiable imports[b] (*1,000 dollars*)	3,798,848	4,598,474	1,612,727	1,477,434	1,543,652
Dutiable as a share of total (*percent*)	39.7	47.8	14.0	9.5	7.7
Calculated duties (*1,000 dollars*)	144,098	169,498	63,209	40,462	30,976
Average duty (*percent*)[c]	3.8	3.7	3.9	2.7	2.0

Source: Compiled from official statistics of the U.S. Department of Commerce

[a] Data for 2003 were adjusted for misreported imports that resulted from implementation of ATPDEA.
[b] Dutiable value and calculated duty exclude the U.S. content entering under HTS 9802.00.80 and 9802.00.60 and misreported imports. Data based on product eligibility corresponding to each year.
[c] Average duty (percent) = (calculated duty/dutiable value) * 100.

Table 2-5 U.S. imports for consumption from Bolivia, Colombia, Ecuador, and Peru, by duty treatments, 2001-2005

Item	Bolivia	Colombia	Ecuador	Peru	ATPA Total	Share of total
	1,000 dollars					*Percent*
2001:						
Dutiable value[a]	27,522	2,255,445	931,363	584,518	3,798,848	39.4
ATPA reduced duty	780	21,357	246	56	22,439	0.2
Duty-free value:						
NTR[b]	66,557	2,427,508	735,723	416,658	3,646,446	37.8
GSP[c]	9,543	68,247	33,007	73,446	184,242	1.9
ATPA[d]	53,220	696,607	216,054	686,285	1,652,166	17.1
Other duty-free[e]	8,606	244,806	54,269	44,583	352,264	3.7
Total duty-free value[f]	137,926	3,437,168	1,039,053	1,220,971	5,835,118	60.6
Total imports	165,448	5,692,613	1,970,415	1,805,490	9,633,966	100.0
2002:						
Dutiable value[a]	27,883	2,426,684	1,095,938	824,837	4,375,343	45.5
ATPA reduced duty[g]	0	5,126	1	3	5,130	0.1
Duty-free value:						
NTR[b]	62,917	2,207,748	764,114	572,900	3,607,679	37.5
GSP[c]	31,520	204,166	74,618	165,467	475,771	5.0
ATPA[d]	36,972	278,823	85,712	381,801	783,309	8.1
ATPDEA[h]	147	120,199	92,021	10	212,377	2.2
Other duty-free[e]	781	144,749	3,569	7,905	157,004	1.6
Total duty-free value[f]	132,337	2,955,684	1,020,034	1,128,084	5,236,139	54.5
Total imports	160,220	5,382,368	2,115,973	1,952,921	9,611,482	100.0
2003:						
Dutiable value[a]	5,467	1,147,053	292,547	167,661	1,612,727	14.0
ATPA reduced duty[g]	0	0	0	0	0	0.0
Duty-free value:						
NTR[b]	76,084	2,049,927	778,314	831,778	3,736,101	32.4
GSP[c]	8,499	159,186	48,740	110,220	326,644	2.8
ATPA[d]	63,315	613,506	241,018	706,916	1,624,755	14.1
ATPDEA	31,138	2,295,312	1,312,586	572,367	4,211,402	36.5
Other duty-free[e]	433	27,077	2,574	89	30,174	0.3
Total duty-free value[f]	179,469	5,145,007	2,383,231	2,221,369	9,929,077	86
Total imports	184,936	6,292,060	2,675,778	2,389,030	11,541,804	100.0

See footnotes at end of table.

Table 2-5 U.S. imports for consumption from Bolivia, Colombia, Ecuador, and Peru, by duty treatments, 2001-2005–***Continued***

Item	Bolivia	Colombia	Ecuador	Peru	ATPA Total	Share of total
	1,000 dollars					*Percent*
2004:						
Dutiable value[a]	24,361	802,828	573,715	76,360	1,477,264	9.7
APTA reduced duty[g]	0	0	0	0	0	0.0
Duty-free value:						
NTR[b]	99,471	2,248,742	792,200	1,898,118	5,038,530	33.1
GSP[c]	16,632	186,525	49,604	107,211	359,972	2.4
ATPA[d]	75,609	717,113	272,202	771,445	1,836,369	12.1
ATPDEA	44,753	3,171,583	2,475,133	831,130	6,522,599	42.8
Other duty-free value[e]	0	455	7	493	956	0.0
Total duty-free value[f]	236,466	6,324,417	3,589,146	3,608,396	13,758,425	90.3
Total imports	260,827	7,127,245	4,162,861	3,684,756	15,235,689	100.0
2005:						
Dutiable value[a]	10,771	877,626	527,367	127,648	1,543,412	7.8
APTA reduced duty[g]	0	0	0	0	0	0.0
Duty-free value:						
NTR[b]	98,204	2,865,399	918,005	2,498,139	6,379,746	32.1
GSP[c]	26,825	188,907	57,700	174,802	448,234	2.3
ATPA[d]	77,325	820,335	300,596	962,304	2,160,560	10.9
ATPDEA	80,061	3,832,792	4,070,058	1,320,185	9,303,097	46.9
Other duty-free value[e]	137	18,221	153	16	18,526	0.1
Total duty-free value[f]	282,552	7,725,654	5,346,512	4,955,445	18,310,163	92.2
Total imports	293,324	8,603,279	5,873,879	5,083,093	19,853,575	100.0

Source: Compiled from official statistics of the U.S. Department of Commerce.

Note: Because this table corrects entries reported in inappropriate categories of dutiability, it includes data that differ from their counterparts in the other tables. Data in all other tables are based on entries as reported. Also, total imports in this table may not reflect total imports in other tables because U.S. imports from ATPA countries that enter through the U.S. Virgin Islands are excluded.

[a] Dutiable value excludes the U.S. content entering under HTS heading 9802.00.80 and heading 9802.00.60, and misreported imports.
[b] Value of imports which have an NTR duty rate of free.
[c] Reduced by the value of an NTR duty-free imports and ineligible items that were misreported as entering under the GSP program.
[d] Original ATPA, reduced by the value of an NTR duty-free imports and ineligible items that were misreported as entering under ATPA.
[e] Calculated as a remainder, and represents imports entering free of duty under column 1-special and non-dutiable U.S. value of imports entering under HTS 9802.00.60 and 9802.00.80.
[f] Calculated as total imports less dutiable value.
[g] ATPDEA eliminated the reduced-duty provision that applied to certain original-ATPA items (see chapter 1).
[h] ATPDEA program became effective October 31, 2002. ATPDEA data were only collected for 2 months in 2002 and may include collection errors.

Product Composition and Leading Import Categories

U.S. imports entered under ATPA continued to grow in 2005 at a rapid pace, increasing by 36.9 percent to $11.5 billion from $8.4 billion in 2004. U.S. imports under ATPA accounted for 57.1 percent as a portion of total U.S. imports from ATPA countries, based on unadjusted data.

Table 2-6 shows that in 2005, mineral fuels (HTS 27) accounted for 69.4 percent of imports under ATPA (63.5 percent in 2004). The rapid growth of the petroleum sector as a share of imports under ATPA depressed the relative importance of virtually all other sectors under the program. Apparel, which also became eligible for duty-free preferences under ATPDE, gained relative importance after the growing and higher-value petroleum-related imports under the program. Knitted apparel (HTS 61) accounted for 8.3 percent of all imports under ATPA in 2005 (10.3 percent in 2004), and apparel not knitted (HTS 62) accounted for for 3.2 percent in 2005 (3.6 percent in 2004).

Figure 2-2 illustrates the dominance of the fuel sector in ATPA trade during 2005, as well as the fundamental shift in the composition of imports under ATPA as a result of ATPDEA's implementation. In 2001, under the original ATPA, the two largest product groups were the one containing copper products and the one containing principally flowers; combined, they amounted to nearly one-half of the total. In 2005, copper and flowers were still major sectors in imports under ATPA, but their combined relative share was reduced to less than 10 percent of the total because of the addition of apparel and, especially, petroleum to this trade flow as a result of ATPDEA.

Leading Imports under ATPA

In 2005, 12 of the 20 leading imports under ATPA are ATPDEA products and eight are original ATPA products (table 2-7). The ATPDEA group includes five petroleum products, of which two (heavy crude oil and light crude oil) top the list, six apparel products (four knitted and two not knitted), and certain tuna products in airtight containers.[56] The eight leading original ATPA products are copper cathodes, three flower products, asparagus, two jewelry products, and polyvinyl chloride—a new item on the list in 2005

A paper-wrapped cigarette, imported under HTS 2402.20.80 and marketed under the name of Bronco, was the only leading ATPA product on the 2004 list of leading imports under ATPA that was not a leading import in 2005, because of a steep decline in U.S. imports. The cigarette is an inexpensive discount product that comes mostly from Colombia and is sold in niche markets, predominantly the Latino market, in the United States.

Mineral fuels and oils

Petroleum-related products dominating imports under ATPA in 2005 were heavy crude and light crude petroleum, heavy distillate and residual fuel oils, and naphthas (table 2-7). The

[56] For more information on ATPA-eligible tuna, see "Pouched tuna" later in this chapter.

Table 2-6 Leading U.S. imports for consumption under ATPA, by major product categories, 2001-2005

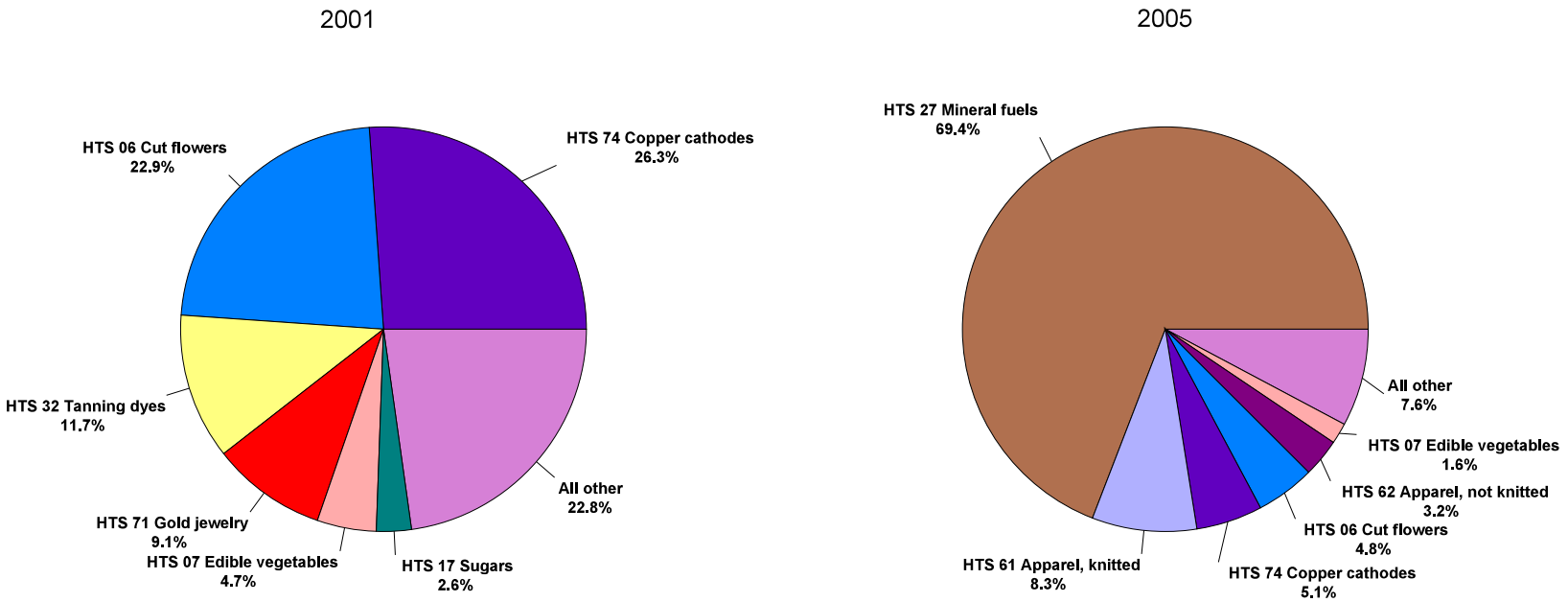
HTS chapter	Description	2001	2002[a]	2003[a]	2004[a]	2005[a]
		Value (1,000 dollars)				
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	0	209,969	3,405,798	5,306,647	7,951,847
61	Articles of apparel and clothing accessories, knitted or crocheted	54	0	573,018	858,335	953,605
74	Copper and articles thereof	440,307	253,781	464,096	446,273	587,496
06	Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage	382,689	172,925	451,172	551,629	549,697
62	Articles of apparel and clothing accessories, not knitted or crocheted	1,202	191	184,767	297,788	364,691
07	Edible vegetables and certain roots and tubers	78,107	71,545	123,324	152,864	179,886
71	Natural or cultured pearls, precious or semiprecious stones, precious metals; precious metal clad metals, articles thereof; imitation jewelry; coin	152,661	77,584	123,817	158,437	168,057
39	Plastics and articles thereof	44,225	13,226	29,831	46,140	93,334
20	Preparations of vegetables, fruit, nuts, or other parts of plants	30,576	15,832	37,840	54,433	80,443
16	Edible preparations of meat, fish, crustaceans, molluscs or other aquatic invertebrates	29,690	4,540	47,395	56,259	70,667
	Subtotal	1,159,513	819,592	5,441,058	7,928,805	10,999,723
	All other	515,094	181,223	394,973	430,453	464,226
	Total	1,674,607	1,000,816	5,836,032	8,359,258	11,463,949
		Percent of total				
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	0.0	21.0	58.4	63.5	69.4
61	Articles of apparel and clothing accessories, knitted or crocheted	([b])	0.0	9.8	10.3	8.3
74	Copper and articles thereof	26.3	25.4	8.0	5.3	5.1
06	Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage	22.9	17.3	7.7	6.6	4.8
62	Articles of apparel and clothing accessories, not knitted or crocheted	0.1	([b])	3.2	3.6	3.2
07	Edible vegetables and certain roots and tubers	4.7	7.1	2.1	1.8	1.6
71	Natural or cultured pearls, precious or semiprecious stones, precious metals; precious metal clad metals, articles thereof; imitation jewelry; coin	9.1	7.8	2.1	1.9	1.5
39	Plastics and articles thereof	2.6	1.3	0.5	0.6	0.8
20	Preparations of vegetables, fruit, nuts, or other parts of plants	1.8	1.6	0.6	0.7	0.7
16	Edible preparations of meat, fish, crustaceans, molluscs or other aquatic invertebrates	1.8	0.5	0.8	0.7	0.6
	Subtotal	69.2	81.9	93.2	94.9	96.0
	All other	30.8	18.1	6.8	5.1	4.0
	Total	100.0	100.0	100.0	100.0	100.0

Source: Compiled from official statistics of the U.S. Department of Commerce.

Note: Because of rounding, figures may not add to totals shown.

[a] ATPA includes imports under ATPDEA.
[b] Less than 0.05 percent.

Figure 2-2
Leading U.S. imports for consumption under ATPA, by major product categories, 2001 and 2005



Source: Compiled from official statistics of the U.S. Department of Commerce.

Note: Percentages may not add to 100 because of rounding.

Table 2-7 Leading U.S. imports for consumption under ATPA, by HTS provisions, 2003-2005

HTS provision	Description	2003[a]	2004[a]	2005[a]	Change 2004-2005	Leading ATPA source
		1,000 dollars			*Percent*	
2709.00.10[b]	Petroleum oils and oils from bituminous minerals, crude, testing under 25 degrees A.P.I.	1,434,729	2,891,605	5,182,127	79.2	Ecuador
2709.00.20[b]	Petroleum oils and oils from bituminous minerals, crude, testing 25 degrees A.P.I. or more	1,556,843	1,742,257	1,770,339	1.6	Colombia
7403.11.00	Refined copper cathodes and sections of cathodes	447,368	422,392	556,350	31.7	Peru
2710.19.05[b]	Distillate and residual fuel oil (including blends) derived from petroleum or oils from bituminous minerals, testing under 25 degrees A.P.I.	236,458	378,163	541,470	43.2	Colombia
2710.11.25[b]	Naphthas, not motor fuel/blending stock, from petroleum oils/oils from bituminous minerals, minimum 70 percent by weight of such products	174,970	253,009	406,173	60.5	Peru
6110.20.20[b]	Sweaters, pullovers, sweatshirts, waistcoats, and similar articles, knitted or crocheted, of cotton, n.e.s.o.i.	202,262	297,903	295,156	-0.9	Peru
0603.10.60	Roses, fresh cut	204,473	238,799	263,076	10.2	Colombia
6105.10.00[b]	Men's or boys' shirts, knitted or crocheted, of cotton	115,382	153,443	193,835	26.3	Peru
6109.10.00[b]	T-shirts, singlets, tank tops, and similar garments, knitted or crocheted, of cotton	84,559	128,319	164,190	28.0	Peru
0603.10.80	Cut flowers and flower buds suitable for bouquets, n.e.s.o.i.	124,475	181,902	159,410	-12.4	Colombia
620342402	Men's or boys' trousers, breeches, and shorts, not knitted or crocheted, of cotton, not containing 15 percent or more down	50,922	96,972	156,388	61.3	Colombia
0603.10.70	Chrysanthemums, standard carnations, anthuriums and orchids, fresh cut	98,709	98,123	96,846	-1.3	Colombia
0709.20.90	Asparagus, fresh or chilled, n.e.s.o.i.	60,498	79,478	87,130	9.6	Peru
7113.19.50	Articles of jewelry and parts thereof, of precious metal except silver, except necklaces and clasps	59,108	76,376	80,117	4.9	Bolivia
6106.10.00[b]	Women's or girls' blouses and shirts, knitted or crocheted, of cotton	29,743	44,605	64,213	44.0	Peru
6204.62.40[b]	Women's or girls' trousers, breeches, and shorts, not knitted or crocheted, of cotton, n.e.s.o.i.	37,888	63,767	55,793	-12.5	Colombia
1604.14.30[b]	Tunas and skipjack, not in oil, in airtight containers, n.e.s.o.i.	25,474	31,466	47,814	52.0	Ecuador
3904.10.00	Polyvinyl chloride, not mixed with any other substances, in primary forms	9,397	16,442	44,960	173.4	Colombia
7113.19.29	Gold necklaces and neck chains, other than rope or mixed link	42,039	40,765	44,188	8.4	Peru
2710.19.15	Kerosene-type jet fuel, 70 percent or more by weight from petroleum oils and bituminous minerals, other than crude	2,184	12,517	39,843	218.3	Colombia
	Subtotal	4,997,480	7,248,302	10,249,419	41.4	
	All other	838,552	1,110,956	1,214,530	9.3	
	Total	5,836,032	8,359,258	11,463,949	37.1	

Source: Compiled from official statistics of the U.S. Department of Commerce.

Note: The abbreviation "n.e.s.o.i." stands for "not elsewhere specified or otherwise included."

[a] ATPA includes imports under ATPDEA.
[b] Item is newly eligible under ATPDEA.

same products also appear on the list of leading imports from ATPA countries under all programs (table 2-3). Some 80 percent of U.S. petroleum-related imports from ATPA countries (HTS 27) entered under ATPA in 2005.

The value of U.S. imports of heavy crude (testing under 25 degrees A.P.I.) under ATPA amounted to $5.2 billion,[57] 79 percent more in 2005 than in 2004 (table 2-7).[58] The volume of imports, which was more than one-third larger in 2005 than in 2004, was partly responsible for this surge, but the major cause was the continued, substantial rise of petroleum prices. By contrast, the volume of light crude imports (testing over 25 degrees A.P.I.) under ATPA decreased by 29 percent. Nonetheless, because of sharply higher prices, the value of these imports was also up slightly from 2004, amounting to $1.8 billion in 2005.

Ecuador and Colombia are the principal suppliers of petroleum products under ATPA, but neither one is a major global U.S. supplier. Within the region, the United States imports heavy crude petroleum from Ecuador and Colombia and light crude from Colombia. In 2005, as in 2004, Ecuador was the fourth largest provider of heavy crude to the United States, after Mexico, Canada, and Venezuela. Colombia ranked 11th as a U.S. supplier of light crude among all countries globally. In addition to crude, both Colombia and Ecuador rapidly increased their exports of petroleum derivatives to the United States in recent years.

In 2005, Peru became the principal supplier of naphthas under ATPA, providing more of this product than Colombia and Ecuador combined.

Textiles and Apparel

U.S. imports of textiles and apparel from ATPA countries in 2005 increased $108 million, or 8 percent, from the 2004 level to $1.5 billion (table 2-8), reflecting continued growth in the region's shipments entering free of duty under ATPDEA.[59] In 2005, 88 percent ($1.3 billion) of U.S. textile and apparel imports from ATPA countries entered free of duty under ATPDEA, up from 83 percent in 2004.[60] Apparel assembled from regional fabric[61] accounted for 85 percent ($1.1 billion) of total sector imports entering free of duty under ATPDEA in 2005. The quantitative restriction (i.e., cap) on U.S. imports of apparel made in ATPA countries from regional fabrics allows for significant growth in trade from the ATPA countries; to date, the cap has not restrained trade.[62]

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[57] Import data for petroleum products are not identical in tables 2-3 and 2-7. Some imports do not enter duty-free under ATPA, mostly because they are transshipments from non-ATPA countries and therefore are not eligible.

[58] The 2004 value of heavy crude imports under ATPA was already double the value of such imports in 2003.

[59] Import data in this paragraph are compiled from official statistics of the U.S. Department of Commerce, Office of Textiles and Apparel (OTEXA), found at *http://otexa.ita.doc.gov*.

[60] Percentage changes based on unrounded data of the U.S. Department of Commerce.

[61] For more information, see the chapter 1 section on ATPA qualifying rules.

[62] For the one-year period ending Sept. 30, 2005, U.S. imports of apparel made in the ATPA countries from regional fabric totaled 25.1 million square meter equivalents (SMEs) or 4 percent of the cap (707,772,286 SMEs).

Table 2-8 Textiles and apparel: U.S. general imports from ATPA countries, by sources, 2001-05

Country	2001	2002	2003	2004	2005	Change, 2004-2005
	1,000 dollars					*Percent*
Peru	383,783	395,314	516,134	691,554	821,068	18.7
Colombia	376.326	369,531	538,925	636,349	618,251	-2.8
Bolivia	18,372	18,718	34,277	39,524	36,668	-7.2
Ecuador	24,704	15,855	18,070	19,929	19,325	-3.0
Total	803,185	799,418	1,107,406	1,387,356	1,495,312	7.8

Source: Compiled from official statistics of the U.S. Department of Commerce.

Note: The trade data in this section represent imports of goods subject to U.S. textile trade agreements, as published in the *Major Shippers Report* of the U.S. Department of Commerce, Office of Textiles and Apparel.

In 2005, most U.S. imports of textile and apparel from the ATPA countries continued to come from Peru (55 percent) and Colombia (41 percent). In 2005, Peru was the only ATPA country from which U.S. sector imports increased, rising 19 percent to $821 million. U.S. imports from the other ATPA countries fell by 3 percent each from Colombia (to $618 million), and Ecuador (to $19 million), and by 7 percent from Bolivia to $37 million; because of domestic economic challenges and increased competition from China and other low-cost Asian suppliers. Leading sector-product exports from ATPA countries to the United States in 2005 were cotton apparel (knit shirts and blouses, trousers and slacks, and underwear), and wool apparel (suit-type coats, trousers, and suits).

Even as Andean production and exports of textiles and apparel have risen since the ATPDEA, the ATPA countries have continued to lack sufficient domestic textile inputs to meet the increased demand. U.S. exports of textiles and apparel to ATPA countries in 2005 rose 2 percent over the 2004 level to $189 million, of which $149 million were textile mill products (mainly fabrics and yarns) and $40 million were apparel products (believed to be mainly cut garment parts for assembly in the ATPA countries). U.S. exports of yarns and fabrics to ATPA countries, especially Colombia, have increased since implementation of ATPDEA duty preferences. U.S. exports of fabrics to ATPA countries in 2005 rose 8 percent over the 2004 level to $107.2 million; 86 percent of these exports went to Colombia and 7 percent went to Peru. U.S. exports of yarn to ATPA countries fell 15 percent to $20.8 million, which could largely be attributed to a cotton yarn-spinning facility established in 2004 by U.S. yarn spinner Parkdale Mills of Gastonia, North Carolina, as a joint venture with the Colombian firm, Crystal Vestimundo. The facility, which is located in Medellin, operated at almost full capacity in 2005.[63] Cotton is shipped from the United States and spun into yarn at the facility.

Two key developments can be expected to shape the future of U.S.-ATPA country textile trade: (1) Andean firms' continued efforts to expand full package production programs to enhance their competitiveness with China and other Asian suppliers since the elimination of quotas on January 1, 2005, and (2) the implementation of additional competitive strategies to take advantage of prospective U.S. free trade agreements with Peru, Colombia, and Ecuador.[64] Industry sources in the ATPA countries have expressed concern that their textile

[63] Dan Nation, President, Parkdale Mills, Gastonia, NC, e-mail message to Commission staff, June 16, 2006.

[64] See chapter 1 for the status of these agreements.

and apparel sectors could lose competitiveness if free trade agreements do not go into effect before the ATPDEA expires.[65]

Copper cathodes

Refined copper cathodes (HTS 7403.11.00), a major traded form of copper produced by mining companies, had been the number one import under the original ATPA from 1998 to 2002. However, by 2005, U.S. imports of copper cathodes from the region, amounting to $556.4 million, had declined to less than one half of their volume in 2000. Even so, refined copper cathodes ranked third on the list of leading U.S. imports by value under ATPA (table 2-7), and seventh from ATPA countries under all entry categories (table 2-3) in 2005.

Among ATPA countries, Peru is the sole U.S. supplier of refined copper cathodes. All imports from Peru enter under ATPA. From 1997 through 2002, Peru was the largest source of U.S. copper cathode imports among all countries of the world. However, U.S. ownership interests in Peruvian mining and processing have declined in recent years, contributing to Peru's decline as a U.S. supplier. Chile and Canada now are the largest suppliers. Peru's share of U.S. imports dropped from 30 percent by value in 2001 to 17 percent in 2005. Conversely, Chile's share rose from 15 percent in 2001 to 42 percent in 2005, and Canada's share rose from 28 percent to 32 percent.

Peru also shifted its exports to destinations other than the United States, including Italy, Brazil, and China. Meanwhile, more recently, the improvement of mining practices and land access in Peru reportedly reignited U.S. interests in Peruvian copper mines. Investments in copper mining in new locations and the expansion of existing mines are under way and promise a new surge in U.S. copper imports from Peru in the coming years.

The volume of U.S. imports of copper cathodes from the world was up in 2005, responding to greater demand for cathodes by U.S. manufacturers of wrought copper products. The moderately rising volume of imports, combined with a 27-percent increase in the average global price during the year, resulted in a 39-percent higher U.S. import value of copper cathodes in 2005 as compared with 2004. Similarly, although the volume of U.S. imports from Peru was up only slightly from 2004, the value of imports from that country was up by 32 percent.

Flowers

Over the past two decades, the U.S. market for flowers (HTS 0603.10) has been increasingly served by imports. In 2005, the import share of U.S. consumption on a value basis was 63 percent. However, the value of U.S. imports from all countries, as well as of those under ATPA, was virtually unchanged in 2005 compared with 2004. One source attributes the flower industry's problems is to multiple constraints on U.S. consumers' discretionary spending, heightened retail competition in flower retailing, major hurricanes, and other causes.[66]

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[65] Carlos Mateo Paz-Soldan, attorney, Schmeltzer, Aptaker & Shepard, on behalf of Exporamerica, written submission to the Commission concerning inv. No. 332-352, *Andean Trade Preference Act: Impact on U.S. Industries and Consumers and on Drug Crop Eradication and Crop Substitution,* June 8, 2006.

[66] Stan Rohmer, "The State of the Industry," *Floral Retailing Magazine*, Jan. 2006.

Virtually all flower imports from the region enter under ATPA. Colombia and Ecuador are the top two suppliers of flowers to the United States, accounting for 59 percent and 18 percent, respectively, of all U.S. flower imports in 2005. Their competitive edge in meeting U.S. demand for flowers is attributable to a favorable climate, relatively low production costs, and adequate air-freight service and distribution infrastructure.[67] The Andean flower industry became the principal beneficiary of ATPA after its implementation in the early 1990s, and accounted for a major share of imports under the program until petroleum and apparel products became eligible under the expanded ATPA. The Government of Ecuador credits ATPA to a great extent with boosting its floriculture, as evidenced by a significant expansion of hectares planted with flowers in the period of 1990-2006, as well as a major reduction in agricultural unemployment.[68]

After slipping in 2002, the U.S. market for Andean flowers increased sharply in 2003 and 2004, following the reinstatement of duty-free treatment for flowers under ATPA. Three flower products that have been traditionally leading imports under ATPA—roses, cut flowers suitable for bouquets, and chrysanthemums—continued to be on the 2005 list of leading imports under the program (table 2-7). Two of these products–roses and cut flowers suitable for bouquets–also appear on the 2005 list of leading imports from ATPA countries under all programs (table 2-3).

However, only imports of roses—the leading flower import—continued to grow in 2005, increasing 10 percent to $263 million (table 2-7). Meanwhile, after having surged in 2004, imports of cut flowers suitable for bouquets were down by 12 percent, and imports of miniature carnations were down by 8 percent. As a result, miniature carnations were no longer a leading import under ATPA in 2005. Imports of chrysanthemums, which stopped growing in 2004, were also slightly down.

Asparagus

Imports under ATPA have grown rapidly in recent years, with certain fresh or chilled asparagus (HTS 0709.20.90) consistently among the leading products under the program.[69] However, the value of asparagus imports under this HTS number under ATPA rose by only 10 percent in 2005 from 2004, amounting to $87.1 million, following a 31 percent rise from 2003 to 2004 (table 2-7). Virtually all fresh asparagus from ATPA countries entered under ATPA during 2005.[70]

Asparagus is a perennial crop requiring a major long-term investment, with the spears generally harvested in significant amounts three years after the original planting, and the plants remaining in production for many years thereafter. Peru, the only major asparagus producer in the region, is one of only a few countries in the world with the climatic advantage of being able to harvest fresh asparagus nearly all year long. Shifting large growing areas away from sugar cane to asparagus has resulted in the dramatic development of Peru's asparagus industry in the past decade.

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[67] For more information on flower imports from ATPA countries, see chapter 3.

[68] Andres Teran, Charge d'Affairs, Embassy of Ecuador, Washington, D.C., written submission to the Commission concerning inv. No. 332-352, *Andean Trade Preference Act: Impact on U.S. Industries and Consumers and on Drug Crop Eradication and Crop Substitution,* June 16, 2006.

[69] Included here are fresh or chilled asparagus not reduced in size and entered during a period other than Sept. 15 to Nov. 15 in any year, by air. Also fresh or chilled asparagus reduced in size and entered any time whether or not by air.

[70] For more information on asparagus imports from ATPA countries, see chapter 3.

The growth in Peruvian production and duty-free shipments to the U.S. market under ATPA has raised concerns of U.S. asparagus growers.[71] In a submission to the Commission during a fact-finding investigation in 2005 (see appendix B), the Michigan Asparagus Advisory Board describes the increases in imports as follows:

> ...given duty-free access to the U.S. market, Peru quickly emerged as one of the world's largest asparagus producers, and U.S. growers found themselves competing against duty-free imports without the benefit of a transition period during which to adjust.[72]

In view of increases in imports, and the ability of Peru to produce year-round, the Board asked that the U.S. Government withdraw ATPA duty-free treatment for fresh asparagus during the months of February through July.[73]

Virtually all U.S. imports of fresh asparagus under HTS 0709.20.90 originate in Peru and Mexico.[74] Prior to 2004, Mexico was the principal U.S. supplier, but Peru overtook Mexico in 2004. In 2005, Mexico regained the top position because U.S. imports from Mexico increased much faster (34 percent) than from Peru (10 percent) from 2004 to 2005. Mexico accounted for over one-half of all U.S. imports of fresh asparagus under HTS 0709.20.90 in 2005, but Peru was close behind, with 46 percent.

U.S. imports of fresh asparagus not reduced in size that are entered by air during September 15 through November 15 are classified under HTS 0709.20.10. Peru has supplied the bulk of such U.S. imports for many years, principally because of its ability to manage the water supply necessary for production virtually year round. In 2005, Peru supplied 94 percent of all U.S. imports of such asparagus. U.S. imports increased each year; during 2005, they were up by 19 percent. However, the item is no longer among the leading 20 imports under ATPA.

Jewelry

In 2005, 91 percent of U.S. jewelry imports (HTS 7113.19) from ATPA countries entered under ATPA provisions; most of the remainder entered under GSP. Imports under ATPA amounted to $176.4 million, up 10 percent by value from 2004, reflecting higher gold prices. The value of U.S. imports of gold jewelry from ATPA countries has fluctuated in recent years, while U.S. imports from India, China, and Thailand have grown rapidly.[75] These three Asian countries and Italy were the leading sources in 2005 of all U.S. jewelry imports made or plated predominantly with gold, accounting collectively for 55 percent of the total.

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[71] United States Department of Agriculture, Foreign Agricultural Service, "Peru, Asparagus Annual," GAIN Report, June 10, 2005; Carlos Mateo Paz-Soldan, and John B. Totaro, Jr., attorneys, Schmeltzer, Aptaker & Shepard, on behalf of the Peruvian Asparagus and Vegetables Institute, written submission to the Commission concerning inv. No. 332-352, *Andean Trade Preference Act: Impact on U.S. Industries and Consumers and on Drug Crop Eradication and Crop Substitution,* June 8, 2006, p. 3.

[72] Michigan Asparagus Advisory Board, on behalf of the National Asparagus Council, written submission to the Commission concerning inv. No. 332-352, *Andean Trade Preference Act: Impact on U.S. Industries and Consumers and on Drug Crop Eradication and Crop Substitution,* received June 7, 2005.

[73] Ibid. No withdrawal of duty-free treatment has taken place in response to this request.

[74] Limited amounts of asparagus also entered from Canada, Chile, Colombia, and Ecuador.

[75] Competitive advantages in jewelry production for China, India, and Thailand include low labor costs, and extensive investment in modern production technologies.

The 2005 list of leading imports under ATPA (table 2-7) features two jewelry products: gold jewelry and parts, except necklaces and neck chains (HTS 7113.19.50), and gold necklaces and chains (HTS 7113.19.29). Imports of gold jewelry and parts under ATPA were up 5 percent, and imports of gold necklaces and chains were up by 8 percent.

Peru ranked 15th globally as a U.S. jewelry supplier in 2005, providing 1.2 percent of the total. Under ATPA, Peru was the leading jewelry supplier; with imports under the program up by 17 percent from 2004. Peru provided almost one-half of U.S. imports from the region in 2005, but Bolivia was not far behind with 39 percent of the total. Several indigenous and foreign-based firms in Bolivia manufacture gold jewelry for export, virtually all for the U.S. market.[76] Notably, the reverse trade flow (U.S. exports of inputs into Bolivian jewelry products) was also significant during 2005, indicating production sharing.[77]

Pouched tuna

Pouched tuna became eligible to enter free of duty for the first time in late 2002 under ATPDEA, subject to specified conditions.[78] Tuna in flexible pouches, packed in water and over quota, appears on the 2005 list of leading imports under ATPA as part of HTS 1604.14.30. Such imports amounted in 2005 to $48 million (table 2-7),[79] up 52 percent from their 2004 value.[80] By contrast, HTS 1604.14.30 imports other than those under ATPA (canned or not processed from tuna harvested in an ATPA country or the United States) declined 30 percent in 2005 compared with 2004.

Flexible pouches are relatively recent alternatives to metal cans as packaging material for tuna in airtight containers. Data indicate a rapid increase in shipments of pouched tuna versus canned tuna from ATPA countries. In 2003 only 22 percent of HTS 1604.14.30 imports (tuna in airtight containers) from ATPA countries was free of duty, and thus presumably was pouched; by 2005 the pouched portion of tuna shipments climbed to one-half of all tuna packed in airtight containers. Ecuador credits ATPDEA with the rapid increase of pouched tuna exports to the United States and the employment opportunities this labor-intensive product created.[81]

Notably, however, imports of tuna in airtight containers overall (pouched and canned combined) from ATPA countries declined for the second consecutive year. From 2004 to 2005, they were down by 3 percent, as a result, HTS 1604.14.30 was no longer on the 2005 list of leading imports from the ATPA region (table 2-3), although it continued to be a leading import under ATPA (table 2-7).

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[76] U.S. & Foreign Commercial Service and U.S. Department of State, "Economic Trends and Outlook, Principal Growth Sectors," *Country Commercial Guide, Bolivia 2005*, Dec. 2004, p. 5. The Bolivian Government, in April 2003, identified precious jewelry, along with textiles, wood, and leather products, for export promotion to capitalize on the trade preferences offered by the ATPA/ATPDEA. Also see "Bolivia" under U.S. Exports to ATPA Countries," later in this chapter.

[77] See section on U.S. exports later in this chapter.

[78] Chapter 98, subchapter XXI, U.S. note 1 lists these conditions, which include that the tuna must be harvested by U.S. vessels or vessels of ATPDEA beneficiary countries.

[79] Tuna in pouches, similar to tuna in metal cans, can be packed in oil or "not in oil," principally water.

[80] In addition to pouched tuna in water (HTS 1604.14.30 (pt.)), pouched tuna in oil (HTS 1604.14.10 (pt.)) is also eligible under ATPDEA under specified conditions.

[81] Andres Teran, Charge d'Affairs, Embassy of Ecuador, Washington, D.C., written submission to the Commission concerning inv. No. 332-352, *Andean Trade Preference Act: Impact on U.S. Industries and Consumers and on Drug Crop Eradication and Crop Substitution,* June 16, 2006.

Another tuna product, which is not packed in airtight containers (referred to as "loins") and is used in canneries as an input for the final product (mostly classified under HTS 1604.14.40), already benefited from the original ATPA, which is also credited by Ecuador for generating jobs.[82] This product, while still eligible, is no longer a leading import under ATPA (absent in 2004 and 2005 from table 2-7). Imports of loins from the region were down by 11 percent in 2005.

Ecuador is virtually the only ATPA country shipping tuna to the United States.[83] In 2005, Ecuador continued to rank second as a supplier of tuna products (HTS 1604.14) to the U.S. market, accounting for 17 percent of the total. Thailand was first, with 43 percent. In recent years, Ecuador has been losing ground to Thailand and the Philippines; Ecuador's share of the U.S. market of HTS 1604.14 products declined from 27 percent of all imports in 2002 to 17 percent in 2005.

Polyvinyl chloride

Polyvinyl chloride (HTS 3904.10) is a new product on the 2005 list of leading imports under ATPA. PVC imports under the program amounted to $45 million. Much smaller amounts were imported from the region in prior years (table 2-7). PVC in primary form is a major thermoplastic, which can be reprocessed. Colombia is the only ATPA country exporting PVC to the United States; it was the third largest source of U.S. imports in the past two years, after Canada and Germany. In 2005, 97 percent of all PVC imports from Colombia entered under ATPA.

PVC is produced from vinyl chloride monomer (HTS 2903.21), largely imported from the United States.[84] U.S. industry sources attribute the increase in U.S. PVC imports from Colombia and other countries to a recent shortfall in U.S. PVC production (particularly in the area of specialty PVC). However, most PVC produced in Colombia is for home consumption.[85]

Imports under ATPA by Country

U.S. imports under ATPA increased from each beneficiary country in 2005 from 2004 (table 2-9, figure 2-3). Because crude petroleum and its derivatives are high-value ATPA products, the relative share of each ATPA country in total U.S. imports under ATPA depended largely on the petroleum-related content of such imports.

[82] Ibid.

[83] U.S.-based Starkist accounts for virtually all tuna exported in airtight containers from Ecuador. Starkist was the first company to develop the practice of shipping tuna in plastic pouches.

[84] See section on U.S. exports in this chapter.

[85] USITC staff interviews with Mihir Patel of OxyChem Corp., Dallas, TX, and Pat Duke of Dewitt Consultants, Houston, TX, June 5, 2006.

Table 2-9 U.S. imports for consumption under ATPA, by sources, 2001-2005

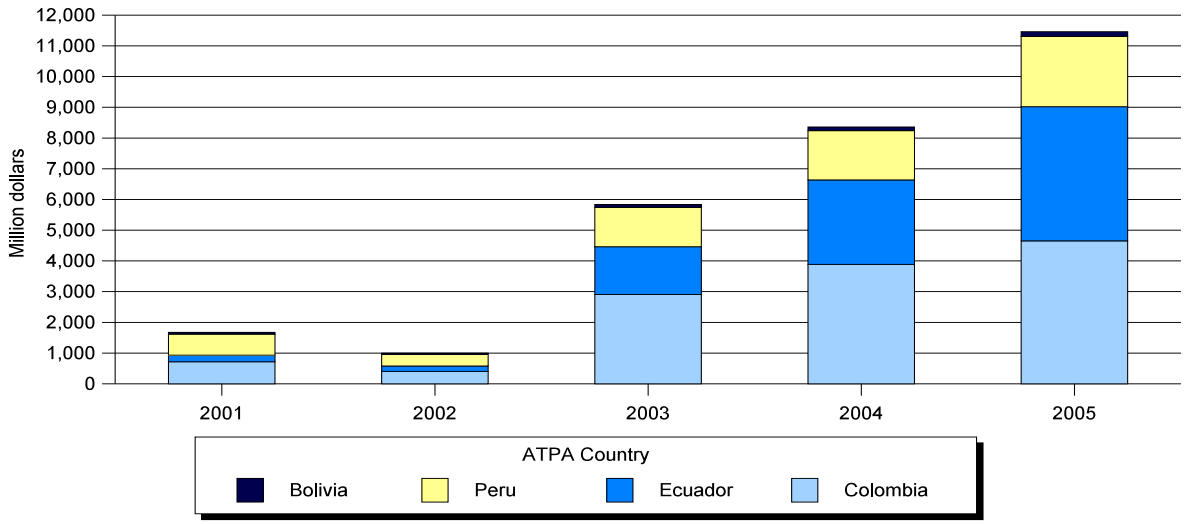
Source	2001	2002[a]	2003[a]	2004[a]	2005	Change 2004-2005
	Value (1,000 dollars)					*Percent*
Colombia	717,966	404,148	2,908,692	3,888,888	4,653,248	19.7
Ecuador	216,300	177,734	1,553,604	2,747,335	4,370,654	59.1
Peru	686,341	381,814	1,279,283	1,602,673	2,282,661	42.4
Bolivia	53,999	37,119	94,453	120,363	157,386	30.8
Total	1,674,607	1,000,816	5,836,032	8,359,258	11,463,949	37.1
	Percent of total					*In percentage points*
Colombia	42.9	40.4	49.8	46.5	40.6	-5.9
Ecuador	12.9	17.8	26.6	32.9	38.1	5.3
Peru	41.0	38.2	21.9	19.2	19.9	0.7
Bolivia	3.2	3.7	1.6	1.4	1.4	-0.1
Total	100.0	100.0	100.0	100.0	100.0	

Source: Compiled from official statistics of the U.S. Department of Commerce.

Note: Because of rounding, figures may not add to totals shown.

[a] ATPA includes imports under ATPDEA.

Figure 2-3
U.S. imports for consumption under ATPA, by sources, 2001-2005



Source: Compiled from official statistics of the U.S. Department of Commerce.

Colombia's share of U.S. imports under ATPA rose from 43 percent in 2001 to 50 percent in 2003, but dropped thereafter to 47 percent in 2004 and 41 percent in 2005, because imports under ATPA from Colombia increased less rapidly than those from Ecuador. Conversely, Ecuador's share of U.S. imports under the program continued to rise, as it has each year since petroleum became ATPA-eligible. Ecuador's share rose from 13 percent of all imports under the original ATPA in 2001 to 27 percent of imports under the expanded ATPA in 2003, and 33 percent in 2004. In 2005, its fast-growing petroleum exports raised Ecuador's participation level in the program to 38 percent, close to Colombia's.

Peru's share of imports under ATPA dropped from 41 percent of total U.S. imports under ATPA in 2001 to 22 percent in 2003, and below 20 percent in 2004 and 2005. Peru's share declined, because it did not export crude oil under the program, although it did export high-value petroleum derivatives, as well as significant amounts of apparel products.

From the outset of ATPA, among all beneficiaries Bolivia benefited least from the program. In the course of the ATPA years, Bolivia's share of imports under the program diminished even more, from 3.2 percent in 2001 to 1.6 percent in 2003 and to 1.4 percent in 2004 and 2005.

Colombia

Colombia's total merchandise exports rose by some 27 percent in 2005, largely because of the steep rise in the price of petroleum.[86] Even though Colombia's oil reserves and production are on the decline, petroleum has continued to be Colombia's single largest export product.[87]

U.S. imports from Colombia under ATPA were $4.6 billion, up 20 percent from 2004 (table 2-9). Colombia was the major source of nine leading products entered under the program: three petroleum products, three apparel products, two flower products, and one plastic product (table 2-7). These imports from Colombia were discussed earlier in the chapter.

Petroleum products accounted for 72 percent of all imports under ATPA from Colombia in 2005. While light crude imports (39 percent of chapter 27 imports under ATPA) continued to outweigh heavy crude imports (29 percent of chapter 27 imports under ATPA), the gap continued to narrow in 2005. In terms of barrels, imports of light crude from Colombia under ATPA fell by 30 percent during the year; however, higher prices pushed the value of such imports slightly above their 2004 value. The volume of heavy crude from Colombia, after having almost tripled in 2004, was up by one-half in 2005. Nonetheless, much higher prices made such imports more than double by value compared with 2004. Some petroleum derivatives from Colombia were also among the leading and growing imports from that country under ATPA (table 2-10).

Flowers were the largest category of imports from Colombia under the original ATPA,[88] but their relative importance was dwarfed by imports of petroleum and derivatives under the expanded ATPA. Roses, the leading nonpetroleum import from Colombia, accounted for 4 percent of all imports from that country under the expanded ATPA in 2005.

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[86] Economist Intelligence Unit (EIU), *Country Report, Colombia*, Apr. 2006, found at *http://www.eiu.com*, May 12, 2006.

[87] Ibid.

[88] In its testimony at a hearing held on Feb. 10, 2004, before the United States International Trade Commission regarding a possible free trade agreement between the United States and the Andean countries, ASOCOFLORES, the Colombian Association of Flower Exporters, stated that "the current tariff preferences for Colombian cut flower imports under ATPA... have been aiding a critical sector of the Colombian economy. The Colombian floral industry is a stabilizing force in the Colombian economy."

Table 2-10 Leading U.S. imports for consumption entered under ATPA, by sources, 2003-2005

Source	HTS provision	Description	2003	2004	2005	Change 2004-2005
			1,000 dollars			*Percent*
Colombia	2709.00.20	Petroleum oils and oils from bituminous minerals, crude, testing 25 degrees A.P.I. or more	1,536,212	1,718,521	1,725,838	0.4
	2709.00.10	Petroleum oils and oils from bituminous minerals, crude, testing under 25 degrees A.P.I.	156,647	581,212	1,171,245	101.5
	2710.19.05	Distillate and residual fuel oil (including blends) derived from petroleum or oils from bituminous minerals, testing under 25 degrees A.P.I.	189,140	231,014	312,474	35.3
	0603.10.60	Roses, fresh cut	144,743	169,536	188,965	11.5
	6203.42.40	Men's or boys' trousers, breeches, and shorts, not knitted or crocheted, of cotton, not containing 15 percent or more down	43,682	88,071	143,042	62.4
		Total of above	2,070,424	2,788,354	3,541,564	27.0
Ecuador	2709.00.10	Petroleum oils and oils from bituminous minerals, crude, testing under 25 degrees A.P.I.	1,207,291	2,298,483	3,937,316	71.3
	0603.10.60	Roses, fresh cut	59,714	69,200	74,108	7.1
	2710.11.25	Naphthas, not motor fuel/blending stock, from petroleum oils/oils from bituminous minerals, minimum 70 percent by weight of such products	25,792	38,993	73,288	88.0
	0603.10.80	Cut flowers and flower buds suitable for bouquets, n.e.s.o.i.	44,984	64,150	54,360	-15.3
	1604.14.30	Tunas and skipjack, not in oil, in airtight containers, n.e.s.o.i.	25,474	31,466	47,814	52.0
		Total of above	1,363,255	2,502,291	4,186,886	67.3
Peru	7403.11.00	Refined copper cathodes and sections of cathodes	447,368	422,392	556,350	31.7
	6110.20.20	Sweaters, pullovers, sweatshirts, waistcoats, and similar articles, knitted or crocheted, of cotton, n.e.s.o.i.	180,933	268,038	274,270	2.3
	2710.11.25	Naphthas, not motor fuel/blending stock, from petroleum oils/oils from bituminous minerals, minimum 70 percent by weight of such products	19,282	71,877	242,469	237.3
	2710.19.05	Distillate and residual fuel oil (including blends) derived from petroleum or oils from bituminous minerals, testing under 25 degrees A.P.I.	28,743	84,020	213,694	154.3
	6105.10.00	Men's or boys' shirts, knitted or crocheted, of cotton	99,484	134,706	172,107	27.8
	6109.10.00	T-shirts, singlets, tank tops, and similar garments, knitted or crocheted, of cotton	68,559	98,931	145,489	47.1
		Total of above	844,369	1,079,964	1,604,380	48.6
Bolivia	2709.00.20	Petroleum oils and oils from bituminous minerals, crude, testing 25 degrees A.P.I. or more	0	0	44,501	([a])
	7113.19.50	Articles of jewelry and parts thereof, of precious metal except silver, except necklaces and clasps	28,687	35,087	38,957	11.0
	7113.19.21	Rope necklaces and neck chains of gold	107	10,767	13,816	28.3
	6105.10.00	Men's or boys' shirts, knitted or crocheted, of cotton	10,579	10,432	12,130	16.3
	7113.19.29	Gold necklaces and neck chains, other than rope or mixed link	20,063	13,123	8,063	-38.6
		Total of above	59,436	69,409	117,467	69.2

Source: Compiled from official statistics of the U.S. Department of Commerce.

Note: The abbreviation "n.e.s.o.i." stands for "not elsewhere specified or otherwise included."

[a] Not meaningful.

Ecuador

The petroleum sector dominates the Ecuadorian economy, accounting for 40 percent of all export earnings.[89] In large part because of rising petroleum prices, the value of Ecuador's total exports was up by some 25 percent in 2005.[90]
U.S. imports from Ecuador under ATPA amounted to $4.4 billion in 2005, up by 59 percent (table 2-9). Petroleum accounted for 92 percent of such imports under ATPA, mostly in the form of heavy crude.

Heavy crude and pouched tuna were the two leading imports under ATPA and were supplied principally by Ecuador (table 2-7). U.S. imports of both products were discussed earlier in this chapter.

The sharp increase in U.S. imports of heavy crude petroleum from Ecuador (table 2-10) explains why total U.S. imports under ATPA from that country rose so steeply in 2005 (table 2-9). The volume of heavy crude imports under ATPA from Ecuador was up by one-third during the year, but higher prices raised the value of such imports by 71 percent. The opening of a second oil pipeline in September 2003, which doubled Ecuador's pipeline capacity, continued to be the most important reason for the country's increased production and export volume in 2005. Imports of certain petroleum products from Ecuador also increased significantly, however imports of other petroleum products declined (table 2-10).

Notably, in May 2006, the Government of Ecuador cancelled its contract with Occidental Petroleum Corporation, a U.S. multinational company, regarding part of the company's operations. Occidental is the largest private entity operating in Ecuador's oil industry. The government ordered Petroecuador, the state-owned oil company, to take control of Occidental's affected Ecuadorian installations.[91]

Imports of roses from Ecuador were also up in 2005, making them the second largest import from Ecuador under ATPA. However, imports of cut flowers suitable for bouquets were down from that country. Other notable changes included the sharp increase in U.S. imports of pouched tuna from Ecuador, as discussed above.

Peru

In 2005, Peru's total merchandise exports were up 37 percent.[92] Imports under ATPA from Peru amounted to $2.3 billion, up 42 percent compared with 2004 (table 2-9). Because of their rising prices, petroleum-related products contributed most to this increase, even though petroleum derivatives (HTS 27) were only the third-largest category of imports from Peru under ATPA, after apparel and copper. U.S. imports from Peru of distillate and residual fuel oils and naphthas more than doubled in 2004 and nearly tripled in 2005 (table 2-10). Peru was the leading supplier of eight of the 20 leading imports under ATPA in 2005: copper

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[89] Energy Information Administration, found at *http://www.eia.doe.gov/emeu/cabs/Ecuador/Background.html*, June 1, 2006.
[90] EIU, *Country Report, Ecuador*, Apr. 2006, found at *http://www.eiu.com*, May 12, 2006.
[91] Bloomberg L.P. "Ecuador to Seize Oil Field from Occidental Petroleum." May 16, 2006, found at *http://quote.bloomberg.com*, June 1, 2006. No continuation of negotiations on a possible U.S.-Ecuador FTA have been scheduled since this event.
[92] EIU *Country Report, Peru*, Apr. 2006, found at *http://www.eiu.com*, retrieved May 12, 2006.

cathodes, four apparel products, one petroleum derivative (naphthas), asparagus,[93] and one jewelry product (table 2-7). U.S. imports from Peru of these products were discussed earlier in the chapter.

Copper cathodes have consistently topped the list of leading imports under ATPA from Peru. U.S. imports of copper cathodes increased in 2005, but only because of higher prices (table 2-10). As mentioned earlier, Peru was the leading supplier of jewelry to the United States under ATPA. However, as such imports were highly diversified, none of them appears as a leading import item under ATPA from Peru. Articles of knitted apparel and clothing accessories (HTS 61), the leading broad category of imports under ATPA from Peru, accounted for 32 percent of all imports from that country under the program. Such imports, especially of men's or boys' knitted shirts and t-shirts, continued to increase at a fast pace.

Bolivia

Bolivia's total merchandise exports were up by some 25 percent in 2005, responding to strong demand and high prices for some of the country's mineral exports, principally natural gas.[94] Bolivia is the only ATPA country whose number one export market is not the United States. In 2004, Brazil accounted for 32 percent of total Bolivian exports, as Brazil was also the principal recipient of Bolivia's natural gas.[95]

In 2005, U.S. imports from Bolivia under ATPA amounted to $157.3 million, 1.4 percent of all U.S. imports under the program. Bolivia was the principal source of only one leading import under ATPA: gold jewelry articles and parts (table 2-7). Major imports from Bolivia under ATPA were three jewelry products, one apparel product, and light petroleum oils (table 2-10).

U.S. Exports to ATPA Countries

The economies of the ATPA countries, buttressed by strong international demand for its traditional export commodities, performed well in 2005, despite political tension throughout the region. As a result, ATPA countries remained a steady market for most U.S. goods. The United States continued to be the leading supplier to each ATPA country, except Bolivia. U.S. exports to the region totaled $8.9 billion, 16 percent above their 2004 level, and 40 percent more than in 2001 (table 2-1). U.S. exports increased to each ATPA country by 5 to 20 percent in 2005 from 2004. ATPA countries combined ranked 19th as a U.S. export market, ahead of Ireland, but behind Switzerland.

U.S. exports to the region were up in all major product categories compared with 2004, except for cereals (table 2-11). The surge of exports of petroleum and derivatives is notable;

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[93] The U.S.-Peru Trade Promotion Agreement (TPA), if implemented, is not expected to provide additional market access for Peruvian asparagus to the United States. However, making the already duty-free access presently granted under ATPA permanent may spur additional investment in Peru by U.S. growers and processors. USITC, *U.S.-Peru Trade Promotion Agreement: Potential Economy-wide and Selected Sectoral Effects,* Inv. TA-2104-20, USITC publication 3855, June 2006, p. 3-1.

[94] EIU *Country Report, Bolivia*, Apr. 2006, found at *http://www.eiu.com*, retrieved May 12, 2006. Bolivia has the second-largest proven natural gas reserves in South America, behind Venezuela.

[95] Official data of Bolivia, as presented by World Trade Atlas. Data for 2005 are not yet available.

exports almost doubled, reflecting larger volumes as well as higher prices. Exports to ATPA countries of instruments, apparatus, and parts thereof, as well as of automotive products also increased at a fast pace in 2005.

U.S. exports of non-electrical machinery and parts (HTS 84) amounted to $1.9 billion. Such exports remained the leading 2-digit HTS product category of this trade flow in 2005 (table 2-11, figure 2-4).[96] The products in this group were mostly intended for use in oil and gas fields, construction, and the data processing area. Sector exports increased 15 percent compared with 2004. Parts of mining and construction machinery and equipment, and computer parts and peripherals were the leading products (table 2-12). Nonetheless, the relative significance of non-electrical machinery and parts as compared to other product groups continued to decline. Non-electrical machinery exports accounted for 27 percent of all U.S. exports to ATPA countries in 2001; their share gradually declined to 22 percent in 2004 and 21 percent by 2005 (table 2-11, figure 2-4).

Electrical machinery (HTS 85), the second leading category of U.S. exports to ATPA countries, accounted for 9.5 percent of the total, the same as in 2004, but less than in 2001 (table 2-11, figure 2-4). Transmission and reception apparatus for telecommunications (mostly cell phones) were responsible for the bulk of U.S. exports in this product group (table 2-12). The combined exports of the two machinery categories (HTS 84 and HTS 85) still accounted for close to one-third of all U.S. exports to ATPA countries in 2005, slightly less than in recent years and continuing a downward trend relative to other export groups.

The rapid growth in recent years of U.S. organic chemical exports (HTS 29) to the region slowed in 2005; exports were up only by six percent. Whereas in 2004 organic chemicals were the second leading category of U.S. exports to ATPA countries, they fell to third place in 2005. The category accounted for 9 percent of the total in 2005, compared with almost 10 percent in 2004. Vinyl chloride, propene (propylene) and styrene continued to be the three leading products within the group (table 2-12). Exports of vinyl chloride were up 17 percent,[97] and those of propene increased 15 percent, both increasing at a much lower rate than in 2004. Meanwhile, U.S. exports of styrene to the region dropped by 3.5 percent in 2005, following a substantial increase in 2004. Colombia was the destination of most of these U.S. organic chemical exports, followed by Peru.

Fuel oils were the leading export product to the ATPA countries in 2005, more than doubling by value compared with 2004 (table 2-12). The value of U.S. exports of plastics (HTS 39) to the region was up by only 4 percent in 2005 as exports of polyethylene— the leading plastic product—declined. U.S. exports of instruments and apparatus (HTS 90) to the region increased rapidly for the second consecutive year, up by 38 percent in 2005 (table 2-11).

[96] In the United States, export data are commonly referred to as being reported under Schedule B, the separate U.S. export schedule based on the HTS nomenclature. For purposes of this report, and for ease of comparison with the analysis on imports, Schedule B numbers are referred to here as HTS provisions. All Schedule B provisions mirror the HTS or aggregate to HTS provisions, except as noted in the HTS Notice to Exporters, which enumerates unique Schedule B categories that must be used for reporting covered exports.

[97] See section on U.S. imports of polyvinyl chloride.

Table 2-11 U.S. exports to ATPA countries, by major product categories, 2001-2005[a]

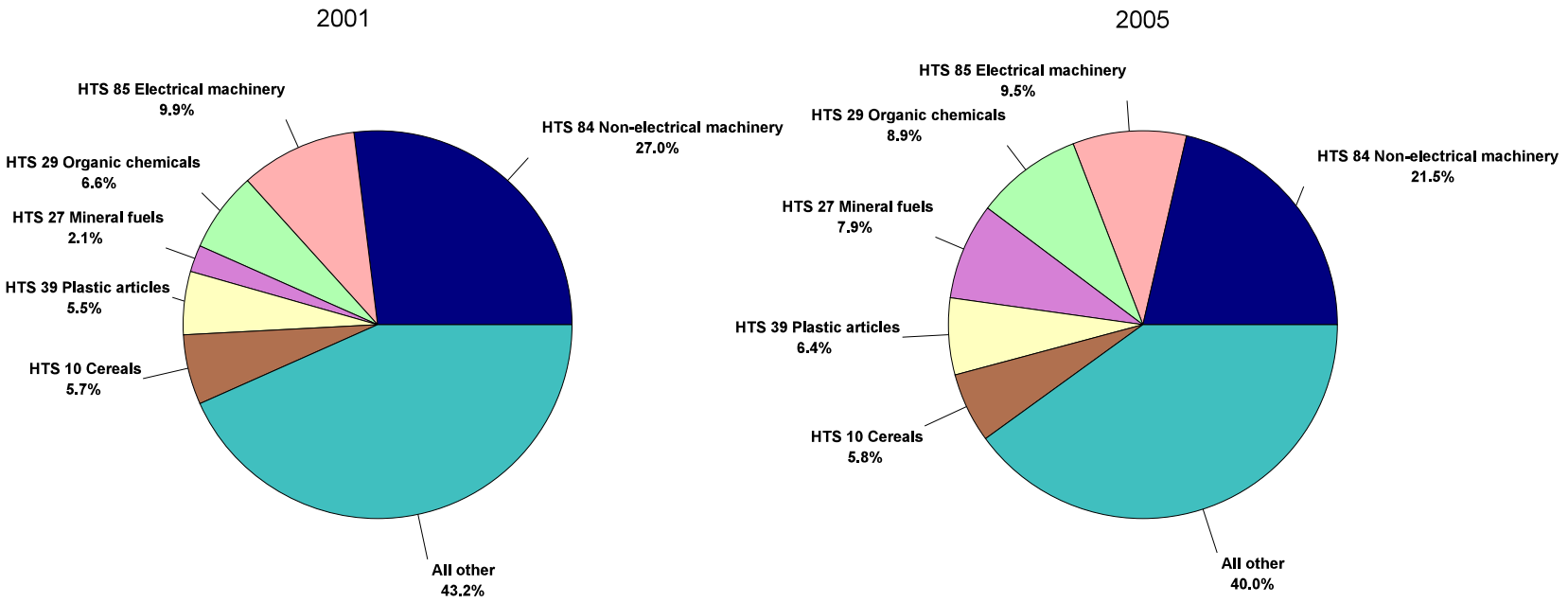
HTS chapter	Description	2001	2002	2003	2004	2005
		Value (1,000 dollars)				
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	1,720,395	1,624,715	1,580,572	1,670,135	1,913,819
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television recorders and reproducers, parts and accessories	629,030	607,976	618,380	725,461	851,227
29	Organic chemicals	417,604	473,033	560,398	746,211	790,978
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	134,404	169,203	253,743	360,413	701,049
39	Plastics and articles thereof	350,532	370,050	379,471	543,875	567,844
10	Cereals	359,635	439,742	437,034	577,569	517,673
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof	224,113	235,413	221,790	248,448	341,927
87	Vehicles, other than railway or tramway rolling stock, and parts and accessories thereof	192,938	145,096	166,661	258,709	339,576
48	Paper and paperboard; articles of paper pulp, paper or paperboard	220,542	221,241	219,100	249,094	274,378
38	Miscellaneous chemical products	160,120	150,797	153,589	182,105	207,738
	Subtotal	4,409,313	4,437,266	4,590,738	5,562,022	6,506,210
	All other	1,954,021	2,026,496	1,934,957	2,101,549	2,412,910
	Total	6,363,334	6,463,762	6,525,695	7,663,571	8,919,120
		Percent of total				
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	27.0	25.1	24.2	21.8	21.5
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television recorders and reproducers, parts and accessories	9.9	9.4	9.5	9.5	9.5
29	Organic chemicals	6.6	7.3	8.6	9.7	8.9
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	2.1	2.6	3.9	4.7	7.9
39	Plastics and articles thereof	5.5	5.7	5.8	7.1	6.4
10	Cereals	5.7	6.8	6.7	7.5	5.8
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof	3.5	3.6	3.4	3.2	3.8
87	Vehicles, other than railway or tramway rolling stock, and parts and accessories thereof	3.0	2.2	2.6	3.4	3.8
48	Paper and paperboard; articles of paper pulp, paper or paperboard	3.5	3.4	3.4	3.3	3.1
38	Miscellaneous chemical products	2.5	2.3	2.4	2.4	2.3
	Subtotal	69.3	68.6	70.3	72.6	72.9
	All other	30.7	31.4	29.7	27.4	27.1
	Total	100.0	100.0	100.0	100.0	100.0

Source: Compiled from official statistics of the U.S. Department of Commerce.

Note: Because of rounding, figures may not add to totals shown.

[a] Domestic exports, f.a.s. basis.

Figure 2-4
Leading U.S. exports to ATPA countries, by major product categories, 2001 and 2005



Source: Compiled from official statistics of the U.S. Department of Commerce.

Note: Percentages may not add to 100 because of rounding.

Table 2-12 Leading U.S. exports to ATPA countries, by HTS provisions, 2003-2005[a]

HTS provision	Description	2003	2004	2005	Change, 2004-2005
		1,000 dollars			*Percent*
2710.19	Oils and preparations from petroleum oils and oils from bituminous minerals, minimum 70 percent by weight of such products, not light	212,973	309,065	639,075	106.8
8525.20	Transmission apparatus incorporating reception apparatus	194,873	271,406	309,092	13.9
1005.90	Corn (maize), other than seed	200,136	266,982	279,235	4.6
8431.43	Parts for boring or sinking machinery, n.e.s.o.i.	252,344	261,310	249,478	-4.5
1001.90	Wheat and meslin, excluding durum wheat	226,696	284,605	222,894	-21.7
2903.21	Vinyl chloride (chloroethylene)	126,540	183,030	214,873	17.4
8473.30	Parts and accessories for automatic data processing machines and units	137,295	152,582	159,533	4.6
8431.49	Parts and attachments for derricks, cranes, self-propelled bulldozers, graders, and other grading, scraping machinery, n.e.s.o.i.	71,870	92,981	148,798	60.0
4804.11	Kraft liner, uncoated, unbleached, in rolls or sheets	106,759	130,022	127,177	-2.2
3100.00	Fertilizers	94,961	119,839	121,157	1.1
5201.00	Cotton, not carded or combed	107,074	127,392	113,316	-11.0
2901.22	Propene (propylene)	52,572	94,114	108,475	15.3
2902.50	Styrene (vinylbenzene; phenylethylene)	59,213	86,790	83,786	-3.5
8431.39	Parts for lifting, handling, loading, or unloading machinery, n.e.s.o.i.	98,494	50,586	83,048	64.2
3901.10	Polyethylene having a specific gravity of less than 0.94, in primary forms	63,052	99,066	75,654	-23.6
3907.60	Polyethylene terephthalate in primary forms	56,518	94,940	69,953	-26.3
8803.30	Parts of airplanes and helicopters, n.e.s.o.i.	60,005	67,645	69,073	2.1
8471.49	Other digital automated data processing machines, entered in the form of systems	50,607	50,854	64,165	26.2
3004.90	Certain medicaments put up in measured doses or in forms or packings for retail sale, n.e.s.o.i.	18,943	40,601	58,221	43.4
8413.91	Parts of pumps for liquids	27,412	37,756	52,008	37.7
	Subtotal	2,218,335	2,821,566	3,249,010	15.1
	All other	4,307,360	4,842,005	5,670,110	17.1
	Total	6,525,695	7,663,571	8,919,120	16.4

Source: Compiled from official statistics of the U.S. Department of Commerce.

Note: The abbreviation "n.e.s.o.i." stands for "not elsewhere specified or otherwise included."

[a] Domestic exports, f.a.s. basis.

Such exports were diversified, containing a multitude of products, none of which were on the leading exports' list (table 2-12). Similarly diversified were U.S. exports of automotive products (HTS 87); these were up by almost one-third, reaching a new record in 2005.

Before 2005, the region had been an important and growing market for U.S. cereals. In 2005, however, such exports were down by over 10 percent (HTS 10). Cereal exports, amounting to $518 million, accounted for less than 6 percent of all U.S. exports to ATPA countries in 2005 compared with 7.5 percent in 2004 (table 2-11). The decline was caused by diminished wheat exports to all ATPA countries except Colombia. Wheat exports to the region declined by 22 percent, as wheat retreated to fifth among the leading U.S. export items in 2005 from second place in 2004 (table 2-12). Meanwhile, U.S. yellow corn exports continued to rise, landing third on the list of leading U.S. exports to ATPA countries (also third in 2004). Colombia was the 8th largest U.S. cereal market among all countries of the world in 2005 (9th in 2004), and Peru was the 20th (14th in 2004).

U.S. exports of cotton not carded or combed to ATPA countries also declined in 2005, by 11 percent (table 2-12), following steady growth during earlier years. Based on 2005 developments, cotton products (HTS 52) are no longer a major export sector to the region (table 2-11, figure 2-4).[98]

Table 2-13 ranks the four ATPA countries according to their importance as U.S. export markets in 2005 in the following order: Colombia, Peru, Ecuador, and Bolivia (see also figure 2-5). This order is the same as it was in 2004.

Table 2-13 U.S. exports to ATPA countries, by markets, 2001-2005[a]

Market	2001	2002	2003	2004	2005	Change, 2004-2005
	Value (1,000 dollars)					*Percent*
Colombia	3,391,561	3,345,084	3,496,277	4,145,013	4,962,135	19.7
Peru	1,450,497	1,441,052	1,551,604	1,857,899	2,038,039	9.7
Ecuador	1,319,141	1,495,839	1,306,139	1,483,550	1,733,151	16.8
Bolivia	202,136	181,786	171,675	177,109	185,795	4.9
Total	6,363,334	6,463,762	6,525,695	7,663,571	8,919,120	16.4
	Percent of total					*In percentage points*
Colombia	53.3	51.8	53.6	54.1	55.6	1.5
Peru	22.8	22.3	23.8	24.2	22.9	-1.4
Ecuador	20.7	23.1	20.0	19.4	19.4	0.1
Bolivia	3.2	2.8	2.6	2.3	2.1	-0.2
Total	100.0	100.0	100.0	100.0	100.0	

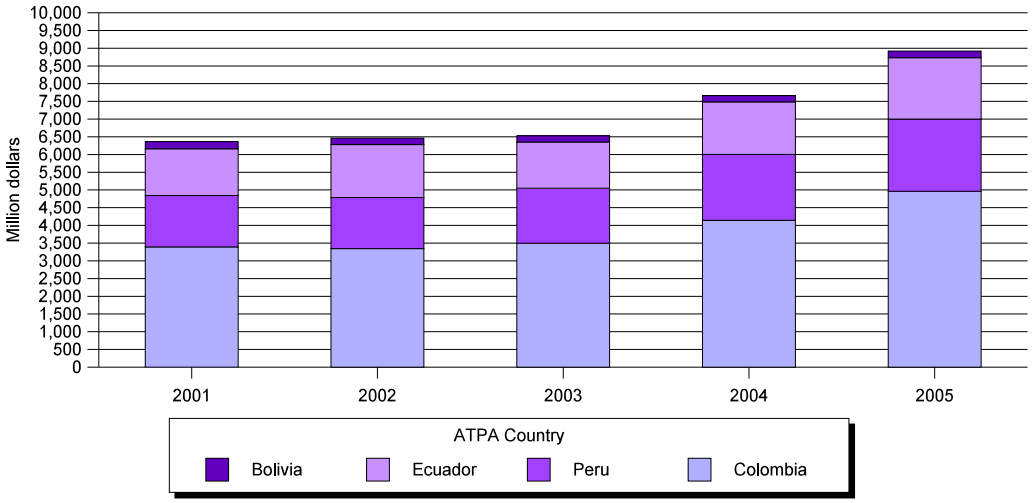
Source: Compiled from official statistics of the U.S. Department of Commerce.

Note: Because of rounding, figures may not add to totals shown.

[a] Domestic exports, f.a.s. basis.

[98] For more information on textile and apparel trade, including cotton products, see the section on "Textiles and Apparel" in this chapter, and section on "Probable Future Effects of ATPA" in chapter 3.

Figure 2-5
U.S. exports to ATPA countries, by markets, 2001-2005



Source: Compiled from official statistics of the U.S. Department of Commerce.

Colombia

In 2005, the Colombian economy grew 5 percent, compared with 4 percent growth in 2004,[99] fueled by vigorous`investment activity and a strong rally in household consumption.[100] The country's relatively stable economy and exchange rate enabled total imports to grow by 30 percent.[101]

U.S. exports to Colombia amounted to $5 billion in 2005, some 20 percent more than in 2004, and accounted for 56 percent of U.S. exports to ATPA countries combined (table 2-13, figure 2-5). Machinery (electrical and non-electrical combined) accounted for about 28 percent of all U.S. exports to Colombia, somewhat less than in 2004. Cell phones, parts of boring and sinking machinery, computers and parts, and construction machinery and parts were major components of this trade flow.

Colombia was the main destination of U.S. exports of organic chemicals to the region. Such sector exports continued to increase in 2005, making organic chemicals the second leading U.S. export category to Colombia and responsible for 13 percent of all U.S. exports to that country. Vinyl chloride was the second-ranking U.S. export product to Colombia, after corn.

Cereals constituted 7 percent of U.S. exports to Colombia in 2005. U.S. corn exports to that country increased by 14 percent, and U.S. wheat exports increased by 19 percent. U.S. exports of cotton not carded or combed to Colombia declined by 9 percent in 2005, but

[99] EIU *Country Report, Colombia*, Apr. 2006, found at *http://www.eiu.com*, retrieved May 12, 2006.
[100] United Nations, Economic Commission for Latin America and the Caribbean (ECLAC), *Preliminary Overview of the Economies of Latin America and the Caribbean, 2005,* Dec. 2005, p. 110. Data cited from this source are preliminary.
[101] EIU, *Country Report, Colombia*, Apr. 2006.

exports of various types of woven fabrics containing cotton continued to rise in the range of 36 to 54 percent.[102]

In the automotive category, notable 2005 increases were in U.S. exports of special purpose vehicles to Colombia. In prior years, such exports were insignificant, but they surged from $165,000 in 2004 to $6.7 million in 2005, and this group of products rose to rank third on the list of leading U.S. export items to Colombia.

Peru

Growth of the Peruvian economy accelerated to 6.7 percent in 2005 from 4.8 percent in 2004.[103] The vitality of the economy boosted Peru's overall imports, which increased by 23 percent during the year.[104] In 2005, Peru purchased $2 billion worth of merchandise from the United States, which accounted for 23 percent of combined U.S. exports to ATPA countries (table 2-13 and figure 2-5), up by less than 10 percent from 2004.

The overall expansion of the Peruvian market masked the growth of certain U.S. sector exports to that country and the contraction of others. U.S. exports to Peru of machinery, petroleum derivatives,[105] and various instruments and apparatus were up by at least one-third by value in 2005. On the other hand, U.S. exports to Peru dropped in some other leading product categories, including plastics, by 6 percent, and cotton, by 14 percent. Most notably, U.S. exports of cereals to Peru dropped by 42 percent. Prior to 2005, Peru had been a steadily and rapidly growing market for U.S. plastics and U.S. cereals, mostly wheat.[106]

Machinery and parts continued to dominate U.S. exports to Peru during 2005, accounting for 35 percent of the total. Petroleum-related exports accounted for 11 percent, plastics for 8 percent, and cereals for 5 percent.

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[102] For more information on textile and apparel trade, see the section on "Textiles and Apparel"earlier in this chapter, and chapter 3 (section on "Probable Future Effects of ATPA.")

[103] EIU, *Country Report, Peru*, Apr. 2006, found at *http://www.eiu.com* retrieved May 12, 2006, and United Nations, Economic Commission for Latin America and the Caribbean (ECLAC), *Preliminary Overview of the Economies of Latin America and the Caribbean, 2005,* Dec. 2005, p. 118.

[104] EIU, *Country Report, Peru*, Apr. 2006, found at *http://www.eiu.com*, retrieved May 12, 2006.

[105] Although in 2004 Peru was still the largest market for U.S. petroleum oils (HTS 2710.19) among ATPA countries, in 2005, it was outranked by Ecuador, as U.S. refined petroleum exports to Ecuador increased faster than to Peru.

[106] The U.S.-Peru Trade Promotion Agreement (TPA), if implemented, is expected to result in a renewed increase of U.S. grain exports to Peru. A recent USITC report said that "The TPA is likely to have a substantial positive effect on U.S. grain exports, especially over the long term. The positive effect results from increased market access through tariff removal and TRQ phase out, removal of Peruvian government support measures, and removal of competitive disadvantages vis-a-vis other grain suppliers to the Peruvian market, see USITC, *U.S.-Peru Trade Promotion Agreement: Potential Economy-wide and Selected Sectoral Effects,* Inv. TA-2104-20, USITC Publication. 3855, June 2006, p. 3-3.

Ecuador

The growth rate of the Ecuadorian economy dropped steeply to 3.0 percent in 2005 from 6.9 percent in 2004, reflecting in part the country's ongoing political turmoil,[107] but mainly reflecting a slowdown in the expansion of the petroleum sector that began immediately after the second pipeline opened in 2003. Even so, owing to high world prices of petroleum, Ecuador realized a 25-percent increase in its overall imports.[108]

U.S. exports to Ecuador increased 17 percent from 2004, to $1.7 billion. Ecuador was the destination of 19 percent of all U.S. exports to ATPA countries in 2005, as well as in 2004 (table 2-13 and figure 2-5). Thirty-five percent of such exports consisted of machinery, equipment, and parts, but heavy petroleum oils were the number one U.S. export product to that country. U.S. exports of heavy petroleum to Ecuador soared by 189 percent in 2005, driven in part by higher prices. Other notable developments included significant increases in U.S. exports to Ecuador of transmission and reception apparatus and of automotive vehicles and parts. On the negative side, U.S. exports to Ecuador of plastics and paper products declined in 2005. In addition, Ecuador's market for U.S. cereals, which expanded 84 percent in 2004, shrunk 27 percent in 2005.

Bolivia

The Bolivian economy grew 4 percent in 2005, the same rate as in 2004. The strength of Bolivia's hydrocarbon sector mitigated the adverse effects of the country's continued political uncertainty on foreign investment. Bolivia's imports expanded by some 26 percent.[109] In 2004, the last year for which data are available, the United States was the third largest supplier of Bolivia's imports after Brazil and Argentina, accounting for only 14 percent of the total.

In 2005, U.S. exports to Bolivia amounted to $186 million, 5 percent more than in 2004 (table 2-13). Bolivia's relatively small share in the ATPA market for U.S. exports continued to diminish to 2.1 percent of the total in 2005. In 2001, this share was 3.2 percent. Forty-five percent of all U.S. exports to Bolivia consisted of machinery, equipment, and parts, destined in part for use in the country's natural gas fields.

Motor vehicles and parts accounted for 9 percent of all U.S. exports to Bolivia in 2005; the group contained major shipments (valued at some $10 million) of special-purpose vehicles. Such exports were negligible in prior years.

Jewelry accounted for some 8 percent of U.S. exports to Bolivia, consisting largely of U.S.-made jewelry components (gold chains, ropes, and clasps) to be assembled into whole pieces (e.g., necklaces and bracelets) for reexport to the United States and exports to third countries.

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[107] Lucio Gutierrez, Ecuador's president, who was removed in April 2005, has become the third president since 1997 to be removed before the end of his term. Alfredo Palacio, the current president, is expected to serve until January 2007.

[108] EIU, *Country Report, Ecuador*, Apr. 2006, found at *http://www.eiu.com*, retrieved May 12, 2006. United Nations, Economic Commission for Latin America and the Caribbean (ECLAC), *Preliminary Overview of the Economies of Latin America and the Caribbean, 2005,* Dec. 2005, p. 113. Data cited from this source are preliminary.

[109] EIU, *Country Report, Bolivia*, Apr. 2006, found at *http://www.eiu.com*, retrieved May 12, 2006.

U.S.-Bolivian two-way trade in gold jewelry increased in 2005; U.S. imports rose by 22 percent, and U.S. exports rose 24 percent from 2004. This growing two-way trade reflects, in part, expanded assembly operations located in Bolivia and financed by U.S. and European investment.[110] U.S. exports to Bolivia of cereals, mostly wheat, which had declined in 2004 by 25 percent, dropped again by 39 percent in 2005.

[110] James Marquart, President and Chief Executive Officer, MJSA, telephone interview with USITC staff, May 25, 2005.

CHAPTER 3
ECONOMIC IMPACT OF ATPA ON THE UNITED STATES AND PROBABLE FUTURE EFFECTS

This chapter addresses two issues: the economic impact of the Andean Trade Preference Act (ATPA) on the U.S. economy, industries, and consumers in 2005 and the probable future effects of the program.[111] The impact analysis identifies those items most affected by ATPA preferences and examines specific U.S. industries. The chapter also provides an assessment of the probable future effects based on information on ATPA-related investment in the countries, collected from U.S. embassies in the region and other public sources.

Impact of ATPA on the United States in 2005

Since it was implemented in 1992,[112] ATPA has had a minimal effect on the overall economy of the United States. In each year from 1992 through 2002, the value of ATPA duty-free U.S. imports was 0.02 percent or less of U.S. gross domestic product (GDP). Starting in 2003, ATPA country producers took advantage of expanded opportunities under the Andean Trade Promotion and Drug Eradication Act (ATPDEA), with imports under ATPA rising to 0.05 percent of U.S. GDP in 2003 and to 0.09 percent in 2005. As pointed out in chapter 2, although the total value of U.S. imports from ATPA countries increased 30 percent in 2005, it remained small in 2005, amounting to 1.21 percent of total U.S. imports, while imports under ATPA provisions totaled 0.69 percent of total U.S. imports.

ATPDEA has sharply increased the number of products and value of imports benefiting from ATPA, especially apparel and petroleum and petroleum products. However, the value of the ATPA program to countries and its potential for affecting the U.S. economy, consumers, and industries has fallen over time because of the erosion of the margin of preference for many ATPA products.[113] Sources of this erosion include phased tariff cuts under the Uruguay Round, the extension of preferential trading arrangements such as the North American Free Trade Agreement (NAFTA) and the U.S.-Chile Free Trade Agreement, tariff cuts and eliminations under sectoral trade negotiations, and the erosion of the ad valorem equivalent of specific duty rates because of inflation.[114] Final tariff cuts under the Uruguay Round became effective in 2004, but the other erosions will continue. In addition, the margin of

[111] As discussed in chapter 1, the term "ATPA" refers to ATPA as amended by ATPDEA, and the term "original ATPA" is used to identify the original ATPA program that expired in Dec. 2001.

[112] ATPA was enacted in December 1991, but the tariff preferences were implemented in 1992 and 1993. See footnote 1 in chapter 1.

[113] The higher the ad valorem equivalent NTR duty rate for any given product, the greater the benefit to ATPA beneficiaries and therefore the higher the margin of preference. ATPA beneficiaries also benefit more if the NTR rate is more extensively applied—that is, if fewer non-ATPA countries enjoy preferential rates.

[114] For a more detailed analysis of the erosion of the margin of preference, see USITC, *ATPA, Fifth Report, 1997*, p. 132.

preference that ATPA-country apparel producers received because of U.S. apparel quotas that apply to other countries fell significantly starting in 2005, when most U.S. textile and apparel quotas ended.

To evaluate the impact of ATPA, the Commission considered only the portion of U.S. imports that can receive preferential treatment only under ATPA, that is, imports that benefit exclusively from ATPA. Some ATPA-eligible products are also eligible for duty-free entry under the Generalized System of Preferences (GSP) and are not included in the analysis. Some apparel articles that became eligible for ATPA duty-free entry as a result of ATPDEA contain U.S. cut parts that are not dutiable under production-sharing arrangements (under HTS heading 9802.00.80). The U.S. value of such articles therefore does not benefit exclusively from ATPA and is not included in the analysis.[115]

Because the original ATPA preferences were enacted for a longer time period (the initial program was for the 10 years from 1991 to 2001) and GSP lapsed several times during this period, ATPA provided greater assurance than the GSP program that GSP-eligible products from ATPA countries would enter the United States free of duty, making investment related to such products more attractive than would have been the case in the absence of ATPA. Investment in developing countries that depends solely on GSP for duty-free preferences has proved riskier because of the repeated lapses in program authorization and uncertainties about when renewal would occur, and because of the possibility that imports of a particular good might exceed competitive need limits and lose GSP eligibility, as discussed in chapter 1. In 2001, both GSP and ATPA expired—GSP on September 30 and ATPA on December 4—introducing additional uncertainties for ATPA-country exporters. President Bush signed legislation to renew both programs retroactively on August 6, 2002, but only through December 31, 2006.[116] Uncertainty with respect to an expiration date is now similar for both programs. No attempt was made to quantify any of these uncertainties in the analysis that follows.

The material that follows in this section defines products that benefit exclusively from ATPA; presents quantitative estimates of the impact of ATPA on U.S. consumers, the U.S. Treasury, and U.S. industries whose goods compete with U.S. imports under ATPA; and describes the U.S. imports that benefited exclusively from ATPA in 2005 and had the largest potential impact on competing U.S. industries.

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[115] The U.S. value of imports from ATPA countries under production-sharing arrangements has never been large and has been falling in recent years. In 2005, less than $2,000 of U.S. value was recorded for imports of products benefiting exclusively from ATPA.

[116] Public Law 107-210, the Trade Act of 2002. ATPDEA is Title XXXI of the Act. Record keeping and data collection for potential ATPA-eligible entries were disrupted by ATPA's lapse, and reported data for 2002 may be incomplete or inaccurate. In the analysis described in this chapter, no attempt was made to quantify any of these data problems. Data for 2002 and analysis based on that data are therefore not strictly comparable with data and analysis in prior ATPA reports and will not be comparable with data and analysis in future ATPA reports. Furthermore, the addition of newly eligible products under ATPDEA alters the comparability of data and analysis in reports starting in 2003 with data and analysis in reports prior to 2003.

Products That Benefited Exclusively from ATPA in 2005

U.S. imports of products benefiting exclusively from ATPA in 2005 are defined as those that entered free of duty under ATPA[117] and were not eligible to enter free of duty under normal trade relations (NTR) rates or under other programs, such as GSP.[118] Consistent with this definition, GSP-eligible products imported from ATPA countries that were entered under ATPA preferences were considered to benefit exclusively from ATPA only if imports of the product from a designated beneficiary country had exceeded GSP competitive need limits and had therefore lost GSP eligibility.[119]

The value of U.S. imports that benefited exclusively from ATPA increased from $7.6 billion in 2004 to $10.6 billion in 2005 (53.1 percent of total U.S. imports from ATPA countries), an increase of 40.4 percent (table 3-1). From the implementation of the ATPA program in 1992 until 2002, U.S. imports

The 20 leading items that benefited exclusively from ATPA in 2005 are shown in table 3-2. The most notable change in the value of such imports relative to 2004 was for three petroleum items—heavy crude oil (HTS 2709.00.10), up $2.3 billion (79 percent); heavy fuel oil (HTS 2710.19.05), up $163 million (43 percent); and naphthas (HTS 2710.11.25), up $153 million (61 percent). Other notable increases include copper cathodes, up $134 million (32 percent), and men's or boys' woven cotton trousers and shorts (HTS

Table 3-1 Total imports from ATPA beneficiaries, imports entered under ATPA, and imports that benefited exclusively from ATPA, 2001-2005

Item	2001	2002	2003	2004	2005
Total imports from ATPA beneficiaries:					
Value (million dollars[a])	9,569	9,611	11,639	15,490	20,060
Imports entered under ATPA:[b]					
Value (million dollars[a])	1,675	1,001	5,836	8,359	11,464
Percentage of total	17.5	10.4	50.1	54.0	57.1
Imports that benefited exclusively from ATPA:					
Value (million dollars[a])	1,086	740	5,230	7,586	10,648
Percentage of total	11.3	7.7	44.9	49.0	53.1

Source: Estimated by the U.S. International Trade Commission from official statistics of the U.S. Department of Commerce.

[a] Customs value.
[b] Includes articles entered free of duty under ATPA provisions (table 2-6). Those provisions are discussed in chapter 1.

[117] As mentioned in chapter 1, reduced-duty preferences under the original ATPA were terminated by ATPDEA, and those products previously eligible for reduced duties are now eligible for duty-free treatment.
[118] Because ATPDEA amended ATPA, imports under ATPA and imports benefiting exclusively from ATPA include imports made eligible for preferential treatment by ATPDEA.
[119] A beneficiary developing country loses GSP benefits for an eligible product when U.S. imports of the product exceed either a specific annually adjusted value or 50 percent of the value of total U.S. imports of the product in the preceding calendar year—the so-called competitive need limit. See Sec. 503(c)(2) of the Trade Act of 1974, as amended. ATPA has no competitive need limits. Thus, eligible products that are excluded from duty-free entry under GSP because their competitive need limits have been exceeded can still receive duty-free entry under ATPA.

Table 3-2 Leading imports that benefited exclusively from ATPA, 2005
(*1,000 dollars*)

HTS provision	Description	Customs value	C.i.f. value
2709.00.10	Petroleum oils and oils from bituminous minerals, crude, testing under 25 degrees A.P.I.	5,182,127	5,488,296
2709.00.20	Petroleum oils and oils from bituminous minerals, crude, testing 25 degrees A.P.I. or more	1,770,339	1,827,791
2710.19.05	Distillate and residual fuel oil (including blends) derived from petroleum or oils from bituminous minerals, testing under 25 degrees A.P.I.	541,470	573,897
7403.11.00[a]	Refined copper cathodes and sections of cathodes	556,350	564,635
2710.11.25	Naphthas (exc. motor fuel/mtr fuel blend. stock) fr petroleum oils & bitumin minerals (o/than crude) or preps 70%+ by wt. fr petroleum oils	406,173	429,380
0603.10.60	Roses, fresh cut	263,076	335,494
6110.20.20	Sweaters, pullovers and similar articles, knitted or crocheted, of cotton, n.e.s.o.i.	295,156	308,044
6105.10.00	Men's or boys' shirts, knitted or crocheted, of cotton	193,835	200,136
6109.10.00	T-shirts, singlets, tank tops and similar garments, knitted or crocheted, of cotton	164,190	172,076
6203.42.40	Men's or boys' trousers and shorts, not bibs, not knitted or crocheted, of cotton, not containing 15% or more by weight of down, etc	156,388	159,325
0709.20.90	Asparagus, n.e.s.o.i., fresh or chilled	87,130	140,165
0603.10.70[b]	Chrysanthemums, standard carnations, anthuriums and orchids, fresh cut	96,287	124,403
6106.10.00	Women's or girls' blouses and shirts, knitted or crocheted, of cotton	64,213	66,484
6204.62.40	Women's or girls' trousers, breeches and shorts, not knitted or crocheted, of cotton, n.e.s.o.i.	55,793	57,126
0603.10.80[c]	Cut flowers and flower buds suitable for bouquets or ornamental purposes, fresh cut, n.e.s.o.i.	43,556	55,648
1604.14.30	Tunas and skipjack, not in oil, in airtight containers, n.e.s.o.i.	47,814	49,077
2710.19.15	Kerosene-type jet fuel from petroleum oils and oils of bitumin minerals (o/than crude) or preps. 70%+ by wt. from petroleum oils	39,843	41,304
0709.20.10[a]	Asparagus, fresh or chilled, not reduced in size, if entered September 15 to November 15, inclusive, and transported to the U.S. by air	23,548	40,302
2402.20.80	Cigarettes containing tobacco but not containing clove, paper-wrapped	39,097	39,998
6908.90.00	Glazed ceramic flags and paving, hearth or wall tiles; glazed ceramic mosaic cubes and the like, n.e.s.o.i.	19,424	26,473

Source: Estimated by the U.S. International Trade Commission from official statistics of the U.S. Department of Commerce.

Note: The abbreviation n.e.s.o.i. stands for “not elsewhere specified or otherwise included.”

[a] Includes only imports from Peru. Item is GSP-eligible, but imports from Peru exceeded the competitive need limit and thus were eligible for duty-free entry only under ATPA.

[b] Includes only imports from Colombia. Item is GSP-eligible, but imports from Colombia exceeded the competitive need limit and thus were eligible for duty-free entry only under ATPA.

[c] Includes only imports from Colombia for the second half of 2005. Item is GSP-eligible, but imports from Colombia exceeded competitive need limit and thus were eligible for duty-free entry only under ATPA in the second half of the year.

6203.42.40), up $59 million (61 percent). Increases in the value of petroleum and petroleum products and copper cathodes reflect substantial increases in unit values, and for most products (including the petroleum and petroleum products mentioned above, but not copper cathodes), substantial increases in the volume of imports. Two products were added to the list of 20 leading imports benefiting exclusively from ATPA in 2005—other fresh-cut flowers (HTS 0603.10.80) and kerosene-type jet fuel (HTS 2710.19.15). As shown in chapter 2, 17 of the 20 leading imports benefiting exclusively in 2005 were among the 20 leading imports under ATPA in 2005 (see table 2-7).

Several leading imports that were identified in previous annual ATPA reports as benefiting exclusively from ATPA between 1992 and 2002 under the original ATPA continued to rank among the leading U.S. imports in 2005. Those imports were fresh-cut roses (HTS 0603.10.60) and chrysanthemums and other flowers under HTS 0603.10.70 from Colombia, which have consistently ranked among the leading items benefiting exclusively from ATPA since the implementation of the program. Refined copper cathodes from Peru and fresh or chilled asparagus (HTS 0709.20.10 from Peru and HTS 0709.20.90) have also consistently remained on the list since 1995.

Welfare and Displacement Effects of ATPA on U.S. Industries and Consumers in 2005

The analytical approach for estimating the welfare and displacement effects of ATPA was described in the introduction to this report and is discussed in more detail in appendix C. Upper estimates and lower estimates are reported, reflecting the assumption of higher substitution elasticities and lower substitution elasticities, respectively.

The Commission focused its analysis on the 20 leading imports that benefited exclusively from ATPA in 2005 (table 3-2).[120] Estimates of welfare and potential U.S. industry displacement effects were made. Industries that experienced estimated displacement of more than 5 percent of the value of U.S. production, based on upper estimates, were selected for further analysis. A limited number of U.S. producers benefited from ATPA preferences because they supplied inputs to apparel assembled in ATPA countries. Those supplying fabric are not explicitly analyzed because of data limitations,[121] but U.S. exports of textiles (Standard International Trade Classification code 65) to ATPA countries rose from $100 million in 2002 to $164 million in 2004 as the relative share of exports has shifted to fabric and away from apparel parts. Exports of textiles to ATPA countries fell slightly to $162 million in 2005, perhaps resulting from a shift to regional fabrics by ATPA producers.

Items Analyzed

Although a large number of products are eligible for tariff preferences under ATPA, a relatively small group accounts for most of the imports that benefit exclusively from ATPA. Table 3-2 presents the 20 leading items that benefited exclusively from ATPA in 2005; they are ranked on the basis of their c.i.f. import values.[122] Those products represented 94 percent

[120] USITC industry analysts provided estimates of U.S. production and exports for the 20 leading items that benefited exclusively from ATPA, as well as evaluations of the substitutability of ATPA-exclusive imports and competing U.S. products.

[121] To make estimates of the impact of ATPA on U.S. textile producers, it would be necessary to separate imports of apparel made with U.S. fabric from imports made from regional fabric. Data available to the Commission do not allow this distinction to be made.

[122] In the analysis, U.S. market expenditure shares were used to compute estimates of welfare and domestic production displacement effects. Because U.S. expenditures on imports necessarily include freight and insurance charges and duties, when applicable, the analysis used c.i.f. values for duty-free products benefiting exclusively from ATPA, and landed, duty-paid values for the remaining imports. Technically, landed, duty-paid values are equal to c.i.f. values for products entering free of duty.

of the $10.7 billion in imports that benefited exclusively from ATPA during 2005.[123] The five leading ATPA-exclusive imports in 2005 were (1) heavy crude oil, (2) light crude oil (HTS 2709.00.20), (3) heavy fuel oil, (4) copper cathodes from Peru (which exceeded its GSP competitive need limit), and (5) naphthas. Ecuador was the leading supplier of heavy crude oil, Colombia was the leading supplier of light crude oil and heavy fuel oil, and Peru was the leading supplier of copper cathodes and naphthas.[124] In 2004, heavy crude oil ranked first among ATPA-exclusive imports, and light crude oil ranked second.[125]

For any particular product, the U.S. market share accounted for by ATPA-exclusive imports (value of imports benefiting exclusively from ATPA relative to apparent consumption) was a major factor in determining the estimated impact on competing domestic producers.[126] These market shares varied considerably in 2005 (table 3-3). For instance, the market share of ATPA-exclusive imports of fresh-cut roses was approximately 87 percent, whereas the market share of ATPA-exclusive imports of cigarettes (HTS 2402.20.80) was 0.12 percent.

Estimated Effects on Consumers and Producers

Tables 3-4 and 3-5 present the estimated impact of ATPA tariff preferences on the U.S. economy in 2005.[127] Estimates of the gains in consumer surplus and the losses in tariff revenue, as well as measures of the potential displacement of U.S. production, are discussed next.

Effects on U.S. consumers

Men's or boys' knitted cotton shirts (HTS 6105.10.00) provided the largest gain in consumer surplus resulting exclusively from ATPA tariff preferences in 2005, from $30 million to $34 million (table 3-4). Without ATPA, the price that U.S. consumers would have paid for imports of men's or boys' knitted cotton tops from ATPA countries would have been as much as 19.1 percent higher (the ad valorem duty rate, adjusted for freight and insurance charges). Knitted cotton t-shirts (HTS 6109.10.00) provided the second-largest gain in consumer surplus, from $22 million to $24 million. Without ATPA, the price of imports of such t-shirts from ATPA countries would have been as much as 15.7 percent higher. In general, products providing the largest gains in consumer surplus also have either some of the highest NTR tariff rates or the largest volumes of imports, or both.

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[123] The import values reported in tables 3-2 and 3-3 reflect only that portion of imports under each HTS provision that entered free of duty under ATPA. Even though all of these items were eligible for ATPA tariff preferences, full duties were paid on a certain portion of imports under each HTS provision for a variety of reasons, such as failure to claim preferences, insufficient documentation, and indirect shipment patterns.

[124] Leading ATPA suppliers are shown in table 2-7.

[125] For the list of items benefiting exclusively from ATPA in 2004, see USITC, *ATPA, Eleventh Report, 2004*, p. 3-5.

[126] Other factors include the ad valorem equivalent tariff rate; the substitutability among beneficiary imports, nonbeneficiary imports, and domestic production; and the overall demand elasticity for the product category.

[127] The methodology used is described in appendix C.

Table 3-3 Leading imports that benefited exclusively from ATPA, apparent U.S. consumption, and ATPA exclusive market share, 2005

HTS provision	Description	Imports from ATPA countries (c.i.f. value) (A)	Apparent U.S. consumption (B)[a]	Market share (A/B)
		----------1,000 dollars----------		*Percent*
2709.00.10	Petroleum oils and oils from bituminous minerals, crude, testing under 25 degrees A.P.I.	5,488,296	83,116,069	6.6
2709.00.20	Petroleum oils and oils from bituminous minerals, crude, testing 25 degrees A.P.I. or more	1,827,791	152,711,493	1.2
2710.19.05	Distillate and residual fuel oil (including blends) derived from petroleum or oils from bituminous minerals, testing under 25 degrees A.P.I.	573,897	106,495,695	0.54
7403.11.00	Refined copper cathodes and sections of cathodes	564,635	10,889,342	5.19
2710.11.25	Naphthas (exc. motor fuel/mtr fuel blend. stock) fr petroleum oils & bitumin minerals (o/than crude) or preps 70%+ by wt. fr petroleum oils	429,380	10,361,071	4.14
0603.10.60	Roses, fresh cut	335,494	386,916	86.71
6110.20.20	Sweaters, pullovers and similar articles, knitted or crocheted, of cotton, n.e.s.o.i.	308,044	([b])	([b])
6105.10.00	Men's or boys' shirts, knitted or crocheted, of cotton	200,136	1,943,273	10.3
6109.10.00	T-shirts, singlets, tank tops and similar garments, knitted or crocheted, of cotton	172,076	5,142,022	3.35
6203.42.40	Men's or boys' trousers and shorts, not bibs, not knitted or crocheted, of cotton, not containing 15% or more by weight of down, etc	159,325	7,295,709	2.18
0709.20.90[c]	Asparagus, n.e.s.o.i., fresh or chilled	140,165	394,854	39.82
0603.10.70	Chrysanthemums, standard carnations, anthuriums and orchids, fresh cut	124,403	167,451	74.29
6106.10.00	Women's or girls' blouses and shirts, knitted or crocheted, of cotton	66,484	1,248,762	5.32
6204.62.40	Women's or girls' trousers, breeches and shorts, not knitted or crocheted, of cotton, n.e.s.o.i.	57,126	7,730,861	0.74
0603.10.80	Cut flowers and flower buds suitable for bouquets or ornamental purposes, fresh cut, n.e.s.o.i.	55,648	1,061,411	5.24
1604.14.30	Tunas and skipjack, not in oil, in airtight containers, n.e.s.o.i.	49,077	878,946	5.58
2710.19.15	Kerosene-type jet fuel from petroleum oils and oils of bitumin minerals (o/than crude) or preps. 70%+ by wt. from petroleum oils	41,304	2,602,261	1.59
0709.20.10[c]	Asparagus, fresh or chilled, not reduced in size, if entered September 15 to November 15, inclusive, and transported to the U.S. by air	40,302	-	-
2402.20.80	Cigarettes containing tobacco but not containing clove, paper-wrapped	39,998	33,998,405	0.12
6908.90.00	Glazed ceramic flags and paving, hearth or wall tiles; glazed ceramic mosaic cubes and the like, n.e.s.o.i.	26,473	2,730,273	0.97

Source: Estimated by the U.S. International Trade Commission from official statistics of the U.S. Department of Commerce.

Note: The abbreviation n.e.s.o.i. stands for “not elsewhere specified or otherwise included.”

[a] Apparent U.S. consumption defined as U.S. production plus total imports (landed, duty-paid basis) minus exports.

[b] U.S. production and/or export data not available.

[c] Apparent consumption for HTS 0709.20.10 and HTS 0709.20.90 were aggregated into one category and reported under HTS 0709.20.90.

Table 3-4 Estimated welfare effects on the United States of leading imports that benefited exclusively from ATPA, 2005
(*1,000 dollars*)

HTS provision	Description	Gain in consumer surplus (A) Upper estimate	Gain in consumer surplus (A) Lower estimate	Loss in tariff revenue (B) Upper estimate	Loss in tariff revenue (B) Lower estimate	Net welfare effect (A-B) Upper estimate	Net welfare effect (A-B) Lower estimate
2709.00.10	Petroleum oils and oils from bituminous minerals, crude, testing under 25 degrees A.P.I.	5,171	5,175	5,159	5,168	12	7
2709.00.20	Petroleum oils and oils from bituminous minerals, crude, testing 25 degrees A.P.I. or more	3,524	3,531	3,507	3,520	17	10
2710.19.05	Distillate and residual fuel oil (including blends) derived from petroleum or oils from bituminous minerals, testing under 25 degrees A.P.I.	540	541	539	540	1	1
7403.11.00	Refined copper cathodes and sections of cathodes	5,435	5,485	5,308	5,408	126	77
2710.11.25	Naphthas (exc. motor fuel/mtr fuel blend. stock) fr petroleum oils & bitumin minerals (o/than crude) or preps 70%+ by wt. fr petroleum oils	809	810	805	808	4	2
0603.10.60	Roses, fresh cut	17,231	17,320	16,600	16,773	631	547
6110.20.20	Sweaters, pullovers and similar articles, knitted or crocheted, of cotton, n.e.s.o.i.	([a])	([a])	([a])	([a])	([a])	([a])
6105.10.00	Men's or boys' shirts, knitted or crocheted, of cotton	29,988	33,597	23,417	29,619	6,571	3,977
6109.10.00	T-shirts, singlets, tank tops and similar garments, knitted or crocheted, of cotton	21,913	24,287	17,638	21,803	4,275	2,484
6203.42.40	Men's or boys' trousers and shorts, not bibs, not knitted or crocheted, of cotton, not containing 15% or more by weight of down, etc	20,822	23,182	16,612	20,730	4,211	2,451
0709.20.90	Asparagus, n.e.s.o.i., fresh or chilled	18,017	19,056	16,484	18,447	1,533	609
0603.10.70	Chrysanthemums, standard carnations, anthuriums and orchids, fresh cut	5,919	5,974	5,686	5,793	233	181
6106.10.00	Women's or girls' blouses and shirts, knitted or crocheted, of cotton	9,862	11,113	7,638	9,781	2,224	1,331
6204.62.40	Women's or girls' trousers, breeches and shorts, not knitted or crocheted, of cotton, n.e.s.o.i.	7,421	8,271	5,914	7,396	1,508	874
0603.10.80	Cut flowers and flower buds suitable for bouquets or ornamental purposes, fresh cut, n.e.s.o.i.	2,597	2,688	2,419	2,593	179	96
1604.14.30	Tunas and skipjack, not in oil, in airtight containers, n.e.s.o.i.	4,585	5,081	3,468	4,308	1,117	773
2710.19.15	Kerosene-type jet fuel from petroleum oils and oils of bitumin minerals (o/than crude) or preps. 70%+ by wt. from petroleum oils	274	276	270	273	5	3
0709.20.10	Asparagus, fresh or chilled, not reduced in size, if entered September 15 to November 15, inclusive, and transported to the U.S. by air	([b])	([b])	([b])	([b])	([b])	([b])
2402.20.80	Cigarettes containing tobacco but not containing clove, paper-wrapped	4,262	4,506	3,808	4,262	454	244
6908.90.00	Glazed ceramic flags and paving, hearth or wall tiles; glazed ceramic mosaic cubes and the like, n.e.s.o.i.	1,466	1,555	1,299	1,464	167	91

Source: Estimated by the U.S. International Trade Commission from official statistics of the U.S. Department of Commerce.

Note: The abbreviation n.e.s.o.i. stands for “not elsewhere specified or otherwise included.”

[a] Welfare and displacement effects were not calculated because of unavailability of U.S. production and/or export data.
[b] Analysis for HTS 0709.20.10 and HTS 0709.20.90 is combined under HTS subheading 0709.20.90.

Table 3-5 Estimated displacement effects on the United States of leading imports that benefited exclusively from ATPA, 2005

HTS provision	Description	U.S. production	Reduction in U.S. production: Value, Upper estimate	Reduction in U.S. production: Value, Lower estimate	Reduction in U.S. production: Share, Upper estimate	Reduction in U.S. production: Share, Lower estimate
		1,000 dollars			*Percent*	
2709.00.10	Petroleum oils and oils from bituminous minerals, crude, testing under 25 degrees A.P.I.	32,880,482	8,564	4,466	0.03	0.01
2709.00.20	Petroleum oils and oils from bituminous minerals, crude, testing 25 degrees A.P.I. or more	61,063,751	5,853	3,052	0.01	[a]
2710.19.05	Distillate and residual fuel oil (including blends) derived from petroleum or oils from bituminous minerals, testing under 25 degrees A.P.I.	85,126,395	1,724	899	[a]	[a]
7403.11.00	Refined copper cathodes and sections of cathodes	4,396,413	8,828	4,412	0.2	0.1
2710.11.25	Naphthas (exc. motor fuel/mtr fuel blend. stock) fr petroleum oils & bitumin minerals (o/than crude) or preps 70%+ by wt. fr petroleum oils	3,798,694	1,121	584	0.03	0.02
0603.10.60	Roses, fresh cut	38,956	3,171	511	8.14	1.31
6110.20.20	Sweaters, pullovers and similar articles, knitted or crocheted, of cotton, n.e.s.o.i.	[b]	[b]	[b]	[b]	[b]
6105.10.00	Men's or boys' shirts, knitted or crocheted, of cotton	108,000	2,947	659	2.73	0.61
6109.10.00	T-shirts, singlets, tank tops and similar garments, knitted or crocheted, of cotton	1,662,000	13,430	3,035	0.81	0.18
6203.42.40	Men's or boys' trousers and shorts, not bibs, not knitted or crocheted, of cotton, not containing 15% or more by weight of down, etc	1,890,000	10,841	2,453	0.57	0.13
0709.20.90	Asparagus, n.e.s.o.i., fresh or chilled	137,902	14,824	4,037	10.75	2.93
0603.10.70	Chrysanthemums, standard carnations, anthuriums and orchids, fresh cut	26,002	1,695	275	6.52	1.06
6106.10.00	Women's or girls' blouses and shirts, knitted or crocheted, of cotton	240,000	3,945	888	1.64	0.37
6204.62.40	Women's or girls' trousers, breeches and shorts, not knitted or crocheted, of cotton, n.e.s.o.i.	1,010,000	1,914	434	0.19	0.04
0603.10.80	Cut flowers and flower buds suitable for bouquets or ornamental purposes, fresh cut, n.e.s.o.i.	331,735	1,441	240	0.43	0.07
1604.14.30	Tunas and skipjack, not in oil, in airtight containers, n.e.s.o.i.	280,000	8,481	4,841	3.03	1.73
2710.19.15	Kerosene-type jet fuel from petroleum oils and oils of bitumin minerals (o/than crude) or preps. 70%+ by wt. from petroleum oils	1,805,094	277	145	0.02	0.01
0709.20.10	Asparagus, fresh or chilled, not reduced in size, if entered September 15 to November 15, inclusive, and transported to the U.S. by air	[c]	[c]	[c]	[c]	[c]
2402.20.80	Cigarettes containing tobacco but not containing clove, paper-wrapped	35,000,000	7,975	3,495	0.02	0.01
6908.90.00	Glazed ceramic flags and paving, hearth or wall tiles; glazed ceramic mosaic cubes and the like, n.e.s.o.i.	875,000	1,732	742	0.2	0.08

Source: Estimated by the U.S. International Trade Commission from official statistics of the U.S. Department of Commerce.

Note: The abbreviation n.e.s.o.i. stands for “not elsewhere specified or otherwise included.”

[a] Less than 0.005 percent.
[b] Welfare and displacement effects were not calculated because of unavailability of U.S. production and/or export data.
[c] Analysis for HTS 0709.20.10 and HTS 0709.20.90 is combined under HTS subheading 0709.20.90.

ATPA preferences also reduced U.S. tariff revenues, offsetting much of the gain in consumer surplus. For example, for tuna in airtight containers[128] (HTS 1604.14.30), lower tariff revenues offset 76 percent to 85 percent of the gain in consumer surplus; for women's or girls' knitted cotton shirts (HTS 6106.10.00), the offset was about 77 percent to 88 percent; and for men's or boys' knitted cotton shirts (HTS 6105.10.00), the offset was about 78 percent to 88 percent. For many of the other products listed in table 3-4, lower tariff revenues offset nearly all of the gain in consumer surplus; this typically occurs when NTR duty rates are relatively low, as is the case with many ATPA-exclusive products.

Overall, the estimated net welfare effects of ATPA were small. The gain in consumer surplus (column A of table 3-4) was greater than the corresponding decline in tariff revenue (column B) for all of the products analyzed for which data were available. Of the resulting estimated net welfare gains, the largest were for men's or boys' knitted cotton shirts ($4.0 million to $6.6 million), knitted cotton t-shirts ($2.5 million to $4.3 million), and men's or boys' woven cotton trousers and shorts (HTS 6203.42.40) ($2.5 million to $4.2 million). Men's or boys' knitted cotton shirts, knitted cotton t-shirts, and men's or boys' woven cotton trousers and shorts also had the largest estimated net welfare gains in 2004.[129]

Effects on U.S. producers[130]

Estimates of the potential displacement of domestic production (table 3-5) were small for most of the individual sectors.[131] The analysis indicates that the largest potential displacement effects were for asparagus (2.9 percent to 10.8 percent displaced, valued at $4.0 million to $14.8 million); fresh-cut roses (1.3 percent to 8.1 percent displaced, valued at $0.5 million to $3.2 million); and chrysanthemums etc. (1.1 percent to 6.5 percent of U.S. domestic shipments displaced, valued at $0.3 million to $1.7 million), mainly because of the very high U.S. market shares enjoyed by these products (see table 3-3). However, even the upper estimates of the displacement share for the majority of the products benefiting exclusively from ATPA were less than 1 percent.

Highlights of U.S. Industries Most Affected by ATPA

Industries having estimated displacements of 5 percent or more, based on upper estimates, were chosen for further analysis. In 2005, three products that benefited exclusively from ATPA met this criterion: asparagus, fresh-cut roses, and chrysanthemums etc. Asparagus and cut flowers likewise were identified as having an estimated displacement of 5 percent or

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[128] All of the tuna benefiting exclusively from ATPA under HTS 1604.14.30 was entered in flexible foil containers under HTS 1604.14.3051 and 1604.14.3091. For more information, see chapter 2.

[129] See USITC, *ATPA, Eleventh Report, 2004*, table 3-4, p. 3-8.

[130] As noted in chapter 1 and appendix C, the Commission's analysis assumes that the domestic supply is perfectly elastic. This assumption means that any change in the demand for domestic production (such as that resulting from a drop in the price of imports from ATPA country suppliers) results in quantity changes and not price changes.

[131] U.S. market share, ad valorem equivalent tariff rate, and elasticity of substitution between beneficiary imports and competing U.S. production are the main factors that affect the estimated displacement of U.S. domestic shipments. In general, the larger the ATPA share of the U.S. market, ad valorem equivalent tariff rate, and substitution elasticity, the larger the displacement of domestic shipments.

more in 2004.[132] Asparagus and cut flowers are discussed in greater detail in the following sections.

Fresh or Chilled Asparagus

U.S. imports of asparagus under HTS 0709.20.10 (fresh or chilled asparagus not reduced in size, entered during the period from September 15 to November 15, inclusive, and transported by air) were dutiable at the NTR rate of 5 percent ad valorem in 2005. Imports entered under HTS 0709.20.10 were eligible for duty-free or reduced-duty treatment under a number of preferential programs and free trade agreements (FTAs), including ATPA.[133] Imports entered under HTS 0709.20.90 (other fresh or chilled [134]asparagus) in 2005 were dutiable at 21.3 percent ad valorem. Imports under HTS 0709.20.90 were eligible for duty-free or reduced-duty treatment under several preferential programs and FTAs, including ATPA.

U.S. imports of all fresh or chilled asparagus amounted to $213.9 million in 2005, up by 21 percent from $176.2 million in 2004, with rising imports from Peru accounting for about 30 percent of the increase and imports from Mexico accounting for most of the remainder.[135] Peru and Mexico are the major foreign suppliers to the U.S. market. U.S. imports of fresh asparagus from ATPA countries have risen in recent years to account for 35 percent of the value of total U.S. fresh asparagus consumption in 2005.[136] Such imports amounted to $110.9 million in 2005, up by 11 percent from $99.6 million in 2004. Peru was by far the major ATPA supplier of fresh asparagus to the U.S. market and the largest overall foreign supplier in 2005,[137] supplying nearly all imports under ATPA and 52 percent of all U.S. fresh asparagus imports by customs value (62 percent by c.i.f. value). Colombia and Ecuador were also suppliers of small amounts of fresh asparagus to the United States in recent years.

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[132] See USITC, *ATPA, Eleventh Report, 2004*, p. 3-11.

[133] Imports entered under HTS 0709.20.10 in 2005 were eligible for duty-free treatment under GSP (from all designated beneficiary developing countries except Peru, which had exceeded the competitive need limit and thus was ineligible in 2005), ATPA, CBERA, NAFTA, and FTAs with Chile, Israel, Jordan, Morocco, and Singapore, and were eligible for reduced-duty treatment under the FTA with Australia. Duties on imports of fresh or chilled asparagus from Mexico under HTS 0709.20.10 were eliminated in 1999.

[134] Imports entered under HTS 0709.20.90 in 2005 were eligible for duty-free treatment under GSP from all designated least-developed beneficiary developing countries (no ATPA country qualifies as a least-developed beneficiary developing country), ATPA, the African Growth and Opportunity Act, CBERA, NAFTA (Canada only), and FTAs with Israel and Jordan. Imports under FTAs with Chile, Singapore, Morocco, and Australia were eligible for entry at reduced rates. Under NAFTA, the duty on eligible imports from Mexico under HTS 0709.20.90 will be reduced to free in 2009. In 2005, eligible imports from Mexico under HTS 0709.20.90 of fresh or chilled white asparagus entered any time during the year (HTS 9906.07.31) and other asparagus entered July 1 to December 31, inclusive (HTS 9906.07.34), were free of duty. Eligible imports of fresh or chilled other asparagus from Mexico under HTS 0709.20.90 were dutiable at a rate of 2.3 percent ad valorem if entered during the month of January (HTS 9906.07.32) and 3.3 percent ad valorem if entered during the period from February 1 to June 30, inclusive (HTS 9906.07.33).

[135] Includes HTS 0709.20.10 and HTS 0709.20.90 from all countries.

[136] Calculated by the Commission by combining U.S. production for the fresh market with U.S. fresh asparagus imports and removing U.S. fresh asparagus exports.

[137] Mexico was supplanted by Peru as the leading foreign supplier of all fresh asparagus to the U.S. market in 2003, and Peru maintained its lead over Mexico throughout 2004 and 2005. However, Mexico still accounts for over 40 percent annually of total U.S. fresh asparagus imports and, with the domestic Mexican market principally a residual market for fresh asparagus sales, the United States continues as a major market for Mexican asparagus exports. See USDA, FAS, *Mexico Asparagus Annual 2006*, GAIN Report #MX6046, June 15, 2006, pp. 3-4.

U.S. production of fresh-market asparagus amounted to 141.4 million pounds in 2005, down 7 percent from 152.4 million in 2004 but up by 18 percent from 119.4 million in 2003.[138] Production value fell 26 percent from $185.5 million in 2004 to $137.9 million in 2005, but was up 10 percent from 2003 to 2005.[139] The leading states producing fresh-market asparagus were California (which sells nearly all of its production to the fresh market), Washington, and Michigan. The leading states producing asparagus for processing were Washington and Michigan. Washington asparagus growers have sold more of their production on the fresh market and less to processing in recent years following the closing of three asparagus processing plants in Washington since 2002.[140] Michigan asparagus growers also have sold more of their asparagus to the fresh market in recent years, but they report that lower prices for their asparagus for processing forces more asparagus to be sold to the fresh market, which is already supplied by imports. The lower asparagus prices are said to have resulted in many growers going out of business.[141] U.S. annual per capita consumption of fresh-market asparagus amounted to 1.2 pounds in 2005, up slightly from 2004 but twice the per capita consumption in the early 1990s.[142] Per capita consumption of canned and frozen asparagus has been stagnant, at 0.2 and 0.1 pounds, respectively, for a number of years.[143]

Historically, the season for U.S. production has differed substantially from that of most imports from ATPA countries. Production in California typically starts in February, peaks in April, and continues through June. Production in Washington and Michigan starts in April and ends in July. About 70 percent of imports from Mexico in recent years entered during January-March, just prior to and at the start of the California season. The bulk of fresh asparagus imports from ATPA countries enter during July through the following January, when overall U.S. production is low. In recent years, however, imports from ATPA countries (mainly Peru) have entered in larger amounts during most other months as well, but still account for a fairly small market share in those months.

According to recent USDA statistics, prices for California asparagus are often at a seasonal low level during January-March as domestic production increases. With U.S. production highest during the period of mid-February through mid-May and with supplies from Mexico also available, the price of fresh asparagus may approach a level at which it is not as profitable for importers to sell foreign asparagus in the U.S. market, leading to a reduction in imports from Peru and other shippers.

The impact of ATPA on U.S. consumers has been significant in that imports of Peruvian fresh-market asparagus, together with imports from Mexico and U.S. production, have

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[138] USDA, National Agricultural Statistics Service, *Vegetables*, publication No. Vg 1-2 (06), Jan. 2006, p. 35.

[139] Ibid.

[140] Don Brunell, President, Association of Washington Business, "Seneca Announcement Leaves Washington's Asparagus Industry on Life Support," June 4, 2004, found at *http://www.awb.org/cgi-bin*, retrieved May 24, 2005. According to industry officials, imports of fresh Peruvian asparagus "have closed U.S. canning operations." See also John Bakker, Michigan Asparagus Advisory Board, written submission to the Commission concerning inv. No. 332-352, *Andean Trade Preference Act: Impact on U.S. Industries and Consumers and on Drug Crop Eradication and Crop Substitution,* June 7, 2005.

[141] John Bakker, Michigan Asparagus Advisory Board, written submission to the Commission concerning inv. No. 332-352, *Andean Trade Preference Act: Impact on U.S. Industries and Consumers and on Drug Crop Eradication and Crop Substitution,* June 7, 2005.

[142] USDA, Economic Research Service, *Vegetables and Melons Outlook*, publication No. VGS-314, Apr. 20, 2006, Percap table 1.

[143] Ibid.

resulted in greater availability of fresh asparagus throughout the year. This extended availability of fresh-market asparagus, together with the overall consumer awareness of, and preference for, healthy foods, may be mostly responsible for a two-fold rise in per capita annual consumption of fresh asparagus over the past decade.[144] The increase in product availability throughout the year also may have resulted in lower retail prices for consumers in 2005, especially in those months when U.S. production is minimal. Furthermore, the overall supply of asparagus is said to have outpaced demand in the United States, lowering the prices received by Peruvian exporters to the U.S. market.[145]

Exports of fresh asparagus from Peru increased by 71 percent in volume from 2001 to 2004 and by 11 percent from 2004 to 2005.[146] The United States has been the major export market for Peruvian shipments of green asparagus for a number of years, accounting for about 74 percent of such exports in 2005.[147] Although there is no official Peruvian government policy encouraging asparagus production,[148] the Peruvian asparagus industry provides jobs for an estimated 70,000 workers and has become an important part of overall economic development in Peru.[149] The marketing of Peruvian asparagus exports is being handled by Peru's Export Promotion Committee (Prompex),[150] and the Peruvian Asparagus and Horticulture Institute (IPEH) provides assistance to growers and exporters in the areas of foreign-market promotion and development.[151]

USDA officials project that fresh asparagus imports from ATPA countries will continue rising in the near future, despite Peruvian industry comments that global demand for fresh asparagus has flattened and U.S. prices for fresh asparagus have fallen.[152] Peruvian fresh asparagus production rose 2 percent from 2004 to 2005 and was forecast to rise 2 percent again from 2005 to 2006.[153] Peru is still one of the largest global producers of asparagus, with annual production levels greater than those in the United States and Mexico combined,[154] and asparagus is now the leading agricultural export from Peru.[155] Changes in land tenure are attracting greater amounts of investment capital from investors seeking to invest in the production of exportable crops such as asparagus with a stable foreign demand.[156] In recent years, large tracts of land owned by cooperatives and once used for sugar production have been planted with asparagus.[157] Growers in Peru take advantage of a favorable climate and make use of drip irrigation in the dry season to produce high-quality asparagus year round.[158]

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[144] For more information, see USITC, *ATPA, Ninth Report, 2002*, p. 3-17.
[145] USDA, FAS, *Peru Asparagus Annual 2006*, GAIN Report #PE6008, June 2, 2006, p. 5.
[146] Ibid., p. 2.
[147] Ibid., p. 1.
[148] Ibid., p. 6.
[149] Ibid., p. 2.
[150] Ibid., p. 6.
[151] Ibid., p. 6.
[152] Ibid.
[153] USDA, FAS, *Peru Asparagus Annual 2005*, GAIN Report #PE5009, June 10, 2005, p. 2.
[154] USDA, FAS, "World Asparagus Situation and Outlook," *World Horticultural Trade and U.S. Export Opportunities*, Circular FHORT 7-04, July 2004, pp. 1-6, found at *http://www.fas.usda.gov/htp/2004 circlst.html*, retrieved May 25, 2005.
[155] USDA, FAS, *Peru Asparagus Annual 2004*, GAIN Report #PE4008, June 9, 2004, p. 2.
[156] Ibid., p. 4.
[157] USDA, FAS, *Peru Asparagus Annual 2003*, GAIN Report #PE3012, July 2, 2003, p. 3.
[158] USDA, FAS, *Peru Asparagus Annual 2005*, GAIN Report #PE5009, June 10, 2005, p. 4.

Fresh-Cut Flowers

Fresh-cut flowers have been a major component of U.S. imports from ATPA countries since the 1980s, and they continue to represent an important economic activity of ATPA beneficiary countries. ATPA countries supplied 96 percent of the total value of U.S. imports of fresh-cut roses (HTS 0603.10.60) and 89 percent of the total value of U.S. imports of chrysanthemums etc. (HTS 0603.10.70) in 2005.[159] Virtually all U.S. imports of the two fresh-cut flower categories considered here from beneficiary countries entered free of duty under ATPA. U.S. imports of the subject fresh-cut flowers from ATPA countries are primarily sourced from Colombia and Ecuador, with Colombia dominating, particularly in chrysanthemums etc.

Fresh-cut flowers are a major nontraditional agricultural export product for both Colombia and Ecuador, which were the second- and third-largest exporters of fresh-cut flowers in the world in 2005, respectively.[160] Both countries enjoy year-round production and benefit from abundant water, labor, and high-quality land. The United States is the principal fresh-cut flower export market for ATPA countries, accounting for 81 percent of the total value of Colombian exports ($727 million) and 60 percent of Ecuadorian exports ($353 million) in 2005.[161] U.S. companies owned approximately 17 percent of total Colombian production in 2004, and accounted for nearly 20 percent of total exports to the United States. The value of U.S. investments in the Colombian flower industry in 2004 was estimated at $250 million.[162]

The wholesale value of domestically produced fresh-cut flowers was $397 million in 2005.[163] The number of commercial U.S. cut-flower growers continued to decline in 2005, falling to 498 from 542 the previous year,[164] and U.S. growers continued to face significant competition from cut-flower imports, which represented more than one-half of U.S. fresh-cut flower sales.

Low-priced imports placed downward price pressure on all cut flowers in the U.S. market in 2005. Low-priced cut flowers are also a result of the trend in the industry toward large volume production and mass marketing, reflecting increasing sales to supermarkets, home centers, and discount stores.[165] Demand for cut flowers in the U.S. market in 2005 was weakened as consumer spending was constrained by higher energy and gasoline expenses.[166] After a 10-percent rise during 2003-04, prices of imported flowers decreased slightly in 2005,[167] while prices of all cut flowers in the U.S. market were up only 1 percent on average in 2005 over 2004.

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[159] The imports referred to in this section are calculated on a Customs value basis.

[160] Global Trade Atlas database, Global Trade Information Services, *http://www.gtis.com*.

[161] Global Trade Atlas database, Global Trade Information Services, *http://www.gtis.com*.

[162] Augusto Solano, President, Colombian Flower Exporters Association, written submission to the Commission concerning inv. Nos. TA-131-28 and TA-2104-10, *U.S.-Andean Countries Free Trade Agreement: Advice Concerning the Probable Economic Effect of Providing Duty Free Treatment for Imports*, Feb. 17, 2004.

[163] USDA, NASS, *Floriculture Crops, 2005 Summary*, Apr. 2006.

[164] USDA, NASS, *Floriculture Crops, 2005 Summary*, Apr. 2006. The number of growers includes only those with more than $100,000 in annual sales.

[165] Alberto Jerardo, "Volume Production Keeps Floriculture Prices Low," *Amber Waves*, Economic Research Services, U.S. Department of Agriculture, Feb. 2004, pp. 4-5.

[166] USDA, ERS, *Floriculture and Nursery Crops Outlook*, Sept. 2005, p. 3.

[167] USDA, ERS, *Floriculture and Nursery Crops Outlook*, Sept. 2005, p. 3.

In recent years, some U.S. growers have differentiated their products from imports to some extent by offering services not available from importers, such as quick turnaround times on special orders. U.S. cut-flower growers also continue to switch to high-value cut varieties with limited import competition (e.g., delphinium, larkspur, and orchids) as well as other nursery products such as annual and perennial flowering plants. U.S. production of roses and chrysanthemums etc. accounted for only 16 percent of total U.S. production of cut flowers in 2005. However, imports of roses and chrysanthemums etc. accounted for 86 percent of U.S. consumption of those flowers and 42 percent of U.S. consumption of cut flowers of all types.

Increasing import volumes of roses and chrysanthemums etc. from ATPA countries have had a positive impact on U.S. consumers, who are able to purchase high-quality flowers in multiple varieties at low prices. Many U.S. importers, distributors, and retail florists depend heavily on moderately priced fresh-cut flowers from overseas. Reportedly, imports of cut flowers directly and indirectly contribute approximately 226,000 jobs to the U.S. market[168] in areas such as transportation companies, import brokerage houses, wholesalers, retail florist shops, supermarkets, mass merchandisers, and convenience stores. The floral importing industry in the Miami area alone reportedly spends almost $20 million annually on insurance, professional fees, and office expenses.[169]

U.S. market conditions and the oversupply of flowers on the world market have reduced profit margins of cut-flower exporters in ATPA countries to their current levels of 2 percent to 4 percent,[170] generally less than the current tariff preference. Growers in ATPA countries report that they are limited in their cost control measures because direct labor accounts for 50 percent of the total cost of production.[171] In addition, transportation costs for cut flowers from ATPA countries are high, especially so when transportation costs from Miami (the main port of entry) to other U.S. destinations are included. Therefore, the roughly 6 percent to 7 percent U.S. tariff forgone makes up a much smaller portion of the final cost to consumers, mitigating the impact of the tariff preferences under ATPA.

Much of the current high market share of imports from ATPA countries was attained before ATPA was implemented. Because of the high ATPA-country market share, the small advantage of duty-free treatment under ATPA likely has a modest impact on U.S. growers of roses and chrysanthemums etc. In addition, the diversification into other cut varieties and nursery products by U.S. growers noted earlier likely lessens the impact of preferential duty treatment under ATPA for roses and chrysanthemums etc. on the U.S. industry as a whole.

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[168] Lin Watts, Executive Vice President, Association of Floral Imports of Florida, written submission to the Commission concerning inv. Nos. TA-131-28 and TA-2104-10, *U.S.-Andean Countries Free Trade Agreement: Advice Concerning the Probable Economic Effect of Providing Duty Free Treatment for Imports*, Feb. 16, 2004.

[169] South Florida Industry Statistics, Association of Floral Imports of Florida, found at *http://www.afifnet.org/sflstats.htm*, retrieved June 22, 2006.

[170] Lin Watts, Executive Vice President, Association of Floral Imports of Florida, written submission to the Commission concerning inv. Nos. TA-131-28 and TA-2104-10, *U.S.-Andean Countries Free Trade Agreement: Advice Concerning the Probable Economic Effect of Providing Duty Free Treatment for Imports*, Feb. 16, 2004.

[171] Augusto Solano, President, Colombian Flower Exporters Association, written submission to the Commission concerning inv. Nos. TA-131-28 and TA-2104-10, *U.S.-Andean Countries Free Trade Agreement: Advice Concerning the Probable Economic Effect of Providing Duty Free Treatment for Imports*, Feb. 17, 2004.

Fresh-cut roses

U.S. imports of fresh-cut roses in 2005 were dutiable at the NTR rate of 6.8 percent ad valorem. Such imports were dutiable at the rate of 3.4 percent for Chile and Singapore under the FTAs with those countries, and 6.1 percent for Australia under its FTA. Fresh-cut rose imports were eligible for duty-free treatment under ATPA, CBERA, NAFTA, the African Growth and Opportunity Act, and FTAs with Israel and Jordan. Imports of fresh-cut roses are not eligible for duty-free entry under GSP.

In 2005, U.S. sales of domestically produced roses fell to 100 million stems, valued at $39 million, from 104 million stems, valued at $42 million, the previous year.[172] This pattern continued the downward trend in the value of U.S. domestic production of fresh-cut roses that began in the late 1980s as imported roses entered the United States in increasing quantities. Although the price of both U.S.-grown and imported roses increased slightly in 2005 over 2004, imported prices remained lower than those of U.S. roses.[173]

Imports of roses from all sources accounted for 86 percent of the value of U.S. consumption of roses in 2005, up from 83 percent the previous year. Imports from ATPA countries in 2005 supplied 84 percent of the value of U.S. consumption, compared with 79 percent of its value in 2004.[174] Colombia was the leading supplier, with imports from that country accounting for 60 percent of the value of U.S. consumption in 2005. Ecuador was second, with imports accounting for 24 percent of total U.S. consumption in 2005.

U.S. imports of fresh-cut roses from all sources totaled $275 million in 2005, an increase of 10 percent over the previous year. Colombia and Ecuador were the leading suppliers, accounting for 69 percent and 27 percent, respectively, of the total value in 2005. U.S. imports of fresh-cut roses from all ATPA sources totaled $263 million in 2005, an increase of 10 percent from the previous year, virtually all of which entered free of duty under ATPA. Colombia supplied 72 percent of the fresh-cut rose imports under the ATPA program in 2005, and Ecuador accounted for 28 percent. Peru supplied less than 1 percent of total rose imports under the ATPA program, and no imports of roses from Bolivia were entered in 2005.

Fresh-cut chrysanthemums, standard carnations, anthuriums, and orchids

U.S. imports of fresh-cut chrysanthemums, standard carnations, anthuriums, and orchids (fresh-cut chrysanthemums etc.) were dutiable in 2005 at the NTR rate of 6.4 percent ad valorem. Such imports were dutiable at the rate of 3.2 percent for Singapore and 4.8 percent for Australia under the FTAs with those countries. Such imports were eligible for duty-free treatment under the GSP (excluding those from Colombia, which exceeded the competitive-need limit), ATPA, CBERA, NAFTA, and FTAs with Israel, Jordan, and Chile. In 2005, virtually all U.S. imports of fresh-cut chrysanthemums etc. from ATPA beneficiary countries entered free of duty under the ATPA program.

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[172] USDA, NASS, *Floriculture Crops, 2005 Summary*, Apr. 2006.

[173] USDA, ERS, *Floriculture and Nursery Crops Outlook*, Sept. 2005, p. 12.

[174] Market shares are calculated using all imports of fresh-cut roses from ATPA countries, not exclusively those that benefit from the ATPA program.

U.S. sales of domestically produced fresh-cut chrysanthemums etc. decreased by 13 percent from $30 million in 2004 to $26 million in 2005.[175] Among the major flowers in this category, sales of domestic chrysanthemums and orchids fell by 14 and 12 percent, respectively. Total U.S. consumption of fresh-cut chrysanthemums etc. decreased by 2 percent in 2005 to $135 million. Imports from all sources accounted for 81 percent of the value of consumption in 2005, a slight increase over 2004. Imports from ATPA countries, virtually all from Colombia, supplied 72 percent of the value of total U.S. consumption of fresh cut chrysanthemums etc. in 2005, up only slightly from 71 percent in 2004.

U.S. imports of fresh-cut chrysanthemums etc. from all sources increased slightly to $109 million in 2005 over the previous year. Among ATPA beneficiary countries, Colombia was by far the leading supplier, accounting for 90 percent of the total import value from all sources in 2005. Ecuador, the next largest ATPA supplier, accounted for less than 1 percent of total imports. Bolivia accounted for a relatively insignificant share of imports in 2005, and no imports of Peruvian chrysanthemums etc. were entered in 2005.

Probable Future Effects of ATPA

The first part of this chapter analyzed the effects on the United States of the elimination of import duties under ATPA, including ATPDEA. As previously reported in this series, most of the effects on the U.S. economy and consumers of a one-time elimination of duties under a preference program such as ATPA likely occurred within 2 years of the program's implementation. Other effects, which are discussed in this part of the chapter, occur over time as a result of an increase in export-oriented investment in the region. Such investment in new production facilities or in the expansion of existing facilities may occur in response to the availability of ATPA tariff preferences and may lead to increased exports under ATPA to the United States. Therefore, the Commission has been monitoring ATPA-related investment in the Andean region, including investment in ATPDEA-eligible products, using investment expenditures as a proxy for the future trade effects of ATPA on the United States.[176]

For this report covering 2005, the Commission continues to report about ATPA-related investment in the region; however, it should be noted that ATPA is scheduled to expire in December 2006, so future shipments under the program will not be possible unless it is renewed. Further, in the cases of Peru and Colombia, the United States has negotiated bilateral FTAs, called trade promotion agreements, which will replace ATPA trade preferences when implemented.[177]

Because U.S. imports from ATPA countries represented such a small portion of total U.S. imports in 2005 (1.21 percent), and an even smaller share of imports that benefited exclusively from ATPA (0.64 percent), even if U.S. trade preferences were to continue in some form for these countries, the probable future effects of ATPA on the overall U.S. economy would be minimal. However, the Commission was able to identify new and

[175] USDA, NASS, *Floriculture Crops, 2005 Summary*, Apr. 2006.

[176] The practice of using investment to assess the probable future economic effects on the United States was developed as part of the Commission's reporting requirement on the CBERA. For a more detailed discussion of the methodology, see USITC, *CBERA, First Report*, 1984-85, USITC publication 1907, Sept. 1986, p. 4-1.

[177] For more information on these agreements, see chapter 1.

expansion-related investments in all ATPA countries except Ecuador, where investment in non-oil ATPA-eligible products was frozen in 2005. Such investments could generate increased exports to the United States in the future.

According to industry and other sources (as cited later in this chapter), during 2005, major non-oil investments in ATPA-eligible products were constrained in most ATPA countries by uncertainties related to ATPA's expiration and to negotiations to conclude bilateral free trade agreements with the United States. However, investors in Colombia and Peru faced fewer uncertainties than those in Bolivia and Ecuador because of expectations that ATPA trade preferences would be replaced by similar trade preferences under bilateral FTAs. Indeed, both countries concluded bilateral trade promotion agreements with the United States, but uncertainties continue regarding when the agreements will enter into effect and whether there will be a gap between when ATPA expires at the end of 2006 and when the new agreements are implemented. Industry sources reported that major investments in Peru have been postponed as a result. Exports from Ecuador, including flowers, will likely decline when duties are reimposed, particularly if the U.S. FTAs with Colombia and Peru are implemented.

The Commission identified ATPA-related investments in oil, textiles and apparel, flowers, jewelry, wood products, ethanol, and various fruits and vegetables, including asparagus and avocados, which may generate increased exports to the United States in the future. However, in the textile and apparel sector, competition from China stemming from the expiration of global quotas on January 1, 2005, already adversely affected 2005 total exports to the United States from three out of the four ATPA beneficiaries. Regional officials in the sector noted that continued trade preferences that are immediately implemented following ATPA's expiration are essential for the Andean textile and apparel industry to remain viable. Investments are described in more detail in the country sections below.

Because it is difficult to isolate trends in investment related to ATPA-eligible products alone, information on ATPA-related investment activity and trends during 2005 was drawn largely from official telegrams from U.S. embassies in the Andean region, except as noted. Information on apparel-related investments was gathered from a variety of published sources.

All four U.S. embassies in the ATPA countries responded to the Commission's request for information regarding new or expansion investments related to ATPA-eligible products. Of the four embassies, three were able to provide specific information regarding new or expansion ATPA-related investment. Information on the textile and apparel industries in each of the four countries is also provided.

The most recent official foreign direct investment (FDI) statistics show that FDI inflows to the ATPA region increased in 2004 to $5.9 billion (table 3-6).[178] FDI inflows overall increased to Colombia and Peru and declined to Bolivia and Ecuador. Among other factors, the strong demand for commodities, especially from China, contributed to FDI in minerals in Peru and in oil and gas in Colombia and Peru.[179] The declines in FDI inflows to Bolivia and Ecuador resulted from continued political and social instability and the 2003 completion

[178] United Nations Conference on Trade and Development (UNCTAD), *World Investment Report 2005: Transnational Corporations and the Internationalization of R&D*, New York and Geneva, 2005, pp. 304-305.
[179] Ibid., p. 62.

Table 3-6 Foreign direct investment inflows, by host regions and by economies, 2000-2004

(Million dollars)

Host region/economy	2000	2001	2002	2003	2004
World	1,396,539	825,925	716,128	632,599	648,146
Developing countries	253,179	217,845	155,528	166,337	233,227
Latin America and the Caribbean	97,523	89,130	50,492	46,908	67,526
ATPA	4,661	5,705	6,223	4,880	5,913
Bolivia	736	706	677	197	117
Colombia	2,395	2,525	2,115	1,793	2,739
Ecuador	720	1,330	1,275	1,555	1,241
Peru	810	1,144	2,156	1,335	1,816

Source: UNCTAD, World Investment Report 2005: Transnational Corporations and the Internationalization of R&D, 2005.

of a major crude oil pipeline, respectively.[180] Preliminary statistics for 2005 show that FDI inflows to the ATPA countries continued to increase—to nearly $14 billion—rising in Colombia, Ecuador, and Peru, with net disinvestment from Bolivia resulting from foreign investor concerns about the political climate in that country.[181] FDI in the ATPA countries continued to be concentrated in resource-based industries, such as hydrocarbons and mining, where product prices remained relatively high.[182]

Bolivia

FDI inflows to Bolivia continued to decline in 2004 and 2005 due to continuing political and social instability in Bolivia. In 2005, the deteriorating investment climate led to an estimated net FDI outflow of $280 million.[183] Concerns about government policy in the hydrocarbons sector, a major recipient of FDI, contributed to the decline. In particular, a new hydrocarbons law passed in May 2005, followed by nationalization of the hydrocarbons sector on May 1, 2006, constrained FDI in this sector. Further, the new Bolivian President, Evo Morales, who entered office in January 2006, reportedly intends to tighten state control over several other strategic sectors, including electricity, telecommunications, and railways, as well as mining.[184]

Despite the weakening investment climate, the U.S. Embassy in Bolivia conducted an informal survey and was able to identify $14 million worth of investments during 2005 in the textile and apparel, jewelry, and wood products sectors.[185] According to the Embassy, Bolivian firms in these sectors rely heavily on ATPA trade preferences to compete in the U.S. market, although it should be noted that Bolivian exports of jewelry and wood products are also eligible for U.S. trade preferences under the GSP. The Embassy noted that medium, small, and micro enterprises, as opposed to large, established firms, accounted for many new ATPA-related investments in these sectors in 2005, representing a significant change over

[180] Ibid., p. 63; and United Nations, Economic Commission for Latin America and the Caribbean (ECLAC), *Foreign Investment in Latin America and the Caribbean, 2005*, Apr. 2005, p. 30.

[181] ECLAC, *Foreign Investment in Latin America and the Caribbean, 2005*, p. 26.

[182] Ibid., pp. 21, 29, and UNCTAD, *World Investment Report 2005*, p. 73.

[183] ECLAC, *Foreign Investment in Latin America and the Caribbean, 2005*, p. 30.

[184] U.S. Department of State telegram, "GOB Unveils Economic Development Plan," message reference No. 1660, prepared by U.S. Embassy, La Paz, June 20, 2006.

[185] U.S. Department of State telegram, "Revision: Bolivia: 2006 USITC ATPA/ATPDEA Impact Report," message reference No. 1691, prepared by U.S. Embassy, La Paz, June 22, 2006.

previous years. However, the Embassy reported that exporters of all sizes "have emphasized the difficulty of competing without trade preferences, noting that sharp price increases will undermine their products' competitiveness in U.S. markets" if ATPA is not renewed.[186]

The U.S. Embassy survey showed that investments valued at about $5.5 million were made in 2005 by four companies in the textile and apparel sector, as described in more detail below. The U.S. Embassy was also able to identify $4.4 million of investments in the gold jewelry sector, and $4.2 million in the wood products sector, which produces such items as furniture, doors, moldings, frames, floors, and decks for export. According to the U.S. Embassy, these two sectors currently employ several thousand people in Bolivia. Most of the companies in both of these sectors indicated that they would not have been launched in the absence of ATPA trade preferences and that they use U.S. inputs in their production processes. Companies in the gold jewelry sector expressed serious concern about how their products would compete in the United States following the expiration of ATPA, and one company indicated that it is seriously contemplating moving out of Bolivia, probably to Peru (which has negotiated a trade promotion agreement with the United States). In the wood products sector, one company official indicated that his company would have been launched in the absence of ATPA trade preferences, but that ATPA had provided incentives to develop new products for sale in the United States. Company officials in the wood products sector also expressed concern about the expiration of ATPA, which they claimed would lead to price increases and lost sales; one such official cited already increasingly difficult contract negotiations with U.S. clients. The U.S. Embassy stated that a recent study by the Bolivian Forestry Chamber suggests that ATPA's expiration could lead to industry losses of up to $65 million over the next 5 years.[187]

Textile and Apparel Sector

Bolivia is a small supplier of textiles and apparel to the United States, accounting for only 2 percent of total U.S. imports of textiles and apparel from the Andean region in 2005. Although total sector exports to the United States in 2005 declined 7 percent from the 2004 level, to $36.7 million, the sector is an increasingly important segment of the country's economy, especially for generating employment.[188] Bolivia's textile and apparel sector employs about 10,000 workers.[189] The industry's key competitive strengths are access to high-quality alpaca, angora, and llama fiber, and low labor costs.[190] Textile manufacturing is limited;[191] most production is in garments and clothing accessories. Bolivia has one producer of polyester yarn and fabrics, Texturbol, and industry sources report that much spinning and dyeing is done offshore because the country lacks the infrastructure to ensure

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[186] Ibid.

[187] Ibid.

[188] U.S. Department of State, "Background Note: Bolivia - Profile," Mar. 2006, found at *http://www.state.gov/r/pa/ei/bgn/35751.htm*, retrieved June 12, 2006.

[189] U.S. Department of State telegram, "Revision: Bolivia: 2006 ATPA/ATPDEA Impact Report," message reference No. 1691, prepared by U.S. Embassy, La Paz, June 22, 2006.

[190] Office of Textiles and Apparel, U.S. Department of Commerce, "Bolivia: Local Industry and Market," Feb. 23, 2005, found at *http://web.ita.doc.gov/tacgi/overseas.nsf/44210e990fcdb43d85256df6006a3caf/83bde904d870c76785256fb1006885db!OpenDocument*, retrieved May 24, 2006.

[191] World Bank, "Pilot Investment Climate Assessment - Bolivia Microeconomic Constraints and Opportunities for Higher Growth - Annex 2 - The Textile and Garment Industry in Bolivia," Mar. 19, 2001, p. 76.

product quality at the volumes required by the export market.[192] The country's small textile and apparel firms face manufacturing challenges such as poor infrastructure, expensive credit, obsolete technology, and competition from contraband.[193]

Despite the decline in U.S. textile and apparel imports from Bolivia in 2005, U.S. sector imports from the country doubled during 2001-05 (table 2-8). Cotton knit shirts accounted for the bulk of these imports. The downturn in 2005 in Bolivia's exports to the United States can likely be attributed to increased competition from China and other lower-cost Asian apparel producers since the elimination of quotas on January 1, 2005, and also to uncertainties regarding Bolivia's future trade relationship with the United States resulting from the pending expiration of ATPA.[194]

ATPDEA enhanced Bolivia's textile and apparel sector's access to the U.S. market and motivated the Bolivian government to establish tax-free industrial parks for companies seeking to import U.S. fabrics, produce garments, and re-export them to the United States.[195] The ATPDEA has prompted new or expanded investments in the country's textile and apparel sector specifically to take advantage of ATPDEA preferences.[196] In 2005, $5.5 million was invested in the expansion of cotton knit shirt production and the purchase of new weaving machines, sewing equipment, and spinning equipment for alpaca and llama thread.[197] Such investment projects in many cases involve inputs (fabrics) not only from the United States but also from other Andean countries, particularly Peru and Colombia.[198] In 2005, the Inter-American Investment Corporation (IIC) approved a $400,000 loan to Altifibers, S.A., a small Bolivian producer of textiles from llama, alpaca, and sheep fibers, for a vertical integration project involving the installation of a complete natural-fiber spinning and dyeing line in using domestic raw materials.[199] In mid-2006, a textile company, Mitsuba, opened Bolivia's first assembly plant center that will house four small firms dedicated to exporting apparel.[200] Working in cooperation with USAID, Mitsuba has installed computer systems for pattern design and cutting, established a product development and design department, and taken other initiatives that have allowed the firm to expand

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[192] Inter-American Investment Corporation, "ICC Approves a U.S. $400,000 Loan For Small Bolivian Textile Company," press release, Nov. 29, 2005, found at *http://www.iic.int/newsrelease/view.asp?id=384*, retrieved June 12, 2006.

[193] Economist Intelligence Unit (EIU), "Country Profile Bolivia - Main report: March 1st 2006 - Economic Sectors: Manufacturing - The Small Formal Sector Competes with Contraband," found at *http://eiu.com/index.asp?layout=displayIssuePrint&issue_id=370085222%&article_id=99*, and "Bolivia: ATPDEA Is a Great Opportunity for Textile Industry," Feb. 3, 2003, found at *http://www.bharattextile.com/newsitems/1981328*, retrieved May 31, 2006.

[194] Tom Hayden, "New Day for Bolivia," *The Nation*, Jan. 27, 2006, found at *http://www.thenation.com/doc/20060213/hayden*, retrieved June 12, 2006.

[195] "Bolivia: ATPDEA Is a Great Opportunity for Textile Industry," Feb. 3, 2003, found at *http://www.bharattextile.com/newsitems/1981328*, retrieved May 31, 2006.

[196] U.S. Department of State telegram, "Revision: Bolivia: 2006 ATPA/ATPDEA Impact Report," message reference No. 1691, prepared by U.S. Embassy, La Paz, June 22, 2006.

[197] Ibid.

[198] Ibid.

[199] Inter-American Investment Corporation, "ICC Approves a U.S. $400,000 Loan For Small Bolivian Textile Company," press release, Nov. 29, 2005, found at *http://www.iic.int/newsrelease/view.asp?id=384*, retrieved June 12, 2006.

[200] U.S. Embassy, La Paz, "Con Ayuda de EE.UU., Mitsuba Inaugura el Primer Maquicentro Encadenando al Proceso Exportador," press release, July 7, 2006.

production capacity and hire subcontractors to develop an integrated export supply chain that ensures speed to market for foreign buyers.[201]

Two large manufacturers dominate Bolivia's textile and apparel exports: Ametex, which accounts for more than 90 percent of Bolivia's textile and apparel exports[202] and exports almost 900,000 units of clothing to the United States every month under the ATPDEA,[203] and Asea, which exports about 60,000 units of clothing per month. These firms report no adverse effects from the elimination of quotas on January 1, 2005. In 2005, Ametex signed a new contract with Abercrombie and Fitch and increased its exports to Polo Ralph Lauren; Asea completed a vertically integrated production facility in Santa Cruz and developed plans to begin supplying garments to JC Penney and K-Mart in 2006.[204] However, corporate representatives from both firms have expressed concern about retaining their competitiveness with less expensive products from China if the trade preferences under ATPDEA expire before an FTA is negotiated and implemented with the United States.[205]

Colombia

According to the U.S. Embassy in Colombia, ATPA "has provided significant economic benefits to Colombia." The Embassy reported that the original ATPA created an estimated 123,000 jobs in Colombia, and ATPDEA is expected to create another 150,000 new jobs by December 2006. However, the American Chamber of Commerce in Bogota reports that "member companies have lost orders as a result of cost uncertainty related to the expiration of ATPDEA benefits." Concerns remain regarding whether a stopgap measure will be implemented to bridge the gap between the expiration of ATPA at the end of 2006 and the entry into force of the U.S.-Colombian trade promotion agreement.[206]

According to the Embassy, investor confidence, both foreign and domestic, improved in 2005, because of the strong Colombian economy, increased physical security, an improved legal framework, and higher prices of Colombia's export commodities, including oil.[207] Domestic investment in plant and equipment rose about 50 percent in 2005,[208] and FDI inflows increased 227 percent to $10.2 billion.[209] The manufacturing sector was the largest recipient of FDI, accounting for 53 percent of FDI inflows in 2005, followed by mining with 19 percent and the petroleum sector with 12 percent. Mergers and acquisitions reached a record level in 2005 and included a $7.8 billion acquisition of a Colombian brewery and a

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[201] Ibid.

[202] "Bolivia: ATPDEA Is a Great Opportunity for Textile Industry," Feb. 3, 2003, found at *http://www.bharattextile.com/newsitems/1981328*, retrieved May 31, 2006.

[203] U.S. Department of State telegram, "Textile and Apparel Firms: Competitive, But Only with ATPDEA Trade Preferences," message reference No. 2781, prepared by U.S. Embassy, La Paz, Sept. 14, 2005.

[204] Ibid.

[205] Ibid.

[206] U.S. Department of State telegram, "Colombia ATPDEA-Related Activity 2005," message reference No. 5571, prepared by U.S. Embassy, Bogota, June 21, 2006.

[207] Ibid.; and U.S. Department of State telegram, "Colombia's Economy: Still Defying Gravity," message reference No. 1870, prepared by U.S. Embassy, Bogota, Mar. 1, 2006.

[208] U.S. Department of State telegram, "Colombia's Economy: Still Defying Gravity," message reference No. 1870, prepared by U.S. Embassy, Bogota, Mar. 1, 2006.

[209] Proexport Colombia, "Foreign Investment Report 2005," Apr. 2006, found at *http://www.proexport.com.co/VBeContent/home.asp?language=EN&idcompany=22*, retrieved July 13, 2006.

$314 million purchase by Phillip Morris of a Colombian tobacco company.[210] FDI inflows to the oil sector increased 129 percent to $1.2 billion, stimulated primarily by new business-friendly legislation,[211] but also by higher oil prices.

The U.S. Embassy was able to identify a number of ATPA-related investment projects in 2005, based on a survey of manufacturers conducted by Colombia's National Industrial Association (ANDI). The Embassy identified investments in 2005 by companies producing textiles and apparel, petroleum, flowers, and guavas. These investments represented investments to expand existing operations rather than new investment, and with the exception of the flower sector, most companies indicated they would have made the investments even in the absence of ATPA. The survey revealed that the three companies polled in the textiles sector invested $67 million over the past 3 years and projected another $18.7 million of investments in 2006 (see below). The two companies surveyed in the oil sector reported 2005 investments valued at $138 million and projected 2006 investments valued at $339 million. The two flower farms surveyed invested $226,000 in 2005 and anticipated $250,000 of investments in 2006. According to ANDI, nearly 66 percent of the companies it surveyed were developing strategies to improve their market position to take advantage of ATPDEA and the U.S.-Colombia trade promotion agreement.

Textile and Apparel Sector

Colombia's textile and apparel sector, a leading source of economic activity and employment, experienced a slight downturn in production and employment in 2005. Textiles and apparel represented 6 percent of total manufacturing, 6 percent of total exports, and slightly less than 1 percent of the country's GNP[212] ($2.6 billion in 2004[213]). Textile and apparel sector employment accounted for about 12 percent of manufacturing jobs.[214]

Colombia's exports of textiles and apparel, most of which went to the United States, totaled $618 million in 2005, a 3 percent decrease from the 2004 level. More than three-fourths of these U.S. imports (77 percent) entered under ATPDEA in 2005; leading products included cotton trousers and pants, cotton knit shirts and blouses, and wool suit-type coats, wool trousers, and wool suits.

Colombia's proximity to the U.S. market with both Atlantic and Pacific ports, competitive wage rates ($161.40 per month[215]), a textile sector that is vertically integrated from fibers to

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[210] U.S. Department of State telegram, "Colombia's Economy: Still Defying Gravity," message reference No. 1870, prepared by U.S. Embassy, Bogota, Mar. 1, 2006.

[211] Proexport Colombia, "Foreign Investment Report 2005," Apr. 2006, found at *http://www.proexport.com.co/VBeContent/home.asp?language=EN&idcompany=22*, retrieved July 13, 2006.

[212] Maria Clara Munera Velez (Market Access Representative, Confecciones Colombia S.A.), e-mail message to Commission staff, June 5, 2006. Another industry source states that the textiles and apparel sector represents more than 10 percent of Colombia's total industrial output. EIU, "Country Profile Colombia - Main Report: September 1st 2005: Economic Sector: Manufacturing," found at *http://eiu.com/index.asp?layout=displayIssuePrint&issue_id=14794*, retrieved May 31, 2006.

[213] U.S. Department of State telegram, "Textile and Apparel Statistics and Projection of Future Competitiveness," message reference No. 9143, prepared by U.S. Embassy, Bogota, Sept. 27, 2005.

[214] Arturo Rodríguez, "Colombiatex 2005," found at *http://www.colombiatex.com/2005/ingles/industry.htm*, retrieved May 30, 2006.

[215] Josef de Coster, "Colombia's Textile Market: Trapped by Global Change," *International Market News*, Oct. 10, 2005, found at *http://www.tdctrade.com/imn/05101002/clothing182.htm*, retrieved May 30, 2006.

cotton, wool and man-made fiber garments, speed to market, and quality goods[216] have attracted U.S. apparel and textile companies seeking alternative suppliers and rapid replenishment.[217] Colombia's integrated mills produce an estimated 850 million square meters of cotton-based fabrics, yarn, and synthetic and wool materials.[218] Since ATPDEA, Colombia's garment producers have increasingly shifted from apparel assembly to full-package services and have focused on new product development and fashion niches to increase their competitiveness vis-à-vis lower-cost Asian producers.[219]

Colombia has about 10,000 textile and apparel firms, of which more than half are small or mid-sized companies.[220] Textile manufacturing is concentrated in a few large firms, whereas clothing production is shared among hundreds of small and mid-sized companies.[221] Industry sources estimate that Medellin and the surrounding area of the state of Antioquia account for 40 percent to 50 percent of Colombia's fibers, fabrics, and apparel production. An estimated 100,000 direct operators generate much of Colombia's $50 million monthly textile and apparel exports to the United States.[222]

ATPDEA has prompted much of the growth in Colombia's textile and apparel exports to the United States since 2002 and has boosted the country's cotton consumption.[223] With cotton demand greatly outstripping supply, Colombian firms depend heavily on imported cotton, 96 percent of which came from the United States in 2005.[224] In 2005, U.S. exports of textiles and apparel to Colombia rose 4 percent over the 2004 level to $150 million, led by a 13 percent increase in U.S. exports of fabric.[225]

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[216] Josef de Coster, "Colombia's Textile Market: Trapped by Global Change," *International Market News*, Oct. 10, 2005, found at *http://www.tdctrade.com/imn/05101002/clothing182.htm*, retrieved May 30, 2006; Arturo Rodríguez, "Colombiatex de las Americas 2006," found at *http://www.tc2.com/newsletter/arc/020806.html*, retrieved May 30, 2006; and Maria Clara Munera Velez (Market Access Representative, Confecciones Colombia, S.A.), e-mail message to Commission staff, June 5, 2006.

[217] Both U.S. apparel and textile producers have production in Colombia. Invista (formerly part of the Dupont Corporation), a producer of Lycra, established operations in Colombia 25 years ago because of Colombia's vertically integrated textile and apparel sector and its proximity to the United States. Invista spins Lycra yarn in the United States and ships it to Colombia, where it is wrapped on beams and used in warp knitting to produce apparel that is exported to the United States. Mary K. Vane (Director, Invista), telephone interview by Commission staff, Washington, DC, June 1, 2006.

[218] Arturo Rodríguez, "Colombiatex 2005," found at *http://www.colombiatex.com/2005/ingles/industry.htm*, retrieved May 30, 2006.

[219] Josef de Coster, "Colombia's Textile Market: Trapped by Global Change," *International Market News*, Oct. 10, 2005, found at *http://www.tdctrade.com/imn/05101002/clothing182.htm*, retrieved May 30, 2006. Current brands made in Colombia include Ralph Lauren, Oscar de la Renta, Liz Claiborne, Nine West, Nautica, Tommy Hilfiger, DKNY, and others. See "ColombiaModa 2005," found at *http://www.colombianmoda.com/ingles/medellin.htm*, retrieved May 30, 2006.

[220] Arturo Rodríguez, "Colombiatex de las Americas 2006," found at *http://www.tc2.com/newsletter/arc/020806.html*, retrieved May 30, 2006.

[221] EIU, "Country Profile Colombia - Main Report: September 1, 2005 - Economic Sectors: Manufacturing," found at *http://portal.eiu.com/report_dl.asp?issue_id=1479433533&mode=pdf*, retrieved May 31, 2006.

[222] Arturo Rodríguez, "Colombiatex de las Americas 2006," found at *http://www.tc2.com/newsletter/arc/020806.html*. retrieved May 30, 2006.

[223] USDA, Foreign Agricultural Service, "Colombia Cotton and Products Annual 2006," GAIN Report #CO6005, May 1, 2006.

[224] Ibid. The United States is expected to continue to be the principal supplier of cotton for Colombia's textile and apparel industry as cotton consumption is expected to grow 3.3 percent annually in 2005-06 because of the growth of textile and garment exports.

[225] Based on official statistics compiled by the U.S. Department of Commerce.

Industry sources attribute the slowdown in Colombia's textile and apparel production and decline in exports in 2005 to numerous challenges that emerged in that year. Chief among these was increased competition from China and other lower-cost Asian suppliers, prompted by the elimination of quotas on January 1, 2005.[226] According to a leading Colombian exporter of men's wear to the United States, Colombian firms are not cost competitive with Chinese apparel producers.[227] Some Colombian producers state that they need production flexibility beyond what the ATPDEA provides, especially in the use of third-country fabrics, in order to compete with low-cost Asian suppliers.[228] Appreciation of the Colombian peso against the U.S. dollar (from 2,412 per dollar at year-end 2004 to 2,284 per dollar at year-end 2005)[229] reportedly hurt the sales of Colombian textile and apparel products[230] and furthermore led to a 6-percent decline in the overall number of Colombia's textile and apparel workers, from 128,141 in 2004 to 120,150 in 2005.[231] CL Nicole, a garment assembly unit of Colombia's Crystal Group and a contract supplier of cotton pants for women to U.S. retailers such as Liz Claiborne and the Jones Apparel Group, had to lay off 650 workers because of increased price competition from China.[232]

Since ATPDEA was implemented, several textile companies have made significant capital investments in Colombia to take advantage of ATPDEA preferences.[233] Textile producer Enka de Colombia invested $24.2 million during 2002-05 and anticipates investing an additional $10.2 million in heavy machines and working capital in 2006; textile producer Protela invested $11 million during 2002-05 in the expansion of its textile production; and Coltejer, a leading textile producer, invested $32 million in expanding production during 2003-05.[234]

Although anticipation of an FTA with the United States has also led to some investment in cotton mill production and in raw materials for textiles and apparel products,[235] industry sources note that foreign investment has fallen short of need.[236] Negative perceptions stemming from concerns about security risks and resulting higher insurance costs associated with doing business in Colombia have apparently discouraged some prospective foreign investors.[237]

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[226] The elimination of quotas prompted customers to shift their bulk production to China. Maria Clara Munera Velez (Market Access Representative, Confecciones Colombia, S.A.), e-mail message to Commission staff, June 5, 2006.

[227] Josef de Coster, "Colombia's Textile Market: Trapped by Global Change," *International Market News*, Oct. 10, 2005, found at *http://www.tdctrade.com/imn/05101002/clothing182.htm*, retrieved May 30, 2006.

[228] Ibid.

[229] International Monetary Fund, *International Financial Statistics*, Vol. LIX, No. 7, July 2006, pp. 282-283.

[230] Maria Clara Munera Velez (Market Access Representative, Confecciones Colombia, S.A.), e-mail message to Commission staff, June 5, 2006.

[231] U.S. Department of State telegram, "Textile and Apparel Statistics and Projection of Future Competitiveness," message reference No. 9143, prepared by U.S. Embassy, Bogota, Sept. 27, 2005.

[232] Josef de Coster, "Colombia's Textile Market: Trapped by Global Change," *International Market News*, Oct. 10, 2005, found at *http://www.tdctrade.com/imn/05101002/clothing182.htm*, retrieved May 30, 2006.

[233] U.S. Department of State telegram, "Colombia ATPDEA-Related Activity 2005," message reference No. 5571, prepared by U.S. Embassy, Bogota, June 21, 2006.

[234] Ibid.

[235] U.S. Department of State telegram, "Textile and Apparel Statistics and Projection of Future Competitiveness," message reference No. 9143, prepared by U.S. Embassy, Bogota, Sept. 27, 2005.

[236] Ibid.

[237] Josef de Coster, "Colombia's Textile Market: Trapped by Global Change," *International Market News*, Oct. 10, 2005, found at *http://www.tdctrade.com/imn/05101002/clothing182.htm*, retrieved May 30, 2006; and Mary K. Vane (Director, Invista), phone interview by Commission staff, Washington, DC, June 1, 2006.

The United States and Colombia concluded negotiations on a free trade agreement in February 2006, but it is unclear when the agreement will be implemented. Industry sources in Colombia have expressed concern that in the absence of ATPDEA or an FTA, Colombia's textile and apparel sector could face a severe decline in employment, and they have asserted that some type of preferential program is essential for the continued viability of Colombia's textile and apparel sector.[238]

Ecuador

FDI inflows to Ecuador increased an estimated 32 percent to $1.5 billion in 2005 and were directed primarily to the oil sector, as in recent years.[239] The U.S. Embassy reported that FDI inflows to the agriculture and fish sector rose 35 percent in 2005, but inflows to the textiles, apparel, and leather sector declined 70 percent compared with 2004.[240] According to the Embassy, investments in ATPA-related products such as flowers, apparel, leather, and fruits "are frozen as investors are attempting to determine what will happen with respect to the renewal" of ATPA trade preferences as well as the stalled FTA talks. The Embassy noted that "the effect of FTA agreements with Colombia and Peru (without an FTA for Ecuador) on Ecuadorian exports to the U.S. would likely be strong and negative."

The investment climate for the oil sector, which attracted 78 percent of FDI inflows in 2004 and is an ATPDEA beneficiary, has been deteriorating, despite high prices and excess transport capacity in Ecuador's oil pipelines.[241] In March 2006, Ecuador passed new hydrocarbons legislation that increased the state's share of oil revenues.[242] In May 2006, the Ecuadorian government terminated the contract of Occidental Petroleum, the largest foreign investor in Ecuador, and the state-owned oil company, Petroecuador, took over Occidental's facilities.[243] As a result, the United States has put on hold negotiations to form a bilateral free trade agreement, which is expected to have an adverse impact on other sectors, including flowers.[244]

The U.S. Embassy reported that representatives of the flower industry, Ecuador's primary non-oil ATPA beneficiary, believe that the expiration of ATPA without an FTA to take its

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[238] U.S. Department of State telegram, "Textile and Apparel Statistics and Projection of Future Competitiveness," message reference No. 9143, prepared by U.S. Embassy, Bogota, Sept. 27, 2005.

[239] In 2004, the oil sector accounted for 78 percent of FDI in Ecuador. ECLAC, *Preliminary Overview of the Economies of Latin America and the Caribbean, 2005*, Dec. 2005, p. 113; and ECLAC, *Foreign Investment in Latin America and the Caribbean, 2005*, p. 26.

[240] Paul Baldwin, Economic Section, U.S. Embassy, Quito, e-mail messages to Commission staff, June 27, 2006, and June 30, 2006.

[241] ECLAC, *Preliminary Overview of the Economies of Latin America and the Caribbean, 2005*, Dec. 2005, p. 113.

[242] For example, see Global Insight, "Ecuador's Government Annuls Occidental Contract," found at *http://www.globalinsight.com*, retrieved July 17, 2006; and "U.S. Rebuffs Ecuador on Resuming FTA Talks Over Investment Disputes," *Inside U.S. Trade*, Apr. 28, 2006.

[243] For example, see EIU, "Ecuador Economy: Anti-foreign Sentiment May Spread Beyond the Oil Sector," Country Briefing, July 12, 2006, found at *http://www.viewswire.com/index.asp?layout=VWArticleVW3&article_id=150743400&region_id=&country_id=1790000179&channel_id=190004019&category_id=&refm=vwCh&page_title=Article*, retrieved July 17, 2006.

[244] For example, see Center for Strategic and International Studies, "Hemisphere Highlights," June 2006, found at *http://www.csis.org/index.php?option=com_csis_topics&task=select&obj=Publications&id=30*, retrieved July 12, 2006; EIU, "Ecuador Economy: Anti-foreign Sentiment May Spread Beyond the Oil Sector," Country Briefing, July 12, 2006; or U.S. Department of State telegram, "Flower Industry and the Aftermath of Oxy," message reference No. 1463, prepared by U.S. Embassy, Quito, June 14, 2006.

place will have a devastating effect on the industry. In the absence of trade preferences, Ecuador's rose exports would face a 6.8 percent ad valorem tariff in the U.S. market and would have difficulty competing with roses from Colombia, where costs are generally lower, including transport costs.[245] Although many industry representatives indicated that they are not planning to move their operations to Colombia, the Embassy noted that new investment in the industry is likely to target Colombia, rather than Ecuador. One local flower grower indicated that financial institutions have already eliminated credit lines, forcing him to abandon investments in order to make his early loan payments.[246]

In addition, the U.S. Embassy reported that investments in the tuna industry could move to Peru or elsewhere in the absence of U.S. trade preferences. According to the Embassy, the Starkist tuna factory in Guayaquil, which is responsible for all pouched tuna exports to the United States under ATPDEA, is in the process of deciding whether to move the entire operation to Mexico, or possibly Costa Rica.[247] This factory employs 2,400 people and indirectly supports another 15,000. The President of Empesec tuna packers in Guayaquil, which markets the Starkist brand, said the prospective loss of ATPA trade preferences will cause enormous damage.[248] The Chamber of Fisheries of Ecuador indicated that with the suspension of bilateral FTA negotiations with the United States, ATPA renewal is essential, or the sector could lose about $120 million and 15,000 jobs.[249]

The Association of Ecuadorian Growers of Fruits and Vegetables reported that broccoli has become a major nontraditional export under ATPA, and that the U.S. market would probably close to Ecuadorian broccoli should ATPA expire. Currently, 97 percent of Ecuador's broccoli production is exported, of which one-third is exported to the United States in the form of frozen broccoli. Ecuador is the United States' fourth-largest source of such imports, following Mexico, Guatemala, and Canada, all countries that benefit from U.S. trade preferences. U.S. imports of frozen broccoli from Ecuador have grown from nearly $600,000 in 2000 to approximately $12 million in 2005. Because frozen broccoli from Ecuador is not eligible for GSP, it would face a 14.9 percent NTR tariff should ATPA expire, which would "make it very difficult to survive" on the U.S. market.[250]

According to the Government of Ecuador, "ATPDEA has had positive effects on Ecuador," and non-renewal could result in the loss of as many as 358,515 direct jobs in non-oil industries that export to the United States under ATPA, including tuna, flowers, textiles, and fruits and vegetables. The government estimates that Ecuadorian exporters saved $26 million in 2005 from trade preferences under ATPA and that in the absence of trade preferences, GDP would decrease 1.8 percent and fiscal revenues of the Ecuadorian state could decline by more than $40 million. The government points out that an analysis of the agricultural sector shows that production and exports of key ATPA-eligible products have increased significantly in Ecuador, including important increases in exports of broccoli and pineapples. The government estimates that increased exports under ATPA of certain vegetables and

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[245] Also see IMF, *Ecuador: Selected Issues*, IMF Country Report No. 06/103, Mar. 2006, p. 64.

[246] U.S. Department of State telegram, "Flower Industry and the Aftermath of Oxy," message reference No. 1463, prepared by U.S. Embassy, Quito, June 14, 2006.

[247] Paul Baldwin, Economic Section, U.S. Embassy, Quito, e-mail message to Commission staff, June 30, 2006.

[248] Chris Kraul, "Oil Dispute Seeps Down to Grass Roots," *Los Angeles Times*, June 25, 2006.

[249] Andres Teran, Charge d'Affairs, Embassy of Ecuador, Washington, D.C., written submission to the Commission concerning inv. No. 332-352, *Andean Trade Preference Act: Impact on U.S. Industries and Consumers and on Drug Crop Eradication and Crop Substitution*, June 16, 2006.

[250] Ibid.

legumes could generate 15,000 new hectares of crops, 30,000 new jobs, and more than $100 million in investment if trade preferences were extended.[251]

The Central Bank of Ecuador analyzed the impact of non-renewal of ATPA and found that $211.3 million in exports, or about 16 percent of Ecuador's exports to the United States excluding crude oil, could be adversely affected. Of this 16 percent, 83 percent corresponds to exports of roses, followed by pineapples (6.2 percent). The Central Bank also noted that should GSP also lapse,[252] $412.4 million, or about 30 percent of non-oil exports to the United States, could be adversely affected.[253]

Textile and Apparel Sector

Ecuador is the smallest Andean supplier of textile and apparel products to the United States; however, its textile and apparel sector has been a historically significant component of the country's economy and employment. A recent manufacturing survey of Ecuador's Institute for Statistics and Census (INEC) estimates that the textile and apparel sector directly employs 16,000 workers and indirectly employs about 65,000 people.[254] Ecuador manufactures primarily yarns and fabrics[255] but also produces materials for industrial production, finished clothing, and household products.[256] Ecuadorian products are reportedly recognized for their quality, designs, and low cost.[257] Currently, Ecuador's textile and apparel sector does not yet have any full-package programs; however, joint ventures are under way to improve and increase apparel production.[258]

Like its Andean neighbors, Ecuador's demand for raw materials for textile and apparel production outstrips supply. Despite growing cotton production since the ATPDEA, Ecuador's domestic production of cotton represents only 8 percent of consumption.[259] In 2005, the United States was the second leading supplier of cotton and cotton yarns and fabrics to Ecuador, accounting for almost one-third of its imports.

Ecuador's apparel production is dominated by two textile companies, Royaltex (which produces Lee trousers) and Unicontex (which produces jeans).[260] ATPDEA has reportedly led to a consolidation of Ecuador's textile sector, increased imports of and investments in

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[251] Ibid.

[252] Like ATPA, GSP is scheduled to expire in Dec. 2006. For more information, see chapter 1of this report.

[253] Andres Teran, Charge d'Affairs, Embassy of Ecuador, Washington, D.C., written submission to the Commission concerning inv. No. 332-352, *Andean Trade Preference Act: Impact on U.S. Industries and Consumers and on Drug Crop Eradication and Crop Substitution,* June 16, 2006.

[254] Textile Industry Association of Ecuador (AITE), e-mail message to Commission staff, June 13, 2006.

[255] Ibid.

[256] "Ecuador Textiles, Clothing, Yarn, Fabric and More," May 3, 2004, found at *http://www.ecuadorexports.com*, retrieved June 29, 2005.

[257] Ibid.

[258] Amparo Meneses, (Commercial Assistant, U.S. Commercial Service, Ecuador), e-mail message to Commission staff, June 30, 2006.

[259] AITE, e-mail message to Commission staff, June 13, 2006.

[260] Financial Times Information, "Ecuador: Unicontex Is the Second Main Textile Company in the Country," Nov. 14, 2004, found at *http;//www.nexis.com/research/search/submitViewTagged*, retrieved May 31, 2006.

textile and apparel machinery and technology,[261] an expansion of production capacity, and increased exports of cotton fabric to Peru and Colombia for use in apparel exports to the United States.[262] Industry sources report that several textile firms expanded their operations in 2005.[263]

Cotton knit shirts and manmade fiber hosiery and shirts represented the bulk of Ecuador's apparel exports to the United States, which fell 3 percent overall in 2005 from the 2004 level, to $19.3 million (table 2-8). The drop in Ecuador's exports may be attributed in part to rising production and labor costs[264] since the dollarization of Ecuador's economy[265] in 2000.[266] Another key factor has been more intense competition from China and other lower-cost Asian suppliers since the elimination of quotas on January 1, 2005.[267]

Ecuador's textile industry has expressed concern about the possibility of losing ATPDEA preferences and about not completing FTA negotiations because of the importance of the United States as an export market and because the ATPDEA helped Ecuador to increase its market share in selling thread and fabrics to Colombian and Peruvian apparel manufacturers.[268] At the time of publication, the United States and Ecuador had not concluded talks or signed a formal agreement.

Peru

According to the U.S. Embassy in Peru, "ATPA and ATPDEA have provided significant economic benefits to Peru, particularly by stimulating the growth of apparel and agricultural exports to the United States." Peru's exports to the United States continued to grow rapidly in 2005 and the U.S. share of Peru's overall exports continued to climb, growing steadily since ATPDEA was implemented, from 25.2 percent in 2001 to 30.6 percent in 2005. Peru's Ministry of Economy and Finance attributes Peru's strong GDP growth of 6.7 percent in 2005 to U.S. market access under ATPA, as well as to high mineral prices.[269]

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[261] Industry sources report that Ecuador's textile and apparel firms imported almost $50 million worth of machinery and technology to produce textile and apparel products during 2002-2005. See AITE, e-mail to Commission staff, June 13, 2006.

[262] Ibid.

[263] Amparo Meneses (Commercial Assistant, U.S. Commercial Service, Quito), e-mail message to Commission staff, June 30, 2006.

[264] In Jan. 2000, the minimum base salary in Ecuador was $49.50 per month; by May 2006, the Central Bank of Ecuador reported the minimum base salary as $186.60 per month. A 2004 survey conducted by INEC reported that the minimum wage for an apparel worker was $356 per month. Amparo Meneses (Commercial Assistant, U.S. Commercial Service, Quito), e-mail message to Commission staff, June 30, 2006.

[265] Ecuador adopted the U.S. dollar as its official currency in 2000.

[266] "Prospects for the U.S.-Andean Free Trade Agreement: The View from Ecuador," remarks by Jorge Illingworth, Ecuador's Minister of Trade, Inter-American Dialogue, Oct. 20, 2005; and EIU, "Ecuador Risk: Labour Market Risk," Jan. 9, 2006, found at *http://dialog.newsedge.com*, retrieved Jan. 10, 2006.

[267] In mid-2005, representatives of the Ecuadorian textile industry predicted that the elimination of textile and apparel quotas could displace its exports from the U.S. market. See, U.S. Department of State telegram, "USITC 2004 Annual Andean Investment and Drug Crop Survey for Report on ATPA," message reference No. 1621, prepared by U.S. Embassy, Quito, July 8, 2005.

[268] Amparo Meneses (Commercial Assistant, U.S. Commercial Service, Quito), e-mail message to Commission staff, June 30, 2006.

[269] U.S. Department of State telegram, "Peru: USITC 2005 Investment and Drug Crop Survey," message reference No. 2490, prepared by U.S. Embassy, Lima, June 21, 2006.

FDI inflows to Peru increased 39 percent in 2005 to an estimated $2.5 billion,[270] with the mining sector accounting for the bulk of the increase. With respect to ATPA-related production, the U.S. Embassy notes that the "dramatic and sustained growth of Peru's exports in the last few years could not have taken place without new investment." However, the Embassy reported that investments have not reached companies' desired levels. The relatively short life span of ATPDEA has been the main deterrent of major investment projects. Business representatives told the Embassy that companies have been postponing large investments until either ATPA is extended or the U.S.-Peru Trade Promotion Agreement (TPA) has entered into force. Companies recalled reduced sales to the United States when the original ATPA expired in 2001, and they are concerned about whether the U.S.-Peru TPA will be implemented January 1, 2007, immediately following the expiration of ATPA.[271]

The U.S. Embassy says that agriculture "is a clear winner" under ATPA. According to the Embassy, "in the span of a few years, local companies developed desert lands, and employed modern irrigation and farming techniques to grow export-oriented crops, such as asparagus and mangoes. Building on this success, local producers began to grow other nontraditional crops, including paprika and grapes, and began or increased exports to other countries based on the recognition of its success in the U.S. market." New export products include artichokes, flowers, beans, and onions.[272]

In 2005, investment in the agricultural sector for the purchase of machinery and equipment grew 28 percent to $52.6 million. The Embassy was able to identify three companies that together made investments in 2005 valued at $93 million, which would not have been made in the absence of ATPA. Two companies made investments related to the production of sugar and ethanol, and one company made investments to begin production of asparagus and avocados and establish a processing plant. One of the sugar producers also anticipates producing other exportable crops, including asparagus and avocados, which could be exported to the United States.[273]

The Government of Peru projects that the United States will continue to be the primary destination for nontraditional exports and that exports of both apparel and agricultural products will increase in 2006 due to ATPA. The Ministry of Finance recently revised its export projections upward, forecasting a 16.8-percent increase in total Peruvian exports, and a 12.6-percent increase in nontraditional exports in 2006. The Ministry anticipates that the U.S.-Peru TPA will generate continued strong growth.[274]

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[270] ECLAC, *Foreign Investment in Latin America and the Caribbean, 2005*, p. 26.

[271] U.S. Department of State telegram, "Peru: USITC 2005 Investment and Drug Crop Survey," message reference No. 2490, prepared by U.S. Embassy, Lima, June 21, 2006.

[272] Ibid.

[273] Ibid. The Peruvian Asparagus and Vegetables Institute also noted that ATPA has fostered economic growth in the agroexport industry and that the development of the asparagus sector has served as a model for the production of other export-oriented crops. Carlos Mateo Paz-Soldan, and John B. Totaro, Jr., attorneys, Schmeltzer, Aptaker & Shepard, on behalf of the Peruvian Asparagus and Vegetables Institute, written submission to the Commission concerning inv. No. 332-352, *Andean Trade Preference Act: Impact on U.S. Industries and Consumers and on Drug Crop Eradication and Crop Substitution*, June 8, 2006.

[274] U.S. Department of State telegram, "Peru: USITC 2005 Investment and Drug Crop Survey," message reference No. 2490, prepared by U.S. Embassy, Lima, June 21, 2006.

Textile and Apparel Sector

Peru has been the leading Andean textile and apparel supplier to the United States for the past several years, and in 2005 Peru's exports to the United States rose 19 percent, to $821 million (table 2-8). Most of these exports (96 percent) entered duty-free under ATPDEA, and the leading products were cotton knit shirts. Peru's textile and apparel sector is a leading and growing source of economic activity, accounting for an estimated 14 percent of industrial production ($1.4 billion).[275] Available data for 2004 show that textile and apparel production totaled $672 million and $755 million, respectively.[276] Approximately 25 out of about 15,000 of Peru's registered apparel firms supply almost three-fourths of Peru's total apparel exports.[277] The textile and apparel sector employs 150,000 workers directly and 375,000 workers indirectly,[278] accounting for about 3 percent of the country's total employment.[279] Textile and apparel products account for slightly less than 10 percent of Peru's exports, most of which are shipped to the United States.[280]

Peru's textile and apparel sector is recognized for being vertically integrated, from the production of raw material inputs (cotton,[281] alpaca, llama, and vicuña) to the manufacture of intermediate products such as yarns and fabrics, to the production of finished goods such as apparel. In recent years, the sector has increasingly focused its efforts on manufacturing products with higher value added,[282] offering full-package programs,[283] and rapidly boosting apparel exports made from alpaca, llama, and vicuna wool.[284]
Despite increased competition from China and lower-cost Asian suppliers that resulted from the elimination of quotas on January 1, 2005, Peru's textile and apparel sector grew 13 percent in 2005,[285] in contrast to a decline in production and exports from the other Andean

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[275] Italo Acha, counselor, Embassy of Peru, e-mail to Commission staff, Mar. 23, 2006.

[276] Ibid.

[277] U.S. Department of State telegram, "Textile Sector Growing at Diminished Rate," message reference No. 1825, U.S. Embassy, Lima, May 11, 2006.

[278] Carlos Mateo Paz-Soldan, attorney, Schmeltzer, Aptaker & Shepard, on behalf of Exporamerica, written submission to the Commission concerning inv. No. 332-352, *Andean Trade Preference Act: Impact on U.S. Industries and Consumers and on Drug Crop Eradication and Crop Substitution,* June 8, 2006.

[279] Italo Acha, counselor, Embassy of Peru, e-mail to Commission staff, Mar. 23, 2006; Carlos Mateo Paz-Soldan, attorney, Schmeltzer, Aptaker & Shepard, on behalf of Exporamerica, written submission to the Commission concerning inv. No. 332-352, *Andean Trade Preference Act: Impact on U.S. Industries and Consumers and on Drug Crop Eradication and Crop Substitution,* June 8, 2006; and U.S. Department of State telegram, "Peru: Updated Textile and Apparel Information," message reference No. 4184, prepared by U.S. Embassy, Lima, Sept. 27, 2005.

[280] U.S. Department of State telegram, "Textile Sector Growing at Diminished Rate," message reference No. 1825, prepared by U.S. Embassy, Lima, May 11, 2006.

[281] Peru is known for two major varieties of cotton: tanguis—a long staple cotton that is used for yarns, and pima—an extra long staple cotton that is used for higher quality textiles. See USDA, Foreign Agricultural Service, "Peru: Cotton and Products Update 2005," June 23, 2005.

[282] Italo Acha, counselor, Embassy of Peru, e-mail to Commission staff, Mar. 23, 2006.

[283] Carlos Mateo Paz-Soldan, attorney, Schmeltzer, Aptaker & Shepard, on behalf of Exporamerica, written submission to the Commission concerning inv. No. 332-352, *Andean Trade Preference Act: Impact on U.S. Industries and Consumers and on Drug Crop Eradication and Crop Substitution,* June 8, 2006.

[284] Industry sources note that the once endangered wild vicuna herds, which reportedly have very fine fibers, have been making a comeback in Peru's highlands because of export markets created in the last 15 years for apparel made with their wool. See, Carlos Mateo Paz-Soldan, attorney, Schmeltzer, Aptaker & Shepard, on behalf of Exporamerica, written submission to the Commission concerning inv. No. 332-352, *Andean Trade Preference Act: Impact on U.S. Industries and Consumers and on Drug Crop Eradication and Crop Substitution,* June 8, 2006.

[285] U.S. Department of State telegram, "Textile Sector Growing at Diminished Rate," message reference No. 1825, U.S. Embassy, Lima, May 11, 2006.

countries in the same year. Industry sources attribute Peru's growth directly to ATPDEA.[286] Peru exports a significant share of its textile and apparel products to the United States, which accounted for almost two-thirds of Peru's textile and apparel exports in 2005.[287]

Although Peru is a cotton producer, cotton production has dropped dramatically in recent years, causing a shortage of Peruvian pima cotton.[288] Tanquis cotton production is also limited because it requires a long growing season and has low yields. Consequently, Peru imports substantial quantities of cotton fibers, especially from the United States, which supplied three-fourths ($48.7 million) of Peru's cotton imports in 2005.[289] In 2005, U.S. exports of yarn and fabrics to Peru totaled $12.0 million, down 11 percent from the 2004 level.

Economic analysts in Peru attribute the growth in Peru's textile and apparel exports to the United States directly to the trade preferences granted by ATPDEA, stating that growth was due to increased demand and incremental investments that created new jobs.[290] In 2005, the National Manufacturing Industry Society's (SNI) textile and apparel committee reported that investment in Peru's textile and apparel sector (representing purchases of imported machinery and equipment) grew 12 percent, to $143 million in 2005, compared with a 17.6 percent increase in 2004.[291] SNI has also reported that companies have limited their investments in the textile sector because of ATPDEA's imminent expiration in December 2006.[292]

The U.S.-Peru TPA could further boost U.S. apparel imports from Peru to the extent that it attracts additional foreign investment in Peru's textile and apparel sector,[293] which is needed to increase production capacity and enhance its competitiveness.[294] Industry sources have expressed concern that Peru's textile and apparel sector could lose its competitiveness in the world market if the TPA does not go into effect before the expiration of ATPDEA on December 31, 2006.[295] Therefore, they have expressed support for an extension of ATPDEA.[296] SNI has also noted that less expensive Chinese products have already had a negative impact on Peru's domestic industry and SNI has expressed concern that China

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[286] Ibid.

[287] Based on Global Trade Atlas Navigator trade data for 2005 for Peru's exports of textiles and apparel.

[288] USDA, Foreign Agricultural Service, "Peru: Cotton and Products Update 2005," June 23, 2005.

[289] Based on Global Trade Atlas Navigator trade data for 2005 for Peru's imports of cotton.

[290] U.S. Department of State telegram, "Textile Sector Growing at Diminished Rate," message reference No. 1825, prepared by U.S. Embassy, Lima, May 11, 2006.

[291] U.S. Department of State telegram, "Peru: USITC 2005 Investment and Drug Crop Survey," message reference No. 2490, prepared by U.S. Embassy, Lima, June 21, 2006.

[292] Ibid.

[293] The "relatively short life span" of ATPDEA preferences for apparel has reportedly deterred foreign investment in Peru's textile and apparel sector. U.S. Department of State telegram, "USITC 2004 Annual Andean Investment and Drug Crop Survey," message reference No. 2878, prepared by U.S. Embassy, Lima, June 30, 2005.

[294] A trade report stated that production costs in Peru are estimated to be as much as 50 percent higher than those in China. "Peru Textile Trade," Dec. 22, 2004, found at *http://www.latelinenews.com/news/11/english/1341916.shtml*, retrieved June 23, 2005.

[295] Carlos Mateo Paz-Soldan, attorney, Schmeltzer, Aptaker & Shepard, on behalf of Exporamerica, written submission to the Commission concerning inv. No. 332-352, *Andean Trade Preference Act: Impact on U.S. Industries and Consumers and on Drug Crop Eradication and Crop Substitution,* June 8, 2006; and U.S. Department of State telegram, "Peru: USITC 2005 Investment and Drug Crop Survey," message reference No. 2490, prepared by U.S. Embassy, Lima, June 21, 2006.

[296] Carlos Mateo Paz-Soldan, attorney, Schmeltzer, Aptaker & Shepard, on behalf of Exporamerica, written submission to the Commission concerning inv. No. 332-352, *Andean Trade Preference Act: Impact on U.S. Industries and Consumers and on Drug Crop Eradication and Crop Substitution,* June 8, 2006.

could begin producing the high-end niche products that Peruvian manufacturers have specialized in, spurring direct competition.

CHAPTER 4
IMPACT OF ATPA ON DRUG-RELATED CROP ERADICATIONAND CROP SUBSTITUTION IN 2005

As indicated in previous chapters, ATPA was enacted to improve access to U.S. markets for certain imports from Bolivia, Colombia, Ecuador, and Peru in order to promote legal economic alternatives to illicit drug activity. This chapter assesses the estimated effects of ATPA[297] on drug-related crop eradication and crop substitution efforts of each of these countries during 2005. Figures and information in this chapter are derived primarily from U.S. Department of State data.[298]

Overview

Cocaine continues to be the greatest drug threat to the United States, according to the U.S. Department of State, even though U.S. cocaine consumption has declined recently. Because all cocaine originates in the Andean countries of Bolivia, Colombia, and Peru, the United States has channeled a significant portion of its international counternarcotics resources toward eliminating coca cultivation, disrupting cocaine production, and preventing the drug from reaching the United States.[299] In 2005, ATPA, coupled with U.S. economic assistance through alternative development programs, continued to contribute to the U.S. counternarcotics effort with a small, indirect effect on illicit crop eradication and crop substitution efforts in the ATPA region.

[297] As discussed in chapter 1, the term "ATPA" refers to ATPA as amended by ATPDEA.

[298] The primary source for figures and analysis in this chapter is the U.S. Department of State, Bureau for International Narcotics and Law Enforcement Affairs, *International Narcotics Control Strategy Report* (*INCSR 2006*), vol. I, Mar. 1, 2006, and previous issues. Additional sources include the revised U.S. Government estimates from the Central Intelligence Agency, Crime and Narcotics Center (CNC), *Major Illicit-Drug-Producing Nations–Cultivation and Production Estimates, 2000-04*, July 2005. The CNC revised its 2000-2004 cultivation and production estimates for illicit drug production, including coca and poppy crops. Sources also include more recent data issued in April 2006 by the White House Office for National Drug Control Policy, "2005 Coca Estimates for Colombia," press release, Apr. 14, 2006, found at *http://www.whitehousedrugpolicy.gov/news/press06/041406.html*, retrieved Apr. 18, 2006. Use of revised data may result in figures, totals, and percentages in this chapter that vary slightly from official figures published prior to revisions and updates.

[299] U.S. Department of State, *INCSR 2006*, p. 11. Ecuador has no significant coca cultivation, having eliminated its minor cultivation of coca by 1992. However, Ecuador does serve as a major transshipment point for drugs.

Role of ATPA in Counternarcotics Efforts

The trade-based incentives of ATPA are intended to encourage legal export-led alternatives to illegal drug-crop production. In 2005, increased production of ATPA-eligible exports helped support job growth in a variety of economic sectors in the region. As noted in previous reports, the flower and asparagus sectors provided important employment opportunities for workers who might otherwise have turned to illegal crop-growing activities. These sectors continued to prosper in 2005 in response to increasing exports. Building on such examples, farmers in Bolivia, Colombia, Ecuador, and Peru have begun to export other nontraditional crops, such as artichokes, beans, broccoli, grapes, guava, mangoes, onions, palm hearts, palm oil, paprika, pineapples, and other fruits and vegetables and their preparations. In addition, in response to the implementation of ATPDEA, jobs were created during 2005 in the textile and apparel sector. Because apparel assembly is a labor-intensive industry, even small increases in production yield a significant impact on job growth.[300]

ATPA trade preferences are intended to work in concert with broader U.S. counternarcotics efforts in the region, stimulating economic development and growth in the beneficiary countries to increase production, employment, and exports. Assistance programs carried out by the United States Agency for International Development (USAID) are a key component in this counternarcotics effort, offering farmers in the Andean region an economic opportunity to abandon their reliance on illegal crop cultivation. Farmers can participate in the legal economy through programs that introduce alternative, legal crops[301] to expand economic growth and exports, and thereby take advantage of benefits provided under ATPA. USAID economic development programs explicitly recognize that a major strategic objective in the Andean countries is to stem "the flow of illegal drugs into the United States by encouraging small producers to join the legal economy through licit economic activities and infrastructure projects."[302]

Such development assistance helps provide new economic opportunities but does not necessarily provide a substitute for illegal crop cultivation in the same location. In Bolivia, direct substitution of alternative legal crops (e.g., bananas and pineapples) may have succeeded in the Chapare region in conjunction with forced eradication of illegal coca crops, but additional factors may have also played a role, such as terrain favorable to law

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[300] U.S. Department of State telegram, "USITC 2005 Investment and Drug Crop Survey," message reference No. 2490, prepared by U.S. Embassy, Lima, June 21, 2006; U.S. Department of State telegram, "Colombia ATPDEA-related Activity 2005," message reference No. 5571, prepared by U.S. Embassy, Bogota, June 21, 2006; Andres Teran, Charge d'Affairs, Embassy of Ecuador, Washington, D.C., written submission to the Commission concerning inv. No. 332-352, *Andean Trade Preference Act: Impact on U.S. Industries and Consumers and on Drug Crop Eradication and Crop Substitution*, June 16, 2006; U.S. Department of State telegram, "Bananas Lead the Way for Sustaining a Licit Economy in Bolivia's Chapare," message reference No. 2772, prepared by U.S. Embassy, La Paz, Sept. 13, 2005; USTR, *Second Report to Congress on the Operation of the Andean Trade Preference Act as Amended*, Apr. 30, 2005, pp. 9-10.

[301] U.S. Department of State, *INCSR 2006*, pp. 16-17.

[302] USAID, *USAID Budget–Colombia*, "Complete USAID/Colombia Program," found at *http://www.usaid.gov/policy/budget/cbj2005/lac/pdf/colombia_cbj_fy05.pdf*, retrieved May 4, 2005. For Bolivia, see USAID, *USAID Budget–Bolivia*, "Complete USAID/Bolivia Program," found at *http://www.usaid.gov/policy/budget/cbj2005/lac/bo.html*, Jan. 14, 2005, and *http://www.usaid.gov/policy/budget/cbj2005/lac/pdf/bolivia_cbj_fy05.pdf*, retrieved May 4, 2005. For Peru, see USAID, *USAID Budget–Peru*, "Complete USAID/Peru Program—Data Sheet on Alternative Development," found at *http://www.usaid.gov/policy/budget/cbj2005/lac/pdf/peru_cbj_fy05.pdf*, retrieved May 4, 2005.

enforcement and alternative development programs that offer suitable tropical crops as legal substitutes to illegal coca.[303] In the mountainous Yungas region of Bolivia, where certain indigenous coca cultivation is part of a centuries-old tradition, direct substitution of legal alternative crops for illegal coca cultivation is proving more difficult in isolated, mountainous terrain. Moreover, coca growers from the Chapare region are establishing new fields in the Yungas region, hoping to take advantage of indigenous peoples' demands to legalize more coca cultivation than presently is permitted.[304] In Colombia, employment opportunities in the flower and textile industries, both of which are supported by ATPA trade preferences, are not located in rebel-controlled territories where coca eradication campaigns by law enforcement forces are under way. In Peru, employment opportunities generated by the asparagus sector and by other agricultural export industries stimulated by ATPA preferences are located largely on the southern coast of Peru, far from the central mountains where much of Peru's coca is grown. Nonetheless, the opportunity for legal employment in such instances has drawn workers away from illegal drug-crop production, processing, and transportation, particularly laborers from impoverished regions.[305]

The Commission recognizes that ATPA is but a single element of the multifaceted U.S. counternarcotics effort. As a result, it is difficult to isolate the impact of ATPA on drug-related crop eradication and crop substitution or alternative development. Nonetheless, using an analysis of trade and drug-crop trends and a review of relevant literature, unclassified U.S. embassy reports, and publications from relevant U.S. Government agencies, the Commission estimates that in 2005 ATPA continued to have a small yet positive impact in stemming further growth of the drug trade in the Andean region.

Regional Cultivation and Eradication Trends during 2005

In 2005, Bolivia and Peru faced increasingly active groups of coca farmers challenging the successful coca reduction campaigns mounted previously in those countries. Colombia continued to contain its coca cultivation in 2004-2005, after its success in 2002-2003 in reducing its coca crop for the first time in a decade. Ecuador remained largely a transshipment point for drugs rather than a significant coca leaf producer.

In 2005, the U.S. Government estimated net coca cultivation in the ATPA region at 169,900 hectares, only slightly higher than the 166,200 hectares in 2004 (2-percent increase) but representing a nearly 25-percent decrease from peak production of 221,800 hectares in 2001

[303] U.S. Department of State telegram, "Bolivia's Eradication Efforts: 'Best Efforts' May Not Be Enough in the Future," message reference No. 241, prepared by U.S. Embassy, La Paz, Jan. 25, 2005.

[304] Both Bolivia and Peru permit some legal coca cultivation for traditional and commercial use, but illegal coca cultivation is far in excess of legal production. In Bolivia, up to 12,000 hectares of coca cultivation is permitted under Bolivian National Law No. 1008 of 1988, largely in traditional areas of the North and South Yungas. In Peru, to produce coca leaf legally, farmers must register with and sell their crop to the national government coca monopoly—the National Coca Agency (ENACO, Empresa Nacional de Coca). Legal coca cultivation is located largely in the traditional areas east of the city of Cuzco.

[305] Carlos Mateo Paz-Soldan, and John B. Totaro, Jr., attorneys, Schmeltzer, Aptaker & Shepard, on behalf of the Peruvian Asparagus and Vegetables Institute, written submission to the Commission concerning inv. No. 332-352, Andean Trade Preference Act: Impact on U.S. Industries and Consumers and on Drug Crop Eradication and Crop Substitution, June 8, 2006.

(table 4-1, figure 4-1).[306] Net coca cultivation in the ATPA region in the past three years (2003-2005) reflects its lowest level since the ATPA program began in 1991.

Bolivia and Peru initiated major forced coca eradication campaigns in 1997 and 1996, respectively, that reduced their illegal net coca cultivation by 57 percent in Bolivia from 1998 to 2000 and by 66 percent in Peru from 1997 to 2000. During this time, roughly 1995-2000, coca cultivation in Colombia expanded by some 170 percent as coca farmers (cocaleros) planted new fields in areas controlled by antigovernment rebels. In 1999, Colombia began its counterinsurgency and counternarcotics campaign—Plan Colombia—which included U.S. assistance with aerial eradication of drug crops through the use of herbicides. According to U.S. Government estimates, coca cultivation in Colombia fell from a peak of 169,800 hectares in 2001 to 105,400 hectares in 2005, a decrease of nearly 38 percent, as a result of intensive eradication efforts, especially aerial spraying.[307]

In contrast to recent reductions in Colombia between 2001 and 2005, during the same period coca cultivation expanded 33 percent in Bolivia, to 26,500 hectares, and 18 percent in Peru, to 38,000 hectares. Nonetheless, coca cultivation in these two countries remains at levels far below those of a decade ago, at nearly one-half the peak level in the case of Bolivia and one-third in the case of Peru.

Although this chapter focuses on coca cultivation, it should be noted that opium poppies—the raw material used to produce heroin—are also cultivated in Colombia and, to a lesser extent, in Peru.[308]

Country Profiles on Eradication and Alternative Development during 2005

Bolivia

Evo Morales, founder of the Bolivian cocalero movement, was elected president in December 2005 with support from coca grower associations. These farmers' unions have become increasingly active in challenging government coca reduction programs, which

[306] A hectare is a metric unit of area, 100 meters by 100 meters or 10,000 square meters, equivalent to 2.47 acres in English measure.

[307] Office of National Drug Control Policy, "2005 Coca Estimates for Colombia," press release, Apr. 14, 2006, found at *http://www.whitehousedrugpolicy.gov/news/press06/041406.html*, retrieved Apr. 18, 2006. However, the 2005 U.S. survey of Colombia also expanded its survey area, revealing coca cultivation previously unaccounted for.

[308] Most of the heroin used in the United States comes from poppies grown in Colombia and Mexico, although opium gum production in these countries accounts for less than 4 percent of the world's total production. U.S. Department of State, *INCSR 2006*, p. 12. Although there is no official estimate of poppy cultivation in Colombia for 2005, the CNC estimates a steady decline in poppy cultivation in Colombia from 6,540 hectares in 2001, to 4,900 hectares in 2002, to 4,400 hectares in 2003, to a major decrease to 2,100 hectares in 2004. CNC, *Major Illicit-Drug-Producing Nations–Cultivation and Production Estimates, 2000-04*, July 2005. Although no official U.S. cultivation estimate is available for 2005, Colombian law enforcement and alternative development program teams estimate their eradication efforts at 2,000 hectares of poppy eradicated in 2005. U.S. Department of State, *INCSR 2006*, p. 12.

Table 4-1 Coca cultivation and eradication in the ATPA countries, in hectares, 1991-2005

Year	Bolivia[a]	Colombia	Ecuador[b]	Peru	Total[c]
			Total cultivation		
1991	53,388	38,472	120	120,800	212,780
1992	48,652	38,059	0	129,100	215,811
1993	49,597	40,493	0	108,800	198,890
1994	49,158	49,910	0	108,600	207,368
1995	54,093	59,650	0	115,300	229,043
1996	55,612	72,800	0	95,659	224,071
1997	52,826	98,500	0	72,262	223,588
1998	49,621	N/A	0	58,825	N/A
1999	38,799	165,746	0	52,500	257,045
2000	27,253	183,571	0	37,900	248,724
2001	29,335	254,051	0	36,000	319,386
2002	33,439	267,145	0	41,700	342,284
2003	33,200	246,667	0	40,563	320,430
2004	33,037	250,651	0	37,839	321,527
2005	N/A	N/A	N/A	N/A	N/A
			Eradication		
1991	5,488	972	80	0	6,540
1992	3,152	959	0	0	4,111
1993	2,397	793	0	0	3,190
1994	1,058	4,910	0	0	5,968
1995	5,493	8,750	0	0	14,243
1996	7,512	5,600	0	1,259	14,371
1997	7,026	19,000	0	3,462	29,488
1998	11,621	N/A	0	7,825	N/A
1999	16,999	43,246	0	13,800	74,045
2000	7,653	47,371	0	6,200	61,224
2001	9,435	84,251	0	3,900	97,586
2002	11,839	122,695	0	7,000	141,534
2003	10,000	132,817	0	11,313	154,130
2004	8,437	136,551	0	10,339	155,327
2005	N/A	N/A	N/A	N/A	N/A
			Net cultivation		
1991	47,900	37,500	40	120,800	206,240
1992	45,500	37,100	0	129,100	211,700
1993	47,200	39,700	0	108,800	195,700
1994	48,100	45,000	0	108,600	201,700
1995	48,600	50,900	0	115,300	214,800
1996	48,100	67,200	0	94,400	209,700
1997	45,800	79,500	0	68,800	194,100
1998	38,000	101,800	0	51,000	190,800
1999	21,800	122,500	0	38,700	183,000
2000	19,600	136,200	0	31,700	187,500
2001	19,900	169,800	0	32,100	221,800
2002	21,600	144,450	0	34,700	200,750
2003	23,200	113,850	0	29,250	166,300
2004	24,600	114,100	0	27,500	166,200
2005	26,500	105,400	0	38,000	169,900

Source: United States Department of State, Bureau for International Narcotics and Law Enforcement Affairs, International Narcotics Control Strategy Report - 2006, March 2006 and CNC, Major Illicit-Drug-Producing Nations – Cultivation and Production Estimates, 2000-04, July 2005, White House Office of National Drug Control Policy, "2005 Coca Estimates for Colombia," press release, Apr. 14, 2006.

Note: N/A indicates data not available.

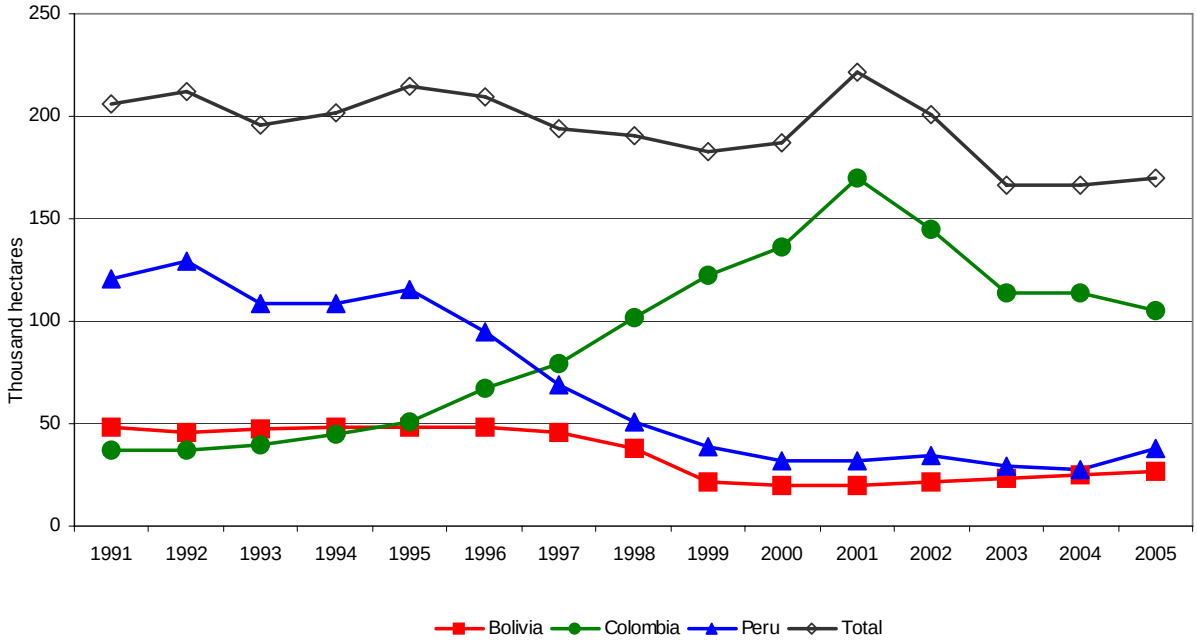
Also, in previous INCSR reports, net cultivation plus eradication estimates would sum to total cultivation; however, no total cultivation or eradication data were published in the current INCSR 2006 issue due to differences in how net cultivation and eradication are estimated. Total cultivation figures shown may also vary slightly from figures published in previous INCSR issues due to data revisions.

[a] Beginning in June 2001, U.S. Government aerial surveys of net coca cultivation in Bolivia began to cover the 12-month period beginning in June rather than the 12-month period beginning in January to take better advantage of weather conditions.

[b] Ecuador eliminated its small area of coca cultivation by 1992.

[c] Total is the simple sum of data for all four ATPA countries where available.

Figure 4-1
Net Coca Cultivation in the ATPA Region, 1991-2005



Source: State Department, INCSR 2006, Mar. 1, 2006; CIA/CNC revisions for 2000-2004, July 2005; ONDCP, "2005 Coca Estimates for Colombia," Apr. 14, 2006.

they say limit the economic advancement of their rural indigenous majority.[309] In this context, net coca cultivation in Bolivia expanded 8 percent in 2005, the fourth consecutive year of increase, to 26,500 hectares, a result of both hindered eradication in the Chapare region as well as expanding cultivation in the Yungas region.[310]

Coca cultivation has been shifting within Bolivia from the lowland Chapare region to the mountainous Yungas region. Many coca growers in the Chapare region have migrated to the Yungas region in response to the forced coca eradication program begun under former President Banzer (1997-2001), despite complementary alternative development programs for providing legal substitute crops along with supporting assistance and infrastructure. Violent demonstrations by Chapare coca growers in 2004 and 2005 over forced eradication were quieted when the government agreed to suspend or temporarily slow its eradication policy in the Chapare region, as well as agreed to grant greater local participation in government decisions involving alternative development programs in the region. Although forced eradication has continued since the original Banzer program, subsequent administrations

[309] U.S. Department of State, *INCSR 2006*, pp. 11-12.
[310] U.S. Department of State, *INCSR 2006*, p. 90; and U.S. Department of State telegram, "Revision: Bolivia: 2006 USITC ATPA/ATPDEA Impact Report," message reference No. 1691, prepared by U.S. Embassy, La Paz, June 22, 2006, par. 6.

since 2001 have maintained only "a holding action" with respect to coca eradication in the Chapare region.[311]

In the Yungas region, the Bolivian government has met with limited success in its ability to curb increased coca cultivation.[312] In 2005, violent opposition by coca growers in the Yungas region has prevented forced eradication there by the government, and alternative development programs that were successful in the tropical lowlands of the Chapare region have proven difficult to adapt to the mountainous highlands of the Yungas region. As a consequence, the U.S. Embassy reports that the Bolivian government has achieved no reduction in coca cultivation in the Yungas region to date.[313]

Alternative Development

The USAID alternative development program in the Chapare region aims to strengthen the legal economy by improving the competitiveness of rural enterprises, building more effective local institutions, and improving basic public services and social conditions.[314] Alternative development projects have been widely accepted in the Chapare region, including growing legal crops of bananas, cocoa, coffee, pineapple, and palm heart for export.[315] The alternative development program has significantly raised the income of farmers there,[316] with net family income from legal production in the Chapare region rising from roughly $1,706 in 2000 to an estimated $2,667 in 2005.[317] More recently, alternative development programs in the Chapare region are moving toward a greater focus on local participation by municipalities in the development, implementation, and monitoring of these programs. By the end of fiscal year 2006, USAID alternative development support, coupled with the government's Agrarian Reform Institute, will help pass legal title for land to the farmers of approximately 30 percent of the 30,000 properties in the Chapare region in an effort to clarify legal land ownership, which is anticipated to encourage legal agricultural production rather than illicit crop cultivation.[318]

Alternative development in the Yungas region first aims to improve citizen participation in municipal government; to strengthen government oversight regulating land rights issues, such as land distribution from state-owned lands to private ownership; and to improve access

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[311] U.S. Department of State, *INCSR 2006*, pp. 90-91.

[312] U.S. Department of State telegram, "Bolivia's Eradication Efforts: 'Best Efforts' May Not Be Enough in the Future," message reference No. 241, prepared by U.S. Embassy, La Paz, Jan. 25, 2005.

[313] U.S. Department of State, *INCSR 2006*, pp. 90-91; U.S. Department of State telegram, "Bolivia's Eradication Efforts: 'Best Efforts' May Not Be Enough in the Future," message reference No. 241, prepared by U.S. Embassy, La Paz, Jan. 25, 2005.

[314] U.S. Department of State, *INCSR 2006*, p. 90.

[315] Ibid.; U.S. Department of State telegram, "Bananas Lead the Way for Sustaining a Licit Economy in Bolivia's Chapare," message reference No. 2772, prepared by U.S. Embassy, La Paz, Sept. 13, 2005; U.S. Department of State telegram, "Chapare Road Blockades Exact Heavy Economic Loss," message reference No. 902, prepared by U.S. Embassy, La Paz, Mar. 17, 2005. A number of alternative development products that receive trade preferences under ATPA also receive trade preferences under the GSP (e.g., palm hearts) or enter the United States unconditionally free of duty under MFN/NTR rates (e.g., bananas, coffee).

[316] U.S. Department of State, *INCSR 2006*, p. 90.

[317] U.S. Department of State, *INCSR 2006*, p. 92, and previous issues. In contrast, net family income in the Yungas region was estimated at $1,711 in 2005. GDP per capita income in Bolivia in 2005 was approximately $940. The USAID Chapare Alternative Development Program began in 1997, whereas the USAID Yungas Development Initiative began in 2000. Comparable figures for net family income in the Yungas region are not available for 2000.

[318] U.S. Department of State, *INCSR 2006*, p. 92.

to other forms of legal justice. The USAID alternative development program in the Yungas region seeks to strengthen local institutions by investing, along with the municipalities in coca-growing regions, in small-scale infrastructure projects such as schools, water systems, and road maintenance projects. According to the U.S. Embassy, alternative development projects are going forward independent of eradication efforts. Whereas forced coca eradication and alternative development aid have been combined successfully in the Chapare region, the same policy may not adapt well to the Yungas region. A weaker government presence in the Yungas region's more isolated highlands, plus the mountainous climate and terrain, require that the crops and products of the alternative development projects be other than those introduced in the tropical Chapare region.[319]

Colombia

Net coca cultivation in Colombia declined by 8 percent, from 114,100 hectares in 2004 to 105,400 hectares in 2005, based on survey methodology used in previous years.[320] Since its all-time peak in 2001, net coca cultivation in Colombia has decreased nearly 40 percent through 2005 as a result of manual eradication and aerial spraying. Despite a record high in 2005 for coca eradication, drug interdiction, and extradition of narcotics traffickers, a high concentration of coca and opium poppy cultivation remains under the control of armed antigovernment groups, which are operating largely with funds raised through drug crop cultivation and narcotics trafficking.[321]

Alternative Development

Initiated in May 2005, the USAID multiyear program for Colombia focuses on four elements: strengthening democracy, promoting human rights, eliminating coca and poppy production through alternative development, and providing assistance to internally displaced persons. The alternative development program involves supporting the growth of agrobusiness and commercial forestry to increase employment and income in rural areas and secondary cities where farmers have ended illegal drug crop cultivation. The program includes working with groups of farmers that choose to eliminate coca and opium poppy crops and expand production of legal crops or livestock, as well as with entire townships that want to eradicate drug crops in exchange for USAID assistance in construction; small infrastructure projects; and food and crop cultivation, production, and marketing. USAID also helps finance larger infrastructure projects where their construction can provide employment for farmers who were formerly dependent on illegal drug production, and where cohesion of the rural community may increase its ability to resist drug traffickers in the future.[322]

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[319] U.S. Department of State telegram, "Bolivia's Eradication Efforts: 'Best Efforts' May Not Be Enough in the Future," message reference No. 241, prepared by U.S. Embassy, La Paz, Jan. 25, 2005, par. 5-6.

[320] Office of National Drug Control Policy, "2005 Coca Estimates for Colombia," press release, Apr. 14, 2006, found at *http://www.whitehousedrugpolicy.gov/news/press06/041406.html*, retrieved Apr. 18, 2006. However, the 2005 U.S. survey of Colombia included a significantly expanded survey area not included in the 2004 survey area, which revealed an additional 39,000 hectares of coca under cultivation.

[321] U.S. Department of State, *INCSR 2006*, p. 102. These groups include the Revolutionary Armed Forces of Colombia (Fuerzas Armadas Revolucionarias de Colombia, FARC), the United Self Defense Forces of Colombia (Autonoma Unida de Colombia, AUC), and the National Liberation Army (Ejercito Liberador Nacional, ELN).

[322] USAID, "USAID: Latin America and the Caribbean – Colombia Program Profile," May 13, 2005.

National alternative development programs, working in conjunction with USAID, have helped 170,000 families in coca and poppy growing zones in Colombia move away from illegal crop cultivation toward legal crops such as cacao, fruit, and coffee.[323] The U.S. Embassy reports that ATPA has provided significant economic benefits to Colombia over the past decade, creating an estimated 123,000 jobs during the first 10 years of the program. Under ATPDEA, another 150,000 jobs are expected to be added by December 2006. The Embassy highlights ATPA benefits for Colombian manufactures, notably in textiles and apparel, including leather products. The Embassy points to ATPA benefits for Colombian agriculture, especially in sectors such as flowers and fresh fruit. ATPA-related growth in the Colombian flower sector, in particular, has generated over 94,000 direct hires and approximately 80,000 indirect hires, primarily in the areas surrounding Bogota and Medellin, Colombia's two largest cities.[324]

In addition, the U.S. Embassy pointed out that access to the U.S. market helps support alternative crop prices at economically viable levels. ATPA preferences also bolster support by the Colombian private sector, which in turn presses the Colombian government to continue counternarcotics efforts so as to retain the commercial benefits granted under the ATPA program.[325]

Ecuador

Ecuador has no significant coca cultivation, although it does serve as a transshipment point for quantities of coca products as well as finished cocaine and heroin. In 2005, Ecuadorian security forces eradicated about 36,160 cultivated coca plants found at small, scattered sites in the country. Although insignificant commercially, coca cultivation in Ecuador in 2005 was estimated at about double that of 2004. According to the U.S. Department of State, this increase, in conjunction with the discovery of a small, partially harvested opium poppy plantation, suggests that growers are testing the feasibility of drug crop cultivation in Ecuador.[326]

Alternative Development

The Government of Ecuador established the Unidad de Desarollo Norte (Udenor, the Northern Development Body) in 2000 to coordinate economic and social development programs in the country's northern border region.[327] With illegal crop cultivation in the northern region not presently significant, Udenor aims at preventive rather than alternative development in carrying out the government's multiyear, $400-million master plan to develop the region. The plan, largely dependent on the support of foreign donors, includes strengthening the local economy by building productive capacity and economic and social infrastructure and conserving environmental resources. USAID has agreed to provide the

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[323] U.S. Department of State telegram, "The Soft Side of Plan Colombia: Special Social Programs of the Uribe Administration," message reference No. 2804, prepared by U.S. Embassy, Bogota, Mar. 29, 2006, par. 3.

[324] U.S. Department of State telegram, "Colombia ATPDEA-related Activity 2005," message reference No. 5571, prepared by U.S. Embassy, Bogota, June 21, 2006.

[325] Ibid.; and U.S. Department of State telegram, "ATPDEA-related Investment Activity during 2004," message reference No. 5762, prepared by U.S. Embassy, Bogota, June 16, 2005.

[326] U.S. Department of State, *INCSR 2006*, p. 110.

[327] U.S. Department of State, *INCSR 2006*, pp. 110-111. See also ATPA 2004, p. 4-13.

bulk of funding for the plan between 2000 and 2007, with agreements between the Government of Ecuador and donors to date financing approximately $78 million. USAID objectives in the northern border region aim to increase citizens' satisfaction with the performance of local institutions; increase the availability of basic infrastructure such as potable water, sanitation, bridge, and farm-to-market road projects; and increase legal employment and income for small- and medium-sized farmers in the region.[328]

The Government of Ecuador, in its submission to the Commission for this report, identifies some of the effects of ATPA on the creation of jobs and exports in specific industries, including the positive results that this economic growth has had on combating drug trafficking.[329] The export flower industry in Ecuador is one such major ATPA beneficiary, showing a steady increase in exports of cut flowers, from $13.6 million in 1990 to nearly $400 million in 2006. The U.S. market represents roughly 75 percent of Ecuador's export market, according to the government's submission. Exports from the cut roses subsector and the gypsophila (known as "baby's breath") subsector have benefitted in particular from the ATPA program.[330] Flower production is concentrated mainly in the highlands of Ecuador, where it draws farmers from traditional agriculture to work in one of the principal export-oriented agricultural activities in the region. In particular, the flower industry draws large numbers of workers from the northern provinces of Ecuador and provides employment for many Colombian refugees who are fleeing violence as government efforts to eradicate coca cultivation meet resistance from antigovernment rebels who control the coca plantings.[331]

Broccoli is another major nontraditional export industry for Ecuador, employing approximately 4,000 families directly in production, processing, and packing and up to 10,000 families indirectly in related sectors such as agricultural inputs, transport, and other services. In particular, these jobs employ workers from indigenous communities located in the rural Ecuadorian highlands, areas where illegal coca cultivation would be a likely alternative without legal job opportunities. Ecuador's broccoli exports have increased threefold between 2000 and 2005, reaching 50,000 tons in 2005. Ecuador's broccoli exports to the U.S. market are valued at $11 million, representing approximately 32 percent of its total broccoli exports.[332]

Mangoes are yet another nontraditional export that the Government of Ecuador suggests would disappear without ATPA preferences. The submission calculates that approximately 90,000 people are employed directly or indirectly by the mango industry in Ecuador.[333]

In 2005, investment prospects appear frozen for many of the industries promoted through ATPA preferences—such as flowers, apparel, leather, and fruits—as investors attempt to gauge the future with respect to the renewal of ATPA benefits. As the possible loss of ATPA

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[328] U.S. Department of State, *INCSR 2006*, pp. 110-111.

[329] Andres Teran, Charge d'Affairs, Embassy of Ecuador, Washington, D.C., written submission to the Commission concerning inv. No. 332-352, *Andean Trade Preference Act: Impact on U.S. Industries and Consumers and on Drug Crop Eradication and Crop Substitution*, June 16, 2006.

[330] U.S. Department of State telegram, "USITC 2004 Annual Andean Investment and Drug Crop Survey for Report on ATPA," message reference No. 1621, prepared by U.S. Embassy, Quito, July 8, 2005, par. 13-16.

[331] Andres Teran, Charge d'Affairs, Embassy of Ecuador, Washington, D.C., written submission to the Commission concerning inv. No. 332-352, *Andean Trade Preference Act: Impact on U.S. Industries and Consumers and on Drug Crop Eradication and Crop Substitution*, June 16, 2006.

[332] Ibid., "Broccoli in Ecuador" section.

[333] Ibid., "Information on ATPDEA Provided by Mango Foundation" section.

benefits becomes more evident to Ecuadorian investors, there is increasing discussion of managing these losses by subsidizing Ecuadorian exports to the United States.[334] Although Ecuador's climate allows higher quality flowers to be grown than in Colombia, Ecuadorian growers also face higher costs, such as for transportation. The industry is also concerned that much of Ecuador's flower industry will shift to Colombia if Ecuador loses ATPA benefits and Colombia implements a free trade agreement with the United States.

Peru

The government continues to pursue a coca reduction and elimination policy through forced eradication (in locations such as state parks) as well as a voluntary eradication policy undertaken by willing municipalities in exchange for alternative development benefits. Despite these efforts, recent reports point to increases in net coca cultivation in Peru in 2005.[335]

Net coca cultivation in Peru is estimated to have increased some 38 percent, from 27,500 hectares in 2004 (its all-time low) to approximately 38,000 hectares in 2005, according to the U.S. Office of National Drug Control Policy (ONDCP).[336] The ONDCP estimate reported that over one-third of the increase was due to new coca plantings in nontraditional growing areas in Peru that were not surveyed in 2004.[337] Record high prices for coca leaf contributed to the increase, as well as armed attacks against coca eradication teams, which slowed eradication efforts.[338] According to the U.S. Department of State, coca growers (cocaleros) located in rural valleys in Peru have become better organized and increasingly violent, including ambushing police and intimidating alternative development teams, in particular in the distant mountainous valleys where antigovernment guerrilla forces were once active.[339]

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[334] U.S. Department of State electronic mail communication, "USITC Information Request," prepared by Paul R. Baldwin, U.S. Embassy, Quito, received June 29, 2006.

[335] U.S. Department of State, *INCSR 2006*, pp. 116-119.

[336] U.S. Office of National Drug Control Policy, ONDCP Public Affairs, "U.S. Releases 2005 Peruvian Coca Cultivation Estimate," press release, Feb. 10, 2006, found at *http://www.whitehousedrugpolicy.gov/news/press06/021006.html*, retrieved Apr. 6, 2006.

[337] ONDCP, "2005 Peruvian Coca Cultivation Estimate," Feb. 10, 2006. According to the U.S. Department of State, Peru surpassed its 2005 coca eradication goals, but increased coca plantings nonetheless outstripped Peru's eradication efforts. As of March 2006, the Government of Peru's national drug control agency, Devida, was accepting as accurate the June 2005 UN Office of Drugs and Crimes estimate of 50,000 hectares of coca under cultivation in Peru. See U.S. Department of State, *INCSR 2006*, pp. 11-12. The U.S. Government and the United Nations employ different survey methodologies to arrive at their estimates, which in turn yield different final results, although both sets of estimates are roughly parallel over time. An additional complication can arise with the July 2005 revision of the official U.S. Government cultivation and production estimates for coca in the Andes from 2000 through 2004. See CNC, *Major Illicit-Drug-Producing Nations – Cultivation and Production Estimates, 2000-04*, July 2005; United Nations, Office of Drugs and Crime, *Coca Cultivation in the Andean Region*, June 2006; Devida, "Devida Alerta: Hay un Peligroso Aumento de Cultivo de Hoja de Coca," Mar. 28, 2005, found at *http://www.devida.gob.pe/Modulos/Noticia/DetalleNoticia.asp?Cod=244*, retrieved Mar. 30, 2005; Devida, "Cultivos de Coca Se Incrementaron a 48 Mil 600 Hectares en 2005," press release, Mar. 30, 2005, found at *http://www.devida.gob.pe/Modulos/Noticia/DetalleNoticia.asp? Cod=212*, retrieved Mar. 30, 2005; and USTR, *Second Report to the Congress on the Operation of the Andean Trade Preference Act as Amended*, Apr. 30, 2005, p. 48.

[338] ONDCP, "2005 Peruvian Coca Cultivation Estimate," Feb. 10, 2006.

[339] U.S. Department of State, *INCSR 2006*, pp. 11-12.

Alternative Development

The USAID alternative development program in Peru aims to improve community participation in local government to strengthen the rule of law for the community's benefit. To support a stronger legal environment locally, USAID provides economic aid to build the local economy's competitiveness through legal crops and improved infrastructure, making the alternative development program available to communities in coca-growing areas that voluntarily eradicate their coca cultivation. Pro-coca-farming groups challenge communities that accept these voluntary eradication agreements, at times violently. As a result, progress implementing these agreements slowed during 2005 as cocalero strikes and threats of violence forced the closure of regional offices for roughly a third of the year.[340]

In 2005, an additional 9,000 families joined the voluntary eradication program, which began in October 2002. Since the program's start, 11,000 hectares of coca have been voluntarily eradicated, approximately 3,000 hectares in 2005.[341] The director of Peru's national drug agency cited a variety of legal crops as substitutes for illegal coca cultivation for families enlisted in the alternative development program. These crops included bananas, birdseed maize, cacao, coffee, cotton, oil palm, orchids, hearts of palm, palm oil, papaya, peanuts, pineapples, rice, rubber, sesame seeds, and variety beans.[342]

By the end of 2005, USAID reported providing technical assistance to 26,469 family farmers, covering more than 31,000 hectares of legal crops, as well as building infrastructure for communities participating in the voluntary eradication program. By the end of 2005, 231 separate projects had been completed. In addition, USAID completed the $30-million rehabilitation of the Fernando Belaunde Terry highway, the sole major highway that connects the Central Huallaga Valley–a major coca growing area–with western Peru, where legal agricultural markets are more accessible. Such transport access should contribute significantly to improved legal agricultural production in the Central Huallaga Valley.[343]

Since October 2002 when it began, the national alternative development program, Programa de Desarollo Alternativo (PDA), working in conjunction with USAID, had enrolled 50,000 families by May 2006 and agreed to 600 contracts with rural communities to voluntarily reduce coca cultivation.[344] According to Peru's national drug control agency, Devida, the program has helped build 600 various infrastructure projects in nearly four years, including local roads, bridges, electricity stations, water systems, and community education and health centers. Under this and related programs, 60,000 hectares of coca have been forcibly eradicated and an additional 11,000 hectares have been voluntarily eliminated, substituting to date approximately 52,000 hectares of legal crops. According to the U.S. Embassy, the

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[340] U.S. Department of State, *INCSR 2006*, pp. 116-119.

[341] Ibid.

[342] U.S. Department of State telegram, "Ambassador Discusses Free Trade in Piura," message reference No. 2235, prepared by U.S. Embassy, Lima, May 18, 2005; Nils Ericsson Correa, "Cacao... No Coca," *El Comercio*, May 31, 2006; Devida, "Stand de Devida Fue Premiado en Semana de Comercio Exterior," press release, Oct. 21, 2005. As noted previously, a number of alternative development products may receive trade preferences under other programs in addition to ATPA or may already enter the United States duty-free. Also, industries established with the help of ATPA trade preferences may market alternative development products in markets other than the United States, for example, for local consumption or export to neighboring countries, thereby still providing legitimate employment opportunities as a counter to coca cultivation but without alternative development products being imported into the United States per se.

[343] U.S. Department of State, *INCSR 2006*, pp. 116-119.

[344] Devida, "Devida Cumplio Cuatro Anos de Fundada," press release May 16, 2006, found at *http://www.devida.gob.pe/Modulos/Noticia/DetalleNoticia.asp? Cod=355*, retrieved June 12, 2006.

agricultural sector in Peru has clearly benefitted from ATPA preferences, developing nontraditional export crops such as artichokes, asparagus, beans, flowers, grapes, mangoes, onions, and paprika.[345]

Asparagus has proved to be one of the foremost alternative development export crops that benefits from ATPA. According to the Peruvian Asparagus and Vegetables Institute in its submission to the Commission for this report, Peru ranked as the world's largest exporter of asparagus in 2005. The institute notes that Peru is also a significant and growing exporter of other fresh and preserved vegetables, such as artichokes, chili peppers, pimientos, and paprika. Stating that it supports the positive effect ATPA has had on these industries, the institute points out that the asparagus industry now "provides alternative legal employment to over 60,000 workers, many of whom come from mountainous areas where coca production has traditionally taken place."[346]

The institute's submission estimates that, of 4.3 million formal jobs in Peru in 2004, 1.1 million were related to nontraditional exports, and 600,000 of those were in the agricultural export sector, which benefits from trade preferences offered under programs such as ATPA. The institute highlights the artichoke industry as another nontraditional agricultural export sector. The sector currently employs 15,000 people and surpassed $40 million in value in 2004. Paprika exports also increased by 88 percent between 2004 and 2005, surpassing $90 million in value to make Peru the world's top paprika exporter.

The administration of President Alan Garcia, who was elected in June 2006, is formulating a five-year export promotion plan called Sierra Exportadora that aims to encourage farmers in the Peruvian highlands–where much of Peru's coca is grown–to increase economic growth by shifting from traditional food crops, such as corn, potatoes, and quinoa,[347] to higher-value export products, such as artichokes, snow peas, peppers and paprika, onions, and trout.[348] This export promotion plan is modeled on increased agricultural exports, such as those from the asparagus industry that were induced by ATPA trade-based preferences and which has generated economic growth on the Peruvian southern coast.[349]

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[345] U.S. Department of State telegram, "USITC 2005 Investment and Drug Crop Survey," message reference No. 2490, prepared by U.S. Embassy, Lima, June 21, 2006.

[346] Carlos Mateo Paz-Soldan, and John B. Totaro, Jr., attorneys, Schmeltzer, Aptaker & Shepard, on behalf of the Peruvian Asparagus and Vegetables Institute, written submission to the Commission concerning inv. No. 332-352, *Andean Trade Preference Act: Impact on U.S. Industries and Consumers and on Drug Crop Eradication and Crop Substitution,* June 8, 2006.

[347] A high protein, desirable plant found in the high Andes whose seeds are often ground for food in Peru.

[348] U.S. Department of State telegram, "Understanding Garcia's Export Promotion Plan," message reference No. 2507, prepared by U.S. Embassy, Lima, June 22, 2006; U.S. Department of State telegram, "Garcia's Campaign Proposals – He's Got the Dough," message reference No. 2532, prepared by U.S. Embassy, Lima, June 26, 2006.

[349] U.S. Department of State telegram, "Understanding Garcia's Export Promotion Plan," message reference No. 2507, prepared by U.S. Embassy, Lima, June 22, 2006.

APPENDIX A
Federal Register Notice

ADDRESSES: Comments may be submitted to the Office of Information and Regulatory Affairs, Office of Management and Budget, Department of the Interior Desk Officer, via e-mail at *OITA_docket@omb.eop.gov*, or by facsimile to (202) 395–6566. Also, please send a copy of your comments to John A. Trelease, Office of Surface Mining Reclamation and Enforcement, 1951 Constitution Ave., NW., Room 202–SIB, Washington, DC 20240, or electronically to *jtreleas@osmre.gov*. Please reference 1029–0035 in your correspondence.

SUPPLEMENTARY INFORMATION: The Office of Management and Budget (OMB) regulations at 5 CFR part 1320, which implement provisions of the Paperwork Reduction Act of 1995 (Pub. L. 104–13), require that interested members of the public and affected agencies have an opportunity to comment on information collection and recordkeeping activities (see 5 CFR 1320.8(d)). OSM has submitted a request to OMB to renew its approval for this collection of information found at 30 CFR part 779, Surface mining permit applications—minimum requirements for environmental resources. OSM is requesting a 3-year term of approval for this information collection activity.

An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a currently valid OMB control number. The OMB control number for this collection of information is 1029–0035.

As required under 5 CFR 1320.8(d), a **Federal Register** notice soliciting comments on this collection of information was published on December 9, 2005 (70 FR 73267). No comments were received. This notice provides the public with an additional 30 days in which to comment on the following information collection activity:

Title: Surface mining permit applications—minimum requirements for environmental resources, 30 CFR Part 779.

OMB Control Number: 1029–0035.

Summary: Applicants for surface coal mining permits are required to provide adequate descriptions of the environmental resources that may be affected by proposed surface mining activities. The information will be used by the regulatory authority to determine if the applicant can comply with environmental protection performance standards.

Bureau Form Number: None.

Frequency of Collection: Once upon submittal of mining application.

Description of Respondents: 342 Coal mining permit applicants and 24 state regulatory authorities.

Total Annual Responses: 342 applications and 329 responses by state regulatory authorities.

Total Annual Burden Hours: 54,867 hours.

Send comments on the need for the collections of information for the performance of the functions of the agency; the accuracy of the agency's burden estimates; ways to enhance the quality, utility and clarity of the information collections; and ways to minimize the information collection burdens on respondents, such as use of automated means of collections of the information, to the following addresses. Please refer to the appropriate OMB control numbers in all correspondence.

Dated: March 14, 2006.

John R. Craynon,

Chief, Division of Regulatory Support.

[FR Doc. 06–4343 Filed 5–9–06; 8:45 am]

BILLING CODE 4310–05–M

INTERNATIONAL TRADE COMMISSION

[Investigation No. 332–352]

Andean Trade Preference Act: Effect on the U.S. Economy and on Andean Drug Crop Eradication

AGENCY: United States International Trade Commission.

ACTION: Notice of opportunity to submit comments in connection with the 2005 ATPA report.

DATES: Effective May 1, 2006.

FOR FURTHER INFORMATION CONTACT: Walker Pollard (202–205–3228 or *walker.pollard@usitc.gov*), Country and Regional Analysis Division, Office of Economics, U.S. International Trade Commission, Washington, DC 20436. General information concerning the Commission may be obtained by accessing its Internet server (*http://www.usitc.gov*).

Background: Section 206 of the Andean Trade Preference Act (ATPA) (19 U.S.C. 3204) requires that the Commission submit biennial reports to the Congress regarding the economic impact of the Act on U.S. industries and consumers and, in conjunction with other agencies, the effectiveness of the Act in promoting drug-related crop eradication and crop substitution efforts of the beneficiary countries. Section 206(b) of the Act requires that each report include:

(1) The actual effect of ATPA on the U.S. economy generally as well as on specific domestic industries which produce articles that are like, or directly competitive with, articles being imported under the Act;

(2) The probable future effect that ATPA will have on the U.S. economy generally and on domestic industries affected by the Act; and

(3) The estimated effect that ATPA has had on drug-related crop eradication and crop substitution efforts of beneficiary countries.

Notice of institution of the investigation and the schedule for such reports under section 206 of ATPA was published in the **Federal Register** of March 10, 1994 (59 FR 11308). The twelfth report, covering calendar year 2005, is to be submitted by September 29, 2006.

Written Submissions: The Commission does not plan to hold a public hearing in connection with the preparation of this twelfth report. However, interested persons are invited to submit written statements concerning the matters to be addressed in the report. All written submissions should be addressed to the Secretary, United States International Trade Commission, 500 E Street, SW., Washington, DC 20436. To be assured of consideration by the Commission, written statements relating to the Commission's report should be submitted to the Commission at the earliest practical date and should be received no later than the close of business on June 9, 2006. All written submissions must conform with the provisions of section 201.8 of the Commission's *Rules of Practice and Procedure* (19 CFR 201.8). Section 201.8 of the rules requires that a signed original (or a copy designated as an original) and fourteen (14) copies of each document be filed. In the event that confidential treatment of the document is requested, at least four (4) additional copies must be filed, in which the confidential business information (CBI) must be deleted (see the following paragraph for further information regarding CBI). The Commission's rules do not authorize filing submissions with the Secretary by facsimile or electronic means, except to the extent permitted by section 201.8 of the rules (see Handbook for Electronic Filing Procedures, *https://eofpub.usitc.gov/edis-efile/docs/handbook_on_electronic_filing.pdf*). Persons with questions regarding electronic filing should contact the Secretary (202–205–2000 or *edis@usitc.gov*).

Any submissions that contain CBI must also conform with the requirements of section 201.6 of the Commission's rules (19 CFR 201.6).

Section 201.6 of the rules requires that the cover of the document and the individual pages clearly be marked as to whether they are the ''confidential'' or ''nonconfidential'' version, and that the CBI be clearly identified by means of brackets. All written submissions, except for CBI, will be made available for inspection by interested parties.

The Commission intends to publish only a public report in this investigation. Accordingly, any CBI received by the Commission in this investigation will not be published in a manner that would reveal the operations of the firm supplying the information. The report will be made available to the public on the Commission's Web site.

The public record for this investigation may be viewed on the Commission's electronic docket (EDIS) at *http://edis.usitc.gov*. Hearing-impaired individuals are advised that information on this matter can be obtained by contacting the Commission's TDD terminal on 202–205–1810. Persons with mobility impairments who will need special assistance in gaining access to the Commission should contact the Office of the Secretary at 202–205–2000.

Issued: May 4, 2006.

By order of the Commission.

Marilyn R. Abbott,

Secretary to the Commission.

[FR Doc. E6–7059 Filed 5–9–06; 8:45 am]

BILLING CODE 7020–02–P

INTERNATIONAL TRADE COMMISSION

[Investigation No. 701–TA–431 (Remand)]

Drams and Dram Modules From Korea

AGENCY: United States International Trade Commission.

ACTION: Notice.

SUMMARY: The Commission hereby gives notice that it is inviting parties to the referenced proceeding to file comments in the remand proceeding ordered by the United States Court of International Trade (CIT). For further information concerning the conduct of this proceeding and rules of general application, consult the Commission's Rules of Practice and Procedure, part 201, subparts A through E (19 CFR part 201), and part 207, subpart A (19 CFR part 207).

DATES: Effective May 10, 2006.

FOR FURTHER INFORMATION CONTACT: Mary A. Messer (202–205–3193), Office of Investigations, or Marc A. Bernstein (202–205–3087), Office of General Counsel, U.S. International Trade Commission, 500 E Street, SW., Washington, DC 20436. Hearing-impaired persons can obtain information on this matter by contacting the Commission's TDD terminal on 202–205–1810. Persons with mobility impairments who will need special assistance in gaining access to the Commission should contact the Office of the Secretary at 202–205–2000. General information concerning the Commission may also be obtained by accessing its Internet server (*http://www.usitc.gov*). The public record of Investigation No. 701–TA–431 may be viewed on the Commission's electronic docket (EDIS) at *http://edis.usitc.gov*.

SUPPLEMENTARY INFORMATION:

Background

In August 2003, the Commission determined that an industry in the United States was materially injured by reason of subsidized imports of DRAMs and DRAM modules from Korea. Hynix Semiconductor Inc. and Hynix Semiconductor America Inc. subsequently instituted an action at the CIT challenging the Commission's determination.

The CIT issued an opinion in the matter on April 13, 2006. *Hynix Semiconductor Inc.* v. *United States*, Ct. No. 03–00652, Slip Op. 06–52 (Ct. Int'l Trade Apr. 13, 2006). In its opinion, the CIT remanded the matter to the Commission for further consideration of the causal nexus between the subject imports and material injury to the domestic DRAMs industry in light of changes in the rate of growth of demand. In all other respects the CIT affirmed the Commission's opinion.

Participation in the Proceeding

Only those persons who were interested parties to the original investigation (*i.e.*, persons listed on the Commission Secretary's service list) may participate in the remand proceedings. Such persons need not make any additional filings with the Commission to participate in the remand proceedings. Business proprietary information (''BPI'') referred to during the remand proceeding will be governed, as appropriate, by the administrative protective order issued in the original investigation.

Written Submissions

The Commission is not reopening the record in this proceeding for submission of new factual information. The Commission will, however, permit the parties to file comments pertaining to the issue on which the CIT has remanded this matter. The deadline for filing comments is May 25, 2006. Comments shall be limited to no more than twenty (20) double-spaced and single-sided pages of textual material.

The parties may not submit any new factual information and may not address any issue other than the impact on the domestic industry of changes in the rate of growth of DRAM demand. Comments filed in the Commission section 129 consistency proceeding concerning *DRAMs and DRAM Modules from Korea* are not part of the record of these remand proceedings. Accordingly, the comments submitted in this remand proceeding may not cite or incorporate by reference comments submitted in the section 129 consistency proceeding. Any material from the comments in the section 129 proceeding that is reproduced and appended to or incorporated within the comments filed in these remand proceedings will be counted against the 20-page limit for comments.

All written submissions must conform with the provisions of § 201.8 of the Commission's rules; any submissions that contain BPI must also conform with the requirements of §§ 201.6, 207.3, and 207.7 of the Commission's rules. The Commission's rules do not authorize filing of submissions with the Secretary by facsimile or electronic means, except to the extent permitted by § 201.8 of the Commission's rules, as amended, 67 FR 68036 (November 8, 2002).

In accordance with §§ 201.16(c) and 207.3 of the Commission's rules, each document filed by a party to the investigation must be served on all other parties to the investigation (as identified by either the public or BPI service list), and a certificate of service must be timely filed. The Secretary will not accept a document for filing without a certificate of service.

Issued: May 3, 2006.

By order of the Commission.

Marilyn R. Abbott,

Secretary to the Commission.

[FR Doc. E6–7060 Filed 5–9–06; 8:45 am]

BILLING CODE 7020–02–P

DEPARTMENT OF JUSTICE

Antitrust Division

Notice Pursuant to the National Cooperative Research and Production Act of 1993—Halon Alternatives Research Corporation, Inc.

Notice is hereby given that on March 8, 2006, pursuant to section 6(a) of the National Cooperative Research and Production Act of 1993, 15 U.S.C. 4301 *et seq.* (''the Act''), Halon Alternatives

APPENDIX B
Summary of Submissions in Response to the Federal Register Notice

American Chamber of Commerce of Peru[350]

The American Chamber of Commerce of Peru (AmCham Peru), an organization that represents both Peruvian and foreign businesses in promoting trade, investment, and exchange between Peru and the United States, provided an estimate of the impact of the ATPDEA on Peru's economy in 2005. According to the submission, exports from Peru to the United States were in excess of $5 billion in 2005, up 166 percent since the renewal of the ATPA as the ATPDEA in 2002. AmCham Peru also stated that in 2005, Peru's GDP grew at a rate of 6.7 percent. The submission indicated that much of this growth was export-led, helping to create jobs in areas where export activity has increased and providing viable alternatives to drug trafficking. AmCham Peru explained that "the ATPDEA has been promoting a diversification among exporting industries … allowing a chance for Peruvians to sell practically any good to the American market." The submission noted that the ATPDEA also benefits American producers of capital goods, who are the leading providers of capital goods for Peruvian industry and transportation equipment, as well as Peru's second-leading suppliers of capital goods for agriculture. In addition, the ATPDEA has encouraged the adoption of new measures at the local level to ease the costs and constraints of starting new businesses. AmCham Peru advocated for the extension of ATPDEA duty preferences in Peru until permanent duty preferences have been established under the Peru Trade Promotion Agreement, calling the duty preferences an effective contribution to the fight against poverty and stating that, "the jobs and welfare of many Peruvians depend on the continuity of the preferences [the ATPDEA] grants."

Association of Food Industries, Inc.[351]

The Association of Food Industries, Inc. (AFI) is a trade association that represents interests in the U.S. food importing industry, with a membership of approximately 200 domestic companies, as well as approximately 200 associate member-companies located abroad. Imports by AFI members include food products from beneficiary countries under the Andean Trade Preference Act (ATPA), and many AFI associate member-companies are located in ATPA beneficiary countries. According to AFI, imported food products as a share of food consumed in the United States has risen 44 percent over the past 20 years to 11.2 percent, demonstrating the increased importance of imports in securing consistent access to a wide range of low-cost food products for the American consumer. AFI strongly supported "trade liberalization through the reduction of tariffs and elimination of non-tariff barriers in the course of multilateral and bilateral negotiations." AFI was concerned by the potential negative consequences of import duty rates should the ATPA be allowed to expire at the end of this year without the completion of FTA agreements with each of the four ATPA beneficiary countries. As stated by AFI, "this would constitute a drastic change in the trade environment, and will cause significant harm to U.S. importing companies, U.S. consumers, and overseas suppliers." AFI also noted the indirect harm that the loss of ATPA benefits would cause to U.S. companies not directly importing products from ATPA countries.

[350] Aldo R. Defilippi, Executive Director for AmCham Peru, written submission to the Commission, June 9, 2006.

[351] Jeffrey S. Levin, Counsel to the Association of Food Industries, Inc., written submission to the Commission, June 9, 2006.

Exporamerica[352]

Exporamerica, a private association formed by the Peruvian apparel export industry to promote trade between Peru and the United States, provided a submission regarding the positive effect of the ATPA/ATPDEA on Peruvian trade in textiles and apparel, the U.S. economy, and Andean drug crop eradication. Exporamerica advocated the extension of the ATPA/ATPDEA to "allow the duty benefits of the program … to remain in place until the PTPA consolidates these benefits on a permanent basis." According to the submission, the textile and apparel industry accounts for direct and indirect employment of 500,000 Peruvians, making it an important sector of the Peruvian economy. Exporamerica also reported that approximately 79.2 percent of the $1.15 billion worth of textiles and apparel products exported from Peru in 2005 were destined for the U.S. market. At the same time, the submission noted that 50 percent of the cotton consumed in Peru is imported from the United States, a number that is predicted to increase when the existing import duties on cotton, yarns, and fabrics are lifted upon implementation of the PTPA. According to the submission, Peruvian coca cultivation has also been reduced from 115,000 hectares to 27,500 hectares over the life of the ATPA/ATPDEA, and is an example of the program's positive influence on the growth of export-driven industries and job creation in Peru. Exporamerica stressed that allowing a lapse in the ATPA/ATPDEA trade preferences will lead to a lapse in the benefits that have accrued to both Peru and the United States from the program.

General Mills, Inc.[353]

General Mills, Inc., a Delaware corporation headquartered in Minneapolis, Minnesota, is the owner of Green Giant vegetables, a company that began sourcing canned asparagus (HS 2005.60) from Peru in June 2005. General Mills advocated an extension of ATPA benefits beyond December 31, 2006 to avoid the uncertainty and additional burden of duty assessment on products entering under HS 2005.60 prior to full implementation of the U.S.-Peru Trade Promotion Agreement. Among other factors, the submission listed product taste and value as considerations for sourcing vegetables from foreign countries, while citing "cost of production, regional processing methods, availability, [and] cost of transportation (including duties)" as considerations in the decision to source canned asparagus from Peru. According to the submission, "if MFN duties of 14.9 percent were to be placed on Peruvian asparagus – which would be the case were duty-free access denied – options for sourcing include China and Mexico; options for sourcing do not include the United States." As stated in the submission, "duty free status for Peruvian asparagus has ensured a constant, reliable, ready and predictable supply of asparagus to the U.S. market," helping to supply a stable U.S. demand for asparagus and offset a decline in domestic production. The submission also noted that 70 percent of the total value of canned asparagus, estimated at between $20 million and $25 million, from Peru "benefits U.S. interests, including air, sea, and land carriers; importers; ports; storage facilities; distributors; wholesalers; and retailers."

[352] Carlos Mateo Paz-Soldan, attorney, Schmeltzer, Aptaker & Shepard, on behalf of Exporamerica, written submission to the Commission, June 8, 2006.

[353] Submission to the Commission by Jeffrey A. Shapiro, Washington Representative for General Mills, Inc., received June 7, 2006.

Government of Colombia—Colombian Ministry of Trade, Industry and Tourism[354]

The Government of Colombia (GOC) found that "the Andean Trade Preferences have been an important tool to promote stability in Colombia, through advancement of viable and sustained alternatives to the illegal drug business." The GOC highlighted both the economic advantages the program has provided for Colombia and the positive impact seen in two-way trade between Colombia, the largest U.S. supplier among ATPA countries, and the United States. According to the GOC, ATPA preferences alone have resulted in the direct and indirect creation or preservation of 163,300 and approximately 800,000 Colombian jobs in the flower and apparel sectors, respectively. The submission also stated that a large percentage of raw material imports for apparel production, including 95 percent of cotton, came from the United States. These imports increased by a reported 74 percent between the renewal of ATPA in 2002 and 2005 and were valued at $200 million in 2005. Overall, U.S. imports from Colombia increased 18 percent to $8.7 billion in 2005, with 53 percent accounted for under ATPA preferences. However, uncertainty surrounding the potential loss of ATPA benefits after December 31, 2006, combined with competition from China, slowed Colombian exports of apparel. The GOC contended that "maintaining confidence in the bilateral trading environment, particularly through transition from the Andean Trade Preference Act to the Trade Promotion Agreement, will be key to long-term continuation of the mutual benefits of the U.S.-Colombian trade relationship."

Government of Ecuador[355]

The Government of Ecuador (GOE) submitted an account on the advantages offered by the ATPA-ATPDEA in creating jobs, bolstering exports, and combating drug trafficking in Ecuador. The submission includes economic indicators from a number of government ministries as well as reports from Ecuadorian business associations that represent the sectors benefiting most from ATPDEA tariff preferences, including flowers, broccoli, mango, textiles, and tuna. According to the GOE, suspension or non-renewal of the ATPDEA trade preferences in Ecuador would result directly in the loss of 358,515 jobs in these sectors. As stated in the report, Ecuadorian products admitted free of duty under the ATPDEA in 2005 were valued at $458 million, accounting for 40 percent of exports from Ecuador to the United States (excluding oil). The GOE additionally reported that "the ATPDEA has generated an annual growth of exports of 20 percent since 1999," and "it is estimated that losing the ATPDEA would lead to a GDP decrease of 1.8 percent." The GOE found that "the ATPDEA has met its objective of replacing illicit crops; confirmed by the fact that in 1999 the number of products exported under the ATPDEA accounted for 11 percent of the tariff universe, while in 2004 and 2005 they reached almost 20 percent." The GOE also contended that job creation, aided favorably by the ATPDEA, has had a positive impact on preventing organized crime and reducing the production of narcotics and psychotropic drugs.

[354] Juan Carlos Botero, Director of the Colombian Ministry of Trade, Industry and Tourism, written submission to the Commission, June 9, 2006.

[355] Andres Teran, Chargé d'Affairs, Embassy of Ecuador, Washington, D.C., written submission to the Commission, June 16, 2006.

International Intellectual Property Alliance[356]

The International Intellectual Property Alliance (IIPA) is a private sector coalition that represents U.S. copyright-based industries in efforts to improve international protection of copyrighted materials. The IIPA's comments stressed the difficulty of the ATPA countries "to adequately and effectively enforce even their current copyright laws," emphasizing the ineffectiveness of legal reform absent stricter enforcement mechanisms. According to the IIPA submission, copyright piracy in the ATPA countries caused U.S. companies to suffer estimated trade losses of $256 million in 2005. The IIPA also explained the new difficulties facing copyright owners in the digital marketplace and the insufficiency of basic country obligations under TRIPS to face these challenges. The IIPA calls for ATPDEA beneficiaries to fully "incorporate … modern standards of protection and enforcement" included in the World Intellectual Property Organization (WIPO) Copyright Treaty and WIPO Performances and Phonograms Treaty. The IIPA also submitted country reports from the IIPA's February 2006 Special 301 submission to USTR, detailing the copyright law, piracy, and enforcement issues of each ATPA country along with recommendations for reform.

Peruvian Asparagus and Vegetables Institute[357]

The Peruvian Asparagus and Vegetables Institute (Instituto Peruano del Espárrago y Hortalizas or IPEH), a Lima-based association representing asparagus, artichoke, pepper, and paprika producers and exporters in Peru, addressed the positive impacts the ATPA and its successor, the ATPDEA, have had on the U.S. and Peruvian economies as well as on the effort to stem drug crop production in Peru. The IPEH stated that, with the aid of the program, Peru has become the world's leading exporter of asparagus, a product that provides employment to over 60,000 workers and a stable alternative to drug production. The IPEH also explained that Peruvian asparagus exports have helped to meet the growing U.S. demand for asparagus and provided the U.S. market with year-round access to asparagus. The IPEH contended that Peruvian asparagus has complemented U.S. asparagus production by primarily servicing eastern regions of the country, where asparagus is not generally grown. The submission also stated that Peru's overall agroexport industry has seen significant growth under the ATPA, including 100 percent and 88 percent export growth in the artichoke and paprika sectors, respectively, from 2004 to 2005, while pepper exports witnessed a 300 percent increase from 2000 to 2004. According to the IPEH, an extension of the effective period for ATPA duty preferences until implementation of the free trade agreement with Peru is justified based on these preferences' importance to the Peruvian economy and to stability for U.S. trading partners, manufacturers, retailers, and consumers.

[356] Maria Strong, Vice President and General Counsel of the International Intellectual Property Alliance, written submission to the Commission, June 8, 2006.

[357] Carlos Mateo Paz-Soldan, and John B. Totaro, Jr., attorneys, Schmeltzer, Aptaker & Shepard, on behalf of the Peruvian Asparagus and Vegetables Institute, written submission to the Commission, June 8, 2006.

Peruvian Asparagus Importers Association[358]

The Peruvian Asparagus Importers Association (PAIA), an association of 24 U.S. importers of fresh asparagus from Peru, reported on the economic benefits of ATPA/ATPDEA for both the United States and Peru. Specifically, the PAIA stated that duty-free treatment of Peruvian fresh asparagus has accrued benefits to "U.S. consumers, U.S. importing companies, U.S. distributors, U.S. transportation companies, the many other companies in the domestic commercial chain, the Peruvian economy, and the thousands of people in Peru whose livelihood is dependent on trade with the United States." PAIA states that the climate, geography, and growing methods of Peru make it an ideal supplier of fresh asparagus on a year-round basis, helping to meet a growing U.S demand for asparagus that could not be met by domestic growers alone. According to the submission, imports of fresh asparagus from Peru in 2004 and 2005 was valued at between $100 million and $110 million, while the entire value chain was valued at $300 million in 2003, of which 70 percent is calculated to remain in the United States. The PAIA expressed concern regarding the loss of the economic advantages that the ATPA/ATPDEA has provided for the United States and Peru and "supports any available mechanism to extend the ATPA/ATPDEA beyond its current expiration date at least until the PTPA is fully implemented."

[358] Carlos Mateo Paz-Soldan, and John B. Totaro, Jr., Schmeltzer, Aptaker & Shepard, on behalf of the Peruvian Asparagus Importers Association , written submission to the Commission, June 8, 2006.

APPENDIX C
Technical Notes to Chapter 3

Technical Notes to Chapter 3: Partial Equilibrium Analysis

This section presents the methodology used to estimate the impact of ATPA on the U.S. economy in 2005.[359] The economic effects of ATPA duty reductions[360] were evaluated with a comparative static analysis. Since ATPA tariff preferences were already in effect in 2005, the impact of the program was measured by comparing the market conditions currently present (duty-free entry for eligible products entered under ATPA provisions) with those that might have existed under full tariffs (i.e., no ATPA tariff preferences). Thus, the analysis provides an estimate of what the potential costs and benefits to the U.S. economy would have been if ATPA had not been in place during 2005. However, the material on welfare and displacement effects, in the section titled "Analytical Approach" in chapter 1and in this appendix, discusses the impact of ATPA in terms of duty reductions, rather than the "removal" of duty eliminations already in place.[361] The effects of a duty reduction and a duty imposition are symmetrical and lead to results that are equivalent in magnitude but opposite in sign.[362] Thus, the discussion is framed with respect to the implementation of duty reductions simply for clarity.

A partial equilibrium framework was used to model three different markets in the United States, namely, the markets for ATPA products, competing non-ATPA (foreign) products, and competing domestic products. These three markets are depicted in panels a, b, and c of figure C-1. In the model, imports from ATPA beneficiaries, imports from non-ATPA countries, and competing domestic output are assumed to be imperfect substitutes for each other, and each is characterized by a separate market where different equilibrium prices exist.

The ATPA and non-ATPA import demand curves, D_a and D_n, and the demand curve for domestic output, D_d, are all assumed to be downward sloping with a constant elasticity of demand.[363] It is assumed that the ATPA import supply curve to the U.S. market, the non-ATPA import supply curve, and the domestic industry supply curve, S_a, S_n, and S_d, are all horizontal, that is, perfectly elastic. The assumption of perfectly elastic supply curves greatly simplifies computation, although it leads to an upward bias in the estimates of the welfare and domestic displacement effects on the U.S. economy.[364]

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[359] As discussed in chapter 1, the term "ATPA" refers to ATPA as amended by ATPDEA.

[360] Although the term "duty reduction" is used, the methodology employed in the analysis for this report applies equally to a duty elimination (which is a duty reduction in the full amount of the duty).

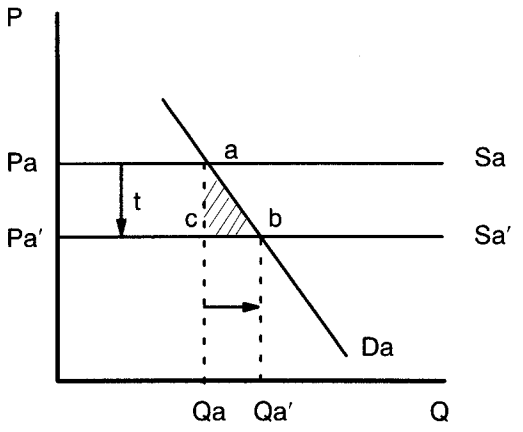
[361] Most comparative static analyses are used to evaluate the effects of an event that has not already happened— such as a proposed tariff elimination. This comparative analysis evaluates the effects of an event that has already happened—ATPA duty elimination has been in effect since 1992. The method described in this section can be used in either situation.

[362] This is technically true only if income effects are negligible. Given the small U.S. expenditure on goods from ATPA countries, income effects are likely to be negligible for the products under consideration. See R. Willig, "Consumer's Surplus Without Apology," *American Economic Review*, 66 (1976), pp. 589-597.

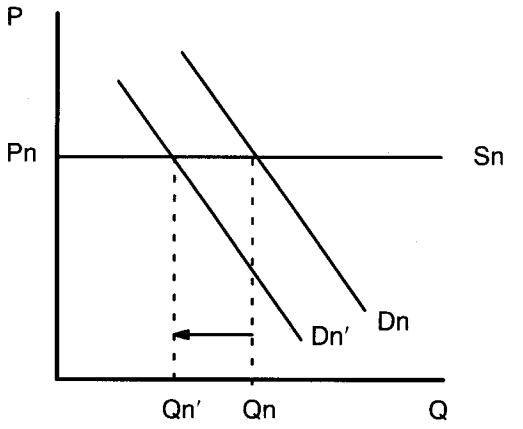
[363] The subscripts a, n, and d refer to ATPA imports, non-ATPA imports, and U.S. domestic output, respectively.

[364] Since ATPA imports account for a very small share of U.S. domestic consumption in most sectors, even the upper estimates were very small. Assuming upward-sloping supply curves would have resulted in even lower estimates.

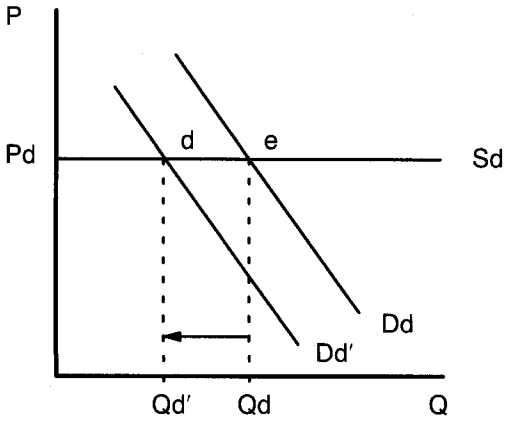
Figure C-1
Partial equilibrium analysis of the effects of ATPA duty provisions on U.S. imports



a. ATPA imports



b. non-ATPA imports



c. U.S. domestic output

The change from full tariffs to duty-free treatment for ATPA imports causes the import supply curve, S_a, in panel a to shift down to S_a' by the amount of the ad valorem tariff, t. Thus, the equilibrium price in the U.S. market for ATPA imports decreases from P_a to P_a', whereas the quantity imported increases from Q_a to Q_a'. The relationship between the price with the tariff (P_a) and the tariff-free price (P_a') is $P_a = P_a'(1+t)$. The decrease in the price of ATPA imports leads to a decrease in demand for similar goods from other countries and domestic U.S. producers. Thus, the demand curves for both non-ATPA imports and domestic output, D_n and D_d, shift back to D_n' and D_d', respectively. Since the supply curves in both of these markets are assumed to be perfectly elastic, the equilibrium prices do not change. The equilibrium quantity supplied in each market decreases from Q_n and Q_d to Q_n' and Q_d', respectively.

The impact of ATPA on the U.S. economy was measured by examining the welfare effects of the tariff reduction in the market for ATPA imports and the domestic displacement effects of a decrease in demand in the competing U.S. market. The displacement of non-ATPA country imports because of ATPA tariff preferences was not estimated because the focus of the analysis was on the direct effects of ATPA provisions on the United States.

The decrease in the tariff for ATPA imports leads to an increase in consumer surplus for these products. This is measured by the trapezoid P_aabP_a' in panel a. There also is an accompanying decrease in the tariff revenue collected from ATPA imports. This is measured by the area of the rectangle P_aacP_a' in panel a.

The net welfare effect of ATPA is equal to the increase in consumer surplus plus the decrease in tariff revenue—the trapezoid P_aabP_a' minus the rectangle P_aacP_a' in panel a, that is, triangle abc.[365] The dollar amount by which ATPA imports displace U.S. output is measured by the rectangle $Q_d'deQ_d$ in panel c.

Given the above assumptions and the additional assumption of constant elasticity demand curves, the markets for the three goods are described by the following three equations:

$$(1) \qquad (Q_a / Q_a') = (P_a / P_a')^{\varepsilon_{aa}}$$

$$(2) \qquad (Q_n / Q_n') = (P_a / P_a')^{\varepsilon_{na}}$$

$$(3) \qquad (Q_d / Q_d') = (P_a / P_a')^{\varepsilon_{da}}$$

Given that $P_a = P_a'(1+t)$, these can be restated

[365] Welfare effects typically include a measure of the change in producer surplus. The change in producer surplus for ATPA producers was not considered in this analysis because the focus of the analysis was on the direct effects of ATPA provisions on the United States.

$$(1)' \qquad (Q_a / Q_a') = (1+t)^{\varepsilon_{aa}}$$

$$(2)' \qquad (Q_n / Q_n') = (1+t)^{\varepsilon_{na}}$$

$$(3)' \qquad (Q_d / Q_d') = (1+t)^{\varepsilon_{da}}$$

where ε_{ij} is the uncompensated elasticity of demand for good i with respect to price j. The values for the elasticities ε_{aa}, ε_{na}, and ε_{da} are derived from the following relations:

$$(4) \qquad \varepsilon_{aa} = V_a\eta - V_n\sigma_{na} - V_d\sigma_{da}$$

$$(5) \qquad \varepsilon_{na} = V_a(\sigma_{na} + \eta)$$

$$(6) \qquad \varepsilon_{da} = V_a(\sigma_{da} + \eta)$$

where the V_i's are market shares for ATPA imports, non-ATPA imports, and domestic output, respectively, η is the aggregate demand elasticity, and the σ_{ij}'s are the elasticities of substitution between the ith and jth products.[366] Estimates of the aggregate demand elasticities were taken from the literature.[367] Ranges of potential net welfare and industry displacement estimates are reported. The reported ranges reflect a range of assumed substitutabilities between ATPA products and competing U.S. output. The upper estimates reflect the assumption of high substitution elasticities. The lower estimates reflect the assumption of low substitution elasticities.[368]

Since the implementation of ATPDEA in October 2002, apparel assembled in ATPA countries from U.S.-made fabric and components has come to dominate the list of leading imports benefiting exclusively from ATPA. U.S. producers of such fabric and components benefit from ATPA duty preferences. Where the U.S. value of components can be identified (for example, the U.S. value of components assembled abroad under HTS 9802.00.80 is recorded and data are readily available), it is possible to estimate the effect of ATPA tariff preferences on U.S. producers of the components. In the case of cut apparel parts used in the assembly of apparel in ATPA countries, the U.S.-produced cut parts are recorded as

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[366] Equations (4) through (6) are derived from P.R.G. Layard and A.A. Walters, *Microeconomic Theory* (New York: McGraw-Hill, 1978).

[367] The aggregate elasticities were taken from sources referenced in USITC, *Potential Impact on the U.S. Economy and Selected Industries of the North American Free-Trade Agreement*, USITC publication 2596, January 1993.

[368] Commission industry analysts provided evaluations of the substitutability of ATPA products and competing U.S. products, which were translated into a range of substitution elasticities–3 to 5 for high substitutability, 2 to 4 for medium, and 1 to 3 for low. Although there is no theoretical upper limit to elasticities of substitution, a substitution elasticity of 5 is consistent with the upper range of estimates in the economics literature. Estimates in the literature tend to be predominantly lower. See, for example, Clinton R. Shiells, Robert M. Stern, and Alan V. Deardorff, "Estimates of the Elasticities of Substitution Between Imports and Home Goods for the United States," *Weltwirtschaftliches Archiv*, 122 (1986), pp. 497-519; and Michael P. Gallaway, Christine A. McDaniel, and Sandra A. Rivera, "Short-Run and Long-Run Estimates of U.S. Armington Elasticities," *North American Journal of Economics and Finance*, 14 (2003), pp. 49-68.

apparel production in the United States, and the effect of ATPA tariff preferences can be added to the (negative) displacement effects for that industry.

Given equations (1)′ through (3)′, one can derive the following equations for calculating the changes in consumer surplus, tariff revenue, and domestic output:

Consumer surplus (where k is a constant)

$$\text{area of trapezoid } P_a a b P_a' = \int_{P_a'}^{P_a} k P_a^{\varepsilon_{aa}} dP_a$$

$$= [1/(1+\varepsilon_{aa})]\,[(1+t)^{(1+\varepsilon_{aa})} - 1]\,P_a' Q_a' \quad \text{if } \varepsilon_{aa} \neq -1$$

$$= k \ln(1+t) \quad \text{if } \varepsilon_{aa} = -1$$

Tariff revenue from U.S. imports from ATPA partners

$$\text{area of rectangle } P_a a c P_a' = (P_a - P_a')Q_a$$

$$= P_a' t Q_a \quad \text{given } P_a = P_a'(1+t)$$

$$= t P_a' Q_a' (1+t)^{\varepsilon_{aa}} \quad \text{given } Q_a = Q_a'(1+t)^{\varepsilon_{aa}}$$

Domestic output

$$\text{area of rectangle } Q_d' d e Q_d = P_d(Q_d - Q_d')$$

$$= P_d Q_d' [(1+t)^{\varepsilon_{da}} - 1]$$

The change in the value of U.S. cut apparel parts = $uP_a'Q_a'[(1+t')^{\varepsilon_{aa}} - 1]$, where u is the ratio of the value of U.S. cut apparel parts to total imports under ATPA, and t′ is the ad valorem equivalent of duties paid on imports under HTS 9802.00.80 under ATPA. t is opposite in sign to the displacement effect shown above. The net effect of ATPA tariff preferences on domestic output is estimated as

$$P_d Q_d' [(1+t)^{\varepsilon_{da}} - 1] + uP_a'Q_a'[(1+t')^{\varepsilon_{aa}} - 1].$$