

United States International Trade Commission

The Impact of the Andean Trade Preference Act

Eleventh Report 2004

Investigation No. 332-352
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September 2005



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

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ABSTRACT

The submission of this study to Congress continues a series of annual 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 2004 and represents the eleventh 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. Section 206 of the 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 annually by September 30.

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 2004. However, U.S. imports of ATPA-exclusive products were estimated to have potentially significant effects on domestic industries producing asparagus; fresh-cut roses; and 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 2004. The probable future effect of ATPA on the United States, as estimated by an examination of export-oriented investment in the beneficiary countries, is also expected to be minimal on the overall U.S. economy and in most sectors.

ATPA continued to have a small, indirect effect on drug-crop eradication and crop substitution efforts in the ATPA countries in 2004. Although coca eradication reached a record high and coca cultivation reached a record low in 2004, the levels represented only slight changes from the levels reported in 2003. ATPA trade preferences continued to support industries that provide jobs for workers who might otherwise have participated in illicit coca cultivation. In 2004, exports to the United States under ATPA accelerated, supporting job growth in such industries 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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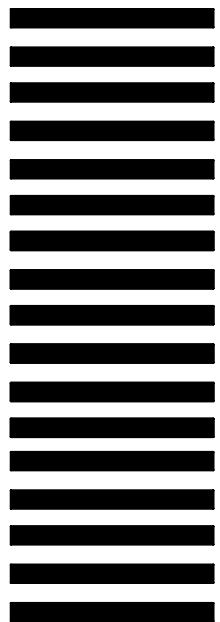
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List of Frequently Used Abbreviations and Acronyms

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
ha.	hectare
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
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

The Andean Trade Preference Act (ATPA) was enacted in December 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 2004 marked the second 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.¹ 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,² it also adds a broader product coverage and has more liberal product-qualifying rules.

This report, the eleventh in a series, covers the impact on the United States of ATPA during calendar year 2004. Section 206 of ATPA requires the U.S. International Trade Commission (“the Commission”) to prepare an annual 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.

Partial-equilibrium analysis is used to estimate the impact of ATPA on the United States. The probable future effect of ATPA on the United States is estimated by an examination of ATPA-eligible investment in the beneficiary countries during 2004. 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*.³

Main Commission Findings

- Of the \$8.4 billion in U.S. imports that entered under ATPA in 2004, imports valued at \$7.6 billion could not have received tariff preferences under any other program.

¹ Products that became eligible for duty-free entry under ATPDEA, like those entered under the original ATPA program that expired in December 2001, will generally be referred to as ATPA products. On occasion, for the sake of clarity, the term “expanded” or “amended” ATPA will be used interchangeably with the term ATPA. The term ATPDEA will also be used when the discussion so requires.

² All four ATPA beneficiary countries are also GSP beneficiaries.

³ Appendix A contains a copy of the *Federal Register* notice and appendix B contains summaries of submissions received in response to the notice.

The five leading products benefiting exclusively from ATPA in 2004, as defined by 8-digit Harmonized Tariff Schedule (HTS) classifications, were heavy crude oil; light crude oil; copper cathodes from Peru, which had exceeded its GSP competitive need limit; heavy fuel oil; and knit cotton tops. All of these products except copper cathodes became eligible for duty-free treatment under ATPDEA in 2002.

- The overall effect of ATPA-exclusive imports on the U.S. economy and on consumers continued to be negligible in 2004. In 2004, the value of duty-free U.S. imports under ATPA accounted for about 0.6 percent of total U.S. imports, or nearly 0.07 percent of the U.S. gross domestic product (GDP).
- Men's or boys' knitted cotton shirts provided the largest gain in consumer surplus (\$24 million to \$27 million) from lower prices and higher consumption resulting exclusively from ATPA tariff preferences in 2004. Knitted cotton t-shirts provided the second-largest gain in consumer surplus (\$17 million to \$19 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 2004. Men's or boys' knitted cotton shirts yielded the largest net welfare gain, valued at \$3.2 million to \$5.2 million, followed by knitted cotton t-shirts and men's or boys' woven cotton pants.
- 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 2004, based on upper estimates, were those producing asparagus (2.9 percent to 10.6 percent displacement, valued at \$4.4 million to \$16.0 million); fresh-cut roses (1.3 percent to 8.1 percent displacement, valued at \$0.6 million to \$3.5 million); and chrysanthemums, carnations, anthuriums, and orchids (1.1 percent to 6.6 percent displacement, valued at \$0.3 million to \$2.0 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. Political instability in Bolivia and Ecuador, and uncertainties regarding the ATPA countries' future trade relationship with the United States, dampened investment somewhat in 2004. In particular, the expiration of ATPA in 2006, uncertainties regarding the signing and timing of a U.S.-Andean Free Trade Agreement, and the impact of competition from China in the textile and apparel sector probably affected the level of ATPA-related investment in the region in 2004. Nonetheless, the Commission was able to identify investments in the export-oriented production of apparel, flowers, pouched tuna, fruits and vegetables, petroleum, ceramics and related construction materials, jewelry, sugar confections, and gelatin capsules.
- In 2004, ATPA continued to have a small, indirect effect in support of illicit coca eradication and crop substitution efforts in the Andean region. Coca eradication in the region rose less than 1 percent to a new record in 2004 and net cultivation remained essentially unchanged compared with 2003. However, U.S. imports under ATPA accelerated during 2004 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 2004.

Trade-related Activities in 2004

- In 2004, U.S. imports from ATPA countries, at \$15.5 billion, as well as the U.S. deficit in trade with the ATPA countries, at \$7.8 billion, reached record levels. U.S. imports from ATPA countries surged 33 percent in 2004 compared with the previous year principally because commodity prices (including prices of oil, metals, minerals, and certain agricultural commodities) rose and the contraction of the dutiable portion of such imports made them more competitive.
- U.S. exports to ATPA countries, at \$7.7 billion in 2004, were the highest since 1998. Although the political and social environment in the region remained volatile, the economic performance of ATPA countries improved during the year, resulting in greater demand for U.S. products across all major product categories.
- The dutiable portion of U.S. imports from ATPA countries continued to shrink significantly because of the implementation of ATPDEA in late 2002—to 9.5 percent in 2004 from 14.0 percent in 2003 and 47.8 percent in 2002. All 20 leading U.S. imports from ATPA countries except canned tuna entered free of duty in 2004 under either ATPA, normal trade relations (NTR) tariff rates, or GSP.
- In 2004, imports under the expanded ATPA (the original ATPA and ATPDEA combined) soared 43 percent from \$5.8 billion in 2003 to \$8.4 billion in 2004, and accounted for 54.9 percent of all imports from the region. This share compares with 50.6 percent in 2003 and 10.3 percent under the original ATPA in 2002.
- In 2004, mineral fuels and apparel—both of which became eligible for trade preferences under ATPDEA—were jointly responsible for more than three-fourths of all imports under ATPA. In 2000, prior to the implementation of ATPDEA, the three largest product groups entered under ATPA were copper articles, flowers, and jewelry. These accounted for 59.5 percent of the total.
- In 2004, 11 products on the list of 20 leading imports under the expanded ATPA were newly eligible for trade preferences under ATPDEA and nine were eligible under the original ATPA.
- Because crude petroleum and derivatives are high-value ATPA products, their eligibility under the expanded ATPA raised the relative importance of the two major petroleum-exporting ATPA countries—Colombia and Ecuador—in U.S. imports under ATPA, at the expense of Peru and Bolivia. In 2004, Colombia accounted for 47 percent of U.S. imports under ATPA (42 percent in 2000); Ecuador, for 33 percent (13 percent in 2000); Peru, for 19 percent (43 percent in 2000); and Bolivia, for 1.4 percent (3.1 percent in 2000).

CHAPTER 1

Introduction

The U.S. Congress enacted the Andean Trade Preference Act (ATPA)¹ 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 exports 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), part of the Trade Act of 2002.² 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 broadly similar to those provided to Caribbean Basin countries under the Caribbean Basin Economic Recovery Act (CBERA),³ but unlike CBERA, the ATPA program is not permanent and will expire on December 31, 2006. To enhance the trade relationship, the United States and ATPA beneficiary countries are currently negotiating a free trade agreement (FTA).⁴

This report fulfills a statutory mandate under ATPA that the U.S. International Trade Commission (“the Commission”) report annually 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.⁵ The report is the eleventh in the series and covers calendar year 2004.

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

¹ 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).

² 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).

³ CBERA was enacted Aug. 5, 1983, as Public Law 98-67, title II; 97 Stat. 384, 19 U.S.C. 2701 et seq., and became effective Jan. 1, 1984 (Presidential Proclamation 5133, 48 F.R. 54453). Minor amendments to CBERA were made by Public Laws 98-573, 99-514, 99-570, and 100-418. Major amendments were made to CBERA by Public Law 106-200, the Caribbean Basin Trade Partnership Act, effective Oct. 1, 2000.

⁴ On May 18-19, 2004, Colombia, Ecuador, and Peru launched FTA negotiations with the United States. The United States hopes to include Bolivia at a later stage, and is working with Bolivian officials to prepare for Bolivia’s participation. 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.

⁵ The reporting requirement is set forth in sec. 206(b) of ATPA (19 U.S.C. 3204(b)).

Organization of the Report

The present 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 2004. Chapter 3 estimates the effects of ATPA in 2004 on the U.S. economy generally, as well as on U.S. industries and consumers. That chapter 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.⁶ 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.⁷ 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.⁸ 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;⁹ 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

⁶ 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)," Mar. 1, 2005 (G/C/W/510).

⁷ Presidential Proclamation 7616, 67 F.R. 67283. See the section below on "Trade Benefits under ATPA" for more specific information on the exception for import-sensitive products.

⁸ 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.

⁹ 19 U.S.C. 3202(e).

take into account a number of considerations, including whether that country has met the criteria for U.S. narcotics cooperation certification.¹⁰ The statute also requires ATPA beneficiary countries, among other things, to take steps to afford internationally recognized worker rights as defined under the GSP program¹¹ and to provide effective protection of intellectual property rights (IPR), including copyrights for film and television material.¹² By 1993, the President had designated all four countries as eligible for ATPA benefits,¹³ 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.¹⁴

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.¹⁵ The list includes those criteria that apply to country eligibility under the original ATPA,¹⁶ as well as several new criteria.¹⁷ 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.¹⁸

ATPDEA provides for an annual review of the eligibility of articles and countries for ATPA benefits. 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.¹⁹ On August 14, 2003, USTR announced the 2003 ATPA Annual Review, the first such review conducted pursuant to the ATPA regulations, and invited the

¹⁰ 19 U.S.C. 3202(d)(11). These criteria are set forth in 22 U.S.C. 2291(h)(2)(A).

¹¹ 19 U.S.C. 2462(b)(2)(G) or 2462(c)(7).

¹² 19 U.S.C. 3202(c).

¹³ Bolivia and Colombia were designated for ATPA benefits in 1992; Ecuador and Peru were designated in 1993.

¹⁴ Commission staff interview with the Office of the U.S. Trade Representative (USTR), June 18, 2002.

¹⁵ 19 U.S.C. 3203(b)(6)(B).

¹⁶ 19 U.S.C. 3202(c) and (d).

¹⁷ 19 U.S.C. 3203(b)(6)(B).

¹⁸ Presidential Proclamation 7616 of October 31, 2002, 67 F.R. 67283. For more information on the eligibility criteria and beneficiary country compliance with these criteria, see Office of the U.S. Trade Representative, *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 April 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.

¹⁹ 68 F.R. 43922 (July 25, 2003).

submission of petitions.²⁰ On July 21, 2004, USTR published a notice stating that the Trade Policy Staff Committee (TPSC) had determined that certain petitions did not require action and terminated their review, and delayed the results with regard to the other petitions.²¹ On August 17, 2004, USTR initiated the 2004 ATPA Annual Review and requested that petitions for that review be filed by September 15, 2004.²² On November 15, 2004, USTR published a list of the nine petitions received for the 2004 review.²³ On January 18, 2005, USTR issued a notice stating that the TPSC would announce the results of its preliminary review for eight of the nine petitions in the 2004 review as well as the preliminary results for the remaining 2003 petitions by May 31, 2005. In that notice USTR also announced that the TPSC had determined that one petition received for the 2004 review does not require action and terminated its review.²⁴ On July 1, 2005, USTR published a notice stating that the TPSC will announce the results of the preliminary review of the remaining 2003 and 2004 petitions in a fall 2005 notice, which will also announce the results of the preliminary review of petitions received as part of the 2005 annual review.²⁵

Trade Benefits under ATPA

ATPA provides duty-free treatment to qualifying imports from designated beneficiary countries.²⁶ 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.²⁷ 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.²⁸ Not eligible for any preferential duty treatment under the original ATPA were most

²⁰ 68 F.R. 48657 (Aug. 14, 2003).

²¹ 69 F.R. 43656 (July 21, 2004).

²² 69 F.R. 51138 (Aug. 17, 2004).

²³ 69 F.R. 65674 (Nov. 15, 2004).

²⁴ 70 F.R. 2921 (Jan. 18, 2005).

²⁵ 70 F.R. 38238 (July 1, 2005).

²⁶ 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.

²⁷ 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. These provisions abolished former absolute quotas on imports of agricultural products of WTO members; U.S. quotas had been created 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.

²⁸ 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 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
(continued...)

textiles and apparel, certain footwear, canned tuna, petroleum and petroleum derivatives, certain watches and watch parts, 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.”³¹ In Presidential Proclamation 7616, the President extended ATPDEA duty-free treatment to most newly eligible products. However, he did not include 17 footwear rate lines on the basis of their import sensitivity in the context of imports from ATPDEA countries.³² Nearly 6,300 rate lines or products are now covered by ATPA trade preferences, of which about 700 were added by ATPDEA.³³ 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.³⁴ 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 fully count inputs from Puerto Rico, the U.S. Virgin Islands, and countries designated under

²⁸ (...continued)

provision and allowed the President to decide if duty-free entry is appropriate.

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.

³¹ 19 U.S.C. 3203(b)(1). Textiles and apparel articles were not subject to a Presidential determination regarding import sensitivity. See Office of the U.S. Trade Representative, *First Report to the Congress on the Operation of the Andean Trade Preference Act As Amended*, Apr. 30, 2003, p. 6.

³² Office of the U.S. Trade Representative (USTR), *First Report to the Congress on the Operation of the Andean Trade Preference Act As Amended*, Apr. 30, 2003, p. 6.

³³ 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 under ATPA and 30 percent have normal trade relations (NTR) rates of free). U.S. imports under the remaining approximately 10 percent of rate lines are dutiable.

³⁴ 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)).

CBERA³⁵ 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,³⁶ and 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.³⁷

With respect to textiles and apparel, ATPDEA extended for the first time duty-free treatment to specified imported textile and apparel articles from designated ATPDEA beneficiary countries, effective on October 31, 2002. ATPDEA authorizes unlimited duty-free and quota-free treatment for imports of textile and apparel articles made in beneficiary countries from fabrics or fabric components wholly formed, or components knit-to-shape, in the United States of U.S. and Andean yarns, provided the fabrics are also dyed, printed, and finished in the United States.³⁸ ATPDEA also includes unlimited preferential treatment for apparel assembled from Andean 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 in the region of U.S. or Andean yarn are also eligible to enter free of duty and ordinary quota but subject to a cap.³⁹ The cap on U.S. imports of apparel made in the Andean 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, 2006.⁴⁰ For the one-year period from October 1, 2003 through September 30, 2004, the cap was 2.75 percent of total U.S. apparel imports or 548,823,093 SMEs; the “fill rate” was 4.28 percent or 23,500,639 SMEs.⁴¹ As such, the expansion of the cap from 2 percent to 5 percent allows for significant growth of exports of apparel from the Andean countries made from regional fabrics. The principal textile and apparel provisions of ATPDEA are summarized in table 1-1.

³⁵ Those 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.

³⁶ 19 U.S.C. 3203(a).

³⁷ 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, D.C.: Government Printing Office, July 1992), p. 5.

³⁸ The dyeing, printing, and finishing requirement does not refer to post-assembly and other operations such as garment dyeing and stone washing.

³⁹ 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.

⁴⁰ ATPA, including ATPDEA, is scheduled to expire Dec. 31, 2006.

⁴¹ ATPDEA trade data are official statistics of the U.S. Department of Commerce, found on the website of its Office of Textiles and Apparel (OTEXA) at http://otexa.ita.doc.gov/agoa-cbtpa/agoa-cbtpa_2004.htm.

**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 ¹
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 ²
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

¹ As described in General Note 12(t), chapter rule 2 to Chapter 62 of the Harmonized Tariff Schedule.

² 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 October 1, 2006.

Source: Compiled by USITC staff from ATPDEA and interviews with U.S. industry legal experts.

ATPA and GSP

The four ATPA beneficiaries also are Generalized System of Preferences (GSP) beneficiaries.⁴² 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 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, though slightly varying value-related information is required under the two programs.

However, the two programs differ in several ways that tend to make Andean 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 program, 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),⁴³ 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;⁴⁴ even though they have been renewed retroactively, the interruptions reportedly have encouraged suppliers to use ATPA instead. All imports of goods designated as eligible for claiming the GSP tariff preference that entered during periods when GSP was

⁴² 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.

⁴³ Under GSP, 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. As mentioned above, ATPA has no competitive-need limits. The cap on U.S. imports of certain apparel is a specific provision under ATPDEA (see the previous section on “Qualifying Rules”) and unrelated to GSP competitive-need limits.

⁴⁴ 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).

not in effect were generally subject to column 1-general rates of duty at the time of entry, unless other preferential treatment—such as ATPA—was claimed. Duties paid on such articles were eligible for refund after the GSP became operative again, if importers had continued to supply documentation of eligibility; however, there were cash flow burdens even for such importers. Because the lapse in GSP was particularly long in 1995 and 1996, suppliers in ATPA-eligible countries who had relied on GSP preferences shifted to ATPA during this period and continued to enter GSP-eligible goods under ATPA even after the GSP program was reauthorized. However, there was a notable shift back to GSP in 2002⁴⁵ after both programs had lapsed and were renewed retroactively on August 6 by the Trade Act of 2002.⁴⁶ Andean suppliers reportedly felt more certain that the GSP program would be renewed retroactively and that duties paid or posted during the lapse would be refunded.⁴⁷

Analytical Approach

The original ATPA program allowed duty-free or reduced-duty treatment for qualifying products of designated beneficiary countries. The duty elimination for almost all eligible products occurred in a single action when countries were designated as beneficiaries—there was no phase-in of duty elimination. Subsequent limited duty reductions for the remaining eligible goods were phased in over a five-year period. 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, 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 newly eligible under ATPDEA on October 31, 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.

⁴⁵ See chapter 2 for a discussion of the trends in the use of GSP and ATPA.

⁴⁶ Most recently, GSP tariff preferences expired on September 30, 2001, but were renewed August 6, 2002, retroactive to October 1, 2001, and continuing through December 31, 2006. Public Law 107-210, sec. 4101. ATPA lapsed on December 4, 2001 and was renewed August 6, 2002.

⁴⁷ Furthermore, unlike the case when ATPA expired, each time the GSP has expired the Customs Service has outlined in a *Federal Register* notice specific procedures for importing GSP-eligible products to facilitate refunds should the GSP be renewed with retroactive effect. See 66 F.R. 50248. This system also makes it more likely that all eligible entries can be located and data correctly compiled.

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 2004;⁴⁸ 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.⁴⁹

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) tariffs⁵⁰ had been in place for beneficiary countries in 2004. Actual 2004 market conditions are compared with a hypothetical case in which NTR duties are imposed for the year. The effects of ATPA duty reductions for 2004 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.⁵¹ 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.⁵² The model used in this 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, but 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

⁴⁸ 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.

⁴⁹ A copy of the notice appears in appendix A.

⁵⁰ 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.

⁵¹ A more detailed explanation of the approach can be found in appendix C.

⁵² 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 entrepreneurs and owners of capital that exceeds earnings for their next-best opportunities. See Walter Nicholson, *Microeconomic Theory: Basic Principles and Extensions* (New York: The 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.

competing U.S. output. The upper estimates reflect the assumption of high substitution elasticities,⁵³ 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.⁵⁴ 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.

⁵³ 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.

⁵⁴ 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

U.S. Trade with the Andean Region

Introduction

The principal purpose of this chapter is to examine U.S. imports during 2004 under the provisions of the Andean Trade Preference Act (ATPA), as amended by the Andean Trade Promotion and Drug Eradication Act (ATPDEA).¹ Total U.S. imports from ATPA countries and U.S. exports to ATPA countries in 2004 are also examined. As discussed in chapter 1, 2004 was the second full year that ATPDEA was in effect; thus, for the first time, imports under the expanded ATPA can be compared with such imports in a prior year (2003). Comparisons are made with other years, as appropriate, to describe key trends in trade.

The chapter is organized as follows. First, the chapter reviews 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. This is followed by an analysis of the leading U.S. imports under ATPA (which include imports eligible under the original ATPA as well as newly eligible imports under ATPDEA), and finally, trends of U.S. exports to ATPA countries. Throughout the chapter, trade is discussed primarily on an 8-digit Harmonized Tariff Schedule (HTS) subheading basis. The relative importance of individual beneficiary countries as sources of and destinations for this trade is also covered.

U.S. trade with ATPA countries increased in 2004 at an accelerated rate. Two-way trade was up by 27 percent, following a 13 percent increase in 2003. Strong economic performance during the year in the United States as well as in the ATPA region raised the value of U.S. trade in both directions. An increase in commodity prices was also a factor in boosting this trade, especially on the U.S. import side. Between 1991 (when ATPA was enacted) and 2004, U.S. imports from the region tripled and U.S. exports to the region doubled.

Overall imports during the year were up in all four ATPA countries.² U.S. exports to the ATPA beneficiaries were up by 17 percent compared with 2003 to \$7.7 billion—the highest level since 1998. The collective share of ATPA countries as a market for U.S. exports was 1.1 percent in 2004, the largest share recorded in the last six years, and the highest share since the period 1992-1998, when it fluctuated in the 1.2 to 1.4 percent range.

U.S. imports from ATPA countries grew even faster in 2004 to a record \$15.5 billion, up by one-third from 2003. In 2003, imports also rose compared with the previous year, but by only 21 percent. The combined share of ATPA countries as a region supplying the U.S. market fluctuated during 1991-2003 in the range of 0.8 and 1.0 percent of overall U.S. imports from the world. In 2004, this share rose to 1.1 percent, the highest level recorded

¹ As discussed in chapter 1, the term “ATPA” refers to ATPA as amended by ATPDEA, and the term “original ATPA” refers to the original ATPA program that expired in December 2001.

² United Nations, Economic Commission for Latin America and the Caribbean (ECLAC), *Preliminary Overview of the Economies of Latin America and the Caribbean, 2004*, December 2004. All statistics in the ECLAC report concerning the economies of the four ATPA countries in 2004 are preliminary.

since ATPA was enacted. The continued steep decline in the dutiable portion of U.S. imports from the region—from 47.8 percent in 2002 to 9.5 percent in 2004—was one of the factors that boosted such imports.

Based on U.S. data, the United States has run a deficit in merchandise trade with ATPA countries as a group since 1999.³ In 2004, the U.S. deficit vis-à-vis the region was the largest on record, amounting to \$7.8 billion (table 2-1, figure 2-1). Petroleum-related trade with ATPA countries (HTS chapter 27) accounted for over four-fifths of this deficit. During 2004, the United States registered a trade deficit vis-à-vis each ATPA country.

Since 2004, the United States has been negotiating a U.S.-Andean Free Trade Agreement (FTA) with three ATPA countries: Colombia, Peru, and Ecuador.⁴ The United States hopes that Bolivia can be included in the FTA at a later stage.⁵ One important negotiating objective of the Andean countries is to increase trade flows with the United States by making ATPA trade preferences permanent.⁶

U.S. Imports from ATPA Countries

In 2004, ATPA countries collectively were the 22nd largest supplier of U.S. imports (in 2003 they ranked 18th), larger than Israel, but smaller than India. 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 2000-2004 and the predominance of product groups that include natural resources and derivatives. Mineral fuels and oils (HTS chapter 27)—petroleum and coal—have accounted for at least 40 percent of the total in the last five years. This share rose to a record 45 percent in 2004, partly because average world crude petroleum prices rose from \$27.56 a barrel in 2003 to \$36.77 a barrel in 2004.⁷ Precious stones, metals, and jewelry (HTS chapter 71) ranked second in both 2003 and 2004. This group, which consisted primarily of gold bullion, accounted for 12 percent of the total in 2004, up from 10 percent in 2003. Knitted apparel, which rose to the third-largest category in U.S. imports from ATPA countries in 2003, continued to rank third in 2004, accounting for close to 6 percent of the total.

³ References in this report to exports, imports, and trade balances refer to merchandise trade in current U.S. dollars.

⁴ In a November 18, 2003 letter, the United States Trade Representative formally notified Congress of the Administration's intent to initiate negotiations for an FTA with Colombia, Peru, Ecuador, and Bolivia. See USTR, "USTR Notifies Congress of Intent to Initiate Free Trade Area with Andean Countries," press release, Nov. 18, 2003.

⁵ USTR, "Zoellick to Visit Peru and Ecuador," press release, June 4, 2004.

⁶ Several sources, including: Allan Wagner Tizon, General Secretary of the Andean Community, "Free Trade Agreements and the Andean Integration Process," Quito, June 8, 2004, found at <http://www.comunidadandina.org>, retrieved June 18, 2004.

⁷ Official data of the U.S. Department of Energy, Energy Information Administration, *Monthly Energy Review*, June 2005, p. 123.

Table 2-1
U.S. trade with ATPA countries, 1991-2004

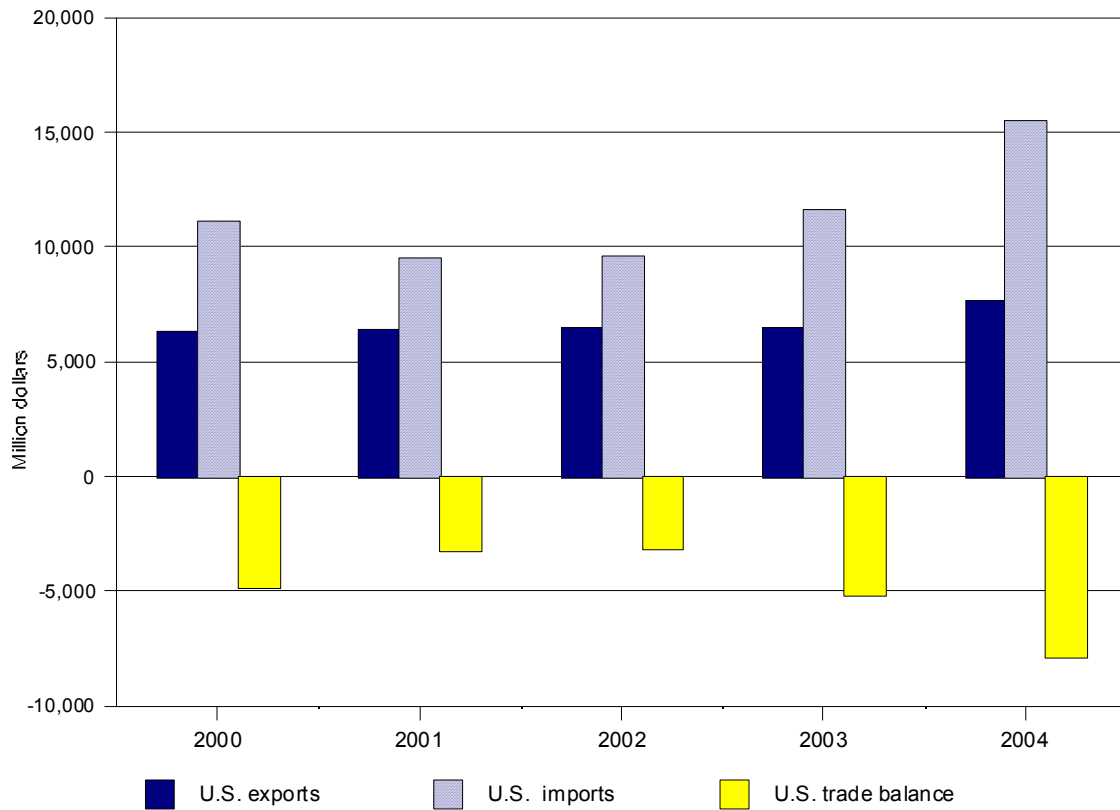
Year	U.S. exports ¹	Change over previous year	Share of U.S. exports to the world	U.S. imports ²	Change over previous year	Share of U.S. imports from the world	U.S. trade balance
	<i>Million dollars</i>	<i>-----Percent-----</i>		<i>Million dollars</i>	<i>-----Percent-----</i>		<i>Million dollars</i>
1991	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

¹ Domestic exports, f.a.s. basis.

² Imports for consumption, customs value.

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

Figure 2-1
U.S. trade with ATPA countries, 2000-2004



U.S. exports	6,295.1	6,363.3	6,463.8	6,525.7	7,663.6
U.S. imports	11,117.2	9,568.7	9,611.5	11,639.5	15,489.8
U.S. trade balance	-4,822.1	-3,205.3	-3,147.7	-5,113.8	-7,826.2

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, 2000-2004

HTS chapter	Description	2000	2001	2002	2003	2004
-----Value (1,000 dollars)-----						
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	4,783,829	3,916,000	3,914,722	4,823,358	6,960,270
71	Natural or cultured pearls, precious or semiprecious stones, precious metals; precious metal clad metals, articles thereof; imitation jewelry; coin	467,933	358,474	561,067	1,128,173	1,856,858
61	Articles of apparel and clothing accessories, knitted or crocheted	536,544	483,580	480,899	688,738	902,635
06	Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage	441,745	408,752	382,941	456,629	558,675
08	Edible fruit and nuts; peel of citrus fruit or melons	517,442	497,762	547,036	519,900	513,874
09	Coffee, tea, mate and spices	541,473	371,385	401,610	452,798	505,822
74	Copper and articles thereof	601,776	506,178	470,012	468,239	470,894
62	Articles of apparel and clothing accessories, not knitted or crocheted	294,488	270,133	270,305	363,129	418,987
03	Fish and crustaceans, molluscs and other aquatic invertebrates	345,307	365,743	349,116	399,142	407,632
80	Tin and articles thereof	116,060	98,452	107,747	123,974	211,819
	Subtotal	8,646,598	7,276,458	7,485,455	9,424,081	12,807,466
	All other	2,470,627	2,292,203	2,126,027	2,215,383	2,682,299
	Total	11,117,225	9,568,661	9,611,482	11,639,464	15,489,766

Table 2-2—Continued
Leading U.S. imports for consumption from ATPA countries, by major product categories, 2000-2004

HTS chapter	Description	2000	2001	2002	2003	2004
-----Percent of total -----						
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	43.0	40.9	40.7	41.4	44.9
71	Natural or cultured pearls, precious or semiprecious stones, precious metals; precious metal clad metals, articles thereof; imitation jewelry; coin	4.2	3.7	5.8	9.7	12.0
61	Articles of apparel and clothing accessories, knitted or crocheted	4.8	5.1	5.0	5.9	5.8
06	Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage	4.0	4.3	4.0	3.9	3.6
08	Edible fruit and nuts; peel of citrus fruit or melons	4.7	5.2	5.7	4.5	3.3
09	Coffee, tea, mate and spices	4.9	3.9	4.2	3.9	3.3
74	Copper and articles thereof	5.4	5.3	4.9	4.0	3.0
62	Articles of apparel and clothing accessories, not knitted or crocheted	2.6	2.8	2.8	3.1	2.7
03	Fish and crustaceans, molluscs and other aquatic invertebrates	3.1	3.8	3.6	3.4	2.6
80	Tin and articles thereof	1.0	1.0	1.1	1.1	1.4
	Subtotal	77.8	76.0	77.9	81.0	82.7
	All other	22.2	24.0	22.1	19.0	17.3
	Total	100.0	100.0	100.0	100.0	100.0

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

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

Table 2-3 lists the 20 leading U.S. imports from ATPA countries during 2004 on an 8-digit HTS subheading basis, ranked by their 2004 import value. Since October 31, 2002, when ATPDEA entered into effect, all of these products from ATPA countries, except for the dutiable portion of tuna in airtight containers (canned tuna), have been eligible for duty-free treatment under GSP, ATPA, or U.S. column 1-general or normal trade relations (NTR) tariff rates.

Products that have NTR duty rates of free include many traditional imports from ATPA countries: gold bullion, bituminous coal, coffee, bananas, shrimp,⁸ and unalloyed tin. Most U.S. imports of the 20 items listed in table 2-3 increased in value in 2004.⁹ Notable exceptions were copper cathodes, bananas, and tuna. U.S. imports of bananas from ATPA countries were the lowest in 2004 since 1996.

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

Duty Treatment

The dutiable share of total U.S. imports from ATPA countries declined in 2004 for the second year in a row. The decline mostly reflected the significantly larger portion of imports from the region eligible for duty-free treatment under the expanded ATPA compared to the original ATPA. The dutiable share of total U.S. imports from ATPA countries fell from 47.8 percent in 2002 to 14.0 percent in 2003 and 9.5 percent in 2004 (table 2-4). In 2004, the remaining dutiable imports from the region included principally those petroleum and apparel products that for various reasons were not eligible or were not entered under ATPA preferences, and canned tuna, which is not eligible for trade preferences.

Calculated duty revenues from ATPA countries dropped to \$40.5 million in 2004, shrinking by \$22.7 million or 36 percent compared with 2003. This amount was significantly less than one-third of the calculated duty revenues from the region during 2000-2002. The average rate of duty of the small portion of total imports from the region that still remained dutiable dropped to 2.7 percent from 3.9 percent in 2003. This decline was in large part due to a major reduction in the dutiable value of tuna imported from the region during the year. This reduction, in turn, was caused by a shift in the composition of such tuna imports: the portion packed in pouches, which became free of duty under ATPDEA, increased at the expense of tuna packed in metal cans, which is still dutiable.¹⁰

⁸ However, on Jan. 21, 2005, the United States International Trade 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. Dumping duties on imports from Ecuador became effective on Feb. 1, 2005 (70 FR 5156, Feb. 1, 2005).

⁹ Canned tuna, classified as part of HTS 1604.14.30, is not eligible for ATPA trade preferences and is still dutiable at NTR rates. Canned tuna has been the principal form of tuna imports from ATPA countries to date. Pouched tuna, which is included in the same HTS provision but is eligible for duty-free treatment under ATPA under certain conditions, will be discussed under "Imports under ATPA" later in this chapter.

¹⁰ Imports of pouched tuna will be discussed in "Imports under ATPA" later in this chapter.

Table 2-3
Leading U.S. imports for consumption from ATPA countries, by HTS provisions, 2002-2004

HTS provision	Description	2002	2003	2004	Change, 2003-2004
		-----1,000 dollars-----			Percent
2709.00.10	Petroleum oils and oils from bituminous minerals, crude, testing under 25 degrees A.P.I.	1,016,696	1,666,478	3,300,957	98.1
2709.00.20	Petroleum oils and oils from bituminous minerals, crude, testing 25 degrees A.P.I. or more	995,476	1,926,054	2,055,427	6.7
7108.12.10	Gold, nonmonetary, bullion and dore	263,260	812,168	1,498,710	84.5
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.	577,235	468,754	521,905	11.3
2701.12.00	Bituminous coal, whether or not pulverized, but not agglomerated	248,374	395,547	515,773	30.4
0901.11.00	Coffee, not roasted, not decaffeinated	340,984	390,187	434,084	11.3
7403.11.00	Cathodes and sections of cathodes, of refined copper	446,912	447,665	422,392	-5.6
2710.11.25	Naphthas, not motor fuel/blending stock, from petroleum oils/oils from bituminous minerals, minimum 70 percent by weight of such products	210,516	234,356	371,388	58.5
0803.00.20	Bananas, fresh or dried	427,875	388,366	359,049	-7.5
6110.20.20	Sweaters, pullovers, sweatshirts, waistcoats, and similar articles, knitted or crocheted, of cotton, n.e.s.o.i.	179,228	223,833	301,697	34.8
0306.13.00	Shrimps and prawns, cooked in shell or uncooked, dried, salted or in brine, frozen	226,706	230,591	241,043	4.5
0603.10.60	Roses, fresh cut	175,449	204,617	239,063	16.8
8001.10.00	Unwrought tin, not alloyed	103,622	117,605	201,781	71.6
0603.10.80	Cut flowers and flower buds suitable for bouquets, n.e.s.o.i.	92,298	124,748	182,010	45.9
6105.10.00	Men's or boys' shirts, knitted or crocheted, of cotton	85,857	127,312	157,139	23.4
6109.10.00	T-shirts, singlets, tank tops, and similar garments, knitted or crocheted, of cotton	65,971	99,056	132,786	34.1
6203.42.40	Men's or boys' trousers, breeches, and shorts, not knitted or crocheted, of cotton, not containing 15 percent or more down	78,284	127,429	132,227	3.8
7106.91.10	Silver bullion and dore, unwrought	30,593	88,753	112,964	27.3
0603.10.70	Chrysanthemums, standard carnations, anthuriums and orchids	86,535	99,115	98,492	-0.6
1604.14.30	Tunas and skipjack, not in oil, in airtight containers, n.e.s.o.i.	102,754	116,556	97,785	-16.1
	Subtotal	5,754,625	8,289,190	11,376,673	37.2
	All other	3,856,858	3,350,273	4,113,093	22.8
	Total	9,611,482	11,639,464	15,489,766	33.1

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

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

Table 2-4
U.S. imports for consumption from ATPA countries: Dutiable value, calculated duties, and average duty, 2000-2004

Item	2000	2001	2002	2003 ¹	2004
Dutiable imports ² (1,000 dollars)	4,517,161	3,798,848	4,598,474	1,612,727	1,477,434
Dutiable as a share of total (percent)	40.6	39.7	47.8	14.0	9.5
Calculated duties (1,000 dollars)	142,367	144,098	169,498	63,209	40,462
Average duty (percent) ³	3.2	3.8	3.7	3.9	2.7

¹ Data for 2003 were adjusted for misreported imports that resulted from implementation of ATPDEA.

² Dutiable value and calculated duty exclude the U.S. content entering under HTS heading 9802.00.80 and subheading 9802.00.60 and misreported imports. Data based on product eligibility corresponding to each year.

³ Average duty (percent) = (calculated duty/dutiable value) * 100.

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

Table 2-5 shows that imports from ATPA countries entered free of duty in 2004 in one of the following ways: (1) unconditionally free under NTR tariff rates (33.1 percent of all imports), (2) conditionally free under GSP (2.4 percent), (3) conditionally free under the original ATPA (12.1 percent), and (4) conditionally free under ATPDEA (42.8 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 ATPDEA) became the largest group. In 2004, imports under the expanded ATPA dwarfed all other groups, accounting for 54.9 percent of all imports from the region. This share compares with 50.6 percent in 2003 and 10.3 percent (for the original ATPA) in 2002.

Imports under ATPA

The year 2003 marked the first full year that ATPA, as amended by ATPDEA, was in effect. As a result, this report, covering 2004, is the first report in which imports under the expanded ATPA can be compared with such imports in a prior year. Multi-year comparisons covering imports under the expanded ATPA are still not possible.¹¹

Product Composition and Leading Import Categories

U.S. imports entering under the expanded ATPA increased 43 percent to \$8.4 billion in 2004 from \$5.8 billion in 2003. Expansion not only made the ATPA program much more important in the context of overall U.S. imports from ATPA countries, it also fundamentally changed the composition of imports under ATPA, which was already evident during 2003. In 2004, the major sectors newly eligible for ATPDEA preferences—mineral fuels (HTS 27) and apparel (HTS 61 and HTS 62)—continued to gain relative importance among imports under ATPA.

¹¹ As noted earlier, products that became eligible for duty-free entry under ATPDEA, like those entered under the original ATPA, will generally be referred to as ATPA products. On occasion, for the sake of clarity, the term “expanded” or “amended” ATPA will be used interchangeably with the term ATPA. The term ATPDEA will also be used occasionally when the analysis so requires.

Table 2-5

U.S. imports for consumption from Bolivia, Colombia, Ecuador, and Peru, by duty treatments, 2000-2004

Item	Bolivia	Colombia	Ecuador	Peru	ATPA total	Share of total
	-----1,000 dollars-----					Percent
2000:						
Dutiable value ¹	30,523	2,505,479	1,250,278	571,965	4,358,245	39.5
ATPA reduced duty	675	25,393	370	100	26,538	0.2
Duty-free value: ²						
Col. 1-general (NTR) ³	86,240	2,968,505	729,924	515,885	4,300,554	39.0
GSP ⁴	5,783	66,144	28,569	45,054	145,549	1.3
ATPA ⁵	60,786	800,951	247,084	845,849	1,954,670	17.7
Production sharing ⁶	420	130,189	5,475	29	136,112	1.2
Other duty-free ⁷	499	130,534	5,646	317	136,997	1.2
Total duty-free value	153,727	4,096,323	1,016,697	1,407,134	6,673,881	60.5
Total imports	184,250	6,601,802	2,266,975	1,979,099	11,032,126	100.0
2001:						
Dutiable value ¹	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: ²						
Col. 1-general (NTR) ³	66,557	2,427,508	735,723	416,658	3,646,446	37.8
GSP ⁴	9,543	68,247	33,007	73,446	184,242	1.9
ATPA ⁵	53,220	696,607	216,054	686,285	1,652,166	17.1
Production sharing ⁶	318	86,120	5,912	7	92,357	1.0
Other duty-free ⁷	8,288	158,686	48,357	44,576	259,907	2.7
Total duty-free value	137,926	3,437,168	1,039,053	1,220,971	5,835,118	60.6
Total imports	165,448	5,692,613	1,970,416	1,805,490	9,633,967	100.0
2002:						
Dutiable value ¹	27,883	2,426,684	1,095,938	824,837	4,375,343	45.5
ATPA reduced duty ⁸	0	5,126	1	3	5,130	0.1
Duty-free value: ²						
Col. 1-general (NTR) ³	62,917	2,207,748	764,114	572,900	3,607,679	37.5
GSP ⁴	31,520	204,166	74,618	165,467	475,771	5.0
ATPA ⁵	36,972	278,823	85,712	381,801	783,309	8.1
ATPDEA ⁹	147	120,199	92,021	10	212,377	2.2
Other duty-free ¹⁰	781	144,749	3,569	7,905	157,004	1.6
Total duty-free value	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	9,611,481	100.0
2003:						
Dutiable value ¹	5,467	1,147,053	292,547	167,661	1,612,727	14.0
ATPA reduced duty ⁸	0	0	0	0	0	0.0
Duty-free value: ²						
Col. 1-general (NTR) ³	76,084	2,049,927	778,314	831,778	3,736,101	32.4
GSP ⁴	8,499	159,186	48,740	110,220	326,644	2.8
ATPA ⁵	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 ¹⁰	433	27,077	2,574	89	30,174	0.3
Total duty-free value ²	179,469	5,145,007	2,383,231	2,221,369	9,929,077	86.0
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--Continued

U.S. imports for consumption from Bolivia, Colombia, Ecuador, and Peru, by duty treatments, 2000-2004

Item	Bolivia	Colombia	Ecuador	Peru	ATPA total	Share of total
	-----1,000 dollars-----					Percent
2004:						
Dutiable value ¹	24,361	802,828	573,715	76,360	1,477,264	9.7
APTA reduced duty ⁸	0	0	0	0	0	0.0
Duty-free value: ²						
Col. 1-general (NTR) ³	99,471	2,248,742	792,200	1,898,118	5,038,530	33.1
GSP ⁴	16,632	186,525	49,604	107,211	359,972	2.4
ATPA ⁵	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 ¹⁰	0	455	7	493	956	0.0
Total duty-free value ²	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

¹ Dutiable value excludes misreported imports.

² Calculated as total imports less dutiable value.

³ Value of imports that have a col. 1-general duty rate of free.

⁴ Reduced by the value of col. 1-general duty-free imports and ineligible items that were misreported as entering under the GSP program.

⁵ Original ATPA, reduced by the value of col. 1-general duty-free imports and ineligible items that were misreported as entering under ATPA.

⁶ HTS 9802.00.60 and 9802.00.80. Refers to the value of U.S.-origin components used in foreign assembly operations. The value of such components is subtracted from imported articles prior to the calculation of duties.

⁷ Calculated as a remainder and represents imports entering free of duty under column 1-special.

⁸ ATPDEA eliminated the reduced-duty provision that applied to certain original-ATPA items (see chapter 1).

⁹ ATPDEA program became effective October 31, 2002. ATPDEA data were only collected for two months in 2002 and may include collection errors.

¹⁰ Calculated as a remainder and represents imports entering free of duty under column 1-special and imports entering free under HTS 9802.00.60 and 9802.00.80.

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.

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

Table 2-6 shows that in 2004, mineral fuels and oils (HTS 27) accounted for 63.5 percent of imports under ATPA (58.4 percent in 2003); knitted apparel (HTS 61), for 10.3 percent (9.8 percent in 2003); and not knitted (chiefly woven) apparel (HTS 62), for 3.6 percent (3.2 percent in 2003). Combined, mineral fuels and apparel were responsible for some three-fourths of all imports under the expanded program in 2004, reducing the relative significance of the other import categories under the program, particularly those that entered under the original ATPA.

Figure 2-2 illustrates the dominance of these leading groups in ATPA trade during the year as well as the fundamental shift in the composition of imports under ATPA since 2000 as a result of ATPDEA's implementation. In 2000, under the original ATPA, the three largest product groups were copper articles, flowers, and jewelry, which amounted to 59.5 percent of the total.

Leading Imports under ATPA

In 2004, 11 products on the list of 20 leading imports under the expanded ATPA were ATPDEA products, and nine were original ATPA products (table 2-7). The 11 ATPDEA products include 4 petroleum products, of which 2 (heavy and light crude oil) top the list; 6 apparel products (4 knitted and 2 not knitted) and certain tuna in airtight containers.¹² The nine leading original ATPA products are copper cathodes, four flower products, asparagus, two jewelry products, and cigarettes.

Mineral fuels and oils

Four petroleum products dominated imports under ATPA in 2004: heavy and light crude petroleum, heavy distillate and residual fuel oils, and naphthas (table 2-7). The same four products also appear on the list of leading imports from ATPA countries under all programs (table 2-3). About 87 percent of crude oil and 70 percent of oil derivatives entered under ATPA. U.S. imports under ATPA of heavy crude (testing under 25 degrees A.P.I.)¹³ doubled by value in 2004 compared with 2003 (table 2-7). An increase of 66 percent in the volume of such imports and higher prices explained this surge. U.S. imports from ATPA countries of light crude (testing 25 degrees A.P.I. or more) decreased 12 percent by volume, but were 12 percent higher by value because of higher prices.

The United States imports mineral fuels and oils principally from two ATPA countries—Colombia and Ecuador—but neither one is a major U.S. supplier. Colombia ranked 13th in 2004 among all U.S. suppliers of HTS chapter 27 products, after Norway and before Ecuador, and accounted for less than 2 percent of all chapter 27 imports by the United States.¹⁴ Ecuador, although gaining importance, still ranked only 14th as a U.S. supplier and was responsible for 1.5 percent of the total.

¹² For more information on ATPA-eligible tuna, see “Pouched tuna” later in this chapter.

¹³ Import data for petroleum products are not identical in table 2-3 and table 2-7. Some imports do not enter duty-free under ATPA, because they are transshipments from non-ATPA countries and therefore not eligible.

¹⁴ Bituminous coal, an important part of HTS 27 imports from Colombia, enters NTR duty-free; therefore, it is not included in the numbers discussed.

Table 2-6
Leading U.S. imports for consumption under ATPA, by major product categories, 2000-2004

HTS chapter	Description	2000	2001	2002 ¹	2003 ¹	2004 ¹
-----Value (1,000 dollars)-----						
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	11	0	209,969	3,405,798	5,306,647
61	Articles of apparel and clothing accessories, knitted or crocheted . .	15	54	0	573,018	858,335
06	Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage	439,614	382,689	172,925	451,172	551,629
74	Copper and articles thereof	580,044	440,307	253,781	464,096	446,273
62	Articles of apparel and clothing accessories, not knitted or crocheted	1,471	1,202	191	184,767	297,788
71	Natural or cultured pearls, precious or semiprecious stones, precious metals; precious metal clad metals, articles thereof; imitation jewelry; coin	159,548	152,661	77,584	123,817	158,437
07	Edible vegetables and certain roots and tubers	63,258	78,107	71,545	123,324	152,864
24	Tobacco and manufactured tobacco substitutes	970	13,948	21,109	56,295	59,781
16	Edible preparations of meat, fish, crustaceans, molluscs or other aquatic invertebrates	80,279	29,690	4,540	47,395	56,259
20	Preparations of vegetables, fruit, nuts, or other parts of plants	21,190	30,576	15,832	37,840	54,433
	Subtotal	1,346,400	1,129,236	827,476	5,467,522	7,942,445
	All other	635,232	545,371	173,340	368,510	416,813
	Total	1,981,632	1,674,607	1,000,816	5,836,032	8,359,258

See footnotes at end of table.

Table 2-6—Continued
Leading U.S. imports for consumption under ATPA, by major product categories, 2000-2004

HTS chapter	Description	2000	2001	2002 ¹	2003 ¹	2004 ¹
		-----Percent of total-----				
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	(²)	0.0	21.0	58.4	63.5
61	Articles of apparel and clothing accessories, knitted or crocheted . .	(²)	(²)	0.0	9.8	10.3
06	Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage	22.2	22.9	17.3	7.7	6.6
74	Copper and articles thereof	29.3	26.3	25.4	8.0	5.3
62	Articles of apparel and clothing accessories, not knitted or crocheted	0.1	0.1	(²)	3.2	3.6
71	Natural or cultured pearls, precious or semiprecious stones, precious metals; precious metal clad metals, articles thereof; imitation jewelry; coin	8.1	9.1	7.8	2.1	1.9
07	Edible vegetables and certain roots and tubers	3.2	4.7	7.1	2.1	1.8
24	Tobacco and manufactured tobacco substitutes	(²)	0.8	2.1	1.0	0.7
16	Edible preparations of meat, fish, crustaceans, molluscs or other aquatic invertebrates	4.1	1.8	0.5	0.8	0.7
20	Preparations of vegetables, fruit, nuts, or other parts of plants	1.1	1.8	1.6	0.6	0.7
	Subtotal	67.9	67.4	82.7	93.7	95.0
	All other	32.1	32.6	17.3	6.3	5.0
	Total	100.0	100.0	100.0	100.0	100.0

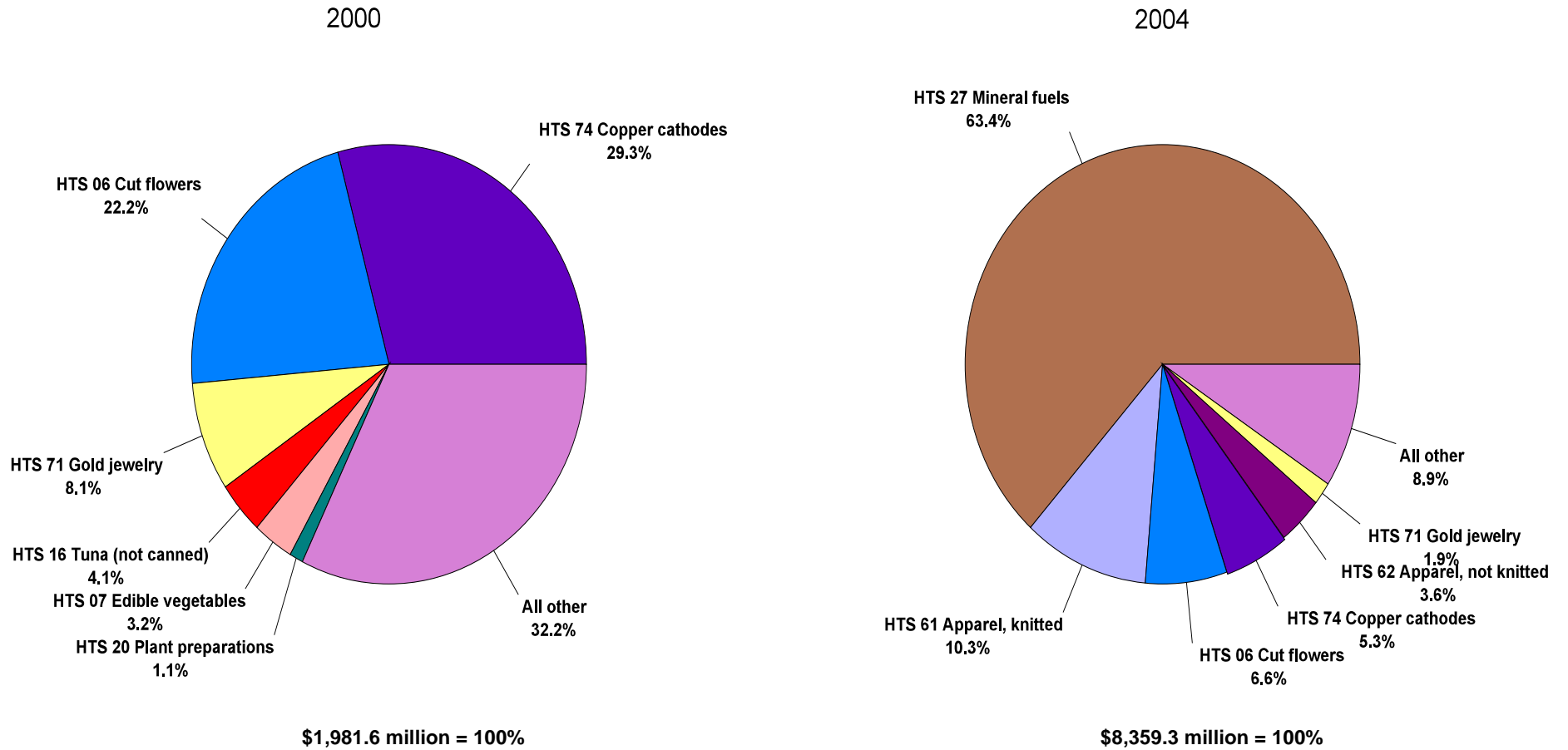
¹ ATPA includes imports under ATPDEA.

² Less than 0.05 percent.

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

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

Figure 2-2
Leading U.S. imports for consumption under ATPA, by major product categories, 2000 and 2004



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

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

Table 2-7
Leading U.S. imports for consumption under ATPA, by HTS provisions, 2002-2004

HTS provision	Description	2002 ¹	2003 ¹	2004 ¹	Change, 2003-2004	Leading ATPA source
		-----1,000 dollars-----			Percent	
2709.00.10 ²	Petroleum oils and oils from bituminous minerals, crude, testing under 25 degrees A.P.I.	119,804	1,434,729	2,891,605	101.5	Ecuador
2709.00.20 ²	Petroleum oils and oils from bituminous minerals, crude, testing 25 degrees A.P.I. or more	66,571	1,556,843	1,742,257	11.9	Colombia
7403.11.00	Cathodes and sections of cathodes, of refined copper	248,663	447,368	422,392	-5.6	Peru
2710.19.05 ²	Distillate and residual fuel oil (including blends) derived from petroleum or oils from bituminous minerals, testing under 25 degrees A.P.I.	7,263	236,458	378,163	59.9	Colombia
6110.20.20 ²	Sweaters, pullovers, sweatshirts, waistcoats, and similar articles, knitted or crocheted, of cotton, n.e.s.o.i.	0	202,262	297,903	47.3	Peru
2710.11.25 ²	Naphthas, not motor fuel/blending stock, from petroleum oils/oils from bituminous minerals, minimum 70 percent by weight of such products	9,722	174,970	253,009	44.6	Colombia
0603.10.60	Roses, fresh cut	69,765	204,473	238,799	16.8	Colombia
0603.10.80	Cut flowers and flower buds suitable for bouquets, n.e.s.o.i.	43,302	124,475	181,902	46.1	Colombia
6105.10.00 ²	Men's or boys' shirts, knitted or crocheted, of cotton	0	115,382	153,443	33.0	Peru
6109.10.00 ²	T-shirts, singlets, tank tops, and similar garments, knitted or crocheted, of cotton	0	84,559	128,319	51.8	Peru
0603.10.70	Chrysanthemums, standard carnations, anthuriums and orchids	46,539	98,709	98,123	-0.6	Colombia
6203.42.40 ²	Men's or boys' trousers, breeches, and shorts, not knitted or crocheted, of cotton, not containing 15 percent or more down	0	50,922	96,972	90.4	Colombia
0709.20.90	Asparagus, fresh or chilled, n.e.s.o.i.	31,589	60,498	79,478	31.4	Peru
7113.19.50	Gold jewelry and parts thereof, except necklaces and clasps	36,704	59,108	76,376	29.2	Bolivia
6204.62.40 ²	Women's or girls' trousers, breeches, and shorts, not knitted or crocheted, of cotton, n.e.s.o.i.	0	37,888	63,767	68.3	Colombia
2402.20.80	Cigarettes containing tobacco but not clove, paper-wrapped	20,524	55,271	57,946	4.8	Colombia
6106.10.00 ²	Women's or girls' blouses and shirts, knitted or crocheted, of cotton	0	29,743	44,605	50.0	Peru
7113.19.29	Gold necklaces and neck chains, other than rope or mixed link	21,828	42,039	40,765	-3.0	Peru
0603.10.30	Miniature (spray) carnations, fresh cut	13,239	23,213	32,035	38.0	Colombia
1604.14.30 ²	Tunas and skipjack, not in oil, in airtight containers, n.e.s.o.i.	0	25,474	31,466	23.5	Ecuador
	Subtotal	735,514	5,064,384	7,309,324	44.3	
	All other	265,302	771,648	1,049,934	36.1	
	Total	1,000,816	5,836,032	8,359,258	43.2	

¹ ATPA includes imports under ATPDEA.

² Item is newly eligible under ATPDEA.

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

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

The United States imports heavy crude petroleum principally from Ecuador, and light crude petroleum from Colombia. In 2004, Ecuador was the fourth-largest U.S. supplier of heavy crude after Mexico, Canada, and Venezuela, and Colombia was the ninth-largest U.S. supplier of light crude among all countries. Both Colombia and Ecuador also supply refined petroleum products, primarily distillate and residual fuel oils and naphthas.

Textile and apparel articles

U.S. imports of textiles and apparel from ATPA countries in 2004 rose by \$280 million or 25 percent from the 2003 level to \$1.4 billion (table 2-8), reflecting continued growth in the region's shipments entering duty-free under ATPDEA.¹⁵ In 2004, 83 percent (\$1.2 billion) of U.S. textile and apparel imports from the Andean region entered duty-free under ATPDEA, up from 68 percent in 2003.¹⁶ Apparel assembled from regional fabric¹⁷ accounted for almost 90 percent (\$1.0 billion) of total sector imports entering duty-free under ATPDEA in 2004.¹⁸ Most of the U.S. sector imports from the Andean countries came from Peru (50 percent) and Colombia (46 percent). In 2004, U.S. imports of textiles and apparel from Peru grew by 34 percent to \$692 million and those from Colombia grew by 18 percent to \$636 million. Leading sector products exported from ATPA countries to the United States in 2004 were cotton apparel—knit shirts and blouses, trousers and slacks, and underwear. Colombia was the only ATPA country subject to U.S. textile and apparel quotas in 2004.¹⁹

Since the implementation of ATPDEA on October 31, 2002, the textile industries in Peru and Colombia have been expanding production of fabrics and yarns for use in the production of apparel for export to the United States.²⁰ 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 Andean countries; to date there has been little risk of the cap restraining trade.²¹

U.S. exports of textiles and apparel to ATPA countries in 2004 rose by 10 percent over the 2003 level to \$186 million, of which \$146 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 Andean countries). U.S. exports of yarns and fabrics to ATPA countries, particularly Colombia, have increased since implementation of ATPDEA duty preferences.

¹⁵ Import data in this paragraph are compiled from official statistics of the U.S. Department of Commerce, Office of Textiles and Apparel (OTEXA), available on its website at <http://otexa.ita.doc.gov>.

¹⁶ Percentage changes based on unrounded data of the U.S. Department of Commerce.

¹⁷ For more information, see chapter 1, section on ATPA qualifying rules.

¹⁸ Ibid.

¹⁹ These quotas were established under the Multifiber Arrangement. In 2004, none of the quota for printcloth was filled; 54 percent of the quota for men's and boys' suits was filled.

²⁰ From 2002-2004, mill fiber consumption (i.e., manmade, cotton, and wool) in Colombia rose by 25 percent to 571.1 million pounds and by 7 percent in Peru to 363.1 million pounds. See Fiber Economics Bureau, "South American Mill Fiber Consumption," *Fiber Organon*, May 2005, No. 5, Vol. 76, pp. 78 and 80.

²¹ For the one-year period ending September 30, 2004, U.S. imports of apparel made in the Andean countries from regional fabric totaled 23.5 million square meter equivalents (SMEs) or 4 percent of the cap (548,823,093 SMEs).

Table 2-8
Textiles and apparel: U.S. general imports from ATPA countries, by sources, 2000-2004

Country	2000	2001	2002	2003	2004	Change, 2003-2004
	-----1,000 dollars-----					Percent
Peru	405,650	383,783	395,314	516,134	691,554	34
Colombia	443,766	376,326	369,531	538,925	636,349	18
Bolivia	19,172	18,372	18,718	34,277	39,524	15
Ecuador	23,087	24,704	15,855	18,070	19,929	10
Total	891,675	803,185	799,418	1,107,406	1,387,356	25

Note.—The trade data in this section represent imports of goods subject to U.S. textile trade agreements, found on the website of the U.S. Department of Commerce, Office of Textiles and Apparel, at <http://otexa.ita.doc.gov>.

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

Colombia continues to have a shortage of domestic textile inputs.²² U.S. exports of fabrics to ATPA countries in 2004 rose by 13 percent over the 2003 level to \$99.5 million; 82 percent of these exports went to Colombia and 9 percent went to Peru, up from 6 percent in 2003. U.S. exports of yarns to ATPA countries fell by under 1 percent to \$24.5 million; 78 percent of these exports went to Colombia. The slight decline may be attributable to the establishment of a cotton yarn-spinning facility by U.S. yarn spinner Parkdale Mills of Gastonia, NC, in January 2004 as a joint venture with a Colombian firm, Crystal Vestimundo, located in Medellin (see chapter 3).²³ Cotton is shipped from the United States and spun into yarn at Crystal Vestimundo’s facility.

Before ATPDEA, Colombia was the only Andean country to use large quantities of U.S. inputs to produce apparel for export to the United States and accounted for most U.S. apparel imports from the Andean countries entering under HTS heading 9802.00.80.²⁴ U.S. firms would cut fabrics into garment parts in the United States and ship the parts to Colombia for assembly to qualify for reduced duties on the finished garments under HTS heading 9802.00.80. Under ATPDEA, however, U.S. firms no longer need to cut the fabrics in the United States in order to qualify for trade preferences on the finished garments. U.S. firms can ship uncut fabrics to Colombia for cutting and sewing and import the resulting apparel duty-free under HTS heading 9821. Consequently, the share of the total value of U.S. apparel imports from ATPA countries entering under HTS heading 9802.00.80 fell to just under 6 percent in 2004 from 17 percent in 2002. Other developments that can be expected to shape the future of U.S.-Andean textile trade are the expansion of “full package”²⁵ production programs by Andean firms to enhance their competitiveness with China and other Asian suppliers following the elimination of quotas on January 1, 2005, and the

²² “Prospects for the Textile and Clothing Industry in Colombia,” Aug. 2, 2004, found at <http://www.MarketResearch.com>, retrieved June 20, 2005.

²³ Dan Nation, President, Parkdale Mills, Gastonia, NC, telephone interview with Commission staff, June 13, 2005. See also chapter 3.

²⁴ HTS heading 9802.00.80 (formerly TSUS item 807.00) provides a duty exemption for U.S. components returned to the United States in the form of finished articles. In general, the duty is assessed only on the value added abroad for eligible shipments.

²⁵ Full package programs typically refer to the type of sourcing arrangements that can provide the entire range of garment manufacturing from apparel design to all steps of textile production, to distribution of the finished garment, or any combination of these operations.

implementation of additional competitive strategies to take advantage of a proposed U.S.-Andean free trade agreement (see chapter 3).

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 program from 1998 to 2002. In 2004, refined copper cathodes ranked third on the list of leading U.S. imports under ATPA (table 2-7), and seventh from ATPA countries under all entry categories (table 2-3).

According to the most recent estimate of the U.S. Geological Survey, imports of copper accounted for 43 percent of apparent U.S. consumption in 2004.²⁶ Notably, U.S. imports declined in recent years, as the United States switched to importing downstream copper products, including tubes, wires, cables, brass sheet, electronics, etc., instead of copper cathodes.

Peru is the sole U.S. supplier of refined copper cathodes among ATPA countries. All of these 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, by 2004, U.S. imports of Peruvian cathodes by volume had declined to less than half of such imports in 2000, indicating not only diminishing overall U.S. imports of copper cathodes but also a shift in sourcing. Whereas during the 2000-2004 period, total U.S. copper cathode imports by volume fell by 18 percent, imports from Chile and Canada rose. In 2004 alone, the volume of U.S. imports of copper cathodes from all countries dropped by 9.5 percent, whereas such imports from Peru were down by 41 percent. Because of a steep increase in copper prices, Peru registered only a 5.6 percent decline by value of such imports in 2004.

Already in 2003, the United States imported more Chilean than Peruvian copper cathodes, pushing Peru to second place as a supplier. In 2004, Peru ranked third as a U.S. supplier, after Chile and Canada. Peru accounted for 21 percent of all U.S. imports by value of copper cathodes in 2004, compared with Chile's 40 percent and Canada's 33 percent.

Flowers

Over the past two decades, the U.S. market for fresh-cut flowers (HTS 0603.10) has been increasingly served by imports. The share of imports in U.S. cut-flower consumption was projected at a record 65 percent for 2004, up from 61 percent in 2003.²⁷ Colombia and Ecuador are the top two U.S. suppliers of flowers among all countries, accounting in 2004 for 59 percent and 19 percent, respectively, of U.S. flower imports. The competitive edge of these two countries in meeting U.S. demand for flowers is attributable to a favorable climate, relatively low production costs, and adequate air-freight service and distribution

²⁶ Dan Edelstein, U.S. Geological Survey, "Copper," *Mineral Commodity Summary*, January 2005.

²⁷ Alberto Jerardo, Economic Research Service, U.S. Department of Agriculture, "Weak Growth Forecast for Ornamental Crops," *Floriculture and Nursery Crops Outlook*, Sept. 23, 2004, p. 3.

infrastructure.²⁸ The Andean flower industry became the principal beneficiary of ATPA after the program's implementation in the early 1990s.

After declining in 2002, the U.S. market for Andean flowers increased sharply in 2003, following the reinstatement of their duty-free treatment under ATPA. Virtually all flower imports from the region enter under ATPA. In 2004, the U.S. market for flowers continued to expand. Imports of Andean flowers reached record levels, up 22 percent compared with 2003. Part of this increase is accounted for by higher prices of imported cut flowers, which resulted from greater demand, a weaker U.S. dollar, and higher fuel costs for transport.²⁹ The rise in imports increased competition for the U.S. flower industry in 2004; however, experts expected this impact to be cushioned by an increase in the prices of domestically grown flowers.³⁰

Four flower products that traditionally have been leading imports under ATPA—roses, cut flowers suitable for bouquets, chrysanthemums, and miniature carnations—continued to be on the 2004 list of leading imports under ATPA (table 2-7). Two of these products—roses and cut flowers suitable for bouquets—also appear on the 2004 list of leading imports from ATPA countries under all programs (table 2-3). During 2004, imports of cut flowers suitable for bouquets were up by almost half their 2003 value; imports of miniature carnations, by 38 percent; and imports of roses, by 17 percent. Only imports of chrysanthemums did not increase during the year (table 2-7).

Asparagus

Certain fresh or chilled asparagus (HTS 0709.20.90) has been consistently among the leading products imported under ATPA.³¹ The value of such imports under ATPA rose by 31 percent from 2003 to 2004, following a 49 percent rise during 2002-2003 (table 2-7). Virtually all fresh asparagus from ATPA countries entered under ATPA during 2004.³² 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 is one of only a few countries whose favorable climate enables it to produce asparagus year round. In addition, recent improvements in Peru's management of the water supply for irrigation have enabled the country to take advantage of its climate and produce and ship asparagus virtually year round. The climatic advantage, water supply improvements, and the fact that growing areas have been shifted away from the production of sugar cane to asparagus have resulted in the substantial growth of Peru's asparagus industry in the past decade.³³

²⁸ For more information on flower imports from ATPA countries, see chapter 3.

²⁹ Alberto Jerardo, "Weak Growth Forecast for Ornamental Crops," p. 3.

³⁰ *Ibid.*, p. 6.

³¹ Included here are fresh or chilled asparagus not reduced in size and entered other than during Sept. 15 to Nov. 15, in any year, by air, and fresh or chilled asparagus reduced in size and entered any time whether or not by air.

³² For more information on asparagus imports from ATPA countries, see chapter 3.

³³ USDA, FAS, "Peru Asparagus Annual Report, 2003," GAIN Report No. PE3012, July 2, 2003, p. 3; U.S. General Accounting Office, *Impacts of the Andean Trade Preference Act on Asparagus Producers and Consumers*, Report to Congressional Subcommittees, Washington, DC, GAO-01-315, March 2001, p. 2; and written statement of the Instituto Peruano del Esparrago y Hortazalis (Peruvian Asparagus and Other Vegetables Institute) regarding the Andean Trade (continued...)

Virtually all U.S. imports of certain fresh asparagus originate in Peru and Mexico.³⁴ Prior to 2003, Mexico was the principal U.S. supplier, accounting for about two-thirds of total U.S. imports annually. However, Peru's advantage in terms of production costs and climate³⁵ has gradually outweighed Mexico's lower transportation costs to U.S. markets. In 2003, imports from Peru rose to a level close to that from Mexico and in 2004, Peru became the leading U.S. asparagus supplier with 51 percent of total imports.

U.S. imports of other fresh asparagus (not reduced in size and entered by air only during September 15 through November 15) are classified under HTS subheading 0709.20.10. Peru has supplied the bulk of such imports to the U.S. market for many years, with its share amounting to 95 percent of total U.S. imports in 2004. U.S. imports under ATPA of HTS 0709.20.10 asparagus remained largely unchanged during 2004, and the product vanished from the list of the leading 20 imports under ATPA.

In a submission to this investigation (see appendix B), the Michigan Asparagus Advisory Board alleges that

... 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.³⁶

The Board also pointed out that Peru's ability to produce year round significantly reduces the window of opportunity for domestic producers and that an "import surge [of Peruvian asparagus] has closed U.S. canning operations and driven many asparagus growers out of business." On these grounds, the Board requested that

The ITC recommend withdrawing trade concessions on fresh asparagus during the months February-July, and cap the amount of frozen and canned asparagus that could enter duty-free.³⁷

Jewelry

U.S. imports of gold jewelry (HTS 7113.19) from ATPA countries declined most years after 2000, in contrast to increased U.S. imports from India, Thailand, and China, each with robust

³³ (...continued)

Preference Act Effect on the U.S. Economy and on Andean Drug Crop Eradication, USITC Investigation No. 332-352, received June 10, 2004, p. 3.

³⁴ Limited amounts of asparagus were also entered from Canada, Colombia, Ecuador, Chile, and Guatemala.

³⁵ The Mexican crop is more subject to weather fluctuations than the Peruvian crop.

³⁶ Michigan Asparagus Advisory Board, representing the National Asparagus Council, statement submitted to the U.S. International Trade Commission regarding Investigation No. 332-352 on ATPA, received June 7, 2005.

³⁷ Ibid. The Commission makes no recommendations on policy or other matters in its general fact-finding reports.

jewelry manufacturing industries.³⁸ These three Asian countries and Italy were the leading sources in 2004 of all U.S. jewelry imports made from gold or platinum or plated with such metal, accounting collectively for 57 percent of the total.

In 2004, 94 percent of U.S. jewelry imports from ATPA countries entered under ATPA provisions; most of the remainder entered under GSP. Imports under ATPA recovered somewhat from the low levels of prior years; they were up 24 percent by value compared with 2003. Nevertheless, imports from the region in 2004 were below the value recorded in 2000.

The 2004 list of leading imports under ATPA (table 2-7) includes two jewelry products: gold jewelry and parts except necklaces and neck chains (HTS 7113.19.50) and gold neck chains (HTS 7113.19.29). Imports of gold neck chains fell somewhat in 2004, but imports of other gold jewelry and parts rose more than enough to offset that decline.

As in 2003, Peru continued to rank as the 14th-largest supplier of U.S. jewelry imports, accounting for 1.2 percent of the total. Peru is the leading jewelry supplier to the United States among ATPA countries, accounting for 45 percent of such U.S. imports from the region in 2004. However, Bolivia was also an important ATPA supplier, providing 40 percent of the total. U.S. imports of gold jewelry from Bolivia were up 22 percent in 2004. Several indigenous and foreign-based firms in Bolivia manufacture gold jewelry for export.³⁹ Notably, the reverse trade flow (i.e., U.S. exports of inputs into Bolivian jewelry products) was also significant during the year, indicating production sharing.⁴⁰

Cigarettes

U.S. imports of cigarettes (HTS 2402.20.80) under ATPA were up 4.8 percent by value in 2004 compared with 2003; imports by volume were up by 2.4 percent. Since 2001, the year in which U.S. cigarette imports from the region were first recorded in meaningful quantities, imports have risen substantially (table 2-7). Virtually all U.S. cigarette imports from ATPA countries enter under ATPA.

In 2004, Colombia continued to be the leading U.S. supplier of imported cigarettes among all countries, accounting for one-fourth of all imports, followed by Canada (18 percent) and Korea (16 percent). Peru was another ATPA-country supplier, but of negligible amounts. It should be noted that even though Colombia was the leading source of U.S. cigarette imports, it supplies less than 1 percent of the U.S. market, as the United States is the largest producer

³⁸ Competitive advantages in jewelry production, as noted by the Manufacturing Jewelry & Suppliers of America (MJSA) for China, India, and Thailand, include low labor costs, extensive investment in modern production technologies, and favorable government policies. See MJSA, "The Growing Challenges of the Asian Market, 2004," pp. 24-27.

³⁹ U.S. & Foreign Commercial Service (US&FCS) and U.S. Department of State (State Dept.), "Economic Trends and Outlook, Principal Growth Sectors," *Country Commercial Guide, Bolivia 2005*, December 2004, p. 5. Moreover, in April 2003, the Bolivian government identified precious jewelry, along with textiles, wood, and leather products, for export promotion to capitalize on the trade preferences offered by ATPA/ATPDEA. US&FCS and State Dept., "Economic Trends and Outlook, Principal Growth Sectors." See also "Bolivia" under "U.S. Exports to ATPA Countries," later in this chapter.

⁴⁰ See the section on U.S. exports later in this chapter.

and exporter of cigarettes in the world. Most Colombian cigarettes are inexpensive discount items, sold in niche markets, predominantly the Latino market.⁴¹

Pouched tuna

Pouched tuna became eligible to enter free of duty for the first time in late 2002 under ATPDEA, subject to specified conditions.⁴² Tuna in flexible pouches packed in water (about one-third of HTS 1604.14.30 imports from ATPA countries) appears on the 2004 list of leading imports under ATPA. Such imports amounted in 2004 to \$31.5 million (table 2-7).⁴³ The remainder represents dutiable tuna in cans.⁴⁴

Imports under ATPA of pouched tuna in water were up 24 percent in 2004 from their 2003 value. Flexible pouches are relatively recent alternatives to metal cans as packing material for tuna in airtight containers. Data indicate a relative increase in the use of pouches versus cans; in 2003 only 12 percent of HTS 1604.14.30 imports from ATPA countries was free of duty, thus presumably pouched; in 2004 the portion of pouches climbed to one-third of the total.

Another tuna product, not packed in airtight containers (referred to as “loins” in the trade) and used in canneries as input for the final product (mostly classified under HTS 1604.14.40), was eligible for duty-free treatment under the original ATPA. While still eligible, and still imported from the region, this product is no longer a leading import under the program (absent in 2004 from table 2-7).

As noted earlier, canned tuna, which is dutiable, still accounted in 2004 for some two-thirds of all tuna in airtight containers (HTS 1604.14.30) imported from the region. Because of this large share of dutiable canned tuna in this tariff classification, HTS 1604.14.30 is also a leading import category from ATPA countries under all programs (table 2-3). Nonetheless, the dutiable portion of HTS 1604.14.30 imports from ATPA countries amounted to \$66 million in 2004, 27 percent less than in 2003. Part of this decline is attributable to the aforementioned shift of airtight packaging from cans to pouches, but also to an overall 18 percent decline in U.S. imports of Andean tuna products (HTS 1604.14) in 2004.

Ecuador is the only Andean country shipping tuna to the United States.⁴⁵ In 2004, Ecuador ranked second as a U.S. supplier of tuna products (HTS 1604.14), accounting for one-fifth of the total. Thailand was first with 41 percent. Ecuador’s share of the U.S. market for HTS 1604.14 products declined from 26 percent of all imports in 2003 to 20 percent in 2004 in favor of Thailand, the Philippines, and Fiji. The tuna fishing industry in Ecuador was

⁴¹ The major brand, called Bronco, is marketed in a Marlboro-styled package.

⁴² Chapter 98, subchapter XXI, U.S. note 1 lists these conditions, which include that the tuna must be harvested in United States vessels or vessels of ATPDEA beneficiary countries.

⁴³ Tuna in pouches, similar to tuna in metal cans, can be packed in oil or “not in oil,” principally water.

⁴⁴ 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.

⁴⁵ 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.

adversely affected in 2004 by lower sea temperatures, and a 40-day fishing ban during the year due to overfishing.⁴⁶

Imports under ATPA by Country

In 2004, U.S. imports under the program were larger from each ATPA country than in 2003, but the increase was the greatest from the petroleum-exporting countries, Colombia and Ecuador (table 2-9, figure 2-3). Because crude petroleum and derivatives are high-value ATPA products, and because the price of petroleum rose steeply in 2004, the surge in petroleum-related imports raised all U.S. imports under ATPA from the oil-exporting ATPA countries. Ecuador's share of U.S. imports under ATPA rose particularly fast, 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. Colombia's share of U.S. imports under ATPA also rose, from 43 percent in 2001 to 50 percent in 2003, but dropped to 47 percent in 2004 because imports under ATPA from Colombia rose less steeply than those from Ecuador. Nonetheless, Colombia continued to be the principal source for U.S. imports under ATPA during 2004.

The rapid rise of Ecuador's share in U.S. imports under ATPA in 2004 depressed the relative shares of the other two ATPA countries—Peru and Bolivia. 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 19 percent in 2004, even though Peru provided 7 of the 20 leading imports under ATPA, including newly duty-free apparel products. Bolivia's share of U.S. imports under ATPA continued its long-term slide, dropping from 3.2 percent in 2001, to 1.6 percent in 2003, and 1.4 percent in 2004.

Colombia

In 2004, the United States remained the main destination of Colombian exports, accounting for approximately 40 percent of the total.⁴⁷ U.S. imports from Colombia under ATPA amounted to \$3.9 billion, up by 34 percent compared with 2003 (table 2-9). Colombia was the major source of 10 leading products entered under the program: 3 petroleum products, 4 flower products, 2 apparel products, and cigarettes (table 2-7). Imports from Colombia of these products were discussed earlier in the chapter.

Crude petroleum accounted for 70 percent of all imports under ATPA from Colombia in 2004. Light crude petroleum imports (52 percent of chapter 27 imports under ATPA) continued to outweigh heavy crude imports (17 percent of chapter 27 imports); however, this gap was narrower in 2004 than in prior years. In terms of barrels, light crude from Colombia under ATPA fell by 18 percent during the year; only higher prices pushed such imports slightly above their 2003 value. However, the volume of heavy crude from Colombia almost doubled in 2004, and due to higher prices such imports tripled in value compared to 2003.

⁴⁶ The Economist Intelligence Unit (EIU), *Country Report, Ecuador*, February 2005, found at <http://www.eiu.com>, retrieved July 14, 2005.

⁴⁷ ECLAC, *Preliminary Overview of the Economies of Latin America and the Caribbean, 2004, Colombia*, December 2004. All statistics concerning the economies of the four ATPA countries in 2004 are preliminary.

Table 2-9
U.S. imports for consumption under ATPA, by sources, 2000-2004

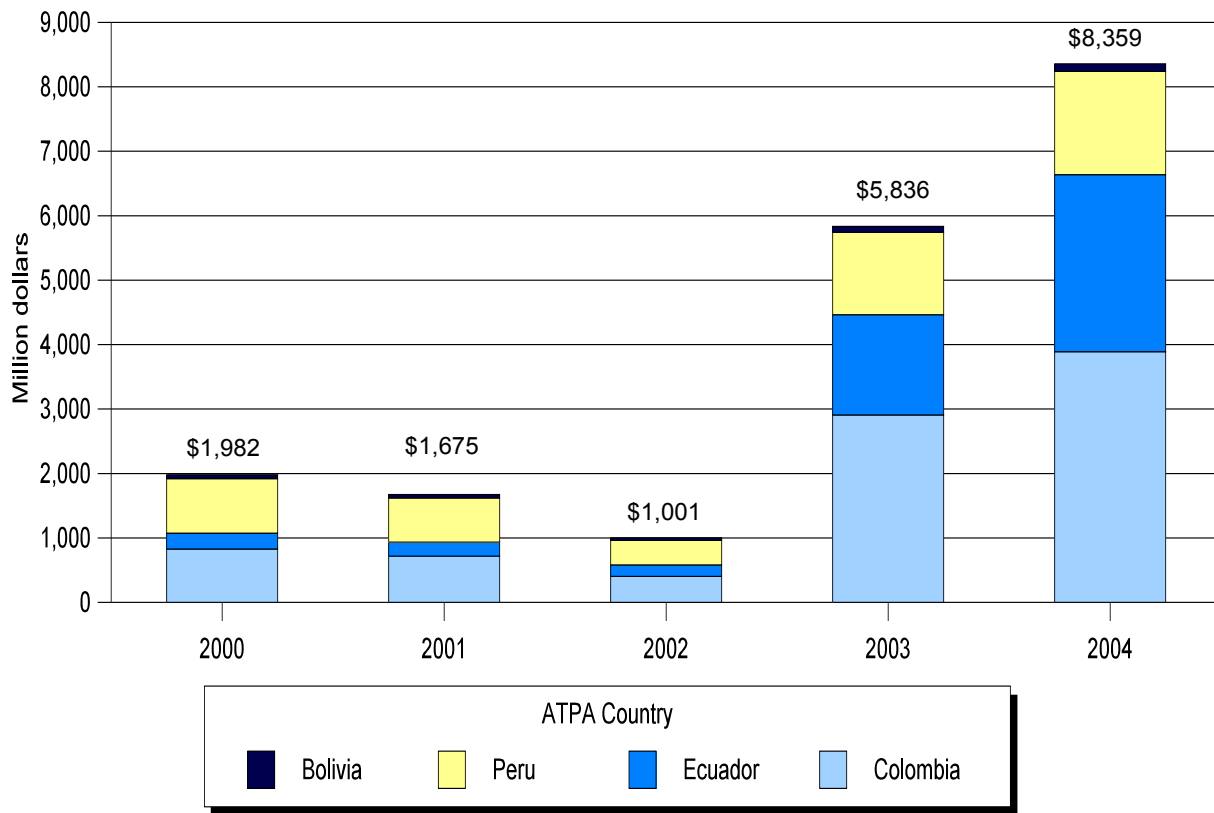
Source	2000	2001	2002 ¹	2003 ¹	2004 ¹	Change,
						2003-2004
----- <i>Value (1,000 dollars)</i> -----						<i>Percent</i>
Colombia	826,559	717,966	404,148	2,908,692	3,888,888	33.7
Ecuador	247,595	216,300	177,734	1,553,604	2,747,335	76.8
Peru	846,014	686,341	381,814	1,279,283	1,602,673	25.3
Bolivia	61,464	53,999	37,119	94,453	120,363	27.4
Total	1,981,632	1,674,607	1,000,816	5,836,032	8,359,258	43.2
----- <i>Percent of total</i> -----						<i>In percentage points</i>
Colombia	41.7	42.9	40.4	49.8	46.5	-3.3
Ecuador	12.5	12.9	17.8	26.6	32.9	6.3
Peru	42.7	41.0	38.2	21.9	19.2	-2.7
Bolivia	3.1	3.2	3.7	1.6	1.4	-0.2
Total	100.0	100.0	100.0	100.0	100.0	

¹ ATPA includes imports under ATPDEA.

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

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

Figure 2-3
U.S. imports for consumption under ATPA, by sources, 2000-2004



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

Petroleum derivatives from Colombia were also among the leading and growing imports from that country (table 2-10).

Flowers used to be the largest category of imports from Colombia under the original ATPA,⁴⁸ but their relative importance was dwarfed by petroleum and derivatives under the expanded ATPA. Roses, the leading non-petroleum import from Colombia, accounted for less than 6 percent of U.S. imports from that country under the expanded ATPA in 2004.

⁴⁸ In their written comments to the United States International Trade Commission dated February 17, 2004, concerning Inv. Nos. TA-131-28 and TA-2104-10: U.S.-Andean Countries Free Trade Agreement: Advice Concerning the Probable Effect of Providing Duty-Free Treatment for imports, ASCOFLORES, 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 under ATPA, by sources, 2002-2004

Source	HTS provision	Description	1,000 dollars			Change,
			2002	2003	2004	2003-2004
			-----			Percent
Colombia	2709.00.20	Petroleum oils and oils from bituminous minerals, crude, testing 25 degrees A.P.I. or more	66,571	1,536,212	1,718,521	11.9
	2709.00.10	Petroleum oils and oils from bituminous minerals, crude, testing under 25 degrees A.P.I.	40,072	156,647	581,212	271.0
	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.	6,134	189,140	231,014	22.1
	0603.10.60	Roses, fresh cut	51,006	144,743	169,536	17.1
	2710.11.25	Naphthas, not motor fuel/blending stock, from petroleum oils/oils from bituminous minerals, minimum 70 percent by weight of such products	5,212	129,896	142,139	9.4
		Total	168,996	2,156,638	2,842,421	31.8
Ecuador	2709.00.10	Petroleum oils and oils from bituminous minerals, crude, testing under 25 degrees A.P.I.	79,732	1,207,291	2,298,483	90.4
	0603.10.60	Roses, fresh cut	18,758	59,714	69,200	15.9
	0603.10.80	Cut flowers and flower buds suitable for bouquets, n.e.s.o.i.	13,041	44,984	64,150	42.6
	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.	1,129	18,575	63,129	239.9
	2710.11.25	Naphthas, not motor fuel/blending stock, from petroleum oils/oils from bituminous minerals, minimum 70 percent by weight of such products	4,510	25,792	38,993	51.2
		Total	117,171	1,356,356	2,533,955	86.8
Peru	7403.11.00	Cathodes and sections of cathodes, of refined copper	248,663	447,368	422,392	-5.6
	6110.20.20	Sweaters, pullovers, sweatshirts, waistcoats, and similar articles, knitted or crocheted, of cotton, n.e.s.o.i.	0	180,933	268,038	48.1
	6105.10.00	Men's or boys' shirts, knitted or crocheted, of cotton	0	99,484	134,706	35.4
	6109.10.00	T-shirts, singlets, tank tops, and similar garments, knitted or crocheted, of cotton	0	68,559	98,931	44.3
	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.	0	28,743	84,020	192.3
	0709.20.90	Asparagus, fresh or chilled, n.e.s.o.i.	31,041	59,493	78,436	31.8
	2710.11.25	Naphthas, not motor fuel/blending stock, from petroleum oils/oils from bituminous minerals, minimum 70 percent by weight of such products	0	19,282	71,877	272.8
		Total	279,704	903,862	1,158,400	28.2

See footnotes at end of table.

Table 2-10—Continued
Leading U.S. imports for consumption under ATPA, by sources, 2002-2004

Source	HTS provision	Description	1,000 dollars			Change,
			2002	2003	2004	2003-2004
						Percent
Bolivia	7113.19.50	Gold jewelry and parts thereof, except necklaces and clasps	16,545	28,687	35,087	22.3
	7113.19.29	Gold necklaces and neck chains, other than rope or mixed link	9,747	20,063	13,123	-34.6
	6110.20.20	Sweaters, pullovers, sweatshirts, waistcoats, and similar articles, knitted or crocheted, of cotton, n.e.s.o.i.	0	7,860	11,950	52.0
	7113.19.21	Rope necklaces and neck chains of gold	0	107	10,767	10,005.0
	6105.10.00	Men's or boys' shirts, knitted or crocheted, of cotton	0	10,579	10,432	-1.4
	2710.19.10	Distillate/residual fuel oil (including blends) derived from petroleum oils or oil of bituminous minerals, testing 25 degrees A.P.I. or more	0	0	7,779	(¹)
Total			26,292	67,295	89,139	32.5

¹ Not meaningful.

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

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

Ecuador

In 2004, U.S. imports from Ecuador under ATPA—two-thirds of all U.S. imports from that country—amounted to \$2.7 billion (table 2-9). Eighty-eight percent of such imports under ATPA was accounted for by petroleum, mostly heavy crude. Heavy crude petroleum and pouched tuna were the two leading imports under ATPA supplied principally by Ecuador (table 2-7). U.S. imports of both products were discussed earlier in this chapter.

The near-doubling of U.S. imports by value of heavy crude petroleum from Ecuador (table 2-10) explains most of the 77 percent surge in 2004 of all U.S. imports under ATPA from that country (table 2-9). The opening of Ecuador's second oil pipeline in September 2003, which immediately doubled Ecuador's pipeline capacity, was the most important reason for the country's increase in production and exports by volume in 2004.⁴⁹ However, more than 20 percent of the increase in the value of U.S. heavy crude imports from Ecuador was due to an increase in price. Other imports from Ecuador that also increased significantly were petroleum derivatives, roses, and cut flowers suitable for bouquets (table 2-10).

Peru

In 2004, 29 percent of Peruvian exports went to the United States.⁵⁰ Imports under ATPA from Peru amounted to \$1.6 billion, 43 percent of all U.S. imports from that country. Imports under ATPA were up by 25 percent compared with 2003 (table 2-9). Peru was the major supplier of 7 of the 20 leading imports under ATPA in 2004: copper cathodes, four apparel products, asparagus, and one jewelry product (table 2-7). U.S. imports from Peru of these products were discussed earlier in the chapter.

Apparel imports under ATPA from Peru (primarily knitted sweaters, shirts, and t-shirts) were up 46 percent in 2004. For the first year, apparel became the number one category of imports (by HTS 2 classification) under the program from that country, accounting for 41 percent of all imports under ATPA from Peru. Copper articles constituted the second leading group of imports, accounting for 28 percent. Copper cathodes continued to top the list of leading imports from Peru but, as mentioned before, such imports declined in 2004 (table 2-10). Although Colombia and Ecuador accounted for a much larger share of U.S. petroleum imports from ATPA countries, petroleum fuels and oils (HTS 27) were the third-largest category of imports under ATPA from Peru during the year. Imports from Peru of distillate and residual fuel oils and naphthas were substantially higher in 2004 compared with 2003, the year when such imports under the program from Peru began (table 2-10).

As discussed earlier, asparagus, Peru's most important vegetable export, continued to be one of the leading U.S. imports under ATPA from that country in 2004 (table 2-10).

⁴⁹ U.S. Department of Energy, EIA, "Country Analysis Briefs: Ecuador," February 2005, found at <http://www.eia.doe.gov>, retrieved July 14, 2005.

⁵⁰ ECLAC, *Preliminary Overview of the Economies of Latin America and the Caribbean, 2004, Peru*, December 2004. All statistics concerning the economies of the four ATPA countries in 2004 are preliminary.

Bolivia

In 2004, imports from Bolivia under ATPA amounted to \$120 million, 46 percent of all U.S. imports from that country. Bolivia was the principal source of only one leading import under ATPA: gold jewelry articles and parts (table 2-7). Although the United States imports gold jewelry from all ATPA countries, Bolivia accounted for almost one-half of all gold jewelry imports under ATPA in 2004. Three jewelry products, two apparel products, and, for the first time in 2004, distillate and residual fuel oils, were the major imports from Bolivia under ATPA (table 2-10).

U.S. Exports to ATPA Countries

U.S. exports to ATPA countries totaled \$7.7 billion in 2004, 17 percent above the 2003 level, and 22 percent more than in 2000, reflecting greater demand for U.S. products as a result of improved economic performance in the ATPA countries (table 2-1). In 2004, ATPA countries combined ranked 18th as a U.S. export market, ahead of Ireland but behind Italy. Greater world demand for the region's traditional exports (oil, coal, metals, coffee) and an inflow of foreign direct investment contributed to a resurgence of economic growth in the ATPA countries. A cheaper U.S. dollar boosted the competitiveness of U.S. exports to the region relative to goods from EU suppliers.

U.S. exports to the region were up in all major product categories compared with 2003, especially automotive products, plastics, petroleum derivatives, organic chemicals, and cereals (table 2-11). U.S. exports of non-electrical machinery, computer equipment, power generation equipment, appliances, and parts (HTS 84) remained the number one 2-digit HTS product category of this trade flow in 2004, accounting for 22 percent of all U.S. exports to ATPA countries (table 2-11, figure 2-4).⁵¹ Mineral extraction, the oil and gas industry, and construction continued to be the leading users of U.S. non-electrical machinery products. Parts of mining and construction equipment and computer parts and peripherals were the leading U.S. exports to ATPA countries in this HTS chapter. However, such exports declined during two of the last five years, and the relative significance of this category diminished in favor of other product groups. In 2004, U.S. non-electrical machinery exports increased only slightly compared with 2003 and rose less than U.S. exports of all other major product groups.

Organic chemicals (HTS 29) continued to be one of the fastest-growing U.S. export categories to ATPA countries. Organic chemicals became the second leading category of U.S. exports to the region in 2004, accounting for 9.7 percent of the total, compared with 8.6 percent in 2003, and 7.5 percent in 2000. Vinyl chloride, propene (propylene), and styrene continued to be the three leading products within the category (table 2-12). Exports of vinyl chloride were up 45 percent in 2004 compared with 2003; propene, by 79 percent;

⁵¹ 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 Harmonized Tariff Schedule. 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.

Table 2-11
U.S. exports to ATPA countries, by major product categories, 2000-2004

HTS chapter	Description	2000	2001	2002	2003	2004
-----Value (1,000 dollars)-----						
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	1,602,759	1,720,395	1,624,715	1,580,572	1,670,135
29	Organic chemicals	472,660	417,604	473,033	560,398	746,211
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television recorders and reproducers, parts and accessories	602,835	629,030	607,976	618,380	725,461
10	Cereals	331,085	359,635	439,742	437,034	577,569
39	Plastics and articles thereof	365,905	350,532	370,050	379,471	543,875
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	104,335	134,404	169,203	253,743	360,413
87	Vehicles, other than railway or tramway rolling stock, and parts and accessories thereof	163,728	192,938	145,096	166,661	258,709
48	Paper and paperboard; articles of paper pulp, paper or paperboard	247,955	220,542	221,241	219,100	249,094
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof	198,485	224,113	235,413	221,790	248,448
52	Cotton, including yarns and woven fabrics thereof	102,674	106,513	111,982	162,078	182,385
	Subtotal	4,192,420	4,355,706	4,398,450	4,599,227	5,562,301
	All other	2,102,669	2,007,628	2,065,311	1,926,467	2,101,270
	Total	6,295,089	6,363,334	6,463,762	6,525,695	7,663,571

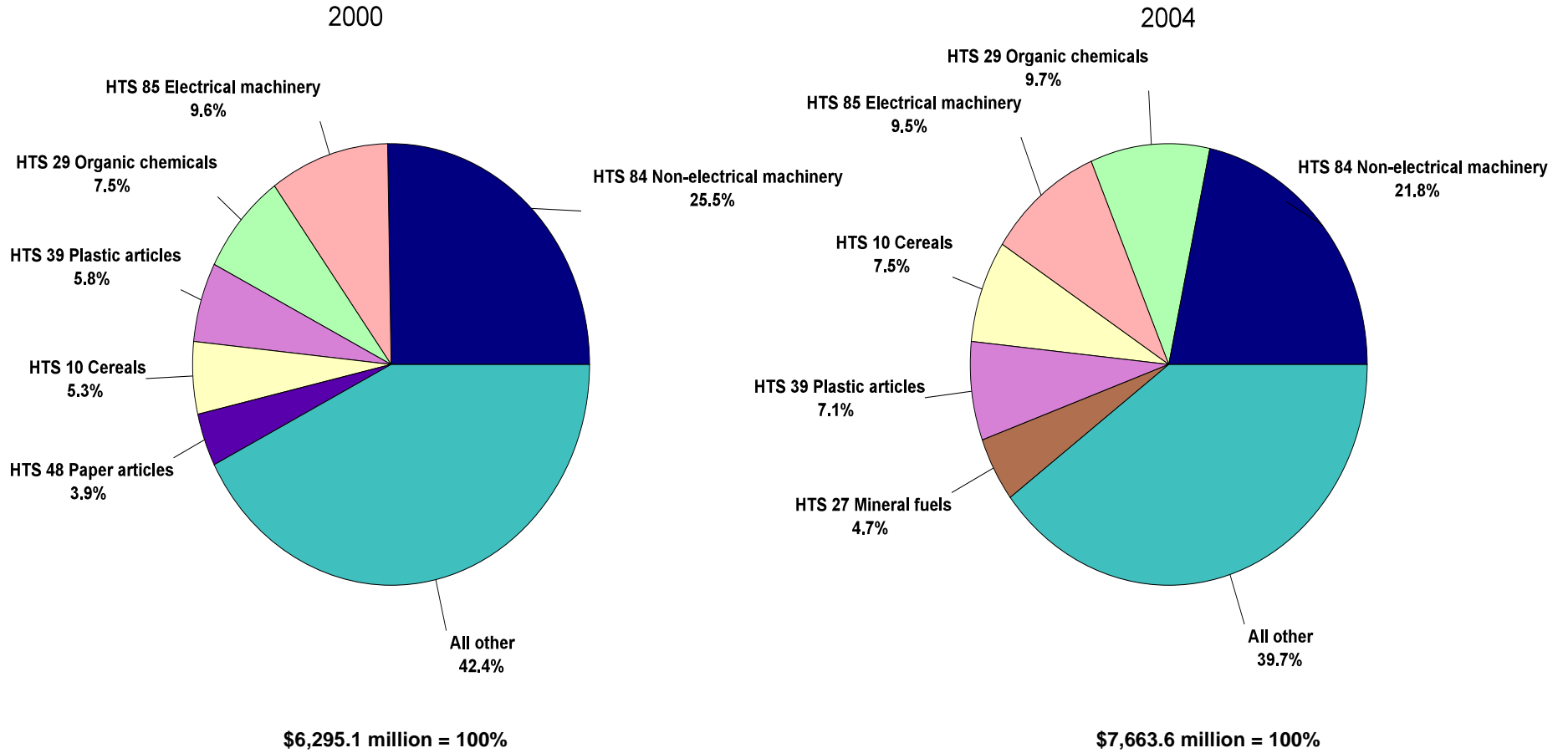
Table 2-11—Continued
U.S. exports to ATPA countries, by major product categories, 2000-2004

HTS chapter	Description	2000	2001	2002	2003	2004
-----Percent of total -----						
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	25.5	27.0	25.1	24.2	21.8
29	Organic chemicals	7.5	6.6	7.3	8.6	9.7
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television recorders and reproducers, parts and accessories	9.6	9.9	9.4	9.5	9.5
10	Cereals	5.3	5.7	6.8	6.7	7.5
39	Plastics and articles thereof	5.8	5.5	5.7	5.8	7.1
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	1.7	2.1	2.6	3.9	4.7
87	Vehicles, other than railway or tramway rolling stock, and parts and accessories thereof	2.6	3.0	2.2	2.6	3.4
48	Paper and paperboard; articles of paper pulp, paper or paperboard ...	3.9	3.5	3.4	3.4	3.3
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof	3.2	3.5	3.6	3.4	3.2
52	Cotton, including yarns and woven fabrics thereof	1.6	1.7	1.7	2.5	2.4
	Subtotal	66.6	68.5	68.0	70.5	72.6
	All other	33.4	31.5	32.0	29.5	27.4
	Total	100.0	100.0	100.0	100.0	100.0

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

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

Figure 2-4
Leading U.S. exports to ATPA countries, by major product categories, 2000 and 2004



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

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

Table 2-12
Leading U.S. exports to ATPA countries, by HTS provisions, 2002-2004

HTS provision	Description	1,000 dollars			Change, 2003-2004 Percent
		2002	2003	2004	
1001.90.20	Wheat and meslin, other than durum or seed wheat	194,305	224,243	280,414	25.0
8431.43.80	Parts suitable for use solely or principally with boring or sinking machinery, n.e.s.o.i.	263,573	246,499	258,279	4.8
1005.90.20	Yellow dent corn	217,426	189,883	253,561	33.5
8525.20.90	Transmission apparatus with reception apparatus, not transceivers, for radiotelephony, radiotelegraphy, radiobroadcasting, or television	124,425	157,092	226,606	44.3
2903.21.00	Vinyl chloride (chloroethylene)	100,744	126,540	183,030	44.6
2710.19.10	Distillate/residual fuel oil (including blends) derived from petroleum oils or oil of bituminous minerals, testing 25 degrees A.P.I. or more	54,878	122,913	175,012	42.4
8473.30.00	Parts and accessories of automatic data processing machines and units thereof	105,670	137,295	152,582	11.1
4804.11.00	Kraft liner, uncoated, unbleached, in rolls or sheets	95,312	106,759	130,022	21.8
3100.00.00	Fertilizers covered under HTS subheadings 2510.10/20.0000, 2809.20.0010/20, 2814.10.0000, or 3101.00.0000-3105.90.0000, aggregated to prevent disclosure	87,505	94,961	119,839	26.2
3901.10.00	Polyethylene having a specific gravity of less than 0.94, in primary forms	56,989	63,052	99,066	57.1
5201.00.10	Cotton, not carded or combed, having a staple length under 28.575 mm (1 1/8 inches)	73,358	82,574	98,870	19.7
3907.60.00	Polyethylene terephthalate in primary forms	35,095	56,518	94,940	68.0
2901.22.00	Propene (Propylene)	43,889	52,572	94,114	79.0
2902.50.00	Styrene (vinylbenzene; phenylethylene)	42,761	59,213	86,790	46.6
8704.10.50	Motor vehicles for transport of goods, with rear dump, designed for off-highway use, not with cab chassis	10,772	19,762	83,617	323.1
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.	20,848	30,717	74,068	141.1
8803.30.00	Parts of airplanes and helicopters, n.e.s.o.i.	60,739	60,005	67,645	12.7
3901.20.00	Polyethylene having a specific gravity of 0.94 or more, in primary forms	34,127	26,081	58,111	122.8
8431.49.10	Parts suitable for use solely or principally with ships' derricks, cranes, mobile lifting frames, and straddle carriers, n.e.s.o.i.	26,378	35,477	57,424	61.9
2710.19.30	Lubricating oils, with or without additives, 70 percent or more from petroleum oils or of oils from bituminous minerals, other than crude	21,399	43,797	51,163	16.8
	Subtotal	1,670,193	1,935,950	2,645,154	36.6
	All other	4,793,569	4,589,745	5,018,417	9.3
	Total	6,463,762	6,525,695	7,663,571	17.4

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

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

and styrene, by 47 percent. Colombia was the destination for most of these U.S. exports to the region.

Electrical machinery (HTS 85), the third leading category of U.S. exports to ATPA countries, accounted for 9.5 percent of the total, marginally less than in prior years (table 2-11, figure 2-4). Transmission and reception apparatus for telecommunications (mostly cell phones) was responsible for the bulk of 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 2004, slightly less than in recent years, and continuing a downward trend.

The ATPA region is an important and growing market for U.S. cereals. In 2004, Colombia was the 9th-largest U.S. cereal market among all countries, and Peru was the 14th-largest. Cereals accounted for 7.5 percent of U.S. exports to the region in 2004, the largest share of the total over the last five years (table 2-11). Wheat and yellow corn exports increased markedly; they were the first- and third-leading U.S. exports, respectively, to the ATPA community in 2004 (table 2-12).

The surge in 2004 of U.S. exports to the region of refined petroleum fuels and oils (HTS 27) reflected, in part, higher prices (table 2-11). There are three refined petroleum products among the leading U.S. exports to the ATPA market: heavy and light distillate and residual oils and lubricating oils (table 2-12). U.S. exports of automotive products (HTS 87) to the region reached record levels in 2004; they were the fastest-growing export category, up 55 percent from 2003 (table 2-11). The surge of dump truck exports was especially notable in this category during the year (table 2-12).

U.S. exports of cotton products (HTS 52) to ATPA countries increased steadily during the last five years. This group of exports consisted largely of cotton not carded or combed (55 percent of the total in 2004), and woven cotton fabrics (22 percent), which were inputs into U.S. apparel imports under ATPDEA.⁵²

Table 2-13 ranks the four ATPA countries according to their importance as U.S. export markets in 2004 in the following order: Colombia, Peru, Ecuador, and Bolivia (see also figure 2-5). This order is the same as it was in 2003. In 2004, U.S. exports increased to three of the ATPA countries by 14 to 20 percent; to Bolivia they edged up by only 3 percent.

Colombia

The Colombian economy grew at 3.3 percent in 2004, more slowly than the 4.1 percent rate it recorded in 2003. The appreciation of the Colombian peso, which began in the last quarter of 2003, made imports less expensive, contributing to a 17 percent growth of imports in 2004.⁵³ The United States continued to be the dominant source of these imports.

⁵² For more information on textile and apparel trade, see the section on “Textiles and Apparel” in this chapter, and the section in chapter 3 on “Probable Future Effects of ATPA.”

⁵³ ECLAC, *Preliminary Overview of the Economies of Latin America and the Caribbean, 2004, Colombia*, December 2004. All statistics concerning the economies of the four ATPA countries in 2004 are preliminary.

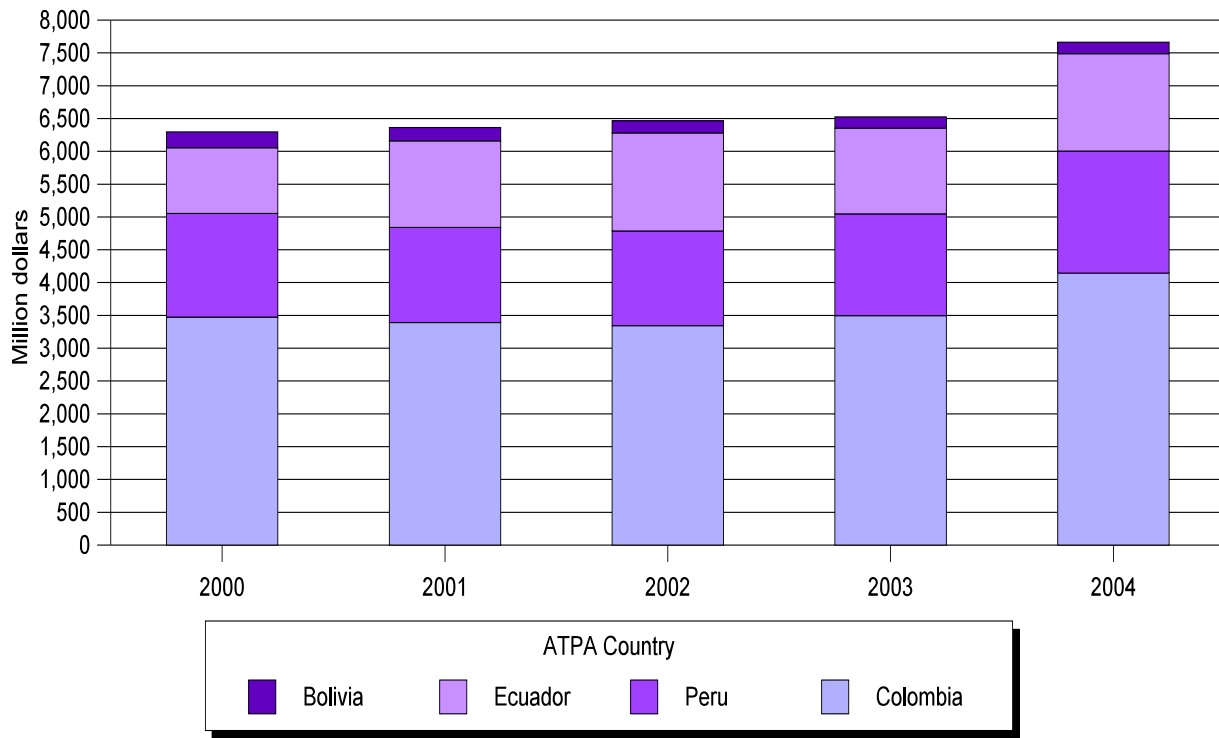
Table 2-13
U.S. exports to ATPA countries, by markets, 2000-2004

Market	2000	2001	2002	2003	2004	Change, 2003-2004
	-----Value (1,000 dollars)-----					<i>Percent</i>
Colombia	3,474,881	3,391,561	3,345,084	3,496,277	4,145,013	18.6
Peru	1,579,760	1,450,497	1,441,052	1,551,604	1,857,899	19.7
Ecuador	999,858	1,319,141	1,495,839	1,306,139	1,483,550	13.6
Bolivia	240,590	202,136	181,786	171,675	177,109	3.2
Total	6,295,089	6,363,334	6,463,762	6,525,695	7,663,571	17.4
	-----Percent of total -----					<i>In percentage points</i>
Colombia	55.2	53.3	51.8	53.6	54.1	0.5
Peru	25.1	22.8	22.3	23.8	24.2	0.5
Ecuador	15.9	20.7	23.1	20.0	19.4	-0.7
Bolivia	3.8	3.2	2.8	2.6	2.3	-0.3
Total	100.0	100.0	100.0	100.0	100.0	

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

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

Figure 2-5
U.S. exports to ATPA countries, by markets, 2000-2004



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

U.S. exports to Colombia amounted to \$4.1 billion in 2004, 19 percent more than in 2003, and were responsible for 54 percent of U.S. exports to ATPA countries combined (table 2-13, figure 2-5). Machinery (electrical and non-electrical combined) accounted for about 30 percent of all U.S. exports to Colombia, about the same as in 2003. Cell phones, parts for boring and sinking machinery, computers and parts, and construction machinery were major components of this trade flow.

Colombia was the main destination for U.S. exports of organic chemicals to the region, which surged in recent years. In 2004, organic chemicals were the second leading export category to that country, responsible for 15 percent of all U.S. exports to Colombia. Vinyl chloride (the second-ranking U.S. export product to Colombia), propene, and styrene exports continued to soar during the year.

Cereals constituted about 8 percent of U.S. exports to Colombia in 2004. Corn remained the number one U.S. cereal product bought by Colombia in 2004. U.S. exports to that country increased by 16 percent, partly because of higher corn prices. Meanwhile, U.S. wheat exports

to Colombia—also a leading export to that country—were slightly lower in 2004 than their record value in 2003.

U.S. exports of all cotton products to Colombia continued to rise; in 2004 they were up by 10 percent over 2003. Cotton, not carded or combed, accounted for 55 percent of the category; woven fabrics containing 85 percent or more cotton (HTS 5209.42) accounted for 22 percent; and the rest included other types of woven fabrics and yarns containing cotton. U.S. exports of the two leading cotton products increased by more than 20 percent in 2004; some other cotton products were down during the year.⁵⁴

The 400 percent increase of U.S. exports of dump trucks to Colombia in 2004, from \$11 million in 2003 to \$54 million is also notable.

Peru

The Peruvian economy grew by 5.1 percent in 2004, its best performance since 1997. Peru's total imports increased by a notable 19 percent during the year, and consisted mainly of material and capital good inputs required by the country's booming mining and manufacturing sectors.

In 2004, Peru purchased 24 percent of U.S. exports to ATPA countries combined (table 2-13 and figure 2-5). U.S. exports to Peru amounted to \$1.9 billion, up almost 20 percent from 2003. Exports were up in all leading 2-digit HTS product groups, except for machinery, equipment, and parts, both electrical and non-electrical. The decline in the machinery categories was caused by falling U.S. exports of electrical transmission apparatus, parts for communications, and parts for boring or sinking machinery. Nonetheless, machinery and parts continued to dominate U.S. exports to Peru during the year, accounting for 30 percent of the total.

Cereals, the second leading U.S. export category to Peru, were responsible for 10 percent of the total in 2004, as the United States shipped 68 percent more cereals by value to Peru than in 2003. Notably, as recently as in 2000, cereals accounted for less than 4 percent of all U.S. exports to Peru. Since then, Peru has been a steadily and rapidly growing market for U.S. cereals, mostly for wheat, which was the number two U.S. export product in this trade in 2004. Peru is a fast-growing market for U.S. plastics as well. Plastics accounted for 9.2 percent of all U.S. exports to Peru in 2004, compared with 7.4 percent in 2003 and 6.5 percent in 2000.

Almost 8.5 percent of U.S. exports to Peru in 2004 were petroleum oils. Peru is the biggest market for U.S. petroleum oils (HTS 2710.19) among ATPA countries and a fast-growing one, as both export volumes and prices of this product are increasing. Cotton is another major U.S. export product to Peru, although the volume of such exports dropped in 2004 and the value rose only marginally as Peru increased its domestic production of cotton to supply its growing textile industry.

⁵⁴ For more information on textile and apparel trade, see the section on "Textiles and Apparel" in this chapter, and the section in chapter 3 on "Probable Future Effects of ATPA."

Ecuador

Despite political instability and widespread labor unrest,⁵⁵ the Ecuadorian economy grew briskly in 2004. Gross domestic product (GDP) growth accelerated in 2004 to 6.5 percent from 2.3 percent in 2003, reflecting largely an increase in oil exports following completion of the country's second oil pipeline at the end of 2003.⁵⁶ Despite the depreciation of the U.S. dollar to which Ecuador's currency is pegged, imports increased in 2004 by 17 percent.⁵⁷

The United States remains Ecuador's principal trading partner.⁵⁸ U.S. exports to Ecuador increased 14 percent from 2003 to \$1.5 billion. Ecuador was the destination of 19 percent of all U.S. exports to ATPA countries in 2004 compared with 20 percent in 2003 (table 2-13 and figure 2-5). Thirty-five percent of all U.S. exports to Ecuador in 2004 consisted of machinery, equipment, and parts. However, exports of both non-electrical and electrical machinery increased only marginally in 2004. The relative importance of machinery continued to diminish in total U.S. exports to Ecuador because the completion of that country's new oil pipeline reduced demand for certain types of machinery and parts, while U.S. exports of other product categories increased more.

U.S. exports of refined petroleum to Ecuador, which had already surged in 2003, continued to rise in 2004 by 16 percent, driven by higher prices. U.S. exports to Ecuador of plastics (up by 79 percent in 2004), paper products, and cereals grew even faster. Exports of uncoated, unbleached kraft liner in rolls and sheets, which were the second leading U.S. export to Ecuador in 2004, were up by 35 percent.

U.S. exports of cereals to Ecuador, which dipped in 2003, rebounded by 84 percent in 2004 because of larger volumes and higher prices. U.S. corn sales to Ecuador, the primary cereal export to that country, increased almost 70 percent by volume in 2004. Automotive vehicles and parts was the only major product category among U.S. exports to Ecuador that declined in 2004. Such exports peaked in 2001 and have been falling since then.

Bolivia

Despite political instability and social unrest during the year,⁵⁹ Bolivia's GDP grew about 3.5 percent in 2004, the best economic performance of the last five years. Growth resulted primarily from an export boom, which all ATPA countries experienced during the year.

⁵⁵ Political unrest in Ecuador continued in 2005. On April 20, 2005, Ecuador's President, Lucio Gutierrez, was removed from power and fled into exile. See EIU, *Country Report, 2004, Ecuador, July 2005 Updater*, found at <http://www.eiu.com/>, retrieved July 28, 2005.

⁵⁶ U.S. Department of State telegram, "Ecuador's Economy," message reference No. 00289, prepared by U.S. Embassy, Quito, Ecuador, Feb. 4, 2005.

⁵⁷ ECLAC, *Preliminary Overview of the Economies of Latin America and the Caribbean, 2004, Ecuador*, December 2004.

⁵⁸ EIU, *Country Profile, 2004, Ecuador*, found at <http://www.eiu.com>, retrieved Mar. 25, 2005.

⁵⁹ Carlos Diego Mesa Gisbert had been the President of Bolivia from Oct. 17, 2003, until his resignation on June 6, 2005, because of accusations that he was bowing to foreign corporate interests in the gas industry.

Brazil, the principal recipient of Bolivia's natural gas exports, has replaced the United States as that country's number one trading partner.⁶⁰

In 2004, U.S. exports to Bolivia amounted to \$177 million. Although such exports were up marginally from 2003, Bolivia's already negligible share as a portion of the ATPA market for U.S. exports continued to diminish to 2.3 percent of the total (table 2-13, figure 2-4). In 2000, this share was still 3.8 percent. Forty-one 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.

Jewelry was the second-largest product group of this trade flow, accounting for some 7 percent of the total and 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 re-export and sale to the United States and other markets.⁶¹ U.S.-Bolivian trade related to gold jewelry increased; U.S. imports were up by 22 percent and U.S. exports rose by 30 percent between 2003 and 2004. This increase of two-way jewelry trade reflects, in part, activities of assembly operations located in Bolivia and financed by U.S. and European investment.⁶² U.S. exports to Bolivia of cereals, mostly wheat, dropped significantly in 2004.

⁶⁰ EIU, *Country Profile, Bolivia*, 2005, found at <http://www.eiu.com>, retrieved Mar. 25, 2005.

⁶¹ James Marquart, President and Chief Executive Officer, MJSA, telephone interview with USITC staff, May 25, 2005.

⁶² *Ibid.*

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 2004 and the probable future effects of the program.¹ The impact analysis identifies those items most affected by ATPA preferences and examines specific U.S. industries. The chapter 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 2004

Since it was implemented in 1992,² 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). In 2003 and 2004, as ATPA country producers took advantage of expanded opportunities under the Andean Trade Promotion and Drug Eradication Act (ATPDEA), imports under ATPA rose to 0.05 percent and 0.07 percent of U.S. GDP, respectively. As pointed out in chapter 2, although the total value of U.S. imports from ATPA countries increased 33 percent in 2004, it remained small in 2004, amounting to 1.06 percent of total U.S. imports, while imports under ATPA provisions totaled 0.57 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.³ 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 duties because of inflation.⁴ Final tariff cuts under the Uruguay Round became effective in 2004. The other erosions will continue, and the margin of preference that ATPA-

¹ As discussed in chapter 1, the term “ATPA” will refer to ATPA as amended by ATPDEA, and the term “original ATPA” will be used to identify the original ATPA program that expired in December 2001.

² ATPA was enacted in December 1991 but the tariff preferences were implemented in 1992 and 1993. See footnote 1 in chapter 1.

³ The higher the ad valorem NTR duty rate for any given product, the greater the benefit to ATPA beneficiaries—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.

⁴ For a more detailed analysis of the erosion of the margin of preference, see USITC, *ATPA, Fifth Report, 1997*, p. 132.

country apparel producers received because of U.S. apparel quotas that apply to other countries fell significantly 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.

Because the original ATPA preferences were enacted for a longer time period (the initial program was for the 10 years from 1991 to 2001), 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, 2006.⁵ Uncertainty with respect to 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 2004 and had the largest potential impact on competing U.S. industries.

Products That Benefited Exclusively from ATPA in 2004

U.S. imports of products benefiting exclusively from ATPA in 2004 were defined as those that entered free of duty under ATPA⁶ and were not eligible to enter free of duty under

⁵ 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 reports prior to 2003.

⁶ 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.

normal trade relations (NTR) rates or under other programs, such as GSP.⁷ 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.⁸

The value of U.S. imports that benefited exclusively from ATPA increased from \$5.2 billion in 2003 to \$7.6 billion in 2004 (49.0 percent of total U.S. imports from ATPA countries), an increase of 45.1 percent (table 3-1). From the implementation of the ATPA program in 1992 until 2002, U.S. imports that benefited exclusively from ATPA accounted for a relatively small portion of total U.S. imports from ATPA countries, ranging from around 5 percent in 1993 and 1994 to a high of around 13 percent in 1996.⁹ The exclusively benefiting share ranged between 10 percent and 12 percent during 1998-2001, but fell to 7.7 percent in 2002 when the program lapsed. In the years immediately preceding the implementation of ATPDEA, imports of refined copper cathodes from Peru (HTS 7403.11.00) came to dominate this category, accounting for around 40 percent of imports benefiting exclusively from ATPA in 2000 and 2001.¹⁰ Petroleum and petroleum products and apparel, newly eligible under ATPDEA, have come to dominate the list of leading items that benefit exclusively from ATPA, accounting for 74.5 percent and 11.5 percent, respectively, of the value of the 20 leading items in 2004.

The 20 leading items that benefited exclusively from ATPA in 2004 are shown in table 3-2. The most notable change in the value of such imports relative to 2003 was for three petroleum items—heavy crude oil (HTS 2709.00.10), up \$1.5 billion (102 percent); light crude oil (HTS 2709.00.20), up \$185 million (12 percent); and heavy fuel oil (HTS 2710.19.05), up \$142 million (60 percent).¹¹ Other notable increases include knitted cotton tops (HTS 6110.20.20), up \$96 million (47 percent); and naphthas (HTS 2710.11.25), up \$78 million (45 percent). Increases in the value of petroleum and petroleum products reflect substantial increases in prices, and for most products (including petroleum and petroleum products), substantial increases in the volume of imports.

⁷ Because ATPDEA amended ATPA, imports under ATPA and imports benefiting exclusively from ATPA include imports made eligible for preferential treatment by ATPDEA.

⁸ 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.

⁹ The exclusively benefiting shares were markedly higher in 1995 and 1996, mainly because of the lapse in the GSP program from Aug. 1, 1995 through Sept. 30, 1996, and subsequent increased use of ATPA provisions to ensure duty-free entry. See USITC, *ATPA, Fourth Report, 1996*, pp. 71-72, for further explanation of the assumptions and analysis used to address the lapse in GSP. Because of the assumptions about GSP made in the 1995 and 1996 ATPA reports, the findings derived from the analysis in those reports are not strictly comparable to the findings in subsequent reports in this series or in reports previous to the 1995 report, despite the similar analytical approach used.

¹⁰ The share of imports benefiting exclusively from ATPA accounted for by copper cathodes dropped to 23 percent in 2002, 9 percent in 2003, and 6 percent in 2004. For a more detailed discussion of copper cathodes see Walker Pollard, “Renewal and Expansion of ATPA Could Enhance Effectiveness of the Program,” *International Economic Review*, USITC publication 3442, July/August 2001, pp. 17-22.

¹¹ For values of the leading imports benefiting exclusively from ATPA in 2003, see USITC, *ATPA, Tenth Report, 2003*, p. 3-5.

Table 3-1
Total imports from ATPA beneficiaries, imports entered under ATPA, and imports that benefited exclusively from ATPA, 2000-2004

Item	2000	2001	2002	2003	2004
Total imports from ATPA beneficiaries:					
Value (<i>million dollars</i> ¹)	11,117	9,569	9,611	11,639	15,490
Imports entered under ATPA: ²					
Value (<i>million dollars</i> ¹)	1,982	1,675	1,001	5,836	8,359
Percentage of total	17.8	17.5	10.4	50.1	54.0
Imports that benefited exclusively from ATPA:					
Value (<i>million dollars</i> ¹)	1,312	1,086	740	5,230	7,586
Percentage of total	11.8	11.3	7.7	44.9	49.0

¹ Customs value.

² Includes articles entered free of duty and at reduced duties under ATPA provisions (table 2-6). Those provisions are discussed in chapter 1.

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

The 20 leading import items benefiting exclusively from ATPA in 2004 were the same as in 2003, although the order changed slightly. As shown in chapter 2, 16 of these products were among the 20 leading imports under ATPA in 2004. (See table 2-7.)

Leading imports that were identified in previous annual ATPA reports as benefiting exclusively from ATPA between 1992 and 2002 continued to rank among the leading U.S. imports in 2004. 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 asparagus have also consistently remained on the list since 1995.

Welfare and Displacement Effects of ATPA on U.S. Industries and Consumers in 2004

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 2004 (table 3-2).¹² 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

¹² 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.

Table 3-2
Leading imports that benefited exclusively from ATPA, 2004
(1,000 dollars)

HTS number	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.	2,891,605	3,091,750
2709.00.20	Petroleum oils and oils from bituminous minerals, crude, testing 25 degrees A.P.I. or more	1,742,257	1,809,758
7403.11.00 ¹	Refined copper cathodes and sections of cathodes	422,392	428,684
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.	378,163	410,281
6110.20.20	Sweaters, pullovers and similar articles, knitted or crocheted, of cotton, n.e.s.o.i.	297,900	311,158
0603.10.60	Roses, fresh cut	238,799	296,932
2710.11.25	Naphthas, not motor fuel/blending stock, from petroleum oils/oils from bituminous minerals, minimum 70 percent by weight of such products	253,009	264,217
6105.10.00	Men's or boys' shirts, knitted or crocheted, of cotton	153,443	158,522
6109.10.00	T-shirts, singlets, tank tops and similar garments, knitted or crocheted, of cotton	128,319	135,883
0709.20.90	Asparagus, n.e.s.o.i., fresh or chilled	79,478	128,680
0603.10.70 ²	Chrysanthemums, standard carnations, anthuriums, and orchids, fresh cut . .	97,725	124,755
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	96,972	100,651
6204.62.40	Women's or girls' trousers, breeches and shorts, not knitted or crocheted, of cotton, n.e.s.o.i.	63,767	66,300
2402.20.80	Cigarettes containing tobacco but not containing clove, paper-wrapped	57,946	58,923
6106.10.00	Women's or girls' blouses and shirts, knitted or crocheted, of cotton	44,605	46,244
0709.20.10 ¹	Asparagus, fresh or chilled, not reduced in size, if entered September 15 to November 15, inclusive, and transported to the U.S. by air	19,851	36,711
1604.14.30	Tunas and skipjack, not in oil, in airtight containers, n.e.s.o.i.	31,466	32,090
6110.30.30	Sweaters, pullovers and similar articles, knitted or crocheted, of manmade fibers, n.e.s.o.i.	27,819	28,590
6908.90.00	Glazed ceramic flags and paving, hearth or wall tiles; glazed ceramic mosaic cubes and the like, n.e.s.o.i.	19,947	24,821
0710.80.97	Vegetables n.e.s.o.i., uncooked or cooked by steaming or boiling in water, frozen, reduced in size	18,833	22,529

¹ 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.

² 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.

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

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

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,¹³ but U.S. exports of textiles (SITC classification 65) to ATPA countries have risen 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.

¹³ 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.

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 2004; they are ranked on the basis of their c.i.f. import values.¹⁴ Those products represented 93 percent of the \$7.6 billion in imports that benefited exclusively from ATPA during 2004.¹⁵ The five leading ATPA-exclusive imports in 2004 were: (1) heavy crude oil, (2) light crude oil, (3) copper cathodes from Peru (which exceeded its GSP competitive need limit), (4) heavy fuel oil, and (5) knitted cotton tops. 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 knitted cotton tops.¹⁶ In 2003, heavy crude oil ranked first among ATPA-exclusive imports, and light crude oil ranked second.¹⁷

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.¹⁸ These market shares varied considerably in 2004 (table 3-3). For instance, the market share of ATPA-exclusive imports of fresh-cut roses was approximately 84 percent, whereas the market share of ATPA-exclusive imports of cigarettes (HTS 2402.20.80) was 0.18 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 2004.¹⁹ 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.

¹⁴ 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.

¹⁵ 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.

¹⁶ Leading ATPA suppliers are shown in table 2-7.

¹⁷ For the list of items benefiting exclusively from ATPA in 2003, see USITC, *ATPA, Tenth Report, 2003*, p. 3-5.

¹⁸ 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.

¹⁹ 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, 2004

HTS number	Description	Imports from ATPA countries (c.i.f. value) (A) ------(1,000 dollars)-----	Apparent U.S. consumption (B) ¹	Market share (A/B) Percent
2709.00.10	Petroleum oils and oils from bituminous minerals, crude, testing under 25 degrees A.P.I.	3,091,750	63,072,439	4.90
2709.00.20	Petroleum oils and oils from bituminous minerals, crude, testing 25 degrees A.P.I. or more	1,809,758	114,339,380	1.58
7403.11.00	Refined copper cathodes and sections of cathodes . . .	428,684	5,546,700	7.73
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.	410,281	74,042,370	0.55
6110.20.20	Sweaters, pullovers and similar articles, knitted or crocheted, of cotton, n.e.s.o.i.	311,158	(²)	(²)
0603.10.60	Roses, fresh cut	296,932	351,803	84.40
2710.11.25	Naphthas, not motor fuel/blending stock, from petroleum oils/oils from bituminous minerals, minimum 70 percent by weight of such products	264,217	9,326,199	2.83
6105.10.00	Men's or boys' shirts, knitted or crocheted, of cotton . . .	158,522	1,648,485	9.62
6109.10.00	T-shirts, singlets, tank tops and similar garments, knitted or crocheted, of cotton	135,883	4,813,257	2.82
0709.20.90 ³	Asparagus, n.e.s.o.i., fresh or chilled	128,680	362,681	45.60
0603.10.70	Chrysanthemums, standard carnations, anthuriums and orchids, fresh cut	124,755	168,798	73.91
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	100,651	7,071,969	1.42
6204.62.40	Women's or girls' trousers, breeches and shorts, not knitted or crocheted, of cotton, n.e.s.o.i.	66,300	7,348,228	0.90
2402.20.80	Cigarettes containing tobacco but not containing clove, paper-wrapped	58,923	32,240,267	0.18
6106.10.00	Women's or girls' blouses and shirts, knitted or crocheted, of cotton	46,244	1,148,487	4.03
0709.20.10 ³	Asparagus, fresh or chilled, not reduced in size, if entered September 15 to November 15, inclusive, and transported to the U.S. by air	36,711	-	-
1604.14.30	Tunas and skipjack, not in oil, in airtight containers, n.e.s.o.i.	32,090	1,223,002	2.62
6110.30.30	Sweaters, pullovers and similar articles, knitted or crocheted, of manmade fibers, n.e.s.o.i.	28,590	(²)	(²)
6908.90.00	Glazed ceramic flags and paving, hearth or wall tiles; glazed ceramic mosaic cubes and the like, n.e.s.o.i. . .	24,821	2,533,694	0.98
0710.80.97	Vegetables n.e.s.o.i., uncooked or cooked by steaming or boiling in water, frozen, reduced in size . .	22,529	(²)	(²)

¹ Apparent U.S. consumption defined as U.S. production plus total imports (landed, duty-paid basis) minus exports.

² U.S. production and/or export data not available.

³ Apparent consumption for HTS 0709.20.10 and 0709.20.90 were aggregated into one category and reported under HTS 0709.20.90.

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

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

Table 3-4
Estimated welfare effects on the United States of leading imports that benefited exclusively from ATPA, 2004
(1,000 dollars)

HTS number	Description	Gain in consumer surplus (A)		Loss in tariff revenue (B)		Net welfare effect (A-B)	
		Upper estimate	Lower estimate	Upper estimate	Lower estimate	Upper estimate	Lower estimate
2709.00.10	Petroleum oils and oils from bituminous minerals, crude, testing under 25 degrees A.P.I.	5,757	5,768	5,732	5,752	26	16
2709.00.20	Petroleum oils and oils from bituminous minerals, crude, testing 25 degrees A.P.I. or more	5,190	5,204	5,153	5,182	37	22
7403.11.00	Refined copper cathodes and sections of cathodes	4,128	4,165	4,034	4,108	94	58
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.	753	754	749	752	3	2
6110.20.20	Sweaters, pullovers and similar articles, knitted or crocheted, of cotton, n.e.s.o.i.	(¹)	(¹)	(¹)	(¹)	(¹)	(¹)
0603.10.60	Roses, fresh cut	15,609	15,706	15,007	15,195	602	511
2710.11.25	Naphthas, not motor fuel/blending stock, from petroleum oils/oils from bituminous minerals, minimum 70 percent by weight of such products	504	505	501	503	2	1
6105.10.00	Men's or boys' shirts, knitted or crocheted, of cotton	23,716	26,591	18,500	23,438	5,217	3,153
6109.10.00	T-shirts, singlets, tank tops and similar garments, knitted or crocheted, of cotton	17,148	18,998	13,821	17,070	3,327	1,928
0709.20.90	Asparagus, n.e.s.o.i., fresh or chilled	16,362	17,299	14,981	16,751	1,382	548
0603.10.70	Chrysanthemums, standard carnations, anthuriums and orchids, fresh cut . .	6,004	6,061	5,764	5,875	240	186
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	12,946	14,399	10,357	12,898	2,589	1,501
6204.62.40	Women's or girls' trousers, breeches and shorts, not knitted or crocheted, of cotton, n.e.s.o.i.	8,510	9,469	6,805	8,481	1,705	987
2402.20.80	Cigarettes containing tobacco but not containing clove, paper-wrapped	6,128	6,470	5,492	6,128	636	342
6106.10.00	Women's or girls' blouses and shirts, knitted or crocheted, of cotton	6,838	7,717	5,286	6,790	1,553	927
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	(²)	(²)	(²)	(²)	(²)	(²)
1604.14.30	Tunas and skipjack, not in oil, in airtight containers, n.e.s.o.i.	2,990	3,326	2,238	2,803	752	522
6110.30.30	Sweaters, pullovers and similar articles, knitted or crocheted, of manmade fibers, n.e.s.o.i.	(¹)	(¹)	(¹)	(¹)	(¹)	(¹)
6908.90.00	Glazed ceramic flags and paving, hearth or wall tiles; glazed ceramic mosaic cubes and the like, n.e.s.o.i.	1,489	1,588	1,305	1,487	185	101
0710.80.97	Vegetables n.e.s.o.i., uncooked or cooked by steaming or boiling in water, frozen, reduced in size	(¹)	(¹)	(¹)	(¹)	(¹)	(¹)

¹ Welfare and displacement effects were not calculated because of unavailability of U.S. production and/or export data.

² Analysis for HTS 0709.20.10 and 0709.20.90 is combined under HTS 0709.20.90.

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

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

Table 3-5

Estimated displacement effects on the United States of leading imports that benefited exclusively from ATPA, 2004

HTS number	Description	Reduction in U.S. production				
		U.S. production	Value		Share	
			Upper estimate	Lower estimate	Upper estimate	Lower estimate
		------(1,000 dollars)-----			Percent	
2709.00.10	Petroleum oils and oils from bituminous minerals, crude, testing under 25 degrees A.P.I.	25,492,850	9,708	5,063	0.04	0.02
2709.00.20	Petroleum oils and oils from bituminous minerals, crude, testing 25 degrees A.P.I. or more	47,343,849	8,993	4,690	0.02	0.01
7403.11.00	Refined copper cathodes and sections of cathodes	3,748,988	10,717	5,355	0.29	0.14
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.	59,946,050	2,444	1,275	(¹)	(¹)
6110.20.20	Sweaters, pullovers and similar articles, knitted or crocheted, of cotton, n.e.s.o.i.	86,400	(²)	(²)	(²)	(²)
0603.10.60	Roses, fresh cut	43,100	3,502	564	8.12	1.31
2710.11.25	Naphthas, not motor fuel/blending stock, from petroleum oils/oils from bituminous minerals, minimum 70 percent by weight of such products	5,499,638	1,162	606	0.02	0.01
6105.10.00	Men's or boys' shirts, knitted or crocheted, of cotton	151,500	3,773	845	2.49	0.56
6109.10.00	T-shirts, singlets, tank tops and similar garments, knitted or crocheted, of cotton	1,835,000	10,678	2,414	0.58	0.13
0709.20.90	Asparagus, n.e.s.o.i., fresh or chilled	150,352	15,988	4,356	10.63	2.90
0603.10.70	Chrysanthemums, standard carnations, anthuriums and orchids, fresh cut	30,000	1,973	320	6.58	1.07
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	2,034,000	7,409	1,678	0.36	0.08
6204.62.40	Women's or girls' trousers, breeches and shorts, not knitted or crocheted, of cotton, n.e.s.o.i.	1,335,000	3,071	696	0.23	0.05
2402.20.80	Cigarettes containing tobacco but not containing clove, paper-wrapped	33,300,000	11,431	5,009	0.03	0.02
6106.10.00	Women's or girls' blouses and shirts, knitted or crocheted, of cotton	300,000	3,698	834	1.23	0.28
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	(³)	(³)	(³)	(³)	(³)
1604.14.30	Tunas and skipjack, not in oil, in airtight containers, n.e.s.o.i.	670,000	9,578	5,486	1.43	0.82
6110.30.30	Sweaters, pullovers and similar articles, knitted or crocheted, of manmade fibers, n.e.s.o.i.	(²)	(²)	(²)	(²)	(²)
6908.90.00	Glazed ceramic flags and paving, hearth or wall tiles; glazed ceramic mosaic cubes and the like, n.e.s.o.i.	858,300	1,914	820	0.22	0.10
0710.80.97	Vegetables n.e.s.o.i., uncooked or cooked by steaming or boiling in water, frozen, reduced in size	(²)	(²)	(²)	(²)	(²)

¹ Less than 0.005 percent.

² Welfare and displacement effects were not calculated because of unavailability of U.S. production and/or export data.

³ Analysis for HTS 0709.20.10 and 0709.20.90 is combined under HTS 0709.20.90.

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

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

Effects on U.S. consumers

With an estimated gain in the range of \$24 million to \$27 million, 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 2004 (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 approximately 19.1 percent higher (the ad valorem duty rate, adjusted for freight and insurance charges). Knitted cotton t-shirts provided the second-largest gain in consumer surplus, in the range of \$17 million to \$19 million. Without ATPA, the price of imports of such t-shirts from ATPA countries would have been approximately 15.6 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.

ATPA preferences also reduced U.S. tariff revenues, offsetting much of the gain in consumer surplus. For example, for tuna in airtight containers²⁰ (HTS 1604.14.30), lower tariff revenues offset 75 percent to 84 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 in 2004, the largest were for men's or boys' knitted cotton shirts (\$3.2 million to \$5.2 million), knitted cotton t-shirts (\$1.9 million to \$3.3 million), and men's or boys' woven cotton pants (HTS 6203.42.40) (\$1.5 million to \$2.6 million). Knitted cotton tops (HTS 6110.20.20), men's or boys' knitted cotton shirts, and knitted cotton t-shirts had the largest net welfare gains in 2003.²¹

Effects on U.S. producers

Estimates of the potential displacement of domestic production (table 3-5) were small for most of the individual sectors.²² The analysis indicates that the largest potential displacement effects were for asparagus (2.9 percent to 10.6 percent displaced, valued at \$4.4 million to \$16.0 million); fresh-cut roses (1.3 percent to 8.1 percent displaced, valued at \$0.6 million to \$3.5 million); and chrysanthemums, etc. (1.1 percent to 6.6 percent of U.S. domestic shipments displaced, valued at \$0.3 million to \$2.0 million), mainly because of the very high U.S. market shares enjoyed by these products. (See table 3-3.) However, even the upper

²⁰ 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.

²¹ See USITC, *ATPA, Tenth Report, 2003*, table 3-4, p. 3-9.

²² 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.

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 2004, three products that benefited exclusively from ATPA met this criterion: asparagus, fresh-cut roses, and chrysanthemums, etc. Asparagus and cut flowers also were identified as having an estimated displacement of 5 percent or more in 2003.²³ 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 2004. Imports entered under HTS 0709.20.10 were eligible for duty-free treatment under a number of preferential programs and free trade agreements (FTAs), including ATPA.²⁴ Imports entered under HTS 0709.20.90 (other fresh or chilled asparagus) in 2004 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 duty-free treatment under ATPA.²⁵

U.S. imports of all fresh or chilled asparagus amounted to \$176.2 million in 2004, up 19 percent from \$148.7 million in 2003, with rising imports from Peru accounting for the bulk of the increase.²⁶ Peru and Mexico are the major foreign suppliers. U.S. imports of fresh asparagus from ATPA countries have risen in recent years to account for 58 percent of the

²³ See USITC, *ATPA, Ninth Report, 2002*, p. 3-14.

²⁴ Imports entered under HTS 0709.20.10 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 2004), ATPA, CBERA, NAFTA, and FTAs with Chile, Israel, Jordan, and Singapore. Duties on imports of fresh or chilled asparagus from Mexico under HTS 0709.20.10 were eliminated in 1999.

²⁵ Imports entered under HTS 0709.20.90 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, CBERA, the African Growth and Opportunity Act, NAFTA (Canada only), and FTAs with Israel and Jordan. Imports under FTAs with Chile and Singapore 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 2004, 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 green asparagus entered July 1 to December 31, inclusive (HTS 9906.07.34), were free of duty. Eligible imports of fresh or chilled green asparagus from Mexico under HTS 0709.20.90 were dutiable at a rate of 4.6 percent ad valorem if entered during the month of January (HTS 9906.07.32) and 6.6 percent ad valorem if entered during the period from February 1 to June 30, inclusive (HTS 9906.07.33).

²⁶ Includes HTS 0709.20.10 and HTS 0709.20.90 from all countries.

volume of total U.S. fresh asparagus consumption in 2004.²⁷ Such imports amounted to \$99.6 million in 2004, up by 25 percent from \$77.9 million in 2003. Peru was by far the major Andean supplier of fresh asparagus to the U.S. market and the largest overall foreign supplier in 2004, supplying nearly all imports under ATPA and 56 percent of all U.S. fresh-asparagus imports by customs value (67 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.

U.S. production of fresh-market asparagus amounted to 115.0 million pounds in 2004, down 4 percent from 119.4 million in 2003 and 9 percent from 126.7 million in 2002.²⁸ Production value rose 10 percent from \$136.7 million in 2003 to \$150.4 million in 2004 and was up 8 percent from 2002 to 2004.²⁹ 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 much less to processing in recent years following the closing of three asparagus processing plants in Washington since 2002.³⁰ Michigan asparagus growers also have sold more of their asparagus to the fresh market in recent years, but report that the lowering of prices for their asparagus for processing forces more asparagus to be sold to the fresh market, which is already supplied by imports, and results in many growers going out of business.³¹ U.S. annual per capita consumption of fresh-market asparagus amounted to 1.0 pounds for 2004, down 4 percent from 2003, but up considerably from consumption in recent years.³² Per capita consumption of canned and frozen asparagus has been stagnant at 0.2 and 0.1 pounds, respectively, for a number of years.³³

Historically, the season for U.S. production has differed somewhat from that of most imports from ATPA countries, with the bulk of fresh asparagus imports from ATPA countries entering during July through the following January when overall U.S. production is low. In recent years, however, increasing amounts of imports from ATPA countries (mainly Peru) have entered in significant amounts during most other months as well (figure 3-1), coinciding with those months when California production is still in the market and production in Washington and Michigan would normally be at their peak, resulting in some displacement of domestic production (figure 3-2).

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

²⁷ Calculated by the Commission by combining U.S. production with U.S. imports and removing U.S. exports.

²⁸ USDA, National Agricultural Statistics Service, *Vegetables*, publication No. Vg 1-2 (05), January 2005, p. 37.

²⁹ *Ibid.*

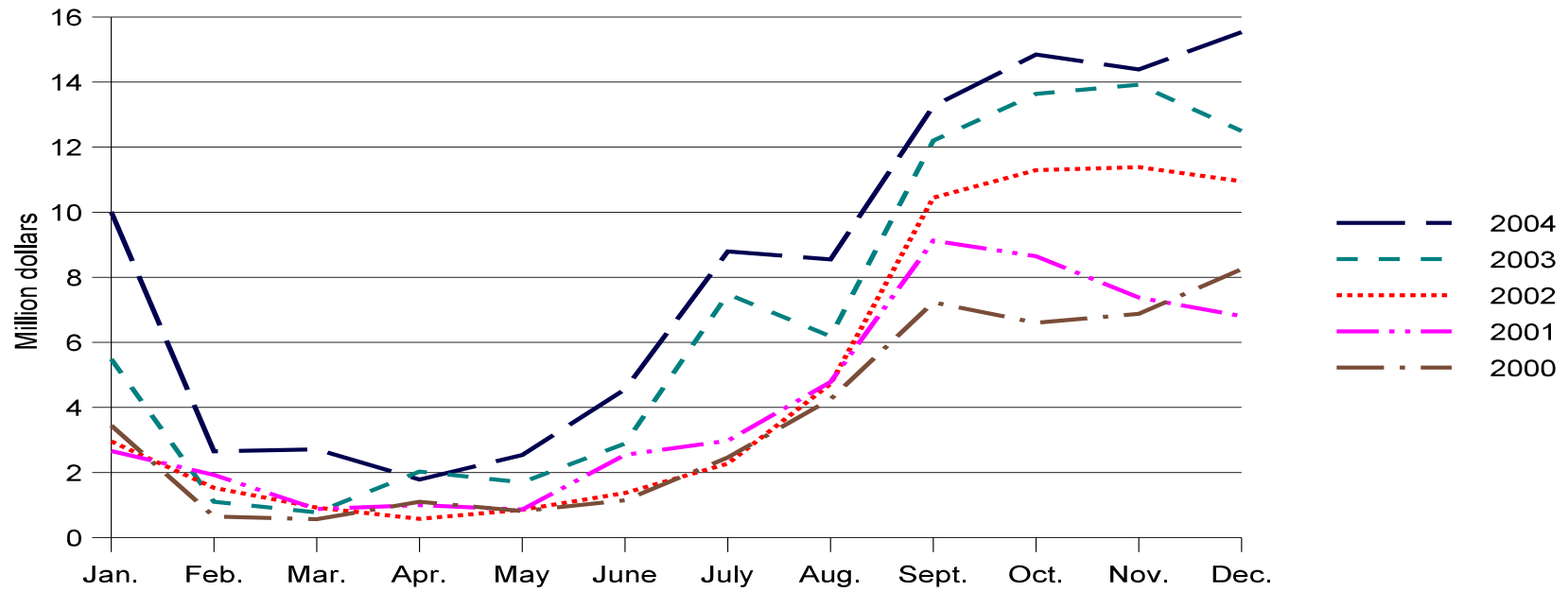
³⁰ "Seneca Announcement Leaves Washington's Asparagus Industry on Life Support," Don Brunell, President, Association of Washington Business, June 4, 2004, found at <http://www.awb.org/cgi-bin>, retrieved May 24, 2005. According to industry officials, imports of fresh Peruvian asparagus "have closed U.S. canning operations." See also John Bakker, Michigan Asparagus Advisory Board, submission regarding the Commission's investigation on the Andean Trade Preference Act (332-352), received June 7, 2005.

³¹ John Bakker, Michigan Asparagus Advisory Board, submission regarding the Commission's investigation on the Andean Trade Preference Act (332-352), received June 7, 2005.

³² USDA, Economic Research Service, *Vegetables and Melons Outlook*, publication No. VGS-308, Apr. 21, 2005, p. 8.

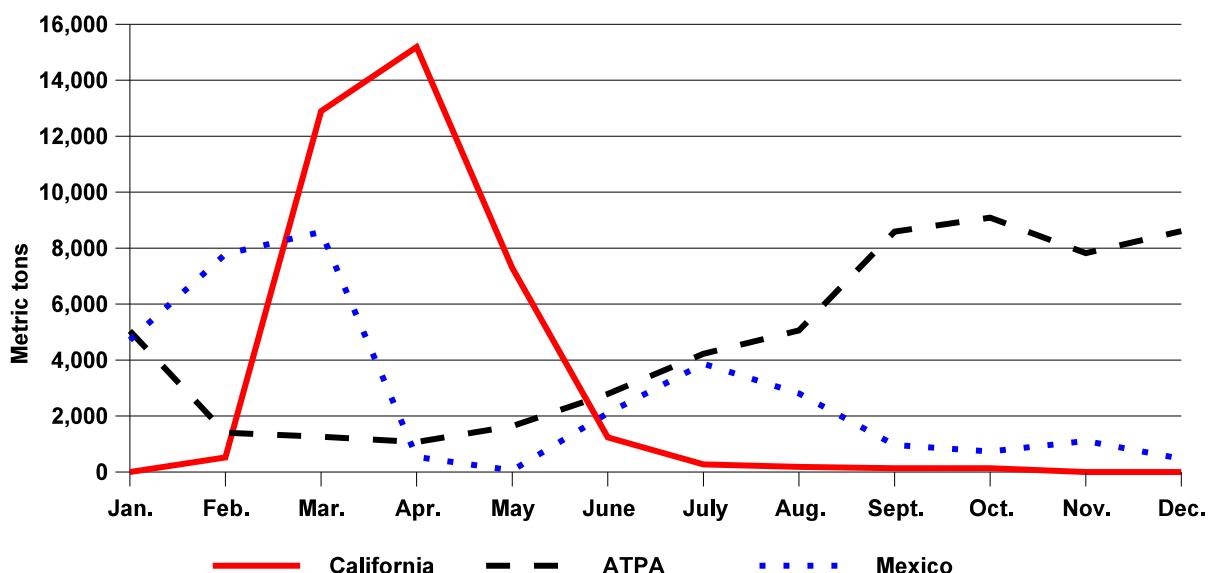
³³ *Ibid.*, p. 14.

Figure 3-1
U.S. asparagus imports from ATPA countries, 2000-2004



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

Figure 3-2
Harvested California fresh-market asparagus, and U.S. imports of fresh-market asparagus from ATPA countries and Mexico, 2004



Source: Production compiled from estimates of the California Asparagus Commission; imports compiled from official statistics of the U.S. Department of Commerce.

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 partly responsible for higher per capita annual consumption of fresh asparagus in recent years.³⁴ The increase in product availability throughout the year also may have resulted in lower retail prices for consumers in 2004; the overall supply of asparagus has outpaced demand in the United States, lowering the prices received by Peruvian exporters to the U.S. market.³⁵

Exports of fresh asparagus from Peru increased by 81 percent from 2000 to 2003, and by 7 percent from 2003 to 2004. The United States has been the major export market for Peruvian shipments of green asparagus for a number of years, accounting for about 77 percent of such exports in 2004.³⁶ Although there is no official Peruvian government policy encouraging asparagus production,³⁷ the Peruvian asparagus industry provides for an estimated 50,000-60,000 jobs annually and has become an important part of overall economic development in Peru.³⁸ Peruvian asparagus exports are being assisted by Peru's Export Promotion Commission (Prompex) and the Peruvian Asparagus and Horticulture Institute (IPEH),

³⁴ For more information, see USITC, *ATPA, Ninth Report, 2002*, p. 3-17.

³⁵ USDA, FAS, *Peru Asparagus Annual 2005*, GAIN Report #PE5009, June 10, 2005, p. 5.

³⁶ *Ibid.*, p. 3.

³⁷ *Ibid.*, p. 6.

³⁸ *Ibid.*; and USTR, *Second Report to the Congress on the Operation of the Andean Trade Preference Act As Amended*, Apr. 30, 2005, p. 41.

which provide assistance to growers and exporters in the areas of foreign-market promotion and development.³⁹

U.S. fresh-asparagus imports from ATPA countries are expected to continue increasing 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.⁴⁰ 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,⁴¹ and asparagus is now the leading agricultural export from Peru.⁴² Peruvian asparagus production rose 3.2 percent from 2003 to 2004 and was forecast to rise 3 percent from 2004 to 2005.⁴³ Changes in land tenure are attracting greater amounts of local and foreign investment capital, with investors seeking opportunities to invest in the production of highly profitable, exportable crops with a stable foreign demand, such as asparagus.⁴⁴ In recent years, large tracts of land owned by cooperatives and once used for sugar production have been planted with asparagus.⁴⁵ Growers are relying more on drip irrigation systems to conserve water and are able to produce high-quality asparagus in Peru year round because of the warm weather and fertile soils.⁴⁶

Fresh-Cut Flowers

Fresh-cut flowers traditionally have been a major component of U.S. imports from ATPA countries as well as under the ATPA program and 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 91 percent of the total value of U.S. imports of fresh-cut chrysanthemums, standard carnations, anthuriums, and orchids (“chrysanthemums, etc.”) (HTS 0603.10.70) in 2004. Virtually all U.S. imports under these two fresh-cut flower categories from beneficiary countries were entered free of duty under ATPA. U.S. imports of the subject fresh-cut flowers from ATPA countries are concentrated between 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

³⁹ Ibid., p. 6. Mexico was supplanted by Peru as the most important foreign supplier of all fresh asparagus to the U.S. market in 2003, and Peru increased its lead over Mexico in 2004. 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 to be a major market for Mexican asparagus exports. USDA, FAS, *Mexico Asparagus Annual 2005*, GAIN Report #MX5053, June 15, 2005, pp. 3-4. Any production-cost advantages found in ATPA countries are believed to be offset in part by lower transportation costs for Mexican asparagus shipments to U.S. markets from Mexican border-state growing areas.

⁴⁰ Ibid.

⁴¹ USDA, FAS, *World Horticultural Trade and U.S. Export Opportunities*, Circular FHORT 7-04, July 2004, “World Asparagus Situation and Outlook,” pp. 1-6, found at <http://www.fas.usda.gov>, retrieved May 25, 2005.

⁴² USDA, FAS, *Peru Asparagus Annual 2004*, GAIN Report #PE4008, June 9, 2004, p. 2.

⁴³ USDA, FAS, *Peru Asparagus Annual 2005*, GAIN Report #PE5009, June 10, 2005, p. 2.

⁴⁴ Ibid., p. 4.

⁴⁵ USDA, FAS, *Peru Asparagus Annual 2003*, GAIN Report #PE3012, July 2, 2003, p. 3.

⁴⁶ USDA, FAS, *Peru Asparagus Annual 2005*, GAIN Report #PE5009, June 10, 2005, p. 4.

world in 2003 (latest data available), respectively.⁴⁷ Both Colombia and Ecuador enjoy year-round production and benefit from abundant water, labor, and quality land. The United States is the principal fresh-cut flower export market for ATPA countries, accounting for 82 percent of the total value of Colombian exports (\$679 million) and 68 percent of Ecuadorian exports (\$293 million) in 2003.⁴⁸ 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 is estimated at \$250 million.⁴⁹

U.S. fresh-cut flower sales represented an estimated \$19.5 billion in 2004.⁵⁰ That year, the downward trend in the number of commercial U.S. cut-flower growers continued, falling slightly to 536 from 541 the previous year.⁵¹ U.S. growers continue to face significant competition from cut-flower imports, which represent more than one-half of U.S. fresh-cut flower sales. Although prices of imported flowers increased by 10 percent in 2004 over 2003, owing to the weaker U.S. dollar and higher fuel costs,⁵² low-priced imports continue to put downward pressure on prices of cut flowers in the U.S. market. In addition, low-priced cut flowers are a result of the trend in the industry toward large volume production and mass marketing, as cut flowers and other floral products are increasingly sold in supermarkets, home centers, and discount stores.⁵³

Prices of U.S. cut flowers were up 3 percent on average in 2004 over 2003, also being affected by higher fuel and energy costs in addition to the damage to Florida cut-flower production by hurricanes in late summer.⁵⁴ 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 annual and perennial flowering plants.

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,⁵⁵ generally less than the current tariff preferences on cut flowers of between 6

⁴⁷ United Nations Statistics Division, *Trade Statistics Database*. The latest data available are for 2003.

⁴⁸ *Ibid.*

⁴⁹ Augusto Solano, President, Colombian Flower Exporters Association, 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*, submission to the Commission, Feb. 17, 2004.

⁵⁰ Retail sales value, National Income and Product Accounts, Bureau of Economic Analysis, U.S. Department of Commerce, found at http://www.bea.gov/bea/dn/nipaweb/nipa_underlying/TableView.asp#Mid, retrieved July 7, 2005.

⁵¹ USDA, National Agricultural Statistics Service, *Floriculture Crops, 2004 Summary*, April 2005. The number of growers includes only those with more than \$100,000 in annual sales.

⁵² USDA, Economic Research Service (ERS), *Floriculture and Nursery Crops Outlook*, September 2004, p. 3.

⁵³ Alberto Jerardo, ERS, USDA, "Volume Production Keeps Floriculture Prices Low," *Amber Waves*, February 2004, pp. 4-5.

⁵⁴ USDA, ERS, *Floriculture and Nursery Crops Outlook*, September 2004, p. 3.

⁵⁵ Lin Watts, Executive Vice President, Association of Floral Imports of Florida, Inv. Nos. TA-131-28 and TA-2104-10, *U.S.-Andean Countries Free Trade Agreement: Advice Concerning the* (continued...)

percent and 7 percent.⁵⁶ Growers in ATPA countries report that they are limited in their cost control measures as direct labor accounts for 50 percent of the total cost of production.⁵⁷ In addition, transportation costs for cut flowers from ATPA countries are high, especially 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 preference makes up a much smaller portion of the final cost to consumers, mitigating the impact of the tariff preferences under ATPA.

However, cut-flower imports from ATPA countries hold a high U.S. market share, much of which was attained before ATPA was implemented. The high market share means that even the small advantages the countries gain through ATPA could translate into a modest impact on U.S. growers of roses and chrysanthemums, etc. However, diversification into other greenhouse products by U.S. growers may mean that preferential duty treatment under ATPA on roses and chrysanthemums, etc. may have a minimal impact on the U.S. industry as a whole.

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 and distributors, as well as U.S. retail florists, depend heavily on low priced fresh-cut flowers from overseas. Reportedly, imports of cut flowers directly and indirectly contribute approximately 226,000 jobs to the U.S. market⁵⁸ 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.⁵⁹

Fresh-cut roses

U.S. imports of fresh-cut roses in 2004 were dutiable at the NTR rate of 6.8 percent ad valorem. Fresh-cut rose imports were eligible for duty-free treatment under ATPA, CBERA, the African Growth and Opportunity Act, NAFTA, and FTAs with Israel and Jordan. Imports of fresh-cut roses were not eligible for duty-free entry under GSP. Eligible imports of fresh-cut roses from Chile and Singapore were dutiable at the rate of 5.1 percent under FTAs with those countries.

⁵⁵ (...continued)

Probable Economic Effect of Providing Duty Free Treatment for Imports, submission to the Commission, Feb. 16, 2004.

⁵⁶ See the following sections on fresh-cut roses and fresh-cut chrysanthemums, etc. for more specific information on tariff rates.

⁵⁷ Augusto Solano, President, Colombian Flower Exporters Association, 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*, submission to the Commission, Feb. 17, 2004.

⁵⁸ Lin Watts, Executive Vice President, Association of Floral Imports of Florida, 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*, submission to the Commission, Feb. 16, 2004.

⁵⁹ South Florida Industry Statistics, Association of Floral Imports of Florida, found at <http://www.afifnet.org/sflstats.htm>, retrieved on May 26, 2005.

In 2004, U.S. sales of domestically produced roses fell to 108 million stems, valued at \$43.1 million, from 123.5 million stems, valued at \$47 million, in 2003.⁶⁰ 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 2004 over 2003, imported rose prices remained lower than those of U.S. roses.⁶¹ Imports of roses from all sources accounted for 85 percent of the value of U.S. consumption of roses in 2004, up from 82 percent the previous year.⁶² Imports from ATPA countries in 2004 supplied 82 percent of the value of U.S. consumption, compared with 78 percent of its value in 2003.⁶³ Colombia was the leading supplier with imports from that country accounting for 58 percent of the value of U.S. consumption in 2004. Ecuador was second with imports accounting for 24 percent of total U.S. consumption in 2004.

U.S. imports of fresh-cut roses from all sources totaled \$250 million in 2004, an increase of 15 percent over the previous year. Colombia and Ecuador were the leading suppliers, accounting for 68 percent and 28 percent, respectively, of the total value of U.S. rose imports in 2004. U.S. imports of fresh-cut roses from all ATPA sources totaled \$239 million in 2004, an increase of 17 percent from the previous year, virtually all of which entered free of duty under ATPA. Colombia supplied 71 percent of the fresh-cut rose imports under the ATPA program in 2004, and Ecuador accounted for 29 percent. Peru and Bolivia each supplied less than one-tenth of 1 percent of imports under the ATPA program.

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

U.S. imports of chrysanthemums, etc. were dutiable in 2004 at the NTR rate of 6.4 percent ad valorem. Such imports were eligible for duty-free treatment under GSP (excluding those from Colombia, which exceeded the competitive need limit), ATPA, CBERA, NAFTA, and FTAs with Israel, Jordan, and Chile. Eligible imports of fresh-cut chrysanthemums, etc. from Singapore were dutiable at the rate of 4.8 percent under the U.S.-Singapore FTA. In 2004, virtually all U.S. imports of fresh-cut chrysanthemums, etc. from ATPA beneficiary countries entered free of duty under the ATPA program.

U.S. sales of domestically produced fresh-cut chrysanthemums, etc. increased by 3 percent from \$29 million in 2003 to \$30 million in 2004.⁶⁴ Among the major flowers in this category, sales of carnations and orchids fell, but were buoyed by sales of chrysanthemums, which increased 10 percent by value. U.S. consumption of fresh-cut chrysanthemums, etc. increased less than 1 percent in 2004 to \$138 million. Imports from all sources accounted for 78 percent of the value of consumption in 2004, down only slightly from the 2003 share.⁶⁵

⁶⁰ USDA, National Agricultural Statistics Service, *Floriculture Crops, 2004 Summary*, April 2005.

⁶¹ USDA, ERS, *Floriculture and Nursery Crops Outlook*, September 2004.

⁶² The imports referred to in this section are calculated on a Customs value basis.

⁶³ Market shares are calculated using all imports of fresh-cut roses from ATPA countries, not exclusively those that benefit from the ATPA program. Some 99.9 percent of the value of U.S. imports of fresh-cut roses from ATPA countries were entered under ATPA.

⁶⁴ USDA, National Agricultural Statistics Service, *Floriculture Crops, 2004 Summary*, April 2005.

⁶⁵ The imports referred to in this section are calculated on a customs value basis.

Imports from ATPA countries, virtually all from Colombia, supplied 71 percent of the value of total U.S. consumption in 2004, down only slightly from 72 percent in 2003.

U.S. imports of fresh-cut chrysanthemums, etc. from all sources remained static at \$108.1 million in 2004 over the previous year. Among ATPA beneficiary countries, Colombia was by far the leading supplier, accounting for 91 percent of the total import value from all sources in 2004. Ecuador, the next-largest ATPA supplier, accounted for less than 1 percent of total imports. Peru and Bolivia accounted for a relatively insignificant share of imports in 2004.

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. 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 the original ATPA or ATPDEA are expected to occur within two years of the program's implementation. Other effects, which are discussed in this part of the chapter, are expected to 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 lead to increased exports under ATPA to the United States. Therefore, the Commission continued to monitor ATPA-related investment in the Andean region in 2004, including investment in ATPDEA-eligible products, using investment expenditures as a proxy for the future trade effects of ATPA on the United States.⁶⁶

The most recent official foreign direct investment (FDI) statistics show that FDI flows into the ATPA region declined in 2003 to \$4.9 billion (table 3-6).⁶⁷ FDI inflows increased to Ecuador, and declined to Bolivia, Colombia, and Peru. Preliminary statistics for 2004 show that FDI flows to the ATPA beneficiary countries increased, rising to Colombia and Peru, and declining to Bolivia and Ecuador.⁶⁸ Political upheaval in both Bolivia and Ecuador contributed to the declines. FDI in the Andean region continued to be concentrated in resource-based industries, such as hydrocarbons and mining.⁶⁹

Because it is difficult to isolate trends in investment related to ATPA-eligible products alone, information on ATPA-related investment activity and trends during 2004 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.

⁶⁶ 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 Caribbean Basin Economic Recovery Act (CBERA). For a more detailed discussion of the methodology, see USITC, CBERA, *First Report, 1984-85*, USITC publication 1907, September 1986, p. 4-1.

⁶⁷ United Nations Conference on Trade and Development (UNCTAD), *World Investment Report 2004: The Shift Towards Services*, New York and Geneva, 2004, p. 369.

⁶⁸ United Nations, Economic Commission for Latin America and the Caribbean (ECLAC), *Foreign Investment in Latin America and the Caribbean, 2004*, March 2005, p. 36, found at <http://www.eclac.org/>, retrieved May 6, 2005.

⁶⁹ *Ibid.*

Table 3-6
Foreign direct investment inflows, by host regions and by economies, 1992-2003
(Million dollars)

Host region/economy	1992-97 (annual average)	1998	1999	2000	2001	2002	2003
World	310,879	690,905	1,086,750	1,387,953	817,574	678,751	559,576
Developing countries ...	118,596	194,055	231,880	252,459	219,721	157,612	172,033
Latin America and the Caribbean	38,167	82,491	107,406	97,537	88,139	51,358	49,722
ATPA	4,977	6,366	5,106	4,747	5,831	6,590	4,854
Bolivia	339	1,023	1,010	822	832	1,044	160
Colombia	2,129	2,829	1,508	2,395	2,525	2,115	1,762
Ecuador	486	870	648	720	1,330	1,275	1,555
Peru	2,023	1,644	1,940	810	1,144	2,156	1,377

Source: UNCTAD, *World Investment Report 2004: The Shift Towards Services*.

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

Bolivia

According to the U.S. Embassy in Bolivia, "ATPA continued to be an important incentive during 2004," increasing exports and creating jobs. The Embassy reported that large companies in particular are taking full advantage of ATPA in the textiles, leather, wood, and gold manufacturing sectors; exports in these sectors increased 15.6 percent in 2004. Natural gas exports to Brazil accounted for much of Bolivia's total export revenues in 2004, but the United States continued to rank as Bolivia's largest market for non-gas exports. The Embassy noted that ATPA-related job creation is particularly important to Bolivia given the country's 12 percent unemployment rate and social turmoil.⁷⁰

Specific information on ATPA-related investments in 2004 was not available. However, the U.S. Embassy reported that in 2004, 39 new export companies were created that utilize ATPA trade preferences, following an increase of 38 companies during the 2000-2003 period.⁷¹ The number of companies exporting in the textile and apparel sector increased from 26 companies in 2003 to 36 in 2004;⁷² in wooden doors and windows, from 21 to 31; in furniture and other wood products, from 28 to 29; and in leather manufacturing, from 27 to 31.⁷³ The number of companies exporting gold jewelry, the largest U.S. import under ATPA

⁷⁰ U.S. Department of State telegram, "2004 USITC ATPDEA Impact Report," message reference No. 2068, prepared by U.S. Embassy, La Paz, July 1, 2005.

⁷¹ Ibid.

⁷² Other sources indicated that the number of such companies increased from 98 in 2003 to 108 in 2004. See U.S. Department of State telegram, "2004 USITC ATPDEA Impact Report," message reference No. 2068, prepared by U.S. Embassy, La Paz, July 1, 2005.

⁷³ U.S. Department of State telegram, "Bolivian Exports Up \$100 million in 2004," message reference No. 3935, prepared by U.S. Embassy, La Paz, Dec. 15, 2004.

from Bolivia, remained at 3 in 2004.⁷⁴ Some companies, particularly in the textile and apparel sector, are concerned because customers are considering redirecting their orders to other countries because of the upcoming expiration of ATPA and Bolivia's uncertain position in the U.S.-Andean FTA under negotiation.⁷⁵

Official FDI flows to Bolivia are estimated to have fallen slightly in 2004, following a steeper decline between 2002 and 2003. Political and social instability, which resulted in the resignations of President Gonzalo Sanchez de Lozada in October 2003 and President Carlos Mesa in June 2005, have adversely affected FDI. In addition, uncertainty regarding government policies affecting the hydrocarbons sector, a major recipient of FDI, contributed to the decline. The May 2005 passage of a new hydrocarbons law imposed a 32 percent tax on top of an existing 18 percent royalty on oil and gas companies; the law requires these companies to renegotiate existing exploration and production contracts.⁷⁶ Whereas none of the foreign companies operating in the hydrocarbons sector have announced they will depart the country,⁷⁷ some are reconsidering future investment projects.⁷⁸ Despite the new law, segments of the population are calling for re-nationalization of the privatized energy sector.⁷⁹ In the meantime, FDI has stalled.⁸⁰

El Alto, on the outskirts of La Paz and one of the fastest-growing cities in Bolivia, is home to over 5,000 enterprises (mainly small and micro companies), including textile and apparel, jewelry, and other companies that benefit from ATPA trade preferences.⁸¹ In December 2004, in an effort to attract investment and new exporters, the city implemented the "El Alto Economic Promotion Law" with tax-free benefits for new companies.⁸² However, three weeks of nationwide blockades and social unrest, which led to the resignation of President Mesa in June 2005, had serious consequences for the economy and private sector. According to the U.S. Embassy, local sources estimated that the blockades resulted in \$100 million in economic losses and \$100 million in lost exports. Reportedly, approximately 80 companies in El Alto and La Paz were permanently closed. A Latin American economic magazine recently ranked La Paz last among all Latin American capitals as a good location in which to do business.⁸³

⁷⁴ Ibid.

⁷⁵ U.S. Department of State telegram, "Economic Minister on Hydrocarbons, FTA, MCC," message reference No. 851, prepared by U.S. Embassy, La Paz, Mar. 14, 2005.

⁷⁶ EIU, Viewswire, "Bolivia Industry: Controversial Hydrocarbons Bill Is Now Law," May 19, 2005, and "Bolivia Industry: New Hydrocarbons Law Alarms Foreign Companies," June 1, 2005, found at <http://www.viewswire.com>, retrieved June 15, 2005.

⁷⁷ EIU, "Bolivia, Unending Tumult," *Business Latin America*, June 13, 2005.

⁷⁸ Robert Olson, "Risky Business: Is Bolivia About to Become the Latest Latin American Investment Nightmare for the Oil and Gas Industry?" *Petroleum Economist*, May 2005, p. 25.

⁷⁹ EIU, Viewswire, "Bolivia Politics: New Caretaker President Takes the Helm," June 10, 2005, found at <http://www.viewswire.com>, retrieved June 15, 2005.

⁸⁰ EIU, Viewswire, "Bolivia: Country Outlook," May 18, 2005, found at <http://www.viewswire.com>, retrieved June 1, 2005; and Robert Olson, "Risky Business: Is Bolivia About to Become the Latest Latin American Investment Nightmare for the Oil and Gas Industry?" *Petroleum Economist*, May 2005, p. 25.

⁸¹ U.S. Department of State telegram, "2004 USITC ATPDEA Impact Report," message reference No. 2068, prepared by U.S. Embassy, La Paz, July 1, 2005.

⁸² U.S. Department of State telegram, "El Alto-Bolivia's Export Tax T Paradise and Social Hell," message reference No. 358, prepared by U.S. Embassy, La Paz, Feb. 2, 2005.

⁸³ U.S. Department of State telegram, "Bolivia's Political and Social Upheaval Causes Significant Economic Losses," message reference No. 2067, prepared by U.S. Embassy, La Paz, July

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Textile and Apparel Sector

Despite record sector exports in 2004, Bolivia is a very small supplier of textiles and apparel to the United States. Most production is supplied by informal, family-based sewing shops and a few manufacturing plants concentrated in La Paz, El Alto, Cochabamba, and Santa Cruz.⁸⁴ Bolivia's textile sector has access to indigenous supplies of llama and alpaca hair but limited supplies of cotton, wool, and raw materials needed to produce manmade fibers, thereby requiring Bolivia to import a substantial portion of its textile inputs.⁸⁵ In 2003, Bolivia imported most of its fibers from Peru, Brazil, and Mexico and its yarns and fabrics from China, Brazil, and Peru. Texturbol, S.R.L., reportedly the sole Bolivian producer of polyester fiber fabrics, is vertically integrated with operations that include a complete manufacturing facility for polyester filaments and textured polyester yarn (with a capacity of 240 tons of polyester yarn per month), fabric manufacturing, fabric dyeing and finishing, and apparel manufacturing for export.⁸⁶

During 2002-2004, U.S. imports of textiles and apparel from Bolivia more than doubled, rising to almost \$40 million (table 2-8). However, Bolivia accounted for less than 0.05 percent of total U.S. sector imports in 2004. Cotton knit shirts accounted for the bulk of these imports.

Colombia

According to the U.S. Embassy in Colombia, ATPA has "provided significant economic benefits to Colombia." During the first 10 years of the program, an estimated 123,000 jobs were created by the original ATPA; through the end of the program in 2006, an estimated 140,000 additional new jobs will be created by the enhanced trade preferences authorized under ATPDEA. The Embassy noted that Colombian exports to the United States have been increasing in value as a percentage of total Colombian exports worldwide since 1993. In 2004, Colombian exports to the U.S. market grew to a record level (\$7.36 billion), an increase of \$2 billion since 2002 when ATPDEA entered into effect.⁸⁷

Official Colombian statistics show that FDI in the country rose 53 percent in 2004 to \$2.7 billion, the highest level since 1998.⁸⁸ The mining sector was the largest recipient, accounting for 45 percent of 2004 FDI inflows, followed by the petroleum sector, with 21 percent.⁸⁹ FDI in the mining sector rose 96 percent in 2004, with major investments in the

⁸³ (...continued)

1, 2005.

⁸⁴ Jorge Gottret, "Industry Sector Analysis: Bolivia Textile and Apparel Sectors," June 2004, found at <http://lapaz.usembassy.gov/commercial/IndSectAnalTexFV.pdf>, retrieved June 14, 2005.

⁸⁵ Ibid.

⁸⁶ Texturbol, "Texturbol: Who We Are," found at <http://www.texturbol.com/site.html>, retrieved July 7, 2005.

⁸⁷ 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.

⁸⁸ Coinvertir (Invest in Colombia Corporation), "Foreign Investment Report 2004," April 2005, pp. 2-3, found at <http://www.coinvertir.org>, retrieved June 10, 2005.

⁸⁹ Ibid., pp. 6 and 8-9.

extraction of coal, gold, and silver.⁹⁰ FDI in the petroleum sector grew 82 percent compared with 2003, buoyed by the sector's new tax and regulatory environment.⁹¹ The government's new policy, aimed at maintaining the country's oil self-sufficiency, resulted in the award of 37 exploration, exploitation, and technical evaluation contracts during 2004.⁹² FDI inflows to the manufacturing sector, representing 7 percent of FDI inflows, declined in 2004, although the sector ranked second (with 19 percent) in terms of accumulated FDI over the 1994-2004 period.⁹³ The U.S. Embassy also reported that Colombian statistics show that total investment in the Colombian economy increased by 13.6 percent in 2004, including a 16.3 percent increase in the industrial sector.⁹⁴ An improving security environment, as well as economic and political stability are credited with boosting FDI.⁹⁵ The U.S. Embassy pointed out that the increase in FDI "represents a significant turnaround from the declining trend of previous years wherein security problems led to the perception of Colombia as a high-risk investment environment."

The U.S. Embassy was able to identify a number of ATPA-eligible investment projects in 2004, based on a survey of manufacturers conducted by the Colombian Industrial Association (Andi). The Embassy identified investments in 2004 by companies producing petroleum, apparel, flowers, ceramics (e.g., sinks) and other construction materials (e.g., tiles), sugar confections, jewelry, and gelatin capsules. These investments represented primarily investments to expand existing operations rather than new investment, and nearly all companies reported using U.S. inputs. Most companies producing apparel, ceramics, flowers, and gelatin capsules indicated they would not have made the investments in the absence of ATPA benefits. According to Andi, nearly 70 percent of those surveyed were developing strategies to improve their market position to take advantage of ATPDEA and a potential U.S.-Andean FTA. Many Colombians in the commercial and industrial sectors hope the U.S.-Andean FTA will enter into effect before ATPDEA expires, and they have increased their strategic investments in anticipation of the FTA.⁹⁶

Textile and Apparel Sector

The textile and apparel sector, a significant, growing source of economic activity in Colombia, accounts for about 3 percent of the country's GDP, 9 percent of its manufacturing

⁹⁰ Ibid., p. 9.

⁹¹ Ibid., p. 9; and EIU, *Country Report—Colombia*, April 2005, p. 27, found at <http://www.eiu.com>, retrieved June 6, 2005.

⁹² Ibid.; and Embassy of Colombia, "Colombia Trade Report," February 2005, found at <http://www.coltrade.org>, retrieved June 13, 2005.

⁹³ Coinvertir (Invest in Colombia Corporation), "Foreign Investment Report 2004," April 2005, p. 11, found at <http://www.coinvertir.org>, retrieved June 10, 2005.

⁹⁴ 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.

⁹⁵ For example, see U.S. Department of State telegram, "Updated Input for ICRAS Process," prepared by U.S. Embassy, Bogota, message reference No. 2633, Mar. 22, 2005; and Coinvertir (Invest in Colombia Corporation), "Foreign Investment Report 2004," April 2005, p. 3, found at <http://www.coinvertir.org>, retrieved June 10, 2005.

⁹⁶ 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.

output, and about 7 percent of its total exports.⁹⁷ The sector employs about 265,000 people directly—representing 20 percent of total employment in the manufacturing sector—and an additional 600,000 people indirectly. Colombia’s exports of textiles and apparel, most of which went to the United States, totaled \$636 million in 2004, an increase of 18 percent over the 2003 level. Leading products exported to the United States included cotton knit tops and blouses and cotton pants.

Colombia has about 500 textile manufacturers and about 8,000 garment producers.⁹⁸ Most textile production is concentrated in a few large firms whereas garment manufacturing is shared among numerous small and mid-sized firms that are mostly family-owned.⁹⁹ About 40 percent of the textile and apparel production is concentrated in the province of Antioquia, of which Medellin is the capital.¹⁰⁰ Although Colombia’s textile and apparel production has increased slightly since the implementation of ATPDEA, some industry analysts report that production remains constrained by insufficient supply and often higher cost of textile materials.¹⁰¹ Colombian textile producers must import technology, machinery, non-cotton fibers and fabrics, raw materials for synthetic fibers and fabrics, as well as buttons, hardware, and accessories.¹⁰² U.S. exports of textiles and apparel to Colombia in 2004 rose by 6 percent over the 2003 level to \$145 million.¹⁰³ U.S. exports of yarns alone declined by 2 percent in 2004, which can likely be attributed to the establishment of a cotton yarn-spinning facility in Rionegro (see chapter 2 and following discussion).

Industry sources in Colombia have expressed concern about the vulnerability of Colombia’s textile and apparel sector to increased competition from China and other Asian clothing suppliers after the elimination of quotas in January 2005.¹⁰⁴ Industry sources point to growing competition from imported goods from China, and Colombian apparel producers, maquila operators, and firms involved with full-package production have noted recent bankruptcy filings and declines in textile production and employment (a loss of 5,000

⁹⁷ Almost all of the information in this paragraph is from U.S. Department of State telegram, “Tracking Changes in Textiles and Apparel Employment and Production after Quota Elimination,” message reference No. 10070, prepared by U.S. Embassy, Bogota, Sept. 30, 2004.

⁹⁸ U.S. Department of State telegram, “Tracking Changes in Textiles and Apparel Employment and Production after Quota Elimination,” message reference No. 10070, prepared by U.S. Embassy, Bogota, Sept. 30, 2004, and “Colombia: Manufacturing & Industry,” *Caribbean Region Profile 2005*, Caribbean Publishing Co., p. D-2.

⁹⁹ “Colombia: Manufacturing & Industry,” *Caribbean Region Profile 2005*, Caribbean Publishing Co., p. D-2.

¹⁰⁰ “Colombia: Medellin Textile Firms Focus on Textile Exports,” Aug. 31, 2004, found at <http://www.BharatTextile.com>, retrieved Apr. 12, 2005.

¹⁰¹ According to some industry sources, the shortage of locally available fabrics constrains Colombia’s clothing manufacturers from taking full advantage of ATPDEA. See “Prospects for the Textile and Clothing Industry in Colombia,” *Textiles Intelligence*, Aug. 1, 2004, found at <http://www.marketresearch.com>, retrieved June 20, 2005, and “Colombia’s Apparel Exports to the US Are Limited by Lack of Domestic Materials,” Sept. 6, 2004, found at <http://www.emergingtextiles.com>, retrieved Apr. 14, 2005.

¹⁰² U.S. Department of State telegram, “Tracking Changes in Textiles and Apparel Employment and Production after Quota Elimination,” message reference No. 10070, prepared by U.S. Embassy, Bogota, Sept. 30, 2004.

¹⁰³ Based on official statistics compiled by the U.S. Department of Commerce.

¹⁰⁴ See “Prospects for the Textile and Clothing Industry in Colombia,” *Textiles Intelligence*, Aug. 1, 2004, found at <http://www.marketresearch.com>, retrieved June 20, 2005, and “Colombia’s Apparel Exports to the US Are Limited by Lack of Domestic Materials,” Sept. 6, 2004, found at <http://www.emergingtextiles.com>, retrieved Apr. 14, 2005.

jobs).¹⁰⁵ Further limiting the sector's ability to compete is the need for Colombia's textile mills to upgrade their technology and buy new equipment.¹⁰⁶ ATPDEA along with other preferential trade programs such as the African Growth and Opportunity Act and the Caribbean Basin Trade Partnership Act (CBTPA) are expected to "potentially mitigate, but not eliminate, the effects of textiles and apparel trade liberalization on preference program countries."¹⁰⁷

Anticipation of a U.S.-Andean FTA that would grant long-term preferential treatment to Colombia's exports of garments to the United States has reportedly prompted new investments in textile mills (including a \$97 million investment by two of Colombia's largest textile producers to upgrade their facilities),¹⁰⁸ joint ventures, and expansion of full package programs.¹⁰⁹ In February 2004, Colombian textile firm Crystal Vestimundo and U.S. yarn producer Parkdale Mills entered into a joint venture to set up a yarn-spinning facility in the free trade zone of Rionegro (Antioquia).¹¹⁰ Vestimundo has also initiated full package programs for J.C. Penney and Ralph Lauren.¹¹¹ According to the U.S. Embassy, the Colombian textile and apparel sector invested about \$100 million in new capital goods in 2004 to expand production capacity, and the sector expects to receive an additional \$500 million from U.S. investors before ATPDEA expires in 2006.¹¹² During 2003-2004, Colombia's textile and apparel sector also invested \$200 million to modernize production and reach higher levels of specialization.¹¹³ Other new investments include \$1.8 million in an apparel plant, Industrias e Inversiones El Cid Ltda., which is expected to export apparel worth almost \$50 million to the United States; a \$1.5 million investment to expand apparel production by C.I. Jeans, S.A.; and \$350,000 to expand apparel production by Confecciones

¹⁰⁵ Fatextol, a full package garment producer and Fibratolilma, a mill, have filed for bankruptcy. Americo Rios, Senior Commercial Specialist, U.S. Commercial Service, U.S. Embassy, Bogota, email to Commission staff, July 5, 2005.

¹⁰⁶ U.S. Department of State telegram, "Tracking Changes in Textiles and Apparel Employment and Production after Quota Elimination," message reference No. 10070, prepared by U.S. Embassy, Bogota, Sept. 30, 2004.

¹⁰⁷ U.S. Department of State telegram, "Tracking Changes in Textiles and Apparel Employment and Production after Quota Elimination," message reference No. 184238, prepared by Secretary of State, Washington, DC, Aug. 26, 2004, and Americo Rios, Senior Commercial Specialist, U.S. Commercial Service, U.S. Embassy, Bogota, email to Commission staff, July 5, 2005.

¹⁰⁸ U.S. Department of State telegram, "Tracking Changes in Textiles and Apparel Employment and Production after Quota Elimination," message reference No. 10070, prepared by U.S. Embassy, Bogota, Sept. 30, 2004, and "Medellin Leads Colombia's Push to Export Textiles," Sept. 6, 2004, found at <http://www.behind-the-seams.com>, retrieved May 25, 2005.

¹⁰⁹ U.S. Department of State telegram, "Tracking Changes in Textiles and Apparel Employment and Production after Quota Elimination," message reference No. 10070, prepared by U.S. Embassy, Bogota, Sept. 30, 2004.

¹¹⁰ Dan Nation, President, Parkdale Mills, Gastonia, NC, telephone interview with Commission staff, June 13, 2005, and "Crystal Vestimundo and Parkdale Mills Sign a Joint Venture Contract," Smartinfo Ltda., Feb. 17, 2004, found at <http://www.coinvertir.com/cliente/plantilla1.asp>, retrieved June 24, 2004.

¹¹¹ Americo Rios, Senior Commercial Specialist, U.S. Commercial Service, U.S. Embassy, Bogota, email to Commission staff, July 13, 2005.

¹¹² 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.

¹¹³ "Colombian Textiles See Better Times Ahead," July 25, 2005, found at <http://www.just-style.com>, retrieved Aug. 1, 2005.

Colombia, S.A.¹¹⁴ Textiles Fabricato Tejicondor, S.A., Colombia's largest textile company, announced plans to hire 600 workers in the Medellin area and to expand its production facilities by 2005.¹¹⁵ Another Medellin-based textile company, Coltejer, is investing \$32 million in a new denim plant expected to open in 2005.¹¹⁶ In June 2005, the Mexican multinational firm Boniam Andina, which produces nonwoven fabrics and industrial materials for surgical gowns, facemasks, and gloves, announced plans to invest about \$60 million to double its production capacity at its plant in Colombia's El Pacifico Free Trade Zone.¹¹⁷ The U.S. Embassy also reports that Chinese textile mills are considering investments in Colombia's textile and apparel sector because of the country's proximity to the U.S. market.¹¹⁸

The Colombian Export and Trade Development Bank (Bancoldex), Proexport, and the Ministry of Foreign Trade have established financing programs to help small and mid-sized, export-oriented firms benefit from the Andean Community and ATPDEA (including the possible future FTA) by providing basic financial support, financing for raw materials, and capital to upgrade and modernize manufacturing equipment.¹¹⁹ A large economic group, GEA/Grupo Empresarial Antioqueno (Enterprise Group from the Antioquia State), reportedly has reorganized its investment portfolio to support several of its investments in the textile/garment producing sectors.¹²⁰ According to one Colombian industry representative, once the U.S.-Andean FTA is in place, the textile and apparel sector anticipates attracting \$300 million per year in foreign investment compared with the \$60 million that was invested in the sector in 2003.¹²¹ In addition to attracting more investment and financing to upgrade their sector and enhance their competitiveness, a number of Colombian textile and apparel firms are focusing on producing more sophisticated cotton, nylon, and polyester fabrics and on improving customer service.¹²² Some firms are also developing integrated services packages that include manufacturing from the thread through the fabric and are offering special finishes that blend with more fashionable colors.¹²³

Ecuador

According to the U.S. Embassy in Ecuador, ATPA has played an important role in providing trade opportunities in the agro-industrial sector, creating jobs in the production of flowers, fresh fruits, vegetables, and cereals. The U.S. Embassy reported that exports to the United States of nontraditional products show a steady upward trend, climbing from \$808 million

¹¹⁴ 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.

¹¹⁵ "Colombia: Medellin Textile Firms Focus on Textile Exports," Aug. 31, 2004, found at <http://www.BharatTextile.com>, retrieved Apr. 12, 2005.

¹¹⁶ Ibid.

¹¹⁷ "Colombia: Mexico's Boniam Invests \$60 Million in Fabric Plant," June 13, 2005, found at <http://www.just-style.com>, retrieved June 13, 2005.

¹¹⁸ Americo Rios, Senior Commercial Specialist, U.S. Commercial Service, U.S. Embassy, Bogota, email to Commission staff, July 13, 2005.

¹¹⁹ Ibid.

¹²⁰ Ibid.

¹²¹ "Medellin Leads Colombia's Push to Export Textiles," found at <http://www.BharatTextile.com>, Aug. 30, 2004, retrieved Apr. 12, 2005.

¹²² "Colombian Textiles See Better Times Ahead," July 25, 2005, found at <http://www.just-style.com>, retrieved Aug. 1, 2005.

¹²³ Ibid.

in 2003 to \$876 million in 2004. However, Ecuadorian investment in industries that export to the United States has not grown significantly in the past 2 years, owing primarily to political instability and the absence of broad political support for a U.S.-Andean FTA.¹²⁴

Official statistics show that FDI in Ecuador fell in 2004 to an estimated \$1.2 billion. FDI is concentrated in the petroleum sector, which accounted for three-fourths of FDI inflows on average between 1991 and 2003.¹²⁵ In 2004, falling FDI in the non-oil sector accounted for the overall decline. According to the U.S. Embassy, the non-oil sector has “seen much less investment than might have been expected” largely because of political instability, which resulted in the ousting of President Lucio Gutierrez in April 2005, and uncertainty regarding the future of a U.S.-Andean FTA. The Embassy reports that “the prospect of ATPA expiration and concern that an FTA may not be approved has dampened the Ecuadorian business community’s desire to invest.”

According to the U.S. Embassy, Ecuador’s private sector is concerned that if U.S. trade preferences on imports from Ecuador lapse, Ecuador’s competitiveness in ATPA-related production (particularly agricultural products) would “significantly worsen” with respect to Central American countries, which benefit from trade preferences under CBERA and soon, the Central American Free Trade Agreement (CAFTA). However, the Embassy notes that the concern is much greater that Colombia and Peru could conclude an FTA with the United States without Ecuador, thus giving those countries a significant trade advantage. For example, the Embassy reports that Ecuadoran businessmen suggest that if Ecuador is not part of the FTA, Colombia’s cut-flower industry could displace Ecuador’s, Peru (or Costa Rica) would likely be able to supplant Ecuador’s strong tuna processing industry, and both Colombia and Peru’s stronger textile industries would relegate Ecuador to supplier status, at best. In addition to these fears, “continuing political volatility has convinced most businesses to postpone investment until their options become clearer. Ecuador’s businesses traditionally plan no further than 3 or 6 months into the future, having learned repeatedly the virtue of caution in the face of continuing political and economic uncertainty.”¹²⁶

The cut-flower sector is Ecuador’s primary beneficiary of ATPA trade preferences. The U.S. Embassy reported that exports of cut flowers to the United States continued to increase in 2004, but exports to the world increased faster as Ecuadoran producers diversify their export markets. Cut roses continued to account for the bulk of Ecuador’s cut-flower exports to the United States in 2004, but exports of gypsophila are also growing rapidly. Such exports reached a record \$17 million to the United States in 2004, up from almost no production in 2001. Despite these increases, the U.S. Embassy reported that investment in the flower sector was only \$4 million in 2004.

The U.S. Embassy reported that investments are being made in the tuna sector as a result of the inclusion of tuna in pouches under ATPDEA. One example the Embassy cited was Starkist’s \$12 million investment in 2004 for the expansion of production of tuna in pouches. Although investment statistics were not available, the U.S. Embassy reported that exports

¹²⁴ 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.

¹²⁵ WTO, *Trade Policy Review Ecuador*, WT/TPR/S/148, May 2005, p. 12.

¹²⁶ 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.

to the United States of broccoli and pineapple experienced double-digit increases in 2004, although from a small base.¹²⁷ In addition, although again from a small base, exports of asparagus grew nearly 300 percent to \$289,280, almost all of which was exported to the United States. The U.S. Embassy reported that the footwear and leather industries in Ecuador have not taken advantage of ATPDEA; the industry is fragmented and the existing production capacity cannot meet the technical requirements of the U.S. market.

Major investments in the Quito and Guayaquil airports are expected to boost exports. Flower exports in particular are expected to benefit from construction of a new airport at Quito, to be completed in 2009.¹²⁸ According to Expoflores, the Ecuadoran Association of Flower Producers and Exporters, the new airport is necessary to increase flower exports.¹²⁹ Not only will cargo capacity and export efficiencies improve with the new airport, but also air freight costs are expected to fall as more air freight options become available. Expoflores claims that shipping flowers from Ecuador is currently 60 percent more expensive than from Colombia or Peru. Expoflores estimates annual growth of 6 percent over the next decade, a figure that will be recalculated once the new airport becomes operational.¹³⁰

The U.S. Embassy reported that the Ecuadorian government, through the Export and Investment Promotion Corporation of Ecuador (CORPEI), manages several programs designed to foster ATPA-related exports and investment. For example, the Ecuadorian government and the United Nations Industrial Development Organization are creating an evaluation system for investment projects, which CORPEI will use to attract investors and identify potential local investment opportunities. A business center was established in 2004 to assist potential exporters in evaluating projects and finding financing.

Textile and Apparel Sector

Although small, Ecuador's textile and apparel sector has been an historically significant component of the country's economy. The sector includes a few vertically integrated firms¹³¹ that produce and export spun yarn, fabrics, materials for industrial production, finished clothing, and household products.¹³² However, the U.S. Embassy reports that in general, Ecuador "appears not to be offering full-package apparel programs, and its apparel industry remains small and under-industrialized."¹³³ Foreign investors in the textile and apparel sector

¹²⁷ U.S. statistics show that U.S. imports of fresh pineapples under ATPA from Ecuador increased 224 percent between 2002 and 2003 and decreased 10 percent in 2004, to \$10.4 million.

¹²⁸ "Building Anew," *Latin Trade*, June 2005, found at <http://www.latintrade.com>, retrieved June 21, 2005.

¹²⁹ *Ibid.*

¹³⁰ *Ibid.*

¹³¹ La Escala, S.A., a 32-year-old company located in Quito, produces yarn, woven and knit fabrics, and handles full package production of apparel that is exported to the United States under ATPDEA. See "Textiles La Escala," found at <http://www.textileslaescala.com>, retrieved June 29, 2005.

¹³² "Ecuador Textiles, Clothing, Yarn, Fabric and More," May 3, 2004, found at <http://www.ecuadorexports.com>, retrieved June 29, 2005.

¹³³ U.S. Department of State telegram, "USITC 2004 Annual Andean Investment and Drug Crop Survey for Report on ATPA," message reference No. 01621, prepared by U.S. Embassy, Quito, July 8, 2005.

include the Netherlands-based firm Akzo, which produces fibers and textiles in Ecuador.¹³⁴ Ecuador's textile and apparel products are reportedly recognized for their quality, designs, and low cost.¹³⁵ Textile manufacturing companies account for many of the maquila operations located in the free trade zones.¹³⁶

Although employment statistics are considered unreliable, Ecuador's Textile Industry Association (AITE) estimates that the textile sector directly accounts for 25,000 jobs and indirectly for 100,000 jobs.¹³⁷ According to the U.S. Embassy, Ecuador's textile production rose from \$248 million in 2002 to \$273 million in 2003, whereas total apparel production fell from \$19 million to \$17 million during this period.¹³⁸ Some industry sources attribute the decline in apparel production and employment to a significant increase in apparel imports from Asia.¹³⁹ The Ecuadorian textile industry reportedly believes that increased competition from Asian suppliers after the elimination of textile and apparel quotas on January 1, 2005 could result in the displacement of its exports entirely from the U.S. market.¹⁴⁰

The United States is a leading market for Ecuador's apparel exports, accounting for 48 percent of that country's annual exports in 2003.¹⁴¹ Cotton knit shirts and manmade-fiber hosiery represented the bulk of Ecuador's apparel exports to the United States. In 2004, 99 percent of cotton used in Ecuador's textile industry was imported from the United States.¹⁴² In 2004, U.S. imports of textiles and apparel from Ecuador rose by 10 percent over the 2003 level to \$20 million, representing less than 0.05 percent of total U.S. imports of textiles and apparel (table 2-8). The U.S. Embassy attributes this increase to the implementation of ATPDEA in 2002.¹⁴³ According to the U.S. Embassy, industry sources in Ecuador note that ATPDEA has also contributed to the growth in Ecuador's exports of cotton fabric to Colombian firms, which in turn, export apparel to the United States.¹⁴⁴ Because of

¹³⁴ U.S. Department of State telegram, "Ecuador 2005 Investment Climate Statement," message reference No. 221, prepared by U.S. Embassy, Quito, Jan. 27, 2005.

¹³⁵ "Ecuador Textiles, Clothing, Yarn, Fabric and More," May 3, 2004, found at <http://www.ecuadorexports.com>, retrieved June 29, 2005.

¹³⁶ Ecuador passed a free trade zone law in 1991 to promote the country's exports, foreign investment, and employment. See U.S. Department of State telegram, "Ecuador 2005 Investment Climate Statement," message reference No. 221, prepared by U.S. Embassy, Quito, Jan. 27, 2005.

¹³⁷ U.S. Department of State telegram, "Textiles and Apparel Employment and Production in Ecuador," message reference No. 2943, prepared by U.S. Embassy, Quito, Nov. 9, 2004.

¹³⁸ Ibid.

¹³⁹ Ibid.

¹⁴⁰ U.S. Department of State telegram, "USITC 2004 Annual Andean Investment and Drug Crop Survey for Report on ATPA," message reference No. 01621, prepared by U.S. Embassy, Quito, July 8, 2005.

¹⁴¹ Based on United Nations trade data for 2003 for Ecuador's exports of apparel.

¹⁴² Local cotton production has been especially limited recently because of unfavorable weather conditions, low productivity, and lack of credit. See U.S. Department of State telegram, "USITC 2004 Annual Andean Investment and Drug Crop Survey for Report on ATPA," message reference No. 01621, prepared by U.S. Embassy, Quito, July 8, 2005.

¹⁴³ U.S. Department of State telegram, "Ecuador 2005 Investment Climate Statement," message reference No. 221, prepared by U.S. Embassy, Quito, Jan. 27, 2005.

¹⁴⁴ U.S. Department of State telegram, "USITC 2004 Annual Andean Investment and Drug Crop Survey for Report on ATPA," message reference No. 01621, prepared by U.S. Embassy, Quito, July 8, 2005.

Colombia's strong demand for cotton fabric, Ecuador's fabric exports to Colombia are expected to continue growing.¹⁴⁵

Peru

According to the U.S. Embassy in Peru, ATPA has provided significant economic benefits to Peru, particularly by stimulating exports of apparel and agricultural products. Peru's overall exports to the United States grew rapidly in 2004 and the U.S. share of Peru's exports has been growing steadily since ATPDEA was implemented, from 25 percent of total exports in 2001 to 29 percent in 2004. Peru's Ministry of Economy and Finance claimed that Peru's strong GDP growth rate in 2004 was largely due to access to the U.S. market under ATPDEA. Nonetheless, the U.S. Embassy reported that although small investments are continuing, large investments in ATPA-eligible products are being postponed owing to uncertainties regarding Peru's future trading relationship with the United States. Among the concerns are the expiration of ATPA in 2006, uncertainties regarding the signing of a U.S.-Andean FTA, and the impact of the elimination of textile and apparel quotas established under the Multifiber Arrangement.¹⁴⁶

The U.S. Embassy reported that growing exports have attracted new investment to Peru. Peru's total exports grew 80 percent in three years (from 2001 to 2004), and grew 39 percent between 2003 and 2004 to \$12.6 billion. The large increase in the value of exports in 2004 can be traced to higher prices for Peru's minerals and metals (spurred by rising demand from China) and several farm products, but many other exports increased in volume terms. Exports of nontraditional products, including textiles and apparel, agriculture, and jewelry, increased 33 percent in 2004 to \$3.5 billion. The Government of Peru estimates that exports will increase about 14 percent in 2005, and nontraditional exports, which are mainly destined for the United States, will increase 13.5 percent.¹⁴⁷

Official statistics on foreign direct investment in Peru show that the stock of FDI at the end of 2004 was \$12.9 billion, 2.9 percent higher than in 2003.¹⁴⁸ These statistics show that the stock of FDI in the agriculture and manufacturing sectors remained fairly stable in 2004. FDI inflows increased by an estimated 1 percent in 2004.¹⁴⁹ The U.S. Embassy reported that although ATPA-related investments were significant in 2004, they have not reached companies' desired levels. Companies reported that they have limited their investments because of ATPA's imminent expiration in 2006. Business leaders are particularly concerned about whether a U.S.-Andean FTA will be in place before ATPA expires, and have indicated that large investments will be postponed until either ATPA has been extended or the FTA

¹⁴⁵ Ibid.

¹⁴⁶ U.S. Department of State telegram, "USITC 2004 Annual Andean Investment and Drug Crop Survey for Report on ATPA," message reference No. 2878, prepared by U.S. Embassy, Lima, June 30, 2005.

¹⁴⁷ Ibid.

¹⁴⁸ Source: Proinversion, as provided in U.S. Department of State telegram, "USITC 2004 Annual Andean Investment and Drug Crop Survey for Report on ATPA," message reference No. 2878, prepared by U.S. Embassy, Lima, June 30, 2005.

¹⁴⁹ ECLAC, *Foreign Investment in Latin America and the Caribbean, 2004*, March 2005, p. 35, found at <http://www.eclac.org/>, retrieved May 6, 2005.

has entered into force. The Government of Peru believes the FTA will generate increased exports and strong growth.¹⁵⁰

According to the U.S. Embassy, Peru's agricultural sector is the "clear winner" under ATPA. The Embassy notes that "in the span of a few years, local companies developed desert lands, employed modern watering-farming techniques to more efficiently use scarce water, and grew export-oriented crops, such as asparagus and mangoes." Building on this success, farmers began to grow or export other crops, including paprika, grapes, artichokes, bananas, beans, onions, and marigolds. Peru has recently become the world's largest exporter of both asparagus and paprika.¹⁵¹ ProInversion, Peru's private investment promotion agency, reports that agricultural exports will continue to grow in 2005, including shipments of asparagus, mangoes, artichokes, grapes, onions, paprika, and pepper.¹⁵² In January 2005 there were 401 nontraditional agriculture exporting companies compared with 365 in January 2004, a 10 percent increase.¹⁵³

According to the U.S. Foreign Agricultural Service (FAS), asparagus production area in Peru is estimated to stay the same over the next year.¹⁵⁴ Industry representatives indicate that new plantings are increasing slightly, but are mainly compensating for declining production from the many maturing fields.¹⁵⁵ Reportedly, one major producer has a 500 hectare (1,200 acre) replanting program scheduled for 2005-2007, but also has plans to purchase land to expand production into new products, such as avocado and citrus fruits.¹⁵⁶ Indeed, asparagus farmers have begun to diversify production into grapes, artichokes, tangerines, and other products to decrease their reliance on asparagus alone.¹⁵⁷ In addition, according to the Michigan Asparagus Advisory Board, by June 2005, all asparagus canning operations from Washington state will have relocated to Peru.¹⁵⁸

The Peruvian agricultural industry told the U.S. Embassy that investment representing the purchase of imported machinery and equipment for the agricultural sector rose 79 percent to \$41.2 million in 2004, following a decade of fluctuating investment levels. The U.S. Embassy cited one example of an investment that supports agricultural exports: in 2004, a new refrigerated warehouse was built at the Chiclayo airport in Lambayeque, a major asparagus export region. An official of the Peruvian government noted in July 2004 that exports from the Lambayeque region totaled about \$105 million annually in farm products,

¹⁵⁰ U.S. Department of State telegram, "USITC 2004 Annual Andean Investment and Drug Crop Survey for Report on ATPA," message reference No. 2878, prepared by U.S. Embassy, Lima, June 30, 2005.

¹⁵¹ The United States imported \$13 million of paprika in 2004, double the amount imported in 2003. Most imports entered under GSP.

¹⁵² ProInversion, "News on Investments in Peru," No. 2, January 2005, found at <http://www.proinversion.gob.pe/english/default.asp>, retrieved June 1, 2005. The U.S. Embassy reported that agricultural exports are expected to grow 20 percent in 2005.

¹⁵³ Ibid.

¹⁵⁴ USDA, FAS, *Peru Asparagus Annual 2005*, GAIN Report #PE5009, June 10, 2005.

¹⁵⁵ "Peru Spears the Competition," May 26, 2005, found at <http://www.freshinfo.com>, retrieved June 1, 2005.

¹⁵⁶ Ibid.; and ProInversion, "News on Investments in Peru," No. 2, January 2005, found at <http://www.proinversion.gob.pe/english/default.asp>, retrieved June 1, 2005.

¹⁵⁷ USDA, FAS, *Peru Asparagus Annual 2005*, GAIN Report #PE5009, June 10, 2005.

¹⁵⁸ John Bakker, Executive Director, Michigan Asparagus Advisory Board, submission to the Commission, June 7, 2005.

including asparagus, coffee, and beans. The region currently expects such exports to increase to \$500 million annually by 2006.

Textile and Apparel Sector

The textile and apparel sector is a leading source of economic activity in Peru, reportedly accounting for an estimated 14 percent of industrial production and 17 percent of industrial manufacturing employment in 2004.¹⁵⁹ The available data for 2003 show that textile and apparel production totaled \$789 million and \$751 million, respectively.¹⁶⁰ According to the U.S. Embassy, Peru's textile and apparel sector directly employs about 150,000 workers¹⁶¹ and indirectly employs 350,000 workers.¹⁶² The sector is integrated from the production of raw material inputs (cotton, alpaca, llama, and vicuña), to the manufacture of intermediate products such as yarns and fabrics, and to the production of finished goods such as apparel. Many Peruvian manufacturers produce high-end textile and apparel products based on the high quality of the country's pima cotton industry.¹⁶³ Efforts have recently focused on expanding production of garments made from alpaca and vicuña fibers. Peruvian producers are collaborating with the Inter-American Development Bank to enhance and expand alpaca fiber production and also to promote exports of garments made from alpaca hair.¹⁶⁴ According to the Government of Peru, exports of textiles and apparel made from local alpaca fiber, included under ATPDEA,¹⁶⁵ grew by 25 percent in 2004.¹⁶⁶

Peru exports a significant share of its sector production, primarily to the United States, which accounted for almost two-thirds of Peru's textile and apparel exports in 2004.¹⁶⁷ Peru's leading sector exporters reportedly include Textimax, the largest individual exporter for the first five months of 2004, Topy Top, and Diseño y Color.¹⁶⁸ In 2004, U.S. sector imports from Peru (almost all of which were apparel) rose by 34 percent over the 2003 level to \$692 million (table 2-8), and Peru regained its position as the leading Andean supplier of textiles and apparel to the U.S. market that it previously had in 2001 and 2002.

¹⁵⁹ INEI Elaboracion Comité Textil SNI, Principal Generador de Empleo Industrial, email from Commercial Section, Embassy of Peru to Commission staff, June 27, 2004.

¹⁶⁰ U.S. Department of State telegram, "Textile and Apparel Employment and Production in Peru," message reference No. 5445, prepared by U.S. Embassy, Lima, Nov. 23, 2004.

¹⁶¹ Ibid.

¹⁶² INEI Elaboracion Comité Textil SNI, Principal Generador de Empleo Industrial, email from Commercial Section, Embassy of Peru to Commission staff, June 27, 2004.

¹⁶³ U.S. Department of State telegram, "USITC 2004 Annual Andean Investment and Drug Crop Survey for Report on ATPA," message reference No. 2878, prepared by U.S. Embassy, Lima, June 30, 2005.

¹⁶⁴ ProInversion, "News on Investments in Peru," March 2004, No. 4, p. 7.

¹⁶⁵ ATPDEA includes a provision that allows for apparel imported from the Andean countries to enter free of duty if the apparel is assembled from Andean fabrics or fabric components formed, or components knit-to-shape, of llama, alpaca, or vicuña.

¹⁶⁶ U.S. Department of State telegram, "Peru: ATPDEA Eligibility Report," message reference No. 1346, prepared by U.S. Embassy, Lima, Mar. 21, 2005.

¹⁶⁷ Based on data provided in U.S. Department of State telegram, "USITC 2004 Annual Andean Investment and Drug Crop Survey for Report on ATPA," message reference No. 2878, prepared by U.S. Embassy, Lima, June 30, 2005.

¹⁶⁸ "Peru: Rise in Textile Exports," June 22, 2004, found at <http://www.BharatTextile.com>, retrieved Apr. 12, 2005; and "Textile/Apparel Industry on the Rise," July 4, 2004, found at <http://www.behind-the-seams.com>, retrieved Apr. 11, 2005.

Economic analysts in Peru attribute the growth in Peru's textile and apparel exports to the United States to the trade preferences granted by ATPDEA and expect growth to continue.¹⁶⁹ Some concern has been expressed, however, that the elimination of quotas in January 2005 may undermine this trend.¹⁷⁰ The U.S. Embassy reports that investment in Peru's textile and apparel industries (representing purchases of imported machinery and equipment) increased by 18 percent to \$128 million in 2004 compared with a 12 percent increase in 2003 to \$108 million.¹⁷¹ As a result of ATPDEA, industry and government sources in Peru predict that the country's textile and apparel industry could generate as many as 200,000 new jobs (including those in cotton cultivation) through 2006.¹⁷² The U.S. Embassy reports that a private firm in Peru projects textile and apparel exports to rise by 10 percent to \$1.2 billion in 2005, compared with \$1.1 billion in 2004, most of which will go to the United States.¹⁷³

Although Peru's textile and apparel sector has expanded its exports to the United States since the implementation of ATPDEA in 2002, the U.S. Embassy states that the "relatively short life span of the ATPDEA has been the main deterrent" limiting foreign investment in Peru's textile and apparel industries and in the export sector.¹⁷⁴ Peru's textile and apparel sector has expressed concerns about whether FTA negotiations will conclude and if the agreement will be approved before ATPDEA expires in December 2006.¹⁷⁵ Industry sources in Peru have also noted that Peru's textile and apparel production is constrained because demand for raw materials (including domestic tanguis and pima cotton—long and extra-long staple, respectively) outstrips the supply. Peru imports substantial quantities of fibers, particularly from the United States, which accounted for 46 percent of Peru's fiber imports in 2004,¹⁷⁶ as well as yarns and fabric. In 2004, U.S. exports of yarn and fabrics to Peru rose by 48 percent over the 2003 level to \$13.5 million.¹⁷⁷

Peru's textile and apparel sector has expressed concern that the elimination of U.S. quotas on January 1, 2005 will reduce demand in the U.S. market for Peruvian textile and apparel products because of increased competition from other lower-cost imports.¹⁷⁸ Production costs in Peru are estimated to be as much as 50 percent higher than those in China.¹⁷⁹ Peru's textile and apparel sector also has noted the growth of competition from low-cost suppliers in its domestic market. In response, the Government of Peru applied provisional safeguards on 20

¹⁶⁹ U.S. Department of State telegram, "Textile and Apparel Employment and Production in Peru," message reference No. 5445, prepared by U.S. Embassy, Lima, Nov. 23, 2004.

¹⁷⁰ *Ibid.*

¹⁷¹ "USITC 2004 Annual Andean Investment and Drug Crop Survey for Report on ATPA," message reference No. 2878, prepared by U.S. Embassy, Lima, June 30, 2005.

¹⁷² U.S. Department of State telegram, "Peru: ATPDEA Eligibility Report," message reference No. 1346, prepared by U.S. Embassy, Lima, Mar. 21, 2005.

¹⁷³ U.S. Department of State telegram, "USITC 2004 Annual Andean Investment and Drug Crop Survey for Report on ATPA," message reference No. 2878, prepared by U.S. Embassy, Lima, June 30, 2005.

¹⁷⁴ *Ibid.*

¹⁷⁵ *Ibid.*

¹⁷⁶ Based on United Nations trade data for 2004 for Peru's imports of fibers.

¹⁷⁷ Based on official statistics compiled by the U.S. Department of Commerce.

¹⁷⁸ Some Peruvian textile and apparel suppliers fear losing up to 30 percent of their sales to the U.S. market after quotas are eliminated unless the Peruvian government takes action. See "Peru Textile Trade," Dec. 22, 2004, found at <http://www.latelinenews.com>, retrieved June 23, 2005.

¹⁷⁹ "Peru Textile Trade," Dec. 22, 2004, found at <http://www.latelinenews.com>, retrieved June 23, 2005.

apparel items imported from numerous suppliers including China in October 2004.¹⁸⁰ The Government of Peru reportedly removed the safeguards in May 2005; some textile and apparel producers in Peru have expressed support for their re-imposition.¹⁸¹ Peru's Manufacturing Industry Society (SNI) has also noted that China could begin producing the high-end niche products that Peruvian producers have specialized in, and that without an extension of ATPDEA or implementation of an FTA, Peru's textile industry will not be competitive.¹⁸²

Conclusion

Based on an examination of ATPA-related investment in 2004, ATPA is likely to continue to have minimal future effects on the U.S. economy in general. As described in chapter 2, the share of total U.S. imports composed of imports from ATPA countries in 2004 was small (1.06 percent by value). Imports that benefited exclusively from ATPA in 2004 made up an even smaller share—just 0.52 percent. However, the Commission was able to identify new and expansion-related investments in 2004 in textiles and apparel, flowers, pouched tuna, fruits and vegetables, petroleum, ceramics and related construction materials, jewelry, sugar confections, and gelatin capsules, which may generate increased exports to the United States in the future.

With the exception of Colombia, where overall investment grew substantially with the improved security situation, U.S. Embassy officials indicated that investment in ATPA-related products was probably lower than expected in 2004. All of the countries noted concerns resulting from uncertainties regarding the future trading relationship with the United States, which have dampened the business community's desire to invest in export-oriented products in most of the ATPA countries. Among the concerns are the expiration of ATPA in 2006, uncertainties regarding the signing of a U.S.-Andean FTA and whether the FTA will be implemented by the time ATPA expires, and the impact of competition from China resulting from the elimination of global textile and apparel quotas. Political instability in Bolivia and Ecuador, and serious social conflicts in Bolivia, also constrained ATPA-related investment during 2004.

¹⁸⁰ Excluded from such safeguards are countries with which Peru is negotiating FTAs. See U.S. Department of State telegram, "Textiles: Peru Announces New Safeguards on Apparel Imports from 124 Nations," message reference No. 5445, prepared by U.S. Embassy, Lima, Nov. 23, 2004.

¹⁸¹ "Textiles: Peruvian Government Eliminates Safeguards on Garments, Textiles," *International Trade Daily*, May 5, 2005.

¹⁸² U.S. Department of State telegram, "USITC 2004 Annual Andean Investment and Drug Crop Survey for Report on ATPA," message reference No. 2878, prepared by U.S. Embassy, Lima, June 30, 2005.

CHAPTER 4

Impact of ATPA on Drug-related Crop Eradication and Crop Substitution in 2004

As discussed in previous chapters, the United States enacted the Andean Trade Preference Act (ATPA) in 1991 and renewed and enhanced it in 2002 to improve access to U.S. markets for certain imports from Bolivia, Colombia, Ecuador, and Peru, thereby promoting legal economic alternatives to illicit drug activity. This chapter assesses the estimated effects of ATPA¹ on drug-related crop eradication and crop substitution efforts of each of these countries during 2004. Figures and analysis in this chapter are derived from U.S. Department of State data.

Overview

Although less prevalent today than a decade ago, cocaine remains the primary drug threat to the United States, according to the U.S. Department of State.² Unlike other drugs, such as heroin derived from opium poppy that is grown in various geographical locations, cocaine derives from coca grown almost entirely in the Andean countries of Bolivia, Colombia, and Peru.³ A decade ago Peru accounted for approximately half of the roughly 200,000 hectares⁴ of coca cultivated in the ATPA region; Bolivia and Colombia each cultivated approximately 50,000 hectares. In contrast, today Colombia dominates coca cultivation and the cocaine trade by a wide margin.⁵ Colombian drug syndicates cultivate over 70 percent of the world's coca and refine roughly 90 percent of the cocaine on the international market. Bolivia and Peru cultivate around 10 and 20 percent, respectively, with much of their production transported to Colombia for processing prior to export.⁶ Although this report focuses on coca cultivation, opium poppy—the raw material used to produce heroin—is also cultivated in Colombia and, to a lesser extent, in Peru.⁷

¹ As discussed in chapter 1, the term “ATPA” refers to ATPA, as amended by ATPDEA.

² United States Department of States, Bureau for International Narcotics and Law Enforcement Affairs, *International Narcotics Control Strategy Report—March 2005 (INCSR 2005)*, p. 13.

³ Ecuador eliminated minor cultivation of coca by 1992, although today it is still considered a major transit country for illegal drugs and chemicals. *INCSR 2005*, p. 134.

⁴ A hectare (ha.) is a metric unit of area, 100 meters by 100 meters or 10,000 square meters, equivalent to 2.47 acres in English measure.

⁵ *INCSR 2005*, p. 13.

⁶ *Ibid.*

⁷ John P. Walters, Director, White House Office of National Drug Control Policy, “The Andes: Institutionalizing Success,” testimony before the House Committee on International Relations, May 11, 2005. See also the sections on Colombia and Peru in this chapter.

Role of ATPA in Counternarcotics Efforts

The trade-based incentives of ATPA (including ATPDEA) are intended to encourage export-led alternatives to illegal drug-crop production. As mentioned earlier, in 2004, exports from ATPA countries under the program grew at an accelerated rate, supporting job growth in a variety of economic sectors in the region. As noted in previous reports in this series, the flower and asparagus sectors have provided important employment opportunities for workers who might otherwise turn to illicit crop-growing activities.⁸ These sectors continued to prosper in 2004 in response to increasing exports under ATPA. Indeed, building on the success of asparagus and mangoes, farmers in Peru have begun to grow and export other vegetables and fruits, including artichokes and grapes.⁹ In addition, in response to the implementation of ATPDEA, jobs are being created 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.¹⁰

ATPA's trade preferences are intended to work in concert with other U.S. counternarcotics efforts in the region to stimulate economic development and growth in the beneficiary countries by increasing 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, providing economic aid to help these countries expand economic growth and 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."¹¹

Such development assistance helps provide new economic opportunities, but rarely provides a direct substitute for illegal crop cultivation. For example, even in the case of agricultural crop substitution, new crops are unlikely to be located in the areas where coca or poppy crops are grown. However, it is expected that such industries as the flower industry in Colombia and Ecuador, and the asparagus industry in Peru, as well as the expansion of apparel trade under ATPDEA provide legal employment that can draw workers away from illegal drug-crop production, processing, and transportation.

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-

⁸ USITC, *ATPA, Tenth Report, 2003*, pp. 4-15 and 4-19; USITC, *ATPA, Ninth Report, 2002*, pp. 4-10 and 4-14; and chapter 4 in previous reports in the series.

⁹ U.S. Department of State telegram, "USITC 2004 Annual Andean Investment and Drug Crop Survey for Report on ATPA," prepared by U.S. Embassy, Lima, message reference No. 2878, June 30, 2005.

¹⁰ *Ibid.*

¹¹ 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. See also (for Bolivia), 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; and (for Peru), USAID, "Data Sheet-Alternative Development," *USAID Budget-Peru*, "Complete USAID/Peru Program," found at http://www.usaid.gov/policy/budget/cbj2005/lac/pdf/peru_cbj_fy05.pdf, retrieved May 4, 2005.

related crop eradication and crop substitution or alternative development. Nonetheless, based on an analysis of trade and drug-crop trends and on a review of relevant literature, unclassified U.S. embassy reports, and publications from relevant U.S. Government agencies, the Commission estimates that in 2004 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 2004

Net coca cultivation in the ATPA countries has fallen 25 percent from its peak of 221,800 hectares in 2001 to 166,200 hectares in 2004, a record low since ATPA was implemented in 1991.¹² However, net cultivation in 2004 was virtually unchanged from the 166,300 hectares recorded in 2003. In 2004, net coca cultivation increased 6 percent in Bolivia, decreased 6 percent in Peru, and remained essentially unchanged in Colombia.¹³

Intensive eradication efforts in the ATPA countries achieved elimination of 155,327 hectares of coca cultivation in 2004, a new record. However, total eradication efforts in 2004 remained largely unchanged from the 154,130 hectares of coca eliminated in 2003. In 2004, eradication decreased from the previous year by nearly 16 percent in Bolivia and nearly 9 percent in Peru, and increased less than 3 percent in Colombia, using manual eradication methods in Bolivia and Peru, and aerial spraying as well as manual eradication methods in Colombia. Table 4-1 and figure 4-1 show coca cultivation trends in Bolivia, Colombia, and Peru since the inception of the ATPA program in 1991.

Coca cultivation in the ATPA region has evolved over the past decade and a half. Since 1991, net coca cultivation in the ATPA countries has averaged roughly 200,000 hectares annually, ranging broadly between 166,000 and 222,000 hectares. At the beginning of the 1990s, Peru accounted for over 100,000 hectares of the 200,000 hectares total net coca cultivation in the Andes, and Bolivia and Colombia each accounted for less than 50,000 hectares. In the mid-1990s, the governments of Peru and Bolivia initiated coca eradication campaigns, after which net coca cultivation declined steeply in these countries. At the same time, coca cultivation increased steadily in Colombia offsetting the declines in Peru and

¹² The Crime and Narcotics Center (CNC) of the U.S. Central Intelligence Agency revised its estimates in July 2005 for net coca and poppy crop cultivation in the Andes for the years 2000 through 2004. CNC figures form the basis for official U.S. Government drug crop cultivation estimates. As a consequence, figures in this chapter reflect data published in March 2005 by the U.S. Department of State, *INCSR 2005*, with the exception of figures for 2000-2004 for net coca and poppy cultivation in the Andes, where the revised data from the July 2005 CNC report are used. USITC staff telephone conversation with U.S. Department of State, Bureau for International Narcotics and Law Enforcement Affairs, July 20, 2005; U.S. Department of State, *INCSR 2005*, March 2005; and CNC, *Major Illicit-Drug-Producing Nations—Cultivation and Production Estimates, 2000-2004*, July 2005.

¹³ In June 2005, the United Nations Office on Drugs and Crime (UNODC) released its survey of coca cultivation in the Andes based on its own satellite imagery, which provides an alternative assessment based on different figures for area under cultivation. According to the UNODC, the increase in coca cultivation in Bolivia and Peru was larger than the decrease in Colombia, resulting in a 3 percent increase in the Andean region as a whole. By individual country, the UNODC estimates that in 2004 coca cultivation increased in Bolivia by 17 percent, decreased in Colombia by 7 percent, and increased in Peru by 14 percent. See United Nations, Office on Drugs and Crime, *Coca Cultivation in the Andean Region—A Survey of Bolivia, Colombia, and Peru*, June 2005, and United Nations, Office on Drugs and Crime, *Peru—Coca Cultivation Survey 2004*, June 2005.

Table 4-1

Coca cultivation and eradication in the ATPA countries, in hectares, 1991-2004

Year	Bolivia ¹	Colombia	Ecuador ²	Peru	Total ³
<i>Total cultivation</i>					
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	49,610	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	167,746	0	52,500	259,045
2000	22,253	183,571	0	40,200	246,024
2001	10,465	254,051	0	37,900	302,416
2002	12,561	267,145	0	42,000	321,706
2003	18,450	246,667	0	42,463	307,580
2004	N/A	N/A	0	N/A	N/A
<i>Eradication</i>					
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
<i>Net cultivation</i>					
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

¹ 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.

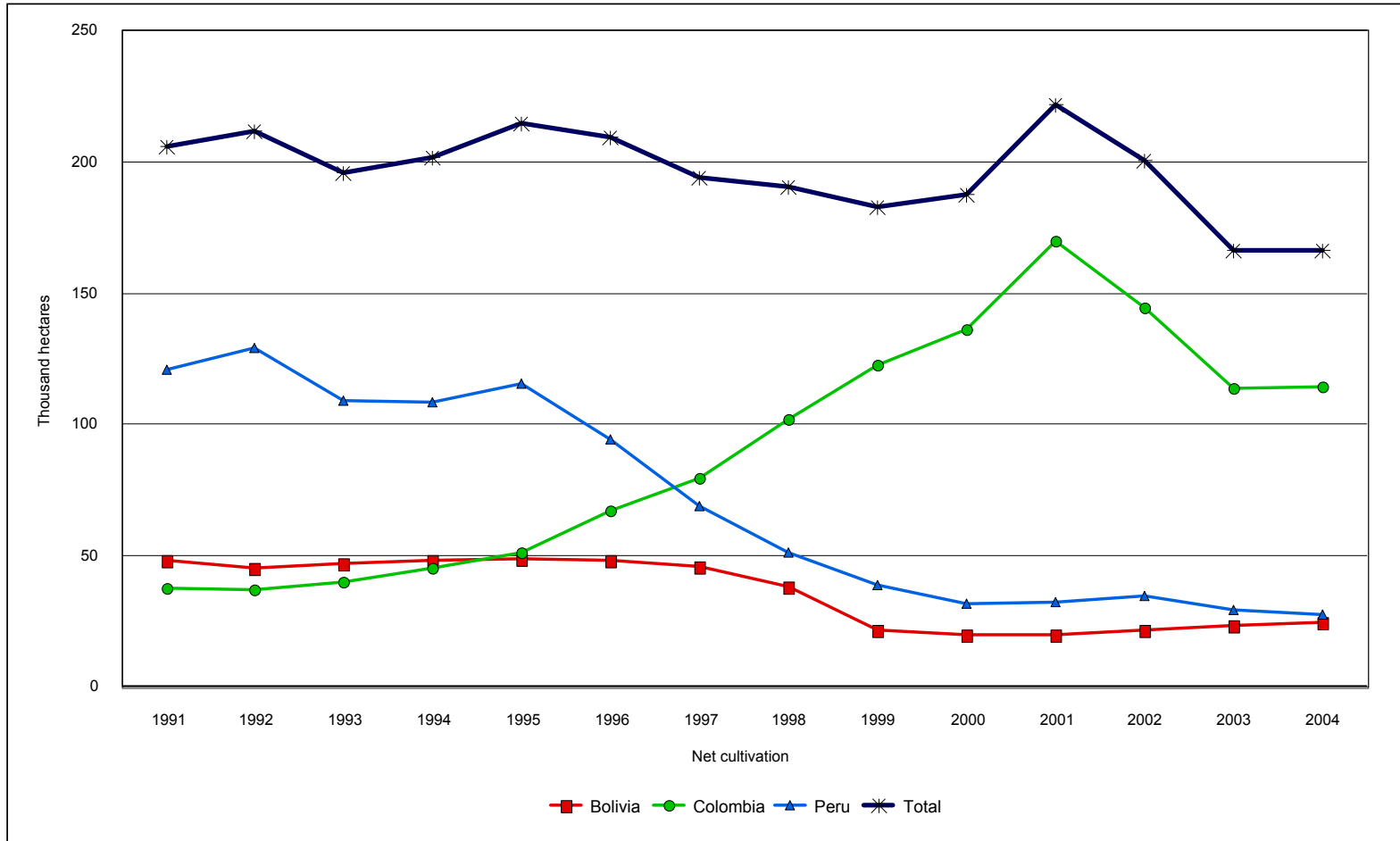
² Ecuador eliminated its small area of coca cultivation by 1992.

³ Total is the simple sum of data for all four ATPA countries where available.

Note.—N/A indicates data not available. Note also that the relation where net cultivation plus eradication sums to total cultivation may not hold due to subsequent data revisions, particularly since 2000.

Source: United States Department of State, Bureau for International Narcotics and Law Enforcement Affairs, *International Narcotics Control Strategy Report - 2005*, March 2005; and CNC, *Major Illicit-Drug-Producing Nations – Cultivation and Production Estimates, 2000-04*, July 2005.

Figure 4-1
Net coca cultivation in the ATPA countries, in hectares, 1991-2004¹



¹ Ecuador eliminated its small area of coca cultivation in 1992.

Source: U.S. Department of State, and U.S. Crime and Narcotics Center (CNC).

Bolivia. By 2000, net cultivation had fallen to 31,700 hectares in Peru and to 19,600 hectares in Bolivia; in Colombia, net cultivation increased from about 50,000 hectares in the mid-1990s to its record high of 169,800 hectares in 2001. In 1999, the Colombian government opened its coca eradication campaign, known as *Plan Colombia*. With key assistance provided by the United States in the form of aerial crop spraying, record quantities of coca have been eradicated over the past five years, leading in 2002 to the first decrease in net coca cultivation in Colombia in a decade. Coca eradication increased steadily in Colombia from 43,246 hectares recorded in 1999 when Plan Colombia began to its record high of 136,551 hectares in 2004.¹⁴

Peru and Bolivia also continued their coca eradication campaigns in 2004, although the governments of both these countries have faced increasingly strong opposition from unions supporting farmers that grow coca illegally (known as *cocaleros*).¹⁵ Cocalero unions in Bolivia and Peru link coca cultivation with national identity and sovereignty issues, based in large part on traditions involving coca consumption rooted in their indigenous cultures since pre-Columbian times.¹⁶ According to the U.S. Department of State, “. . . appeals to ancient values have gained popular resonance and inspired caution in the government of both countries.”¹⁷

Country-specific developments in illicit coca cultivation and eradication, alternative development, and the role of ATPA are discussed in more detail below.

Country Profiles on Eradication and Alternative Development during 2004

Bolivia

Net coca cultivation in Bolivia increased approximately 6 percent in 2004 to 24,600 hectares, according to figures revised by the CNC in July 2005.¹⁸ The year 2004 marked the fourth consecutive year that coca cultivation in Bolivia has edged up. Eradication decreased by 16 percent to 8,437 hectares in 2004. The U.S. Embassy in La Paz noted that the annual rate of eradication is slightly lower than that seen in the early 2000's, largely because of the

¹⁴ ONDCP, “2004 Coca and Opium Poppy Estimates for Colombia and the Andes,” press release, Mar. 25, 2005, found at <http://www.whitehousedrugpolicy.gov/news/press05/032505.html>, retrieved Mar. 28, 2005, and subsequent revisions.

¹⁵ Both Bolivia and Peru permit some legal coca cultivation—very approximately 10,000 to 12,000 hectares each—for traditional and commercial use, but illegal coca cultivation is far in excess of legal production.

¹⁶ *INCSR 2005*, p. 14.

¹⁷ *Ibid.*

¹⁸ In June 2001, the U.S. Government aerial survey of Bolivia coca cultivation changed its benchmark coverage from the 12-month period beginning in January to the 12-month period beginning in June to take better advantage of weather conditions. As a consequence, net cultivation estimates before 2001 are no longer directly comparable to data since 2001.

increasing complexity and costs associated with eradicating ever-smaller parcels of coca, which in turn are increasingly more dispersed over an area the size of New Jersey.¹⁹

In 2004, the Bolivian government continued efforts to eradicate illegal coca cultivation started in 1997 by then-President Hugo Banzer under the *Plan Dignidad* (Dignity Plan).²⁰ This program proved largely successful by 2000 in eliminating illegal coca cultivation grown in the tropical lowland region known as the Chapare, where no historical tradition of coca cultivation had existed previously. In September 2004, then-President Carlos Mesa endorsed a new five-year drug strategy for 2004-2008²¹ that changes focus from the Chapare region to the mountainous highlands of the Yungas region where illegal coca cultivation is currently shifting.²² The indigenous population in the Yungas has had a longstanding tradition of growing coca for traditional use in ceremonies and medicine.²³ Political challenges from *cocalero* forces have hampered the government's ability to curb increased illegal coca cultivation in the Yungas. Indeed, in October 2003, widespread protests by forces opposed to the government, including strong *cocalero* elements, successfully pressed for the resignation of then-President Gonzalo Sanchez de Lozada.²⁴ Renewed confrontations between the government and these opposition groups led to the resignation of the succeeding President, Carlos Mesa, in June 2005.²⁵ Despite such confrontations with *cocalero* elements, the government reached its goal of eradicating 8,000 hectares of cocaine in 2004.²⁶

Alternative Development

Alternative development programs have significantly raised the income levels of farmers in the Chapare, and are now aiming to adapt to the different geographical situation in the Yungas by shifting to a more integrated approach that emphasizes sustainability and increased participation by municipalities in developing, implementing, and monitoring

¹⁹ U.S. Department of State telegram, "2004 USITC ATPDEA Impact Report," prepared by U.S. Embassy, La Paz, message reference No. 2068, July 1, 2005.

²⁰ U.S. Department of State, Bureau of Western Hemisphere Affairs, "History," *Background Note: Bolivia*, August 2004.

²¹ Ministerio de Relaciones Exteriores y Culto, "Presentación de la estrategia integral boliviana de lucha contra el tráfico ilícito de drogas 2004-2008," found at http://www.rree.gov.bo/ACTUALIDADES/2004/septiembre/np07_09_04.htm, retrieved Apr. 5, 2005; and Consejo Nacional de Lucha Contra el Tráfico Ilícito de Drogas (CONALTID), *Estrategia Integral Boliviana De Lucha Contra El Trafico Illicito De Drogas 2004-2008*, found at <http://www.rree.gov.bo/ACTUALIDADES/2004/septiembre/Estrategia%202004-2008.pdf>, retrieved Apr. 5, 2005.

²² *INCSR 2005*, p. 113.

²³ National Law 1008 sets out the areas where coca may be legally grown in Bolivia. National Congress of Bolivia, Law No. 1008, *Ley del Regimen de la Coca y Sustancias Controladas del 19 de Julio 1988*, esp. articles 8 and 29.

²⁴ *INCSR 2005*, p. 113; U.S. Department of State, *Background Note: Bolivia*, August 2004.

²⁵ Bolivia's Congress accepted the resignation of President Mesa on June 9, 2005, and swore in Chief Justice of the Supreme Court, Eduardo Rodriguez Veltze, as interim president. General elections for a new president have since been set for Dec. 4, 2005. BBC News, "New Bolivia President Takes Over—Bolivia's Congress Has Accepted the Resignation of President Carlos Mesa," June 10, 2005, found at <http://news.bbc.co.uk/go/pr/fr/-/2/hi/americas/4075252.stm>, retrieved June 16, 2005.

²⁶ *INCSR 2005*, p. 114.

programs.²⁷ Unlike in the Chapare, these programs have had no effect on coca reduction in the Yungas to date, according to the U.S. State Department.²⁸ In the Chapare, where all coca cultivation is illegal, alternative development has focused on market consolidation and infrastructure to maintain coca-free activities, including projects such as land titling, tourism, and development of flower and wood products.²⁹ In the Yungas, where the government has elected not to pursue forced coca eradication because of security considerations, alternative development has not focused on crop substitution as in the Chapare. Instead, the focus has been on negotiating voluntary coca reduction with communities in exchange for social infrastructure programs, such as improving market access for high-quality coffee and other boutique crops, road and bridge building and maintenance, rural electrification, and educational scholarship programs.³⁰

In the Chapare, USAID alternative development aid has doubled the number of farm families that receive assistance to eradicate their coca plantings, reaching 28,290 families by the end of September 2004, up from 14,570 families since June 1997.³¹ The area under cultivation with licit crops has increased from approximately 105,000 hectares in 1998 to 143,887 hectares in 2004. Employment attributable to licit cultivation has increased from around 51,000 in 2002 to 62,304 in 2004.³² Farm income from licit crop production has risen on a per capita basis from around \$1,706 in 2000 to \$2,390 in 2004. In conjunction with USAID, the Bolivian government's National Institute for Agrarian Reform (*Dirección General de Reconversion Agrícola-DIRECO*) delivered 641 land titles by September 2004, with another 15,000 in various stages of completion. USAID funding also helped regional residents in nearly 300 legal cases, and built 29 new infrastructural units such as clinics, living quarters, incinerators, etc.³³

The U.S. Embassy reports that exports of alternative development products from the Cochabamba tropics (Chapare) are increasing at a record pace, reaching \$18.3 million in 2004, up 42 percent from \$12.9 million in 2003.³⁴ In particular, the Embassy cites boxed fresh bananas to Argentina and northern Chile and canned hearts of palm as major agricultural exports, followed by fresh pineapples, dried tropical fruit, and flavored teas. Palm hearts are the major export from the region to the United States, and such exports are expected to double in 2005 to over 24,000 cases. Improvements in product quality and packaging have resulted in stronger prices and a diversification of markets to include not only Bolivia's traditional trading partners of Chile and Argentina, but also France, the United States, Spain, Uruguay, and Israel. Since 1999, the area in the Cochabamba tropics planted with palm hearts has increased 187 percent, from 2,980 hectares to 8,550 hectares in 2004, based on satellite imagery. The major impediment to exports to the United States remains

²⁷ *INCSR 2005*, p. 113.

²⁸ *Ibid.*

²⁹ U.S. Department of State, Bureau for International Narcotics and Law Enforcement Affairs, "Andean Counterdrug Initiative," *International Narcotics and Law Enforcement: FY 2004 Budget Justification*, June 2003, found at <http://www.state.gov/g/inl/rls/rpt/cbj/fy2004/21881.htm>, retrieved Apr. 19, 2005.

³⁰ U.S. Department of State, "Andean Counterdrug Initiative," *International Narcotics and Law Enforcement: FY 2004 Budget Justification*, June 2003.

³¹ *INCSR 2005*, pp. 115-116; and previous reports.

³² Annual figures for USAID programs are generally given on a U.S. Government fiscal year basis running from October 1 to the following September 30.

³³ *INCSR 2005*, pp. 115-116; and previous reports.

³⁴ U.S. Department of State telegram, "2004 USITC ATPDEA Impact Report," prepared by U.S. Embassy, La Paz, message reference No. 2068, July 1, 2005.

the cost of transport from Bolivia, which affects the competitiveness of Bolivian palm hearts compared with those from Ecuador, Costa Rica, and Colombia, whose proximity to the United States and easier access to ports result in lower transport costs, faster transit times, and lower prices.³⁵

In the Yungas, USAID has completed 93 small-grant, community-oriented projects for water and sanitation, post-harvest assistance, and community development under the Yungas Development Initiative (YDI).³⁶ Assistance in coffee cultivation has reached over 9,000 families and helped increase their incomes by over 40 percent. The United States is also supporting a project jointly with the Organization of American States and the Government of Bolivia to modernize organic cacao and banana cultivation in the Yungas, which has reached 2,500 families, each averaging 2 hectares of cultivation and returning revenues of between \$1,470 and \$1,821 per year. Road infrastructure projects under USAID assistance maintained and improved over 150 kilometers of road, and assisted in the construction of eight bridges. A rural electrification program in the Yungas has completed two of four sub-projects designed to provide over 11,000 families with electricity. USAID alternative development assistance has helped train over 40,000 Yungas residents in 434 communities in disease prevention and health awareness courses. Through the YDI Community Alternative Development Fund, USAID has expanded educational investments with scholarships for 55 regional university students in the fields of agronomy, veterinary medicine, nursing, primary education, and health programs and has treated over 3,000 Yungas residents for tuberculosis, malaria, and leishmaniasis. As mentioned, however, no voluntary eradication of coca has yet resulted from alternative development activities in the Yungas.³⁷

USTR has noted that Bolivia has faced difficulties taking full advantage of opportunities presented by ATPA for a variety of reasons. These include transportation costs, problems meeting quality and service standards required by U.S. buyers, lack of knowledge about the program, and social and political unrest. Nevertheless, USTR points out that ATPA continues to be an important incentive to nurture a progressive entrepreneurial class and small business sector, which are successfully exporting to the United States under ATPA and providing much-needed jobs.³⁸

Colombia

In 2004, net coca cultivation in Colombia remained essentially unchanged at 114,100 hectares from 113,850 hectares in 2003,³⁹ the lowest figure recorded since 1998. Coca cultivation increased steadily in Colombia from the mid-1990s at a time when Bolivia and Peru began major coca eradication and suppression efforts. Colombia's net coca cultivation increased from 50,900 hectares in 1995 to a record high of 169,800 hectares in 2001. Intensive eradication efforts in 2002-2004 by the Colombian government, supported by aerial fumigation assistance from the United States, led to the first decrease in net cultivation

³⁵ Ibid.

³⁶ *INCSR 2005*, pp. 115-116.

³⁷ Ibid.

³⁸ USTR, *Second Report to the Congress on the Operation of the Andean Trade Preference Act As Amended*, Apr. 30, 2005, p. 15.

³⁹ Office of National Drug Control Policy, "2004 Coca and Opium Poppy Estimates for Colombia and the Andes," Mar. 25, 2005.

in 10 years in Colombia in 2002 to 144,450 hectares, and to a further decrease in 2003 to 113,850 hectares. As part of these eradication efforts, the air bridge denial (ABD) program⁴⁰ in Colombia completed 16 months of operation at the end of 2004, following its approval and resumption in August 2003.⁴¹ ABD operations in 2004 contributed to the destruction of 13 aircraft, the capture of 3 aircraft in Colombia and 8 others in Central America, as well as the seizure of nearly 3 metric tons of cocaine.⁴² The U.S. Embassy in Bogota reported that as of May 31, 2005, 85,142 hectares of coca had been sprayed and 5,701 hectares of coca had been manually eradicated.⁴³

Although more difficult to measure, Colombian poppy cultivation is reported to have fallen steeply (by 52 percent) between 2003 and 2004, according to the White House Office of National Drug Control Policy. The estimated 4,400 hectares of opium poppy in 2003 decreased to 2,100 hectares in 2004, with more than 4,000 hectares of poppy being eradicated manually or treated with herbicide during 2004.⁴⁴

Alternative Development

The USAID alternative development program in Colombia provides licit income and employment opportunities for small producers of coca and poppy. Assistance is also provided for social and productive infrastructure as a means for improving access to markets and services, which increases and expands legal economic opportunities. The strengthening of licit economic opportunities is intended to contribute to permanent abandonment of illicit crop production.⁴⁵

Alternative development programs in Colombia have supported the cultivation of over 60,000 hectares of licit crops and completed 874 social and productive infrastructure

⁴⁰ In the late 1980s, an aerial transportation route (or “airbridge”) developed between the coca cultivating areas of Peru and the cocaine refining areas of Colombia. Flights moved semi-refined cocaine from Peru to Colombia and return flights brought dollars from drug sales back to Peruvian traffickers and coca cultivating communities. In 1990, the United States began to consistently monitor the Peru-Colombia border airspace to confirm law enforcement information regarding the frequent use of small private aircraft to move cocaine products, and to interdict this traffic. The airbridge denial program was suspended in April 2001 after aerial forces carrying out the program mistakenly fired on a civilian plane unrelated to narcotics trafficking, killing several people. U.S. Department of State, Bureau for Narcotics and Law Enforcement Affairs, “Peru Investigation Report: The April 20, 2001 Peruvian Shootdown Accident,” Aug. 2, 2001, found at <http://www.state.gov/g/inl/rls/rpt/pir/4397.htm>, retrieved May 10, 2005.

⁴¹ Ken Guggenheim, Associated Press, “U.S., Colombia Agree on Anti-Drug Flights,” May 1, 2003, found at <http://washingtonpost.com>, retrieved May 1, 2003; George Gedda, Associated Press, “Powell OKs Colombia Anti-Drug Flights,” Aug. 5, 2003, found at <http://newsedge.com>, retrieved Aug. 15, 2003.

⁴² *INCSR 2005*, p. 131.

⁴³ U.S. Department of State telegram, “ATPDEA-related Investment Activity during 2004,” prepared by U.S. Embassy, Bogota, message reference No. 5762, June 16, 2005.

⁴⁴ Office of National Drug Control Policy, “2004 Coca and Opium Poppy Estimates for Colombia and the Andes,” press release, Mar. 25, 2005, found at <http://www.whitehousedrugpolicy.gov/news/press05/032505.html>, retrieved Mar. 28, 2005.

⁴⁵ USAID, “Summary,” *Colombia Program Description and Activity Data Sheets*, data sheet for program title: Alternative Development, July 7, 2005, found at <http://www.state.gov/g/inl/rls/fs/49022.htm>, retrieved July 11, 2005.

projects, with the help of U.S. Government funds implemented through USAID.⁴⁶ Alternative development funds have been focused on four principal activities: (1) strengthening institutions, whether private or public, national or local; (2) expanding rural infrastructure; (3) increasing licit economic opportunities; and (4) improving management of natural resources.⁴⁷ Over 50,000 families in 17 regional departments have benefited from these programs designed to encourage farmers to abandon the production of drug crops.⁴⁸ These programs have improved the delivery of public service in 35 municipalities, including the delivery of potable water and sewage treatment. In addition, U.S. assistance supported Colombian civilians in areas ravaged by the drug trade by providing non-emergency support for over 2 million internally displaced persons fleeing narcotics terrorism, including over 2,000 former child soldiers. Seven centers for peaceful coexistence have been established in small municipalities to provide administrative and legal assistance, educational opportunities, and a neutral space for community meetings, discussions, and events.⁴⁹ Through USAID, the U.S. Government has provided approximately \$584 million during 2000-2005 to support alternative development programs, democracy building, and assistance to internally displaced persons.⁵⁰

According to the U.S. Embassy, ATPA benefits have proven an important complement to counternarcotics efforts in Colombia by providing employment alternatives to Colombians who might otherwise support the drug trade.⁵¹ The U.S. Embassy estimates that ATPA created 123,000 jobs in the first 10 years of the program, and that the expanded ATPA (including ATPDEA) is expected to support 140,000 new jobs by the end of 2006. Whereas the Embassy cites “overwhelmingly positive” results of U.S. support through USAID for alternative development programs, democracy building, and assistance to internally displaced persons,⁵² the USTR notes that much of the effect of ATPA on drug crop eradication has been indirect.⁵³ Significant ATPA-related investment has flourished, although in regions where there is no presence of illegal crops.⁵⁴ Nonetheless, sectors that benefit from ATPA preferences provide an important opportunity for people who abandon illegal coca

⁴⁶ *INCSR 2005*, p. 131.

⁴⁷ U.S. Department of State, “Andean Counterdrug Initiative,” *International Narcotics and Law Enforcement: FY 2004 Budget Justification*, June 2003.

⁴⁸ *INCSR 2005*, p. 131. In recent testimony, the U.S. Department of State pointed out that the alternative development program has expanded from its initial focus on the Departments of Putumayo and Caqueta into other departments in Colombia with a high incidence or risk of coca cultivation. Jonathan D. Farrar, Deputy Assistant Secretary for International Narcotics and Law Enforcement Affairs, U.S. Department of State, “Plan Colombia: Major Successes and New Challenges,” statement before the House International Relations Committee, Washington, DC, May 11, 2005.

⁴⁹ *INCSR 2005*, p. 131. In addition to U.S. Government programs, the Government of Colombia initiated a program in 2004 to give land expropriated from narcotics traffickers to landless peasants (known as *campesinos*). In September 2004, President Uribe of Colombia announced at a press conference that as a complement to government eradication programs, this policy of asset seizure and forfeiture would also be applied to small farms as well as large ones to provide a further deterrent to cultivating illegal crops. *INCSR 2005*, p. 126-127.

⁵⁰ USTR, *Second Report*, p. 29.

⁵¹ U.S. Department of State telegram, “ATPDEA-Related Investment Activity during 2004,” prepared by U.S. Embassy, Bogota, message reference No. 5762, June 16, 2005.

⁵² *Ibid.*

⁵³ USTR, *Second Report*, p. 30.

⁵⁴ *Ibid.*

cultivation to move and take up legal employment elsewhere.⁵⁵ In addition to cacao, rubber, spices, specialty coffee, and African palm, the flower sector has proven particularly successful in terms of providing alternative employment.⁵⁶ The flower sector has generated over 100,000 new jobs, especially in the areas around Bogota and Medellin, Colombia's two largest cities.⁵⁷ With the expanded benefits under ATPDEA since 2002, the textile and apparel sector has also absorbed many new labor force entrants from the regions growing coca.⁵⁸

In addition, the U.S. Embassy pointed out that access to the U.S. market helps support alternative crop prices at economically viable levels. Also, ATPA preferences bolster support by the Colombian private sector to press their government to continue counternarcotics efforts so as to retain the commercial benefits granted under the ATPA program.⁵⁹

Ecuador

There is no evidence that significant illicit crops or drugs are produced in Ecuador, according to the U.S. State Department.⁶⁰ Ecuador eradicated its small area of coca cultivation by 1992, although it continues to be a major transit country for illegal drugs and chemicals because of its contiguous coastline and porous borders with Colombia and Peru.⁶¹ In 2004, drug seizures increased along the northern border with Colombia, adjacent to where violent conflict continues within Colombia.⁶² In 2004, Ecuadorian security forces destroyed about 3,300 mature coca plants and 14,000 seedlings in scattered locations near the northern border.⁶³ Although the absence of significant cultivation and of processing laboratories probably indicates that drug production in Ecuador is not now a serious problem, widespread poverty and proximity to Colombia and Peru threaten the possibility at any time.⁶⁴

In 2004, the Government of Ecuador published a new national drug strategy and its implementation plan.⁶⁵ The strategy calls for strengthening institutions and laws related to drug trafficking because weak public institutions, widespread corruption, and a poorly regulated financial system make Ecuador vulnerable to organized crime.⁶⁶

⁵⁵ U.S. Department of State telegram, "ATPDEA-Related Investment Activity during 2004," prepared by U.S. Embassy, Bogota, message reference No. 5762, June 16, 2005.

⁵⁶ USTR, *Second Report*, p. 30.

⁵⁷ U.S. Department of State telegram, "ATPDEA-Related Investment Activity during 2004," prepared by U.S. Embassy, Bogota, message reference No. 5762, June 16, 2005.

⁵⁸ *Ibid.*

⁵⁹ *Ibid.*

⁶⁰ *INCSR 2005*, p. 134.

⁶¹ *Ibid.*

⁶² *Ibid.*

⁶³ *Ibid.*, p. 136.

⁶⁴ *Ibid.*

⁶⁵ *Ibid.*, p. 134.

⁶⁶ *Ibid.*

Alternative Development

USAID aims to contain the spread of a coca/cocaine economy into Ecuador through the USAID Northern Border assistance program, strengthening northern border communities through an integrated strategy of preventive development.⁶⁷ Activities funded under this program include: (1) support for social infrastructure projects, such as potable water and sanitation; (2) productive infrastructure, such as farm-to-market roads, small bridges, sanitation, and irrigation canals; (3) strengthening of local government capacity and citizen participation; (4) increasing employment and income through licit productive activities, including a new project involving cacao;⁶⁸ and (5) a communications strategy and public diplomacy to create support for these activities.⁶⁹

The Government of Ecuador established in 2000 the *Unidad Ejecutora de Desarrollo Norte* (*Udenor*, the Executive Unit for Development of the North) to coordinate economic and social development programs in the northern border region. In 2004, Udenor continued its implementation of the government's \$465 million master plan to help develop the region.⁷⁰ The plan aims at "preventive" rather than "alternative" development because illegal crop cultivation is not currently significant in the northern border region, although coca cultivation is a severe problem in the immediately adjacent region of Colombia, such as the province of Putumayo. The plan, largely dependent on the support of foreign donors such as USAID, seeks to increase citizen satisfaction with the performance of local democratic institutions; with the increased availability of basic infrastructure such as potable water, sanitation, and bridges; and with increased licit employment and income for small and medium-sized farmers in the northern border region.⁷¹

ATPA has played an important role in providing trade opportunities for agricultural industries in Ecuador. These opportunities provide Ecuadorians with jobs that, in turn, help deter them from becoming involved in growing narcotic crops and prevents the entrenchment of narcotics trafficking in Ecuador. The U.S. Embassy in Quito notes that ATPA's contribution to the growth of Ecuador's cut-flower industry has been particularly important in providing job opportunities. In addition, the cultivation of fresh fruits, vegetables, and cereals in the highlands of Ecuador is beginning to provide similar employment and export opportunities. In particular, the Embassy cited strong growth in 2004 of exports to the United States of broccoli, pineapple, and asparagus.⁷²

⁶⁷ USAID, *USAID Budget-Ecuador*, "Complete USAID/Ecuador Program," found at <http://www.usaid.gov/policy/budget/cbj2005/lac/ec.html>, data sheet for program title "Northern Border Development," found at <http://www.usaid.gov/policy/budget/cbj2005/lac/pdf/518-013.pdf>, retrieved May 4, 2005.

⁶⁸ The Sustainable Cacao Research Tree Project is administered by the United States Department of Agriculture to continue the work done by the agricultural research institute of the Government of Ecuador to improve the quantity and quality of Ecuador's cacao production so as to deter future illegal crop cultivation. U.S. Department of State, "Andean Counterdrug Initiative," *International Narcotics and Law Enforcement: FY 2004 Budget Justification*, June 2003.

⁶⁹ USAID, *USAID Budget-Ecuador*, "Complete USAID/Ecuador Program."

⁷⁰ *INCSR 2005*, p. 137.

⁷¹ *Ibid.*

⁷² U.S. Department of State telegram, "USITC 2004 Annual Andean Investment and Drug Crop Survey for Report on ATPA," prepared by U.S. Embassy, Quito, message reference No. 1621, July 8, 2005.

Peru

Net coca cultivation in Peru declined dramatically (by 73 percent) between 1995 and 2000, from 115,300 hectares to 31,700 hectares in 2000. Net coca cultivation has fluctuated slightly since 2000, reaching its record low of 27,500 hectares in 2004, according to figures revised by the CNC in July 2005. Eradication declined in 2004, down 9 percent to 10,339 hectares.

The Peruvian National Police has warned that coca cultivation in late 2004 and 2005 may be increasing significantly.⁷³ In a joint coca survey conducted by the United Nations Office on Drugs and Crime (UNODC) and the Government of Peru published in June 2005, dense new cultivation has recently been discovered in areas beyond the traditional coca growing valleys and outside the zones typically mapped by aerial surveillance and satellite-based imagery.⁷⁴ In addition, the United Nations suggests that productivity per hectare may be increasing in Peru owing to better coca farming techniques with increasing yields at the farm level as well as at cocaine laboratories.⁷⁵

Although the Government of Peru has been unable to measure the size of poppy cultivation in Peru, the upward trend in seizures of opium products indicates that poppy cultivation may also be increasing in Peru.⁷⁶

Alternative Development

The USAID alternative development program is a key component of the U.S. Government's comprehensive counternarcotics strategy in Peru. It focuses on four areas: (1) providing immediate economic and social impact by generating temporary income, supporting basic services, and promoting community organization where coca is voluntarily eradicated; (2) promoting sustainable economic and social development in and around the primary coca growing areas through infrastructure projects, and technical assistance and training to small farmers, private sector entrepreneurs, and government entities; (3) improving the policy and

⁷³ 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 (*Comision Nacional para el Desarrollo y Vida sin Drogas*, National Commission for Development and Life without Drugs) is the counternarcotics agency of the Government of Peru.

⁷⁴ See United Nations, Office on Drugs and Crime, *Peru—Coca Cultivation Survey 2004*, June 2005; Devida, "Cultivos de coca se incrementaron a 48 mil 600 hectareas 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*, p. 48.

⁷⁵ United Nations Office on Drugs and Crime, *Peru—Strategic Programme Framework—2004-2007*, July 1, 2004, p. 1.

⁷⁶ The Peruvian National Police eradicated 98 hectares of opium poppy in 2004 and seized 285 kilograms of opium latex. Statement by John P. Walters, Director, Office of National Drug Control Policy, "The Andes: Institutionalizing Success," testimony before the House Committee on International Relations, May 11, 2005; and U.S. Department of State telegram, "Peru: 2005 ATPDEA Eligibility Report," prepared by U.S. Embassy, Lima, message reference No. 1346, Mar. 21, 2005. There are indications that narcotics traffickers are attempting to "jump-start an opium poppy-growing industry in Peru by providing seeds to farmers to grow in high-altitude, difficult-to-reach locations." See U.S. Department of State, "Andean Counterdrug Initiative," *International Narcotics and Law Enforcement: FY2004 Budget Justification*, June 2003.

institutional framework related to alternative development and counternarcotics activities through studies and technical assistance; and (4) generating political will, encouraging key behavior change, and disseminating information to beneficiaries through a broad communications program.⁷⁷

In 2004, USAID continued work on over 100 projects in Peru aimed at reducing coca cultivation through increasing economic competitiveness in coca growing areas, strengthening the rule of law, and improving local governance.⁷⁸ USAID assistance has helped promote licit production, increasing such sales by \$3.4 million from nearly 20,000 hectares in 2004; over 27,000 families have voluntarily eradicated 7,271 hectares of coca since October 2002, of which nearly 2,500 hectares of coca were eradicated during 2004.⁷⁹ In 2004, the alternative development program helped maintain and improve 205 kilometers of road, assisted in the construction or maintenance of 12 bridges and irrigation projects, and helped bring rural electrification to six communities.⁸⁰ Key among these transportation projects is a \$30 million rehabilitation of 170 kilometers of the Fernando Belaunde Terry Highway, which reduces transport time for legitimate agricultural produce by eight hours between the coca growing areas in the Huallaga Valley and markets.⁸¹ USAID assistance also built or rehabilitated 134 schools, health posts, and water systems in 2004.⁸²

According to the U.S. Embassy in Lima, ATPA has provided significant economic benefits to Peru, particularly through increased exports of apparel and agricultural products.⁸³ As noted by USTR, the growth in exports to the United States under ATPA has fostered economic development, which is vital to creating employment and alternatives to drug-crop production.⁸⁴ As in the past, the asparagus industry continued to be an important source of alternative employment, supporting an estimated 60,000 workers directly in asparagus cultivation and processing in 2004.⁸⁵ The U.S. Embassy reported that based on the success of asparagus and mangoes, local producers have begun to grow and export other vegetables and fruits to the United States, including grapes, onions, artichokes, and paprika.⁸⁶ The Embassy of Peru in the United States reports one example of an agricultural community (ASLUSA) that grows hearts of palm for export to the United States, whose members are “former coca leaf growers [who] have reoriented their activities into non-traditional agriculture export.”⁸⁷ The Peruvian embassy reports that ASLUSA expects to reach a total of \$1 million in exports by the end of 2005.

⁷⁷ USAID, “Summary,” *Peru Program Description and Activity Date Sheets*, data sheet for program title: Alternative Development, July 11, 2005, found at <http://www.state.gov/g/inl/rls/fs/49122.htm>, retrieved July 11, 2005.

⁷⁸ *INCSR 2005*, p. 146.

⁷⁹ *Ibid.*

⁸⁰ *Ibid.*

⁸¹ *Ibid.*

⁸² *Ibid.*

⁸³ U.S. Department of State telegram, “USITC 2004 Annual Andean Investment and Drug Crop Survey for Report on ATPA,” prepared by U.S. Embassy, Lima, message reference No. 2878, June 30, 2005.

⁸⁴ USTR, *Second Report*, pp. 40-41.

⁸⁵ *Ibid.*, p. 40.

⁸⁶ U.S. Department of State telegram, “USITC 2004 Annual Andean Investment and Drug Crop Survey for Report on ATPA,” prepared by U.S. Embassy, Lima, message reference No. 2878, June 30, 2005.

⁸⁷ Embassy of Peru in Washington, DC, “Foreign Markets: Hearts of Palm,” *News from Peru*, vol. 1, No. 1, May 2005.

The textile and apparel sector, dominated by small and medium-sized enterprises, is also an important source of job creation in Peru.⁸⁸ This sector, which in 2004 provided an estimated 150,000 direct and 350,000 indirect (including cotton cultivation) jobs, is expected to continue to expand in response to ATPDEA benefits and could support increased cotton cultivation, which would serve as an important alternative to coca production.⁸⁹

The United Nations points out that there is no lack of commercially viable sustainable livelihood schemes in Peru, but that these schemes to generate legal farm income with commercially viable agro-industrial products are not reaching enough coca growers.⁹⁰ The United Nations estimates that in 2003, former coca growers working with the UNODC sold locally or exported over \$5 million worth of specialty coffee, organic cocoa, palm hearts, palm oil, fruits, and natural rubber,⁹¹ but that these opportunities for legal income reach less than 40 percent of the coca growers.⁹² Government presence is thin in most of the coca growing areas of the country, according to the UNODC, and this both facilitates drug production and complicates maintaining alternative development projects, funded mainly by the United States but also with the help of Germany, the European Union, and UNODC.

⁸⁸ U.S. Department of State telegram, "USITC 2004 Annual Andean Investment and Drug Crop Survey for Report on ATPA," prepared by U.S. Embassy, Lima, message reference No. 2878, June 30, 2005.

⁸⁹ USTR, *Second Report*, p. 41.

⁹⁰ United Nations Office on Drugs and Crime, *Peru—Strategic Programme Framework*, p. 1.

⁹¹ Also plantain and native cotton. See U.S. Department of State, "Andean Counterdrug Initiative," *International Narcotics and Law Enforcement: FY 2004 Budget Justification*, June 2003. Devida, the Peruvian counternarcotics agency, has approved investments for the production of cacao, coffee, plantains, citrus fruits, pineapple, rice, palm hearts, camu camu fruit, cotton, corn, and palm oil. Devida reports Malaysian investor interest in palm plantings. Devida, "Devida abre frentes para la lucha contra las drogas," press release, Feb. 11, 2005.

⁹² United Nations Office on Drugs and Crime, *Peru—Strategic Programme Framework*, p. 1.

APPENDIX A
***Federal Register* Notice**

2. Inventory of Water Resources.
3. BMPs for Agricultural Contractors.
4. BMPs for Urban Contractors.
5. BMP Plan Implementation.
6. BMP Exemption Justification.

Reclamation will evaluate Plans based on these Criteria. A copy of these Plans will be available for review at Reclamation's Mid-Pacific Regional Office located in Sacramento, California, and the local area office.

Our practice is to make comments, including names and home addresses of respondents, available for public review. Individual respondents may request that Reclamation withhold their home address from public disclosure, and we will honor such request to the extent allowable by law. There also may be circumstances in which Reclamation would elect to withhold a respondent's identity from public disclosure, as allowable by law. If you wish us to withhold your name and/or address, you must state this prominently at the beginning of your comments. We will make all submissions from organizations, businesses, and from individuals identifying themselves as representatives or officials of organizations or businesses available for public disclosure in their entirety. If you wish to review a copy of these Plans, please contact Ms. Barbre to find the office nearest you.

Dated: February 28, 2005.

Donna E. Tegelman,
Regional Resources Manager, Mid-Pacific
Region, Bureau of Reclamation.
[FR Doc. 05-5496 Filed 3-18-05; 8:45 am]
BILLING CODE 4310-MN-P

INTERNATIONAL TRADE COMMISSION

[Investigation No. 332-352]

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

AGENCY: International Trade
Commission.

ACTION: Notice of opportunity to submit
comments in connection with the 2004
ATPA report.

DATES: *Effective Date:* March 11, 2005.

FOR FURTHER INFORMATION CONTACT:
Joanne Guth (202-205-3264 or
joanne.guth@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 annual 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 eleventh report, covering calendar year 2004, is to be submitted by September 30, 2005.

Written Submissions: The Commission does not plan to hold a public hearing in connection with the preparation of this eleventh 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 10, 2005. 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, ftp://ftp.usitc.gov/pub/reports/electronic_filing_handbook.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: March 15, 2005.

By order of the Commission.

Marilyn R. Abbott,
Secretary.

[FR Doc. 05-5464 Filed 3-18-05; 8:45 am]
BILLING CODE 7020-02-P

INTERNATIONAL TRADE COMMISSION

[Investigation No. 701-TA-438 (Final)]

Live Swine From Canada

AGENCY: United States International
Trade Commission.

ACTION: Termination of investigation.

SUMMARY: On March 11, 2005, the Department of Commerce published notice in the **Federal Register** of a negative final determination of

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

Michigan Asparagus Advisory Board¹

The Michigan Asparagus Advisory Board (MAAB) provided data and other information concerning how the importation to the United States of duty free asparagus from Peru as a part of ATPA has “injured U.S. asparagus growers.” Specifically, the MAAB pointed out that before ATPA was initiated, “U.S. imports of Peruvian asparagus were not much more than 4 million pounds and imports were counter-seasonal to the bulk of U.S. production.” The MAAB goes on to note that “by 2004, U.S. imports of Peruvian asparagus exceeded 87 million pounds.... Moreover, Peruvian asparagus is now produced and imported year-round, significantly reducing the window of opportunity for domestic producers.” According to data collected by the MAAB, this upsurge in Peruvian asparagus imports has caused Michigan producers to earn “32 percent less for bulk asparagus delivered to processors than 1 year ago,” and that “by June 2005, all canning operations in Washington State will have relocated to Peru.” The MAAB also states that between the passing of ATPA and 2004, the asparagus acreage in Washington State has dropped by 20,000 acres. It is for these reasons that the MAAB recommends “withdrawing trade concessions on fresh asparagus during the months February-July, and cap the amount of frozen and canned asparagus that could enter duty free.”

International Intellectual Property Alliance²

The International Intellectual Property Alliance (IIPA), a private sector coalition that represents U.S. copyright-based industries in bilateral and multilateral efforts to improve international protection of copyrighted materials, directed its comments once again toward the “challenges and difficulties [the] four ATPA beneficiary countries have encountered in satisfying their ATPA obligations to provide ‘adequate and effective protection’ to U.S. copyright owners, as required under [the] program’s eligibility criteria.” Chief among the challenges noted by the IIPA is that the ATPA countries, which have made strides to reform existing laws in the copyright field, continue to do so in order to improve their efforts to combat and cut down on copyright piracy within their domestic markets. According to the IIPA, music piracy among all four ATPA countries in 2004 exceeded 70 percent and movie piracy was estimated at 75 percent in both Colombia and Peru and at 100 percent in Bolivia. Because of copyright piracy within the ATPA nations, the IIPA estimates that U.S. companies suffered nearly \$300 million in trade losses. The IIPA submitted a detailed report of each ATPA country’s piracy, enforcement, and reforms as well as a report detailing USTR actions toward the ATPA countries in response to these copyright piracy issues.

¹ Submission to the Commission by John Bakker, Executive Director of the Michigan Asparagus Advisory Board, received June 7, 2005.

² Submission to the Commission by Maria Strong, Vice President and General Counsel of the International Intellectual Property Alliance, received June 8, 2005.

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 2004.¹ The economic effects of ATPA duty reductions² were evaluated with a comparative static analysis. Since ATPA tariff preferences were already in effect in 2004, 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 2004. However, the material on welfare and displacement effects, in the section titled “Analytical Approach” in the Introduction and in this appendix, discusses the impact of ATPA in terms of duty reductions, rather than the “removal” of duty eliminations already in place.³ 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.⁴ 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.⁵ 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

¹ As discussed in chapter 1, the term “ATPA” refers to ATPA as amended by ATPDEA.

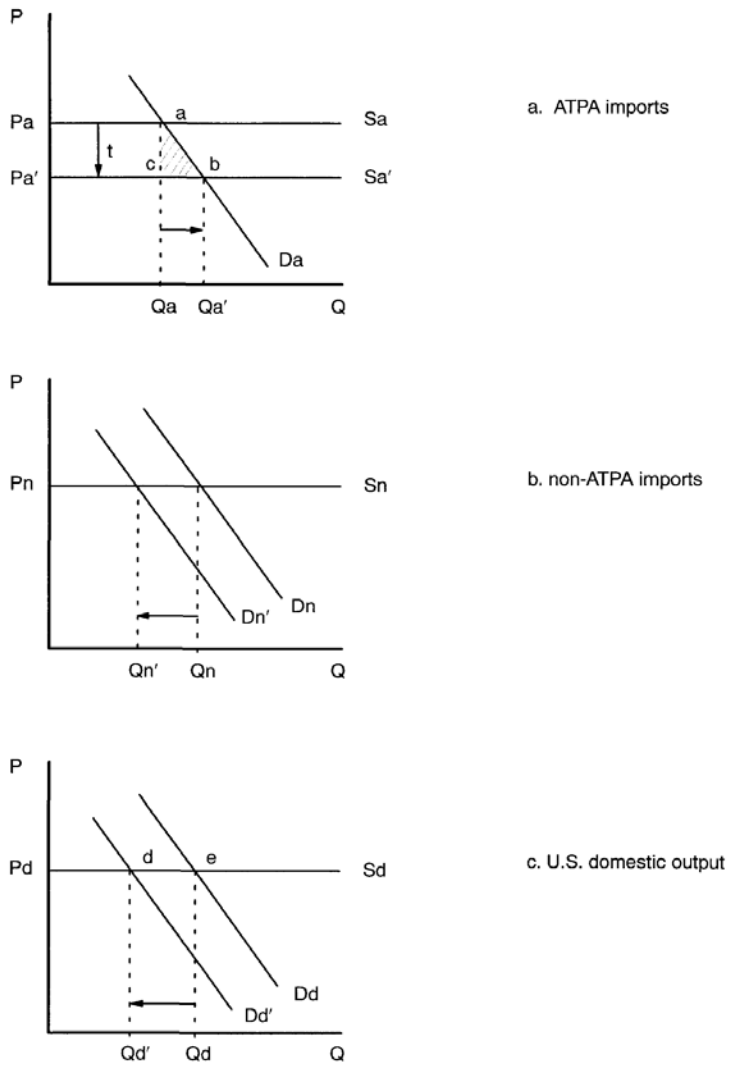
² Although the term “duty reduction” is used, the methodology employed in the analysis for this report applies equally to a duty elimination (which is a duty reduction in the full amount of the duty).

³ 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.

⁴ 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.

⁵ The subscripts a, n, and d refer to ATPA imports, non-ATPA imports, and U.S. domestic output, respectively.

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



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.⁶

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 .⁷ 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:

$$(1) \quad (Q_a/Q_a') = (P_a/P_a')^{\epsilon_{aa}}$$

$$(2) \quad (Q_n/Q_n') = (P_a/P_a')^{\epsilon_{na}}$$

$$(3) \quad (Q_d/Q_d') = (P_a/P_a')^{\epsilon_{da}}$$

⁶ 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.

⁷ 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.

Given that $P_a = P_a'(1+t)$, these can be restated

$$(1)' \quad (Q_a/Q_a') = (1+t)^{\epsilon_{aa}}$$

$$(2)' \quad (Q_n/Q_n') = (1+t)^{\epsilon_{na}}$$

$$(3)' \quad (Q_d/Q_d') = (1+t)^{\epsilon_{da}}$$

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:

$$(4) \quad \epsilon_{aa} = V_a \eta - V_n \sigma_{na} - V_d \sigma_{da}$$

$$(5) \quad \epsilon_{na} = V_a (\sigma_{na} + \eta)$$

$$(6) \quad \epsilon_{da} = V_a (\sigma_{da} + \eta)$$

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 i th and j th products.⁸ Estimates of the aggregate demand elasticities were taken from the literature.⁹ 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.¹⁰

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

⁸ Equations (4) through (6) are derived from P.R.G. Layard and A.A. Walters, *Microeconomic Theory* (New York: McGraw-Hill, 1978).

⁹ 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.

¹⁰ Commission industry analysts provided evaluations of the substitutability of ATPA products and competing U.S. products for each product, 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.

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 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)

$$\begin{aligned}
 &\text{area of} \\
 &\text{trapezoid } P_a a b P_a' = \int_{P_a'}^{P_a} k P_a^{\epsilon_{aa}} dP_a \\
 &= [1/(1+\epsilon_{aa})] [(1+t)^{(1+\epsilon_{aa})} - 1] P_a' Q_a' \text{ if } \epsilon_{aa} \neq -1 \\
 &= k \ln(1+t) \qquad \qquad \qquad \text{if } \epsilon_{aa} = -1
 \end{aligned}$$

Tariff revenue from U.S. imports from ATPA partners

$$\begin{aligned}
 &\text{area of} \\
 &\text{rectangle } P_a a c P_a' = (P_a - P_a') Q_a \\
 &= P_a' t Q_a \qquad \qquad \text{given } P_a = P_a' (1+t) \\
 &= t P_a' Q_a' (1+t)^{\epsilon_{aa}} \qquad \text{given } Q_a = Q_a' (1+t)^{\epsilon_{aa}}
 \end{aligned}$$

Domestic output

$$\begin{aligned}
 &\text{area of} \\
 &\text{rectangle } Q_d' d e Q_d = P_d (Q_d - Q_d') \\
 &= P_d Q_d' [(1+t)^{\epsilon_{da}} - 1]
 \end{aligned}$$

The change in the value of U.S. cut apparel parts = $u P_a' Q_a' [(1+t')^{\epsilon_{aa}} - 1]$, 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

$$P_d Q_d' [(1+t)^{\epsilon_{da}} - 1] + u P_a' Q_a' [(1+t')^{\epsilon_{aa}} - 1].$$

