

Testimony on Renewal of the Andean Trade Preference Act

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Before the

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Subcommittee on International Trade**

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Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to appear before the Subcommittee to discuss the Administration's position on the renewal of the Andean Trade Preference Act, or ATPA. Renewal of this legislation is a high priority for the Administration and we trust that it is for the Congress as well, as the ATPA represents a critical intersection of our trade and anti-narcotics policies. As virtually all cocaine sold in the United States originates in the ATPA countries, the ATPA functions as a U.S. trade policy tool that contributes to our fight against drug production and trafficking. With the current ATPA program due to expire in just four months, the Administration appreciates your Subcommittee's attention to this issue and encourages the Congress as a whole to address the future of the program with some urgency.

THE ATPA'S TRACK RECORD

The first question to address in deciding whether to renew the ATPA program is whether the current program has worked. The primary goal of the ATPA, as originally enacted in 1991, is to promote export diversification and broad-based economic development that provides sustainable economic alternatives to drug-crop production in the Andean region. The Administration's analysis shows that the ATPA has been achieving this goal.

Over the last decade, the ATPA countries have been making important gains in the fight against drugs, thanks in part to alternative development programs in each of these countries which have successfully provided former drug-crop producers with viable income alternatives. The ATPA has generated significant job opportunities in a variety of sectors, including cut flowers, non-traditional fruits and vegetables, jewelry and certain electronics inputs.

The positive impact of the ATPA on U.S. trade with the four ATPA beneficiary countries – Bolivia, Colombia, Ecuador and Peru – is striking. Between 1991 and 2000, total two-way trade doubled. During this time period, Andean exports to the U.S. increased 124 percent.

The portion of U.S. imports from ATPA countries entering under ATPA provisions rose gradually since the program began, to 19.7 percent in 1998. In both 1999 and 2000, the portion was 17.8 percent, primarily reflecting the surge in oil prices that inflated the value of petroleum imports outside the ATPA program.

Despite some serious economic and political difficulties the beneficiary countries have experienced since the program went into effect, the ATPA has begun to show important success in meeting one of its major goals: contributing to export diversification in beneficiary countries. This has particularly been the case in Colombia and Peru. Although traditional exports (such as raw materials and derivatives, including petroleum, and agricultural products, such as coffee and bananas) remain an important component of each country's overall export mix, exports of nontraditional products have grown. Cut flowers remains the dominant import under the ATPA, but its relative importance in the program has been declining in recent years as imports in other categories have increased, such as copper cathodes, pigments, processed tuna, and zinc plates. Imports of nontraditional agricultural products, such as asparagus, mangoes and wood products, have also grown considerably under the ATPA.

It is worth noting that U.S. exports to the beneficiary countries have grown substantially over this period. During this time period, U.S. exports grew 66 percent. The United States is the leading source of imports and the leading export market for each of the ATPA countries. Thus, overall the ATPA has benefitted the trade of both the Andean region and the United States.

THE FUTURE OF THE ATPA

The second question I would like to address is what a renewed ATPA should look like. Is it sufficient to simply renew the current program without changes? We believe it is not.

The current ATPA excludes from preferential tariff treatment a number of products, the sum total of which represents about 40 percent of the exports of these countries to the United States. We need to design a program that is as beneficial to the region as possible, to advance the interests of both the United States and the region.

The industrial structures and comparative advantage of various regions of the world differ. This helps explain why the product coverage of the Caribbean Basin Trade Partnership Act is different from that of the African Growth and Opportunity Act. We should look closely at crafting provisions which take into account the unique economic and security issues affecting Andean countries.

The Administration is committed to continuing to work with you and with your counterparts in the House to achieve Congressional passage this year of an ATPA bill with the broadest possible product coverage.

BEYOND THE ATPA TO THE FREE TRADE AREA OF THE AMERICAS

As enthusiastic as the Administration is about a renewed and expanded ATPA, we do not see it as a long-term solution to the need to strengthen the legitimate economies of the region as an alternative to narcotics production. We see it as a bridge to the Free Trade Area of the Americas, or FTAA.

The Andean countries are full partners with us in the negotiation of the FTAA. The talks are due to conclude by January 2005 and enter into force by December 2005. To provide the necessary bridge to the FTAA we believe the ATPA should be extended through 2005. Once in force, the FTAA will significantly expand the trade and investment opportunities facing the Andean countries:

- Eliminating trade barriers facing goods will expand the markets available to exporters in the region, not just in the United States but also in the other countries of the hemisphere.
- Eliminating barriers to trade in services will strengthen the Andean economies, by promoting transparency, competition, and impartial regulation of such sectors as telecommunications, insurance and financial services. The efficiency gains in these sectors will lead to productivity gains throughout their economies. Strengthening the financial sector has the added benefit of reducing the risk of future financial crises.
- By creating the world's largest free trade area, encompassing nearly 800 million people, the FTAA will be a major stimulus for investment in all our economies. It will not only increase domestic investment, which is critical in Latin America, where savings rates are undesirably low. It will also attract investment from outside the region, similar to the way NAFTA has provided a strong incentive for European and Asian direct investment in all three North American economies.
- The FTAA will reinforce the values of openness, accountability, democracy, and the rule of law, all of which are also critical to any successful effort to combat narcotics trafficking.

BILATERAL TRADE RELATIONS

Meanwhile, we are working to strengthen our trade ties with the region in other respects as well.

For example, the Administration has worked with the Andean Governments to promote full implementation of their WTO obligations and respect for the rule of law in such areas as intellectual property, trade-related investment measures and customs valuation, which are critical to creating favorable business climates in their countries.

We also have pursued bilateral investment treaties, or BITs, with the countries of the region. These BITS provide mutual benefits by enhancing investor certainty and confidence, thus helping to create jobs and long-term growth which are inherently desirable and also help economies diversify away from narcotics. BITs are in force between the United States and both Ecuador and Bolivia, and we are in various stages of exploratory talks with Colombia and Peru on possible BITs.

CONCLUSION

In conclusion, Mr. Chairman, the Administration believes that the Andean Trade Preference Act has proven to be a key component of our counter-narcotics efforts in the region. It has been a part of a larger bipartisan strategy to address narcotics production and trafficking directly while providing the affected nations healthier alternatives.

The ATPA has shown results, but we can and should do more to ensure that the program reaches its greatest possible potential. Our longer term vision for the region includes involving them in a web of hemispheric partnership through the FTAA, but that agreement is still a few years away. We need to provide the region a promising bridge to the future of our trade relationship.