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The Impact of the Andean Trade Preference Act

Tenth Report 2003

Investigation No. 332-352
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Andean Trade Preference Act: Impact on U.S. Industries and Consumers and on Drug Crop Eradication and Crop Substitution

Tenth Report 2003

Investigation No. 332-352

Publication 3725 **September 2004**

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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 2003 and represents the tenth 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 2003. 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 2003. 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 in most sectors. Nonetheless, the Commission identified recent investments in the textile and apparel sector in response to ATPDEA benefits. These investments will probably generate increased U.S. imports of textile and apparel articles in the future.

ATPA continued to have a small, indirect, but positive effect on drug-crop eradication and crop substitution efforts in the ATPA countries in 2003. According to official U.S. Department of State statistics, coca eradication reached a record high for a second consecutive year, driven primarily by the largest-ever eradication efforts in Colombia. As a result, net coca cultivation in the ATPA countries declined to a record low in 2003. ATPA trade preferences, by supporting such industries as flowers in Colombia and asparagus in Peru, also provided jobs for workers who might otherwise have participated in illicit coca cultivation.

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

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List of Frequently Used Abbreviations and Acronyms

AD	alternative development
ATPA	Andean Trade Preference Act
ATPDEA	Andean Trade Promotion and Drug Eradication Act
CBERA	Caribbean Basin Economic Recovery Act
CBTPA	Caribbean Basin Trade Partnership Act
Commission	U.S. International Trade Commission
ECLAC	United Nations Economic Commission for Latin America and the Caribbean
EPA	U.S. Environmental Protection Agency
FDI	foreign direct investment
FTA	free-trade agreement
FY	fiscal year
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
GSP	Generalized System of Preferences
HTS	Harmonized Tariff Schedule
INCB	International Narcotics Control Board
INCSR	International Narcotics Control Strategy Report
IPR	intellectual property rights
NAFTA	North American Free-Trade Agreement
NTR	normal trade relations
SME	square meter equivalent
TRQs	tariff-rate quotas
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 2003 marked the first full year that ATPDEA was in effect.

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

This report, the tenth in a series, covers the impact on the United States of ATPA during calendar year 2003. Section 206 of ATPA requires the U.S. International Trade Commission (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 2003. Sources of information included data from the U.S. Department of Commerce, interviews with other government agencies, reports from U.S. embassies, and other published sources. In addition, the Commission solicited public comment for this investigation by publishing a notice in the *Federal Register*.[2]

Main Commission Findings

- Of the $5.8 billion in U.S. imports that entered under ATPA in 2003, imports valued at $5.2 billion could not have received tariff preferences under any other program. The five leading products benefiting exclusively from ATPA in

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

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

2003 were heavy crude oil; light crude oil; copper cathodes from Peru, which had exceeded its GSP competitive-need limit; fresh-cut roses; and light fuel oil. Heavy crude oil, light crude oil, and light fuel oil 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 2003. In 2003, the value of duty-free U.S. imports under ATPA accounted for about 0.5 percent of total U.S. imports, or nearly 0.05 percent of the U.S. gross domestic product (GDP).
- Knitted cotton tops provided the largest gain in consumer surplus ($27 million to $31 million) from lower prices and higher consumption resulting exclusively from ATPA tariff preferences in 2003. Men's or boys' knitted cotton shirts provided the second-largest gain in consumer surplus ($18 million to $20 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 2003. Knitted cotton tops yielded the largest net welfare gain, valued at $3.2 million to $5.5 million, followed by men's or boys' knitted cotton shirts and knitted cotton t-shirts.
- 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 2003, based on upper estimates, were those producing asparagus (2.5 percent to 9.0 percent displacement, valued at $4.0 million to $14.5 million); fresh-cut roses (1.2 percent to 7.2 percent displacement, valued at $606,000 to $3.8 million); and chrysanthemums, carnations, anthuriums, and orchids (1.0 percent to 6.3 percent displacement, valued at $295,000 to $1.8 million).
- The probable future effect of ATPA on the United States is expected to be minimal in most economic sectors. The largest future effect of ATPA will likely result from the enhanced preferences granted under ATPDEA. The Commission was able to identify recent new and expansion-related investments in the textile and apparel sector as well as investments to retool tuna plants to produce pouched tuna in response to ATPDEA benefits. The Commission was also able to identify investments in the export-oriented production of other ATPA-eligible products, including flowers, leather goods, jewelry, and cookies and candy.
- In 2003, ATPA is estimated to have had a small, indirect, but positive effect in support of illicit coca eradication and crop substitution efforts in the Andean region, despite the program's lapse during much of the previous year. Coca eradication in the region reached a record high in 2003 for a second consecutive year, driven largely by the continuation of the largest ever eradication efforts in Colombia. As a result, net coca cultivation in the ATPA countries declined to a record low in 2003. By supporting such industries as flowers in Colombia and asparagus in Peru, ATPA also remained an important source of employment creation for workers who might otherwise have grown illicit coca or entered the drug trade.

- In testimony before the Commission and the Office of the U.S. Trade Representative's interagency Trade Policy Staff Committee concerning a proposed U.S.-Andean free trade agreement (FTA), industry and foreign government officials expressed support for an FTA. They indicated that an FTA would act like an "ATPDEA-plus mechanism," and would attract investment, promote development, and create jobs, which would provide alternatives to illegal drug-related activities.

Trade-related Activities in 2003

- In 2003, U.S. imports from ATPA countries, at $11.6 billion, as well as the U.S. trade deficit with ATPA countries, at $5.1 billion, reached record levels. U.S. imports from ATPA countries increased in 2003, owing to a stronger U.S. economy and the steep decline in the dutiable portion of U.S. imports from the region.
- U.S. exports to ATPA countries, at $6.5 billion in 2003, have remained relatively constant since 1999, when they declined by 28 percent over the 1998 level. The continued volatile political environment and poor economic conditions in the region in recent years depressed demand for U.S. exports.
- The dutiable portion of U.S. imports from ATPA countries shrank steeply in 2003 to 14 percent of the total compared with 48 percent in 2002 (the year with long lapses of both ATPA and GSP) and 40 percent in 2001. The causes of this decline were renewed ATPA and GSP preferences and the implementation of ATPDEA.
- All 20 leading imports from ATPA countries except canned tuna were eligible for duty-free treatment in 2003 under NTR tariff rates, ATPA, or GSP.
- Because 2003 was the first complete year under the expanded ATPA (the original ATPA and ATPDEA combined), imports under ATPA during the year, at $5.8 billion, are not comparable with imports under ATPA in prior years. Whereas in 2001 (the last complete year under the original ATPA) imports under the program accounted for 17.3 percent of total U.S. imports from ATPA countries, imports under the expanded ATPA in 2003 were responsible for more than half (50.6 percent) of that total.
- Following implementation of ATPDEA, the composition of imports under ATPA changed significantly. In 2003, 11 products on the list of 20 leading imports under ATPA were ATPDEA products. Petroleum and apparel products combined, both newly eligible for ATPA trade preferences under ATPDEA, accounted for over 70 percent of all imports under the expanded program. In comparison, in 2001, the two largest product groups under the original ATPA were copper articles and flowers, which combined accounted for 49 percent of the total.

- The implementation of ATPDEA affected the composition of U.S. imports under ATPA from beneficiary countries to different degrees. Because petroleum derivatives are high-value ATPDEA products, their duty-free entry under ATPA in 2003 raised the relative shares of Colombia and Ecuador in U.S. imports under ATPA at the expense of Peru and Bolivia. Compared with 2001, the last full year of the original ATPA, Colombia's share of U.S. imports under ATPA climbed from 43 percent to nearly 50 percent in 2003, and Ecuador's share more than doubled, from 13 percent to nearly 27 percent. Meanwhile, Peru's share of imports under ATPA dropped from 41 percent in 2001 to 22 percent in 2003, even though Peru is an important exporter to the United States of newly duty-free apparel products. Bolivia's share of imports under ATPA dropped from 3.2 percent in 2001 to 1.6 percent in 2003.
- Electrical and non-electrical machinery–principally for oil and gas extraction, mining, and data processing–remained the leading U.S. exports to ATPA countries in 2003, accounting for over one-third of all such exports. The region is also a stable market for U.S. cereals; wheat and corn were the second and third leading U.S. export products to ATPA countries during the year. U.S. exports of organic chemicals and petroleum derivatives continued to increase.
- In 2003, Colombia received 53.6 percent; Peru, 23.8 percent; Ecuador, 20.0 percent; and Bolivia, 2.6 percent of total U.S. exports to ATPA countries. U.S. exports increased to Colombia and Peru and declined to Ecuador and Bolivia.

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 recently launched free-trade agreement (FTA) negotiations.[4]

This report fulfills a statutory mandate under ATPA that the U.S. International Trade Commission (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 tenth in the series and covers calendar year 2003. This report will be the first to include full-year data on U.S. imports under ATPA, as amended by ATPDEA.

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

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[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 Nov. 18, 2003, the Bush Administration formally notified Congress of its intent to initiate negotiations for a free trade agreement with the four ATPA beneficiary countries. 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. 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)).

term "original ATPA" will be used so that the scope and requirements of that statute can be discussed appropriately.

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 2003. Chapter 3 estimates the effects of ATPA in 2003 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 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. 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.[6] The following sections summarize ATPA provisions concerning beneficiaries, trade benefits, and qualifying rules, and the relationship between ATPA and the GSP.

Beneficiaries

Bolivia, Colombia, Ecuador, and Peru are the only countries eligible under the statute to be designated by the President for ATPA benefits.[7] 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

[6] 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.

[7] 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.

of duty-free treatment to any article of any country;[8] the President can withdraw, suspend, or limit ATPDEA benefits even if preferences under the original ATPA are continued. The statute requires the President, when determining whether to designate a country for benefits under the original ATPA, to take into account a number of considerations, including whether that country has met the criteria for U.S. narcotics cooperation certification.[9] The statute also requires ATPA beneficiary countries, among other things, to take steps to afford internationally recognized worker rights as defined under the GSP program[10] and to provide effective protection of intellectual property rights (IPR), including copyrights for film and television material.[11] By 1993, the President had designated all four countries as eligible for ATPA benefits,[12] 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.[13]

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 he or she must consider in designating countries as ATPDEA beneficiary countries.[14] The list includes those criteria that apply to country eligibility under the original ATPA,[15] as well as several new criteria.[16] 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.[17]

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[8] 19 U.S.C. 3202(e).

[9] 19 U.S.C. 3202(d)(11). These criteria are set forth in 22 U.S.C. 2291(h)(2)(A).

[10] 19 U.S.C. 2462(b)(2)(G) or 2462(c)(7).

[11] 19 U.S.C. 3202(c).

[12] Bolivia and Colombia were designated for ATPA benefits in 1992; Ecuador and Peru were designated in 1993.

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

[14] 19 U.S.C. 3203(b)(6)(B).

[15] 19 U.S.C. 3202(c) and (d).

[16] 19 U.S.C. 3203(b)(6)(B).

[17] Presidential Proclamation 7616 of October 31, 2002, 67 F.R. 67283. For more information on the eligibility criteria, 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. ATPA, as amended, required USTR to submit a report by April 30, 2003, and requires similar reports every 2 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.

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.[18] On August 14, 2003, USTR announced the 2003 Annual ATPA Review, the first such review conducted pursuant to the ATPA regulations, and invited the submission of petitions.[19] The results of the preliminary review of the petitions were not announced by year-end 2003.[20]

Trade Benefits Under ATPA

ATPA provides duty-free treatment to qualifying imports from designated beneficiary countries.[21] 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.[22] 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.[23] Not eligible for any preferential duty treatment under the original ATPA were most textiles and apparel, certain footwear, canned tuna, petroleum and petroleum derivatives, certain watches and watch parts, certain sugar products, and rum and tafia.[24]

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[18] 68 F.R. 43922.

[19] 68 F.R. 48657.

[20] 69 F.R. 43656 of July 21, 2004 specifies the results of the preliminary review of petitions. The Trade Policy Staff Committee determined that certain petitions do not require action and terminated their review. With regard to the other petitions, the Trade Policy Staff Committee decided to modify the date of the announcement of the results of the preliminary review until the time it publishes the list of responsive petitions filed pursuant to the 2004 Annual ATPA Review.

[21] 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.

[22] 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 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.

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

[24] 19 U.S.C. 3203(b).

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,[25] 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."[26] 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.[27] Nearly 6,300 rate lines or products are now covered by ATPA trade preferences, of which about 700 were added by ATPDEA.[28] 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.[29] The cost or value of the local (ATPA region) materials and the direct costs of processing in one or more ATPA countries must total at least 35 percent of the appraised customs value of the product at the time of entry. ATPA countries are permitted to pool their resources to meet the value-content requirement and to count inputs from Puerto Rico, the U.S. Virgin Islands, and countries designated under CBERA[30] in full toward the value

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[25] 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.

[26] 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.

[27] 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.

[28] 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.

[29] 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)).

[30] 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.

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,[31] 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.[32]

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 ATPA 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.[33] 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. The cap on U.S. imports of apparel made in the Andean countries from regional knit or woven fabrics was set at 2 percent of the aggregate square meter equivalent of total U.S. imports of apparel from the world for the 1-year period beginning on October 1, 2002, and increasing in each of the four succeeding 1-year periods by equal increments up to a maximum of 5 percent for the period beginning October 1, 2006. In calendar year 2003, U.S. imports of apparel from the Andean countries accounted for about 1.7 percent of total U.S. apparel imports. The expansion of the cap from 2 percent to 5 percent therefore 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.

ATPA and GSP

The four ATPA beneficiaries also are Generalized System of Preferences (GSP) beneficiaries.[34] ATPA and GSP provisions are similar in many ways, and many

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[31] 19 U.S.C. 3203(a).

[32] 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.

[33] The dyeing, printing, and finishing requirement does not refer to postassembly and other operations such as garment dyeing and stone washing.

[34] 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

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 *Components must be in chief value of llama, alpaca, or vicuña
Apparel assembled in ATPDEA countries from fabrics or yarns deemed to be in "short supply" in the United States, as identified in Annex 401 of NAFTA	*Such yarns and fabrics include fine-count cotton fabrics for nightwear and certain underwear; linen; silk; cotton velveteen and fine-wale corduroy fabrics; certain hand-woven Harris Tweed wool fabrics; certain woven wool fabrics made with fine animal hair; certain lightweight, high-thread count polyester-cotton woven fabrics; and certain lightweight, high-thread count woven fabrics for use in men's and boys' shirts
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[1]
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	*Total costs of U.S. fabric components in preceding 1-year period must be at least 75 percent of the aggregate declared customs value of the fabric (exclusive of all findings and trimmings) contained in all brassieres entered in that period
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] Maximum 2 percent of the aggregate square meter equivalents of all apparel articles imported into the United States in the preceding 12-month period, increased in equal increments in each succeeding 1-year period to a maximum of 5 percent for the period beginning October 1, 2006.

Source: Compiled by USITC.

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, by law, U.S. imports under ATPA are not subject to GSP competitive-need and country-income restrictions. Under GSP, products that achieve a specified level of imports into the United States, either in absolute terms or as a percentage of U.S. imports–the competitive-need limit–can be excluded from GSP eligibility; products so restricted under GSP can continue to enter free of duty under ATPA. Countries can lose all GSP privileges once their national income grows to exceed a specified amount. Third, ATPA qualifying rules for individual 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 been in effect only intermittently;[35] even though they have been renewed retroactively, the interruptions have generally 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 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

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[34]—*Continued*
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.

[35] 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).

countries could be sure only that the preferential tariff provisions of ATPA were in force. As a result, there was a marked shift away from using GSP to ATPA in 1995 and 1996, although this trend was already apparent. Many Andean suppliers continued to enter GSP-eligible goods under ATPA even after the GSP program was reauthorized. In 2002, there was a notable shift in the opposite direction–from using ATPA to using GSP.[36] Although both ATPA and GSP were not in effect in 2002 until August 6, when the Trade Act of 2002 renewed both programs,[37] the experience of Andean suppliers with previous lapses in GSP reportedly left them more certain that the GSP program would be renewed retroactively, and that duties paid or posted would be refunded.[38]

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 as countries became designated beneficiaries—there was no phase-in of duty elimination. Subsequent limited duty reductions for the remaining eligible goods were phased in over 5 years. 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 domestic sales 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 1 or 2 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. Imports of products that became eligible for duty free treatment under ATPDEA on October 31, 2002, are just beginning to grow to a level that may have an effect on the U.S. economy as a whole and on U.S. industries and consumers.

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, however, has been tracked in past ATPA reports in order to examine the trends in, and composition of, investment in the Andean region.

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[36] See chapter 2 for an analysis of the trends in the use of GSP and ATPA.

[37] 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 Dec. 4, 2001 and was renewed Aug. 6, 2002.

[38] 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 2003;[39] 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.[40]

As in previous reports in this series, the effects of ATPA are analyzed by estimating the differences in benefits to U.S. consumers, levels of U.S. tariff revenues, and U.S. industry production that probably would have occurred if normal trade relations (NTR) tariffs[41] had been in place for beneficiary countries in 2003. Actual 2003 market conditions are compared with a hypothetical case in which NTR duties are imposed for the year. The effects of ATPA duty reductions for 2003 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.[42] 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.[43] 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.

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[39] 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.

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

[41] 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.

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

[43] 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.

This analysis estimates potential net welfare effects and industry displacement, and these estimates reflect a range of assumed substitutabilities between ATPA products and competing U.S. output. The upper estimates reflect the assumption of high substitution elasticities,[44] 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.[45] The analysis provides estimates of welfare and potential U.S. industry displacement effects. 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 was 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, as well as other published sources.

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[44] 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.

[45] 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.

CHAPTER 2
U.S. Trade with the Andean Region

Introduction

The principal purpose of the chapter is to examine U.S. imports during 2003 under the preferential 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 2003 are also examined. As discussed in chapter 1, the year 2003 was the first full year under the expanded ATPA, which means that trade under ATPA in 2003 and such trade in prior years is not comparable.[2]

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 by the expansion of ATPA preferences. Then, the chapter describes the methodological constraints of analyzing trade under the expanded scope of ATPA. 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 the newly eligible imports under ATPDEA), and finally, trends of U.S. exports to ATPA countries are analyzed. 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.

During 2003, the continued volatility of the political environment depressed economic growth and domestic demand in the ATPA region. Peru, with 4 percent gross domestic product (GDP) growth (preliminary), had the highest growth rate.[3] Overall imports during the year declined in two ATPA countries: Ecuador and Bolivia.[4] U.S. exports to both of these countries contracted in 2003; they were up by 1 percent to all ATPA countries combined, but were 25 percent below the level in 1998 (table 2-1 and figure 2-1). Since 1999, U.S. exports to ATPA countries combined have edged up in the

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[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. On occasion, for the sake of clarity, the term "expanded ATPA" or "amended ATPA" is also used interchangeably with the term ATPA. The term ATPDEA, which is part of the "expanded ATPA" is also used occasionally when the analysis so requires.

[2] More about the methodology of presentation later in this chapter under "U.S. Imports under ATPA."

[3] United Nations, Economic Commission for Latin America and the Caribbean (ECLAC), *Preliminary Overview of the Economies of Latin America and the Caribbean, 2003,* December 2003.

[4] Ibid.

Table 2-1
U.S. trade with ATPA countries, 1991-2003

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
	Million dollars	*Percent*		*Million dollars*	*Percent*		*Million dollars*
1991	3,798.2		0.9	4,969.5		1.0	-1,171.3
1992	5,319.7	40.1	1.3	5,058.7	1.8	1.0	261.0
1993	5,359.1	0.7	1.2	5,282.3	4.4	0.9	76.7
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	851.4
1996	7,718.7	-1.3	1.3	7,867.7	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	309.1
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

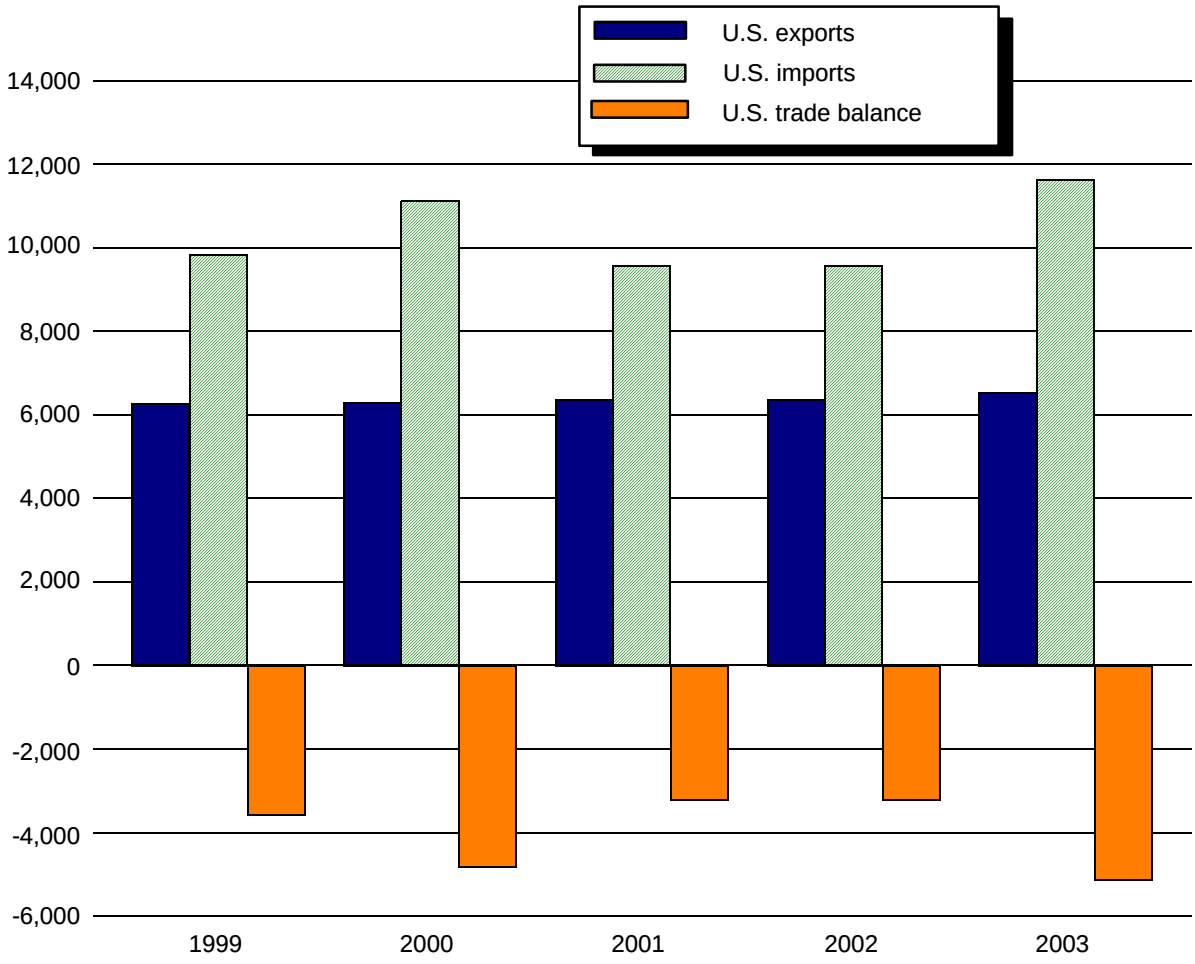
[1] Domestic exports, f.a.s. basis.

[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, 1999-2003

Million dollars



	1999	2000	2001	2002	2003
U.S. exports	6,263.2	6,295.1	6,363.3	6,463.8	6,525.7
U.S. imports	9,830.2	11,117.2	9,568.7	9,611.5	11,639.5
U.S. trade balance	-3,567.0	-4,822.1	-3,205.3	-3,147.7	-5,113.8

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

narrow range of $6.2 to $6.5 billion, substantially below levels registered during 1995-98. The collective share of ATPA countries as a market for U.S. exports rose from 0.9 percent of the world market in 1991 to a peak of 1.4 percent in 1995 and 1998. However, in 1999 through 2003, this share dropped to 1.0 percent or less. Weakening exchange rates in terms of the U.S. dollar in most ATPA countries contributed to the decline of U.S. exports to the region. Meanwhile, U.S. imports from ATPA countries, amounting in 2003 to $11.6 billion, surpassed their former record registered in the year 2000. A stronger U.S. economy, a stronger dollar relative to the currencies of the

region, and an increase in petroleum prices contributed to the 2003 rise of U.S. imports from ATPA countries. The steep decline in the dutiable portion of U.S. imports from the region was, however, probably the major factor boosting such imports. The decline of the dutiable portion of imports followed renewal of ATPA and the Generalized System of Preferences (GSP) after lengthy lapses, and the expansion of ATPA under ATPDEA. The combined share of ATPA countries as a supplier of the U.S. import market has ranged between 0.8 and 1.0 percent of overall U.S. imports from the world since 1991. In 2003, this share rose from 0.8 percent in 2002 to 0.9 percent.

U.S. data show that the United States has run a deficit in merchandise trade with ATPA countries as a group since 1999.[5] In 2003, the U.S. deficit was the largest on record, amounting to $5.1 billion (table 2-1 and figure 2-1). Petroleum-related trade with ATPA countries, Harmonized Tariff Schedule (HTS) chapter 27, accounted for over 90 percent of the total U.S. trade deficit with the region. U.S. data show a U.S. trade deficit in 2003 vis-à-vis each ATPA country, except Peru.

U.S. Imports from ATPA Countries

In 2003, ATPA countries collectively were the 18th largest supplier of U.S. imports (in 2002 they ranked only 23rd), larger than Thailand but smaller than the Netherlands. Table 2-2 shows the composition of total U.S. imports from ATPA countries by major product categories during 1999-2003. Mineral fuels and oils (HTS chapter 27), the dominant product group of U.S. imports from ATPA countries, have accounted for over 40 percent of the total in the last 4 years. Precious stones, metals, and jewelry ranked second in both 1999 and 2003, but ranked lower in 2000-2002. Knitted apparel rose to the third largest category among U.S. imports from ATPA countries in 2003. Edible fruits and nuts (primarily bananas) ranked fourth in both 1999 and 2003, although their relative significance declined. The importance of coffee and fish, which ranked third and fifth among U.S. imports from ATPA countries in 1999, has declined during the last 5 years.

Table 2-3 lists the 20 leading U.S. imports from ATPA countries during 2003 on an 8-digit HTS subheading basis, ranked by their 2003 import value. Since October 31, 2002, all of these leading products from ATPA countries, except canned tuna, have been eligible to enter the United States free of duty under GSP or ATPA or were free of duty under U.S. column 1-general or Normal Trade Relations (NTR) tariff rates.[6]

Products that have NTR duty rates of free include many traditional exports of ATPA countries, such as gold bullion and bituminous coal, coffee, bananas, shrimp, and unalloyed tin. In this group of commodities, notable is a 208.5-percent surge in gold

[5] References in this report to exports, imports, and trade balances refer to merchandise trade and exclude trade in services, except where otherwise stated.

[6] Imports of the newly eligible products under ATPDEA, as well as of others that entered in prior years under the original ATPA, will be discussed in some detail later in this chapter.

Table 2-2
Leading U.S. imports for consumption from ATPA countries, by major product categories, 1999-2003

HTS Chapter	Description	1999	2000	2001	2002	2003
		Value *(1,000 dollars)*				
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	3,555,699	4,783,829	3,916,000	3,914,722	4,823,358
71	Natural or cultured pearls, precious or semiprecious stones, precious metals; precious metal clad metals, articles thereof; imitation jewelry; coin	704,196	467,933	358,474	561,067	1,128,173
61	Articles of apparel and clothing accessories, knitted or crocheted	463,069	536,544	483,580	480,899	688,738
08	Edible fruit and nuts; peel of citrus fruit or melons	587,067	517,442	497,762	547,036	519,900
74	Copper and articles thereof	353,731	601,776	506,178	470,012	468,239
06	Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage	438,735	441,745	408,752	382,941	456,629
09	Coffee, tea, mate and spices	629,643	541,473	371,385	401,610	452,798
03	Fish and crustaceans, molluscs and other aquatic invertebrates	533,682	345,307	365,743	349,116	399,142
62	Articles of apparel and clothing accessories, not knitted or crocheted	245,379	294,488	270,133	270,305	363,129
16	Edible preparations of meat, fish, crustaceans, molluscs or other aquatic invertebrates	100,797	98,335	99,794	152,938	162,532
	Subtotal	7,612,000	8,628,873	7,277,800	7,530,646	9,462,640
	All other	2,218,217	2,488,352	2,290,861	2,080,836	2,176,824
	Total	9,830,217	11,117,225	9,568,661	9,611,482	11,639,464

See note at end of table.

Table 2-2—*Continued*
Leading U.S. imports for consumption from ATPA countries, by major product categories, 1999-2003

HTS Chapter	Description	1999	2000	2001	2002	2003
		Percent of total				
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	36.2	43.0	40.9	40.7	41.4
71	Natural or cultured pearls, precious or semiprecious stones, precious metals; precious metal clad metals, articles thereof; imitation jewelry; coin	7.2	4.2	3.7	5.8	9.7
61	Articles of apparel and clothing accessories, knitted or crocheted	4.7	4.8	5.1	5.0	5.9
08	Edible fruit and nuts; peel of citrus fruit or melons	6.0	4.7	5.2	5.7	4.5
74	Copper and articles thereof	3.6	5.4	5.3	4.9	4.0
06	Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage	4.5	4.0	4.3	4.0	3.9
09	Coffee, tea, mate and spices	6.4	4.9	3.9	4.2	3.9
03	Fish and crustaceans, molluscs and other aquatic invertebrates	5.4	3.1	3.8	3.6	3.4
62	Articles of apparel and clothing accessories, not knitted or crocheted	2.5	2.6	2.8	2.8	3.1
16	Edible preparations of meat, fish, crustaceans, molluscs or other aquatic invertebrates	1.0	0.9	1.0	1.6	1.4
	Subtotal	77.4	77.6	76.1	78.4	81.3
	All other	22.6	22.4	23.9	21.6	18.7
	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
Leading U.S. imports for consumption from ATPA countries, by HTS provisions, 2001-03

HTS Provision	Description	2001	2002	2003	Change, 2002-03
			1,000 dollars		*Percent*
2709.00.20	Petroleum oils and oils from bituminous minerals, crude, testing 25 degrees A.P.I. or more	786,975	995,476	1,926,054	93.5
2709.00.10	Petroleum oils and oils from bituminous minerals, crude, testing under 25 degrees A.P.I.	686,221	1,016,696	1,666,478	63.9
7108.12.10	Gold, nonmonetary, bullion and dore	100,264	263,260	812,168	208.5
2710.19.05[1]	Distillate and residual fuel oil (including blends) derived from petroleum or oils from bituminous minerals, testing under 25 degrees A.P.I.	612,889	577,235	468,754	-18.8
7403.11.00	Refined copper cathodes and sections of cathodes	455,889	446,912	447,665	0.2
2701.12.00	Coal, bituminous, whether or not pulverized, but not agglomerated	314,231	248,374	395,547	59.3
0901.11.00	Coffee, not roasted, not decaffeinated	317,053	340,984	390,187	14.4
0803.00.20	Bananas, fresh or dried	391,052	427,875	388,366	-9.2
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	289,322	210,516	234,356	11.3
0306.13.00	Shrimps and prawns, cooked in shell or uncooked, dried, salted, or in brine, frozen	252,137	226,706	230,591	1.7
6110.20.20	Sweaters, pullovers and similar articles, knitted or crocheted, of cotton, nesoi	180,538	179,228	223,833	24.9
0603.10.60	Roses, fresh cut	188,521	175,449	204,617	16.6
6203.42.40	Men's or boys' trousers, breeches, and shorts, not knitted or crocheted, of cotton, not containing 15 percent or more down	76,196	78,284	127,429	62.8
6105.10.00	Men's or boys' shirts, knitted or crocheted, of cotton	79,656	85,857	127,312	48.3
0603.10.80	Cut flowers and flower buds suitable for bouquets or ornamental purposes, fresh cut, nesi	90,491	92,298	124,748	35.2
8001.10.00	Unwrought tin, not alloyed	92,884	103,622	117,605	13.5
1604.14.30	Tunas and skipjack, not in oil, in airtight containers, nesoi	38,746	102,754	116,556	13.4
0603.10.70	Chrysanthemums, standard carnations, anthuriums and orchids, fresh cut	99,098	86,535	99,115	14.5
6109.10.00	T-shirts, singlets, tank tops and similar garments, knitted or crocheted, of cotton	68,854	65,971	99,056	50.1
7106.91.10	Silver bullion and dore	26,023	30,593	88,753	190.1
	Subtotal	5,147,038	5,754,625	8,289,190	44.0
	All other	4,421,623	3,856,858	3,350,273	-13.1
	Total	9,568,661	9,611,482	11,639,464	21.1

[1] In 2001, trade was recorded under HTS 2710.00.05.
[2] In 2001, trade was recorded under HTS 2710.00.25.
Note.—The abbreviation "nesi" stands for "not elsewhere specified or included." The abbreviation "nesoi" stands for "not elsewhere specified or otherwise included."
Source: Compiled from official statistics of the U.S. Department of Commerce.

bullion imports from ATPA countries in 2003 compared with 2002, and a near 60-percent surge in coal imports. U.S. imports of bananas from ATPA countries were the lowest in 2003 since 1996. Imports of shrimp, which dropped precipitously in 2000, have not recovered since that year.

Canned tuna, classified in provisions of HTS 1604.14.30 not eligible for ATPA trade preferences and still dutiable at NTR rates, has been to date the principal form of tuna imported from ATPA countries.[7] The remainder of 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 share of total U.S. imports from ATPA countries that was dutiable fell sharply in 2003 after the renewal and expansion of the original ATPA in 2002. The magnitude of the decline is shown in tables 2-4 and 2-5. These data are based on official Census data as adjusted by Commission staff, and reflect trade believed to have been eligible for duty-free entry under ATPDEA in 2003.[8]

Table 2-4
U.S. imports for consumption from ATPA countries: Dutiable value, calculated duties, and average duty, 1999-2003

Item	1999	2000	2001	2002	2003
Dutiable imports[1]					
(1,000 dollars)	3,459,748	4,517,161	3,798,848	4,598,474	1,612,727
Dutiable as a share of total					
(percent)	35.2	40.6	39.7	47.8	14.0
Calculated duties					
(1,000 dollars)	123,263	142,367	144,098	169,498	63,209
Average duty					
(percent)[2]	3.6	3.2	3.8	3.7	3.9

[1] 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.

[2] Average duty (percent) = (calculated duty/dutiable value) * 100.

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

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[7] HTS 1604.14.30 also includes pouched tuna, which is eligible for duty-free treatment under ATPDEA under certain conditions. In addition, tuna is imported as an intermediate product from ATPA countries, referred to as "loins" in the trade. This product has always been eligible for duty-free treatment under the original ATPA. Imports of tuna products will be discussed later in this chapter.

[8] For the purposes of tables 2-4 and 2-5, Commission staff adjusted official Census data to reflect trade believed to have been eligible for duty-free entry under ATPDEA. All other tables in this chapter are based on entries as reported. The adjustment was necessary, because when the original ATPA expired, no provision was made in statute or in customs administration to allow duty-free entry to continue for eligible goods under appropriate bond (as occurs when GSP lapses), while renewal was debated. As a result, significant quantities of imports that would probably have been free of duty as a result of ATPDEA were actually assessed duties. Information available from Customs' automated entry system does not allow for the location of these entries, their reliquidation, or a determination of the extent of such trade.

Table 2-5
U.S. imports for consumption from Bolivia, Colombia, Ecuador, and Peru, by duty treatments, 1999-2003

Item	Bolivia	Colombia	Ecuador	Peru	ATPA total	Share of total
			1,000 dollars			*Percent*
1999:						
Dutiable value[1]	40,473	2,176,911	612,883	456,712	3,286,979	33.7
ATPA reduced duty	886	22,250	839	26	24,002	0.2
Duty-free value:[2]						
Col. 1-general[3]	114,969	2,532,774	950,556	727,927	4,326,225	44.3
GSP[4]	7,934	46,485	19,190	51,684	125,293	1.3
ATPA[5]	60,606	774,866	259,334	631,098	1,725,903	17.7
Production sharing[6]	93	141,287	5,062	253	146,695	1.5
Other duty-free[7]	93	141,674	5,607	3,141	150,515	1.5
Total duty-free value	183,694	3,637,086	1,239,748	1,414,103	6,474,632	66.3
Total imports	224,167	5,813,997	1,852,631	1,870,815	9,761,610	100.0
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[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

See notes at end of table.

Table 2-5—*Continued*
U.S. imports for consumption from Bolivia, Colombia, Ecuador, and Peru, by duty treatments, 1999-2003

Item	Bolivia	Colombia	Ecuador	Peru	ATPA total	Share of total
			1,000 dollars			*Percent*
2001:						
Dutiable value[1]	27,522	2,255,445	931,363	584,518	3,798,848	39.8
ATPA reduced duty	780	21,357	246	56	22,439	0.2
Duty-free value:[2]						
Col. 1-general[3]	66,557	2,427,508	735,723	416,658	3,646,446	38.2
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	17.3
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	61.2
Total imports	165,130	5,606,493	1,964,503	1,805,483	9,541,609	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[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	9,611,482	100.0

See notes at end of table.

Table 2-5—*Continued*
U.S. imports for consumption from Bolivia, Colombia, Ecuador, and Peru, by duty treatments, 1999-2003

Item	Bolivia	Colombia	Ecuador	Peru	ATPA total	Share of total
			1,000 dollars			*Percent*
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[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

[1] Dutiable value excludes the U.S. content entering under HTS subheading 9802.00.80 and subheading 9802.00.60, and misreported imports.

[2] Calculated as total imports less dutiable value.

[3] Value of imports which 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 2 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.

The dutiable share of total imports from ATPA countries fell from 47.8 percent of total imports from ATPA countries in 2002 and approximately 40 percent in 2000 and 2001 to 14.0 percent in 2003 (table 2-4). The dutiable portion of imports from ATPA countries in 2003 includes textile and apparel products that are not eligible for ATPDEA preferences, canned tuna, rum and tafia, and above-quota imports of certain agricultural products subject to tariff rate quotas (primarily sugar, beef, and dairy products). Calculated duty revenues from ATPA countries dropped by $106 million or by 63 percent, from $169 million in 2002 to only $63 million in 2003, and they were significantly less than half of the U.S. duty revenues in the previous 3 years. The average duty rate of the small portion of total imports from the region that continued to be dutiable increased in 2003. This increase is attributable to the shift of the formerly low-duty petroleum products to the duty-free portion of imports from ATPA countries under ATPDEA, which left higher duty products in the dutiable portion of imports.

Table 2-5 shows that imports from ATPA countries entered free of duty in 2003 in one of the following ways: (1) unconditionally free under NTR tariff rates (32.4 percent of all imports), (2) conditionally free under GSP (2.8 percent), (3) conditionally free under the original ATPA (14.1 percent), (4) conditionally free under ATPDEA (36.5 percent), and (5) conditionally free under other programs (0.3 percent). By representing 36.5 percent of the total, imports under ATPDEA became the largest category of duty-free treatment for U.S. imports from ATPA countries. Before 2003, imports under NTR tariff rates (32.4 percent) had been consistently the largest duty-free group. Notably, imports under the expanded ATPA (the sum of imports under the original ATPA and ATPDEA) accounted for more than one half (50.6 percent) of all imports from the region. This compares with only 10.3 percent in 2002 and 17.3 percent under the original ATPA in 2001.

U.S. Imports under ATPA

Methodology for Analyzing Imports under the Expanded ATPA

In prior reports of this series, import trends under the program had been observed by comparing trade data under ATPA for the year under review with data of earlier years. However, because 2003 is the first complete year under the expanded ATPA, comparisons with prior years will be restricted in this report to the leading imports (copper cathodes, flowers, jewelry, asparagus, etc.) under the original ATPA. In addition, since during the transitional year of 2002 the original ATPA was not in effect for over 7 months,[9] the year 2001 (the last full year of the original ATPA) will serve as a base year for year-to-year analysis.[10] For ATPDEA products (petroleum, apparel, etc.), 2003 imports will be compared with such imports from ATPA countries in earlier years, when they were not eligible for ATPA benefits.

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[9] See "A Transitional Year," in USITC, *The Impact of the Andean Trade Preference Act, Ninth Report, 2002,* Inv. No. 332-352, September 2003, pp. 2-9 to 2-11.

[10] As in prior reports in this series, the tables will still show percent changes in the year under review compared to the prior year, i.e. from 2002 to 2003.

Product Composition and Leading Imports under ATPA

The implementation of ATPDEA significantly changed the composition of imports under ATPA. Table 2-6 and figure 2-2 show that in 2003, mineral fuels and oils (HTS 27) accounted for 58.4 percent of imports under ATPA, knitted apparel (HTS 61) accounted for 9.8 percent, and not knitted apparel (HTS 62) accounted for 3.2 percent. Thus, petroleum and apparel combined, both newly eligible for ATPA trade preferences under ATPDEA, were responsible for over 70 percent of all imports under the expanded program. In comparison, in 1999, the three largest groups under the original ATPA were copper articles, flowers, and jewelry; combined they accounted for 54.5 percent of the total.

Leading Imports under ATPDEA

In 2003, 11 products on the list of 20 leading imports under the expanded ATPA were newly eligible ATPDEA products, and 9 were original ATPA products (table 2-7). The 11 newly eligible ATPDEA products include 4 petroleum products, 2 of which–crude testing 25 degrees A.P.I. or more (heavy crude) and crude testing 25 degrees A.P.I. or less (light crude)–top the list; 6 apparel products–4 knitted and 2 not knitted; and certain tuna in airtight containers.[11]

Mineral fuels and oils

Petroleum products have come to dominate U.S. imports under the amended ATPA. All four petroleum products that are leading imports under the amended ATPA (table 2-7) are also top items on the list of leading imports from ATPA countries under all programs (table 2-3). U.S. imports from ATPA countries of heavy crude almost doubled by value in 2003 from 2002 (table 2-3). U.S. imports from ATPA countries of light crude rose by almost two-thirds of their 2002 value.[12]

The United States imports petroleum products from two ATPA countries: Colombia and Ecuador; however, neither of these countries is a major source for U.S. imports of petroleum products. Colombia ranked 10th in 2003 among all U.S. suppliers of HTS chapter 27 products–after Iraq, and before Russia–accounting for 2.2 percent of all chapter 27 imports by the United States. Ecuador, although gaining importance as a U.S. supplier, ranked only 17th in 2003, and was responsible for just 1 percent of the total.

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

[12] The surge of imports under ATPA from 2002 to 2003 was, of course, much greater, because during 2002, petroleum imports were not eligible under ATPA before November (table 2-5). In 2003, when petroleum products were eligible under ATPA all year, 83 percent of HTS 27 imports entered under ATPA.

Table 2-6
Leading U.S. imports for consumption under ATPA , by major product categories, 1999-2003

HTS Chapter	Description	1999	2000	2001	2002[1]	2003[1]
		Value *(1,000 dollars)*				
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	0	11	0	209,969	3,405,798
61	Articles of apparel and clothing accessories, knitted or crocheted	1	15	54	0	573,018
74	Copper and articles thereof	331,138	580,044	440,307	253,781	464,096
06	Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage	436,434	439,614	382,689	172,925	451,172
62	Articles of apparel and clothing accessories, not knitted or crocheted	1,231	1,471	1,202	191	184,767
71	Natural or cultured pearls, precious or semiprecious stones, precious metals; precious metal clad metals, articles thereof; imitation jewelry; coin	186,826	159,548	152,661	77,584	123,817
07	Edible vegetables and certain roots and tubers	63,922	63,258	78,107	71,545	123,324
24	Tobacco and manufactured tobacco substitutes	71	970	13,948	21,109	56,295
16	Edible preparations of meat, fish, crustaceans, molluscs or other aquatic invertebrates	86,922	80,279	29,690	4,540	47,395
17	Sugars and sugar confectionery	25,943	35,576	44,413	10,549	47,242
	Subtotal	1,132,489	1,360,787	1,143,072	822,193	5,476,924
	All other	617,790	620,845	531,535	178,623	359,107
	Total	1,750,279	1,981,632	1,674,607	1,000,816	5,836,032

See notes at end of table.

Table 2-6—*Continued*
Leading U.S. imports for consumption under ATPA , by major product categories, 1999-2003

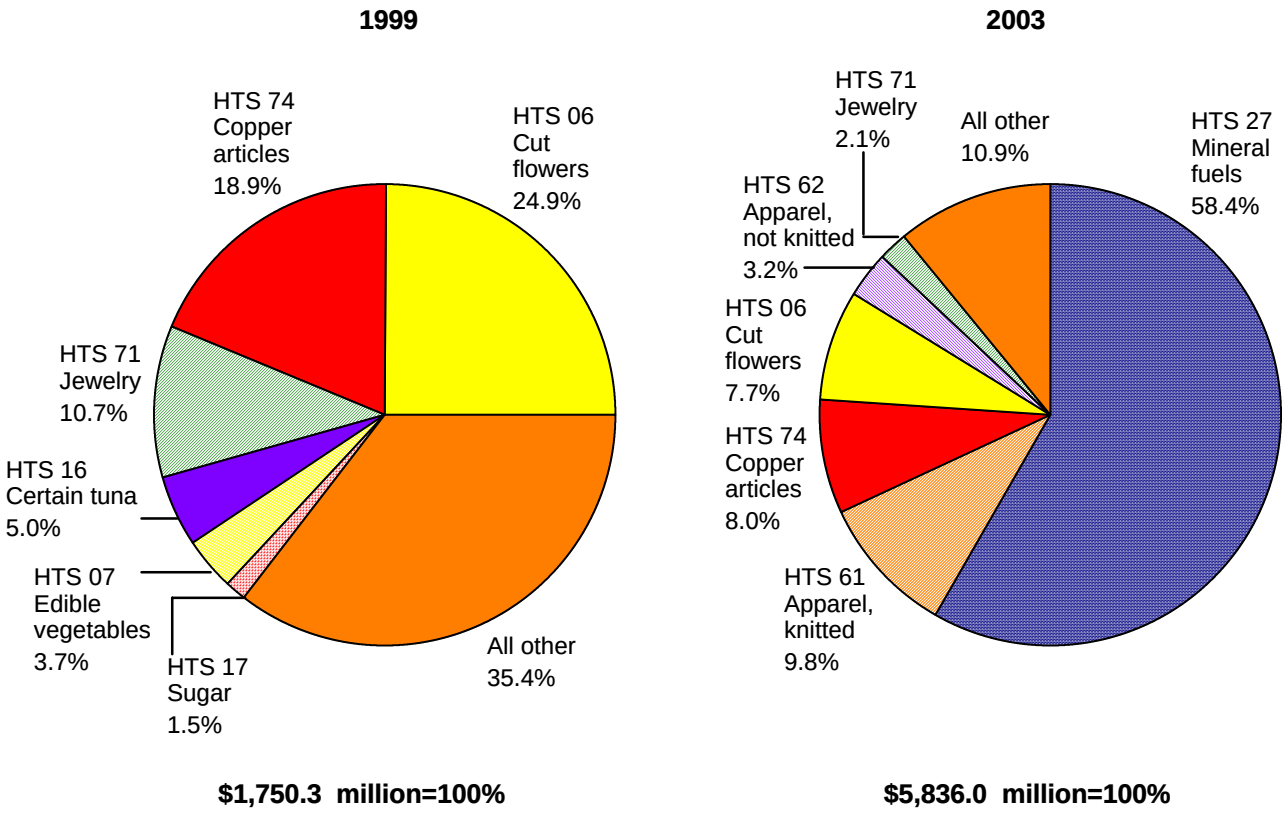
HTS Chapter	Description	1999	2000	2001	2002[1]	2003[1]
		Percent of total				
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	0.0	0.0	0.0	21.0	58.4
61	Articles of apparel and clothing accessories, knitted or crocheted	0.0	0.0	0.0	0.0	9.8
74	Copper and articles thereof	18.9	29.3	26.3	25.4	8.0
06	Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage	24.9	22.2	22.9	17.3	7.7
62	Articles of apparel and clothing accessories, not knitted or crocheted	0.1	0.1	0.1	0.0	3.2
71	Natural or cultured pearls, precious or semiprecious stones, precious metals; precious metal clad metals, articles thereof; imitation jewelry; coin	10.7	8.1	9.1	7.8	2.1
07	Edible vegetables and certain roots and tubers	3.7	3.2	4.7	7.1	2.1
24	Tobacco and manufactured tobacco substitutes	0.0	0.0	0.8	2.1	1.0
16	Edible preparations of meat, fish, crustaceans, molluscs or other aquatic invertebrates	5.0	4.1	1.8	0.5	0.8
17	Sugars and sugar confectionery	1.5	1.8	2.7	1.1	0.8
	Subtotal	64.7	68.7	68.3	82.2	93.8
	All other	35.3	31.3	31.7	17.8	6.2
	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 2-2
Composition of U.S. imports for consumption under ATPA, by major product categories, 1999 and 2003



Note.—Percentages may not add to 100 because of rounding.
Source: Compiled from official statistics of the U.S. Department of Commerce.

U.S. imports from Colombia have been increasingly in the form of heavy petroleum, while those from Ecuador are principally light petroleum. In 2003, 60 percent of U.S. chapter 27 imports from Colombia were heavy oils as compared to 36 percent or less in prior years. From Ecuador, 92 percent of chapter 27 imports consisted of light oils in 2003, the highest share in the last 5 years.[13] In 2003, Colombia was the eighth largest U.S. supplier of heavy petroleum among all countries and Ecuador was the fourth largest U.S. supplier of light oils, after Mexico, Canada, and Venezuela.

[13] See also "Imports by Country" later in this chapter.

Table 2-7
Leading U.S. imports for consumption under ATPA, by HTS provisions, 2001-03

HTS Provision	Description	2001	2002[1]	2003[1]	Change, 2001-03	Change 2002-03[2]	Leading ATPA source
			1,000 dollars			*Percent*	
2709.00.20[3]	Petroleum oils and oils from bituminous minerals, crude, testing 25 degrees A.P.I. or more	0	66,571	1,556,843	([4])	2,238.6	Colombia
2709.00.10[3]	Petroleum oils and oils from bituminous minerals, crude, testing under 25 degrees A.P.I.	0	119,804	1,434,729	([4])	1,097.6	Ecuador
7403.11.00	Refined copper cathodes and sections of cathodes	429,379	248,663	447,368	4.2	79.9	Peru
2710.19.05[3]	Distillate and residual fuel oil (including blends) derived from petroleum or oils from bituminous minerals, testing under 25 degrees A.P.I.	0	7,263	236,458	([4])	3,155.4	Colombia
0603.10.60	Roses, fresh cut	180,283	69,765	204,473	13.4	193.1	Colombia
6110.20.20[3]	Sweaters, pullovers and similar articles, knitted or crocheted, of cotton, nesoi	0	0	202,262	([4])	([4])	Peru
2710.11.25[3]	Naphthas, not motor fuel/blending stock, from petroleum oils/oils from bituminous minerals, minimum 70 percent by weight of such products	0	9,722	174,970	([4])	1,699.8	Colombia
0603.10.80	Cut flowers and flower buds suitable for bouquets or ornamental purposes, fresh cut, nesi	85,244	43,302	124,475	46.0	187.5	Colombia
6105.10.00[3]	Men's or boys' shirts, knitted or crocheted, of cotton	0	0	115,382	([4])	([4])	Peru
0603.10.70	Chrysanthemums, standard carnations, anthuriums and orchids, fresh cut	92,342	46,539	98,709	6.9	112.1	Colombia
6109.10.00[3]	T-shirts, singlets, tank tops, and similar garments, knitted or crocheted, of cotton	0	0	84,559	([4])	([4])	Peru
0709.20.90	Asparagus, fresh or chilled, not reduced in size, not entered Sept. 15-Nov. 15	28,261	31,589	60,498	114.1	91.5	Peru
7113.19.50	Articles of jewelry and parts thereof, of precious metal except silver, except necklaces and clasps	78,685	36,704	59,108	-24.9	61.0	Bolivia
2402.20.80	Cigarettes containing tobacco but not containing clove, paper-wrapped	13,781	20,524	55,271	301.1	169.3	Colombia

See footnotes at end of table.

Table 2-7—*Continued*
Leading U.S. imports for consumption under ATPA, by HTS provisions, 2001-03

HTS Provision	Description	2001	2002[1]	2003[1]	Change, 2001-03	Change 2002-03[2]	Leading ATPA source
			1,000 dollars		*Percent*		
6203.42.40[3]	Men's or boys' trousers, breeches, and shorts, not knitted or crocheted, of cotton, not containing 15 percent or more down	0	0	50,922	([4])	([4])	Colombia
7113.19.29	Gold necklaces and neck chains, other than rope or mixed link	24,449	21,828	42,039	71.9	92.6	Peru
6204.62.40[3]	Women's or girls' trousers, breeches and shorts, not knitted or crocheted, of cotton, nesoi	0	0	37,888	([4])	([4])	Colombia
6106.10.00[3]	Women's or girls' blouses and shirts, knitted or crocheted, of cotton	0	0	29,743	([4])	([4])	Peru
1701.11.10	Cane sugar, raw, in solid form, w/o added flavoring or coloring, subject to add. US 5 to Ch.17	26,818	3,637	26,083	-2.7	617.3	Colombia
1604.14.30[3]	Tunas and skipjack, not in oil, in airtight containers, nesoi	0	0	25,474	([4])	([4])	Ecuador
	Subtotal	959,242	725,912	5,067,253	428.3	598.1	
	All other	715,365	274,904	768,778	7.5	179.7	
	Total	1,674,607	1,000,816	5,836,032	248.5	483.1	

[1] ATPA includes imports under ATPDEA.

[2] Because of the lapse of ATPA and the implementation of ATPDEA in 2002, entries under ATPA in 2003 are not strictly comparable to entries under ATPA in 2002. For more detail, see section "Methodology for analyzing imports under the expanded ATPA" in chapter 2.

[3] Item is newly eligible under ATPDEA.

[4] Not meaningful.

Note.—The abbreviation "nesi" stands for "not elsewhere specified or included" and the abbreviation "nesoi" stands for "not elsewhere specified or otherwise included."

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

Textile and apparel articles

Table 2-8 shows that total U.S. imports of textiles and apparel from the Andean countries in 2003 rose by $308 million or 39 percent from the 2002 level to $1.1 billion, almost all of which came from Colombia (49 percent) and Peru (47 percent). In 2003, U.S. imports of textiles and apparel from Colombia grew by 46 percent to $539 million and those from Peru grew by 31 percent to $516 million. Colombia is the only Andean country subject to U.S. textile and apparel quotas.[14]

In 2003, 68 percent of U.S. textile and apparel imports from the Andean region entered duty-free under ATPDEA. Apparel assembled from regional fabric (see chapter 1) accounted for about 90 percent of total sector imports entering under ATPDEA in 2003.[15] Colombia and Peru have small, established textile industries capable of producing regional fabrics and yarns.[16] However, because ATPDEA is a new program and because the quantitative restrictions (i.e., caps) on regional fabrics allow for substantial growth in trade from the Andean countries, to date there has been little risk of the caps restraining trade.[17]

U.S. exports of yarns and fabrics to the Andean countries, particularly Colombia, have increased significantly since implementation of the ATPDEA duty preferences on textiles and apparel. Increased demand for textile inputs in Colombia in particular has exceeded its supply of domestically available inputs (see chapter 3). U.S. exports of fabrics to the Andean countries in 2003 rose by 68 percent over the 2002 level to $15.7 million; 77 percent of these exports went to Colombia. U.S. exports of yarns to the Andean countries more than quintupled during the same period, to almost $16.0 million; 74 percent of these exports went to Colombia.[18]

Colombia has historically been the only Andean country to use large quantities of U.S. inputs in the production of apparel for export to the United States and has accounted for most U.S. apparel imports from the Andean countries entering under HTS heading 9802.00.80.[19] The pattern of trade has changed significantly since implementation of

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[14] U.S. quotas on textiles and apparel from Colombia and other WTO countries will be phased out on Jan. 1, 2005, as required under the Uruguay Round Agreement on Textiles and Clothing. In 2003, Colombia filled 73 percent of its quota on men's and boys' wool suits and less than 1 percent of its only other quota, on cotton printcloth fabric. These two products represented less than 1 percent of U.S. textile and apparel imports from Colombia in 2003.

[15] Import data are compiled from official statistics of the Office of Textiles and Apparel, U.S. Department of Commerce.

[16] Since the implementation of ATPDEA in October 2002, apparel producers in Colombia and Peru have had to increase their imports of yarns and fabrics in order to meet increased demand for apparel exports. See "Colombia's Exports to the United States Boosted by Duty-Free Access," June 3, 2003, found at *http://www.emergingtextiles.com*, retrieved June 23, 2004.

[17] For the 1-year period ending September 2003, U.S. imports of textiles and apparel made in the Andean countries from regional fabric totaled 13.5 million square meter equivalents (SMEs) or slightly less than 4 percent of the cap.

[18] Export data are compiled from official statistics of the U.S. Department of Commerce, the U.S. Treasury, and the U.S. International Trade Commission.

[19] 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.

Table 2-8
Textiles and apparel: U.S. general imports from ATPA countries, by sources, 1999-2003

Country	1999	2000	2001	2002	2003	Change, 2002-03
			1,000 dollars			*Percent*
Colombia	408,515	443,766	376,326	369,531	538,925	45.8
Peru	323,987	405,650	383,783	395,314	516,134	30.6
Bolivia	15,662	19,172	18,372	18,718	34,377	83.7
Ecuador	19,289	23,087	24,704	15,855	18,070	14.0
Total	767,453	891,675	803,185	799,418	1,107,506	38.5

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

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

ATPDEA in October 2002. Before then, U.S. firms would cut fabrics into garment parts in the United States and ship the parts to Colombia for assembly in order 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. As such, U.S. firms can ship uncut fabrics to Colombia for cutting and sewing. Consequently, by 2003, the share of the total value of U.S. apparel imports from the Andean countries entering under HTS heading 9802.00.80 fell to 6 percent from 17 percent in 2002. Another development that will likely affect future U.S.-Colombia textile trade is the growth in the number of Colombian firms that are moving into "full package"[20] production in order to enhance their competitiveness with China and other Asian suppliers.[21]

Pouched tuna

In late 2002, tuna in flexible pouches, which was excluded from the original ATPA,[22] qualified to enter free of duty under ATPDEA, subject to specified conditions.[23] Flexible

[20] 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. Also, see Leonie Barrie, "Clothing from Colombia," just-style.com, Feb. 9, 2004, found at *http://www.sweatshopwatch.org/global/articles/clothing_feb04.html*, retrieved June 21, 2004.

[21] Ibid.

[22] Under the original ATPA only HTS 1604.14.40, an intermediate tuna product referred to as "loins" in the trade, was eligible for duty-free imports. Loins are used in canneries as input for canned or pouched tuna. Even though imports of loins more than quadrupled in 2003, they do not appear among the leading ATPA products any longer (table 2-7). Imports of loins will be discussed later in this chapter.

[23] The Harmonized Tariff Schedule of the United States (2004), 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.

pouches are relatively new alternatives to metal cans for packing tuna in airtight containers.[24] Tuna in pouches, similar to tuna in metal cans, can be packed in oil or "not in oil," principally water. Imports of tuna packed in water are subject to tariff-rate quotas (TRQs). The bulk of U.S. imports of tuna in airtight containers (cans and pouches) enters packed in water over quota[25] under HTS 1604.14.30 (table 2-3). Over-quota pouched tuna in water, valued at $25.5 million, appeared on the 2003 list of the leading imports under the expanded ATPA (table 2-7), and accounted for 90 percent of all U.S. pouched tuna imports under ATPA. Pouched tuna in oil accounted for the remainder. Pouched tuna from ATPA countries, whether in-quota or over-quota, are free of duty under specified conditions.[26] In 2003, Ecuador was the source of about 53 percent of U.S. imports of over-quota pouched tuna packed in water, and Thailand accounted for about 42 percent.

Other ATPDEA Imports

Other newly duty-free imports under ATPDEA of smaller value included handbags, luggage, footwear, small leather products, and headgear. Imports in 2003 surged for some of these products and dropped for others. No clear pattern has yet emerged with regard to the effect of the newly duty-free treatment on the imports of most of these products, with the possible exception of footwear imports (HTS 6403.99), which were up from $1.9 million in 2001 to $3 million or 58 percent in 2003. A submission to the U.S. International Trade Commission stated that "Footwear imports have progressively increased in the first two years of the program. During the first quarter of 2002, the United States imported 88,000 pairs of shoes from the Andean region, almost all from Colombia. During the first quarter of 2004, this number had grown to 267,000 for the entire Andean region. Moreover, Peru accounted for 60,000 pairs of U.S. footwear imports, suggesting that the benefits of this program were beginning to spread beyond Colombia."[27]

Still Leading Original ATPA Imports

Nine products on the 2003 list of leading imports under the expanded ATPA were eligible for duty-free entry under the original ATPA. They are: copper cathodes, three flower products, two jewelry products, asparagus, cigarettes, and cane sugar.

Copper cathodes

With U.S. refined copper production on the decline, the United States has increased its reliance on imports by more than 75 percent in recent years.[28] Refined copper

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[24] Tuna in cans account for the bulk of U.S. tuna imports in airtight containers, with pouched tuna accounting for about 20 percent of the quantity and 29 percent of the value in 2003.

[25] In-quota quantity allocated for tuna in water is generally filled within the first month of the calendar year.

[26] In-quota pouched tuna in water (HTS 1604.14.22 (pt.)) and pouched tuna in oil (HTS 1604.14.10 (pt.)) are eligible under ATPDEA under specified conditions.

[27] Submission of Stephen Lamar, Senior Vice President, American Apparel and Footwear Association (AAFA), to the U.S. International Trade Commission on July 20, 2004.

[28] See Christopher B. Mapes, "Major Contraction of the Domestic Refined Copper Industry," USITC, *Industry Trade and Technology Review,* Dec. 2002, p. 9.

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 2003, refined copper cathodes still ranked third on the list of leading U.S. imports under ATPA (table 2-7), and the fifth-largest import from ATPA countries under all entry categories (table 2-3).

Peru is the sole U.S. supplier of refined copper cathodes in the ATPA community. From 1997 through 2002, Peru was the largest source among all countries of U.S. imports of copper cathodes. However, in 2003, the United States consumed more Chilean than Peruvian cathodes, dropping Peru to second place. The principal reason was the conversion of $283 million of accumulated general imports from Chile in Free Trade Zone metal exchange warehouses to imports for consumption,[29] while most imports from Peru were shipped directly to U.S. facilities.[30] Peruvian copper exports to the United States have remained relatively constant since the Antamina mine was brought into production in 2001. In 2003, Peru accounted for 30.6 percent of all U.S. imports for consumption of copper cathodes, compared to Chile's 37.1 percent, and Canada's 26.7 percent.

In the years before 2002, most U.S. imports of refined copper cathodes from Peru entered under ATPA.[31] In those months of 2002 when ATPA was not in effect, the product became dutiable, even though its duty-free status was subsequently and retroactively reinstated. For this reason, as copper cathodes became once again free of duty for the entire year in 2003, imports under ATPA rebounded significantly from their 2002 value. Nonetheless, compared with 2001, the increase of such imports under the program was only from $429.4 million to $447.4 million, or 4.2 percent (table 2-7).

Flowers

Over the last two decades, the U.S. market for fresh-cut flowers has been increasingly served by imports, in large measure from the ATPA region. As a result, the flower industry has been the principal beneficiary of ATPA since the implementation of the program in 1991. The competitive edge of both Colombia and Ecuador in meeting U.S. demand for flowers is attributable to a favorable climate, relatively low production costs, and adequate air-freight service and distribution infrastructure in these countries.[32]

During 2001 and 2002, the U.S. market for flowers (HTS 0603.10) contracted, reflecting the sluggish U.S. economy during these years. In addition, ATPA-country

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[29] Almost 39 percent of copper cathodes imports from Chile during 1998-2002 went into Free Trade Zone warehouses located in the United States; this volume was thus classified as "General Imports," not "Imports for Consumption." By January 2003 they totaled $799 million.

[30] Peruvian cathodes often have a direct terminus to U.S. producers, largely because of U.S. investment in many Peruvian copper mining facilities.

[31] Because imports exceeded GSP competitive-need limits, they were eligible for duty-free entry only under ATPA.

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

suppliers suffered a deterioration of their competitive advantage following the removal of ATPA duty-free treatment for flowers in December 2001.[33] However, the U.S. flower market improved markedly in 2003, boosting demand for imports, especially from ATPA countries, whose competitive position strengthened with the reinstatement of duty-free treatment under ATPA. U.S. flower imports (HTS 0603.10) from the region reached record levels; such imports were 18 percent higher under ATPA in 2003 than in 2001, the last comparable year of duty-free entry under the program.

Three of the four flower products that have been consistently among the leading imports under ATPA–roses, chrysanthemums, and cut flowers suitable for bouquets–remained on the 2003 list of leading imports under the program (table 2-7). These three categories also appear on the 2003 list of leading imports under all categories from ATPA countries (table 2-3). Compared with 2001, imports of cut flowers suitable for bouquets under ATPA were up by almost half; imports of roses were up by 13 percent; and imports of chrysanthemums were up by 6.9 percent (table 2-7).

Colombia and Ecuador are the top two U.S. suppliers of flowers among all countries, accounting in 2003 for 57.1 percent and 17.6 percent, respectively, of all U.S. flower imports. Imports increased significantly from both countries in 2003.

Jewelry

U.S. imports of gold jewelry (HTS 7113.19) from ATPA countries have consistently declined in recent years, while imports increased from India, Thailand, Pakistan, and especially, China. Owing to its competitive advantage of low labor costs, China has become a major precious jewelry producer on a global scale, prompting a rapid increase of U.S. jewelry imports from that country.

Jewelry imports under ATPA in 2003 were lower by about 18 percent than in 2001. In 2003, more than 80 percent of U.S. jewelry imports from ATPA countries entered under ATPA; most of the remainder entered under GSP. The 2003 list of leading imports under ATPA (table 2-7) features two jewelry products: gold jewelry and parts (HTS 7113.19.50) and gold necklaces or neck chains (HTS 7113.19.29).

Peru, the leading U.S. jewelry supplier among ATPA countries, continued to rank as the 14th-largest U.S. supplier among all countries, as it had in 2002. Yet, Peru alone accounts for the downtrend in U.S. jewelry imports from the ATPA region. In 2003, imports under ATPA from Peru were down 40 percent compared with 2001. In contrast, imports from Bolivia increased for the second consecutive year; imports under ATPA from that country were 22.5 percent higher in 2003 than in 2001. Bolivia ranked 15th as a U.S. supplier of jewelry overall, second among ATPA countries. The United States imports some jewelry from Colombia and Ecuador as well. U.S. imports from Colombia have risen consistently during the last 4 years, but they have declined from Ecuador in the last 2 years.

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[33] The 2003 general rates of duty ranged from 3.2 percent to 6.8 percent.

Asparagus

Fresh or chilled asparagus (HTS 0709.20.90) has been consistently among the leading products imported under ATPA. Imports under ATPA more than doubled in 2003 compared with their 2001 value (table 2-7). Virtually all asparagus from ATPA countries entered under ATPA during the year.[34] Asparagus is a labor-intensive, high-value, perennial crop, with the spears from new plants generally harvested in significant amounts 3 years after planting, and plants remaining in production for many years thereafter. Growing asparagus therefore requires major long-term investment. The region's industry has grown dramatically in the past decade, having shifted large areas from the production of cane sugar to asparagus.[35] Asparagus production has become an important employer, and thus a major legal alternative to the production of coca leaves.[36]

U.S. imports of Andean asparagus (HTS 0709.20) originate mostly in Peru.[37] Peru remains one of the largest global producers, and was the leading U.S. supplier of fresh asparagus among all countries in 2003, relegating Mexico to second place. Peru's advantage in terms of production costs outweighed Mexico's edge in terms of lower transportation costs to U.S. markets. Now producing and exporting fresh asparagus virtually year round, Peru accounted for more than half of U.S. asparagus imports in 2003, compared with 43 percent in 2002. The U.S. asparagus industry has repeatedly expressed concern about competition with Peruvian asparagus in the U.S. market,[38] stating that "Peruvian imports are displacing U.S. asparagus production at an alarming rate."[39]

Cigarettes

U.S. imports of cigarettes (HTS 2402.20.80) under ATPA continued to surge in 2003 (table 2-7). The year 2001 was the first in which U.S. cigarette imports were recorded in meaningful quantities from the ATPA region, entering mostly under ATPA. In 2003, when virtually all imports entered under ATPA, imports quadrupled compared with 2001, apparently in response to increased demand, as well as the renewed duty-free treatment under the program. Colombia became the leading U.S. supplier of imported cigarettes among all countries in 2003, accounting for 22.3 percent of all imports, followed by Canada (14.2 percent) and Korea (12.2 percent). Peru was another ATPA-country supplier, but of negligible amounts.

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

[35] USDA, FAS, "Peru Asparagus Annual, 2003," *Gain Report*, PE 3012, July 2, 2003.

[36] The Peruvian asparagus industry directly employs over 50,000 workers annually in different production areas. Written statement of the Instituto Peruano del Esparrago y Hortalizas (Peruvian Asparagus and Other Vegetables Institute) regarding the Andean Trade Preference Act Effect on the U.S. Economy and on the Andean Drug Crop Eradication, Inv. No. 332-352, p. 4, received June 10, 2004.

[37] Minimal amounts of asparagus are imported from Colombia and Ecuador.

[38] See for example, "State's Asparagus Industry Cut Adrift in the Andes," *The Seattle Times,* May 17, 2004.

[39] Michigan Farm Bureau, statement submitted to the Subcommittee on International Trade of the United States Senate, at a hearing held on the Andean Trade Preference Act, Aug. 3, 2001.

Notably, however, these imports account for less than 1 percent of the U.S. cigarette market, the United States being the largest producer and exporter of cigarettes in the world. Most Colombian cigarettes are inexpensive discount items, sold in niche markets, predominantly the Latino market.[40] As cigarette prices continue to rise, more U.S. demand for these discount products is expected; thus, imports from Colombia are likely to rise in the future.

Cane sugar

During 2003, raw cane sugar (HTS 1701.11.10) imports from ATPA countries entered mostly under ATPA. Sugar was a leading import under ATPA, with imports by value almost the same in 2003 as in 2001 (table 2-7).[41] Colombia was the number one sugar supplier under the program. Notably, Peru supplied more sugar to the United States than Colombia overall, but entered some of it under GSP. The United States allocates TRQs to all ATPA countries, and in 2003, imported sugar from each of them.[42]

The region (the four ATPA countries combined) was the fourth-largest U.S. supplier of sugar in 2003, after the Dominican Republic, the Philippines, and Brazil. In March, 2004, Jack Roney, representative of the U.S. sugar industry, voiced his strong opposition in testimony before the U.S. Trade Representative to the inclusion of sugar in an Andean FTA, saying that "The American sugar market is already oversupplied."[43]

Formerly Leading Imports under the Original ATPA

A comparison of the 2001 list of leading imports under the original ATPA with the 2003 list of leading imports under the expanded ATPA (table 2-7) shows that 11 products on the list of the original ATPA are no longer leading imports under the program in 2003. The disappearance of these products from the list has three possible causes: (1) their imports under ATPA continued to be stable or even higher in 2003 than in 2001, but they were displaced from the leading list by the 11 new ATPDEA-eligible products, especially by high-value petroleum products; (2) their imports from ATPA countries continued to be stable or even higher in 2003 than in 2001, but they entered under GSP rather than under ATPA; and (3) their imports from ATPA countries were sluggish or sharply decreased in response to market factors.

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[40] The major brand is Bronco, marketed in a Marlboro-styled package.

[41] In 2002, imports from some ATPA countries shifted from ATPA to GSP.

[42] TRQs for cane sugar are defined in quantities on a fiscal year (FY) basis. Allocations for ATPA countries combined amounted to 88,455 metric tons in FY 2003 (October 2002 through September 2003), representing 8 percent of total allocations. Allocations for ATPA countries increased 16 percent compared with the same imports in FY 2002 (October 2001 through September 2002). ATPA countries combined almost filled their FY 2003 TRQs (96 percent fill rate), but filled only 83 percent of their FY 2002 TRQs.

[43] Jack Roney, director of economics and policy analysis for the U.S. Sugar Industry Group, also said: "The Andean countries have a significant portion of the U.S. tariff-rate quota for sugar, all duty free. U.S. imports of Andean sugar have averaged more than 88,000 tons in recent years–slightly more than Australia." (Source: American Sugar Alliance, *Press Release,* Mar. 18, 2004.)

Increasing or stable imports of formerly leading ATPA products

This group contains five imports under ATPA that continued to be relatively stable, or even rise, under the program during 2001-2003, although no longer appearing on the list of leading items (table 2-7): miniature carnations, guavas and mangoes, asparagus entering between September 15 and December 15, articles of wood, and onions.

Miniature carnations

In 2003, U.S. imports under ATPA of miniature carnations (HTS 0603.10.30), valued at $23.2 million, rebounded from their low 2002 level, but remained somewhat below their 2001 import value under the program. Colombia continued to be virtually the sole source of such U.S. imports in 2003. This once consistently leading product under ATPA disappeared from the 2003 list for the first time, mostly because it has been displaced from the list by ATPDEA imports of higher value.

Guavas and mangoes

Guavas and mangoes (HTS 0804.50.40) entering the United States from the ATPA region during September 1 through May 31 originate in Peru and Ecuador. Imports from ATPA countries under all programs surged in 2002, and remained at that higher level in 2003, with higher imports from Ecuador offsetting a decline in imports from Peru. Worldwide, the principal U.S. suppliers are Mexico (36.6 percent of U.S. imports in 2003), and Brazil (24.7 percent in 2003). Peru was the third-ranking U.S. supplier in 2003, accounting for 16 percent of total U.S. imports. Ecuador was fourth, with 13 percent.

More than four-fifths of total U.S. imports from ATPA countries entered under ATPA in 2003 ($25 million), as entries switched back to the program from GSP. Compared with 2001, imports under ATPA increased by 41.3 percent. Despite such growth of imports, guavas and mangoes were displaced from the leading items list by ATPDEA products of higher value.

Asparagus, if entered September 15 to December 15

Imports under ATPA from Peru of HTS 0709.20.10 asparagus (asparagus if entered September 15 to December 15) were valued at $19.4 million, 27.3 percent higher in 2003 than in 2001. Because Peru is now able to produce and export asparagus all year, imports under ATPA in this category increased less than imports of HTS 0709.20.90 asparagus (discussed earlier), which enters the United States any time of the year. All imports took place under ATPA. Even though imports were higher in 2003 than in 2001, HTS 0709.20.10 asparagus was displaced from the 2003 list of leading items by ATPDEA products.

Articles of wood

In 2003, total U.S. imports of articles of wood not elsewhere specified or included (HTS 4421.90.97) from ATPA countries were valued at $17.4 million, up 37.4 percent compared with the comparable tariff line (HTS 4421.90.98) in 2001.[44] Virtually the only ATPA-country source of such U.S. imports was Ecuador, which was the ninth-ranking U.S. supplier worldwide of HTS 4421.90.97 in 2003. The United States imports wood products primarily from Canada and China. Virtually all imports from Ecuador entered under ATPA in 2003. Even though imports were higher in 2003 than in 2001, wood products were displaced from the 2003 list of leading items by ATPDEA products.

Onions

Imports of onions (HTS 0703.10.40) under ATPA remained stable in 2003 at $10 million, just marginally lower than in 2001 or in 1999. Following a shift to GSP in 2002, almost three-fourths of total onion imports from ATPA countries entered in 2003 once again under ATPA. Peru remained the third-ranking U.S. supplier of imported onions among all countries during the year, accounting for 8 percent of total U.S. imports. The United States imported onions from other ATPA countries (Ecuador and Colombia) too, but these imports were small from the outset, and they further declined in 2003. Even though imports of onions under ATPA remained stable in 2003, higher-value ATPDEA products displaced onions from the leading items' list. Most onions that the United States imports originate in Mexico (72 percent of total imports in 2003), followed by Canada (13.5 percent).

Declining imports of formerly leading ATPA products

This list includes imports that had taken place initially under ATPA, then migrated to GSP in 2002, and remained under GSP in 2003, as well as imports that declined for a variety of market-based reasons. Altogether, imports of six formerly leading ATPA products declined under ATPA in 2003 compared with 2001: pigments, unwrought zinc, tuna not in airtight containers, nonadhesive plates and sheets, iron and steel products, and gold rope jewelry.

Pigments

The Colombian Government had once subsidized exports of pigment dispersions (HTS 3212.90.00),[45] making Colombia the number one U.S. supplier among all countries in

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[44] Both tariff lines were basket categories. Despite their reclassification, HTS 4421.90.97 (in the 2002 and 2003 HTS) and HTS 4421.90.98 (in the 2001 HTS) are believed to be largely comparable. They include a multitude of products, including door mats and bath mats, floral stakes and sticks, edge-glued wood panels, telephone pole cross braces, low stools, and container lids.

[45] The pigments in question refer to specialized gold dispersions in an organic solvent. The presence of gold accounts for the high value of imports of this product. Potential uses are for the application of extremely thin coatings of gold as an electronic conductor on circuit boards and for decorative purposes.

the world in 1999. All U.S. imports of this product from ATPA countries had entered under ATPA. U.S. imports of pigment dispersions continued to grow in 2000, when they were the number two import product under ATPA, and imports remained stable in 2001.

However, in January 2002, the Colombian Government reduced export subsidies for this product, and in August 2002 removed them.[46] The removal of subsidies, coupled with the long lapse of ATPA preferences for part of 2002, increased the cost of production, and apparently had the effect of shifting a share of the U.S. market away from Colombia to other sources, mostly Germany and Canada. In 2003, despite the availability of ATPA preferences, there were no imports of pigment dispersions from Colombia.

Unwrought zinc

Since 1999, U.S. imports of unwrought, unalloyed zinc (HTS 7901.11.00) trended downward from ATPA countries, as well as from most other countries. These declines reflected worldwide oversupply, depressed prices, high inventories, and declining U.S. demand, owing to the sluggish U.S. economy. Through the years, virtually all zinc imports from ATPA countries entered the United States under preferential provisions: ATPA or GSP. In 2003, overall zinc imports from ATPA countries rebounded slightly to $30 million, but imports remained substantially below their levels of earlier years. Imports under ATPA dropped by four-fifths from their 2001 level to $5.5 million, because imports shifted from ATPA to GSP during 2002, and did not return to ATPA in 2003.

Peru is the only U.S. supplier of zinc among ATPA countries.[47] In 1999, Peru's share of the U.S. market was almost 10 percent. Although it has lost U.S. market share, Peru remained the third-ranking U.S. supplier among all countries in 2003, accounting for 6.4 percent of total U.S. imports, compared with 54 percent from Canada and 20 percent from Mexico.

Tuna not in airtight containers

Tuna imports under HTS provision 1604.14.40 are an intermediate tuna product, referred to as "loins" in the trade. The product is used in canneries as input for the final product, which is canned or pouched tuna. Pouched tuna is now a leading import under the expanded ATPA, as discussed earlier. U.S. imports of loins from ATPA countries have been declining since their peak in 1999. In 2003, such imports under ATPA amounted to $15.8 million, about 40 percent less than in 2001.

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[46] Based on a telephone conversation and E-mail communication with Bruce Edwards, Metalor USA-Refining Corp., Aug. 12, 2003.

[47] Most of the zinc from Peru is reportedly imported by a Canadian company that also has U.S. operations in the states of Washington and Alaska.

Although Ecuador was still the second-ranking U.S. supplier of loins worldwide in 2003, its share of the U.S. market continued to fall. Ecuador accounted for 24 percent of total U.S. imports in 2003, compared with 71 percent in 2000. The diminishing importance of U.S. loin imports from Ecuador during 2000-2003 resulted, in part, from a shift of canners in Ecuador from producing loins to producing higher-value-added tuna products (canned tuna as well as pouched tuna).[48]

Nonadhesive plates and sheets

Nonadhesive plates and sheets of plastic (HTS 3921.12.19), used as upholstery or upholstery coverings, had been a leading U.S. import under ATPA for years, through 2001. In 2002, overall U.S. imports of this product from the ATPA region continued to grow, but the long lapse of ATPA benefits caused most imports to switch to GSP. In 2003, such overall imports continued to grow. Colombia, the only ATPA-country supplier, remained the number one U.S. source of nonadhesive plates worldwide, followed by Taiwan and Canada. However, 2003 imports did not return to ATPA, but continued to enter predominantly under GSP. As a result, 2003 imports of nonadhesive plates under ATPA ($20.5 million) accounted for only 12.6 percent of the value of such imports in 2001, and disappeared from the list of leading ATPA imports.

Iron and steel products

U.S. imports of iron or nonalloyed steel tubing (HTS 7306.20.60) under ATPA, specifically from Colombia, plummeted in 2002, rebounded somewhat in 2003 to $7.6 million, but remained 44 percent lower than in 2001. In 2003, Colombia accounted for 12.4 percent of all such U.S. imports and was the third-ranking U.S. supplier of this product, after South Korea (40.2 percent) and Mexico (13.1 percent). Virtually all U.S. imports of these goods from Colombia entered under ATPA.

Gold rope jewelry

Imports from ATPA countries of gold rope jewelry (HTS 7113.19.10) plummeted in 2001 and 2002, and continued to fall in 2003. Imports under ATPA, valued at $6.1 million in 2003, accounted for less than one-fifth of their value in 2001, even though virtually all imports entered once again free of duty under ATPA. The major cause of the decline was a shift of U.S. demand to Asian sources, primarily China and Pakistan. Despite the decline, Peru continued to be the leading U.S. supplier of this product.

U.S. Imports by Country

U.S. imports under ATPA were significantly higher from each ATPA country in 2003 than in 2002, when ATPA was in effect for only part of the year (table 2-9, figure 2-3).

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[48] Pouched tuna from Ecuador was discussed earlier in this chapter.

Table 2-9
U.S. imports for consumption under ATPA , by sources, 1999-2003

Source	1999	2000	2001	2002[1]	2003[1]	Change, 2002-03[2]
			Value *(1,000 dollars)*			*Percent*
Colombia	797,305	826,559	717,966	404,148	2,908,692	619.7
Ecuador	260,301	247,595	216,300	177,734	1,553,604	774.1
Peru	631,180	846,014	686,341	381,814	1,279,283	235.1
Bolivia	61,492	61,464	53,999	37,119	94,453	154.5
Total	1,750,279	1,981,632	1,674,607	1,000,816	5,836,032	483.1
			Percent of total			*In percentage points*
Colombia	45.6	41.7	42.9	40.4	49.8	9.4
Ecuador	14.9	12.5	12.9	17.8	26.6	8.8
Peru	36.1	42.7	41.0	38.2	21.9	-16.3
Bolivia	3.5	3.1	3.2	3.7	1.6	-2.1
Total	100.0	100.0	100.0	100.0	100.0	

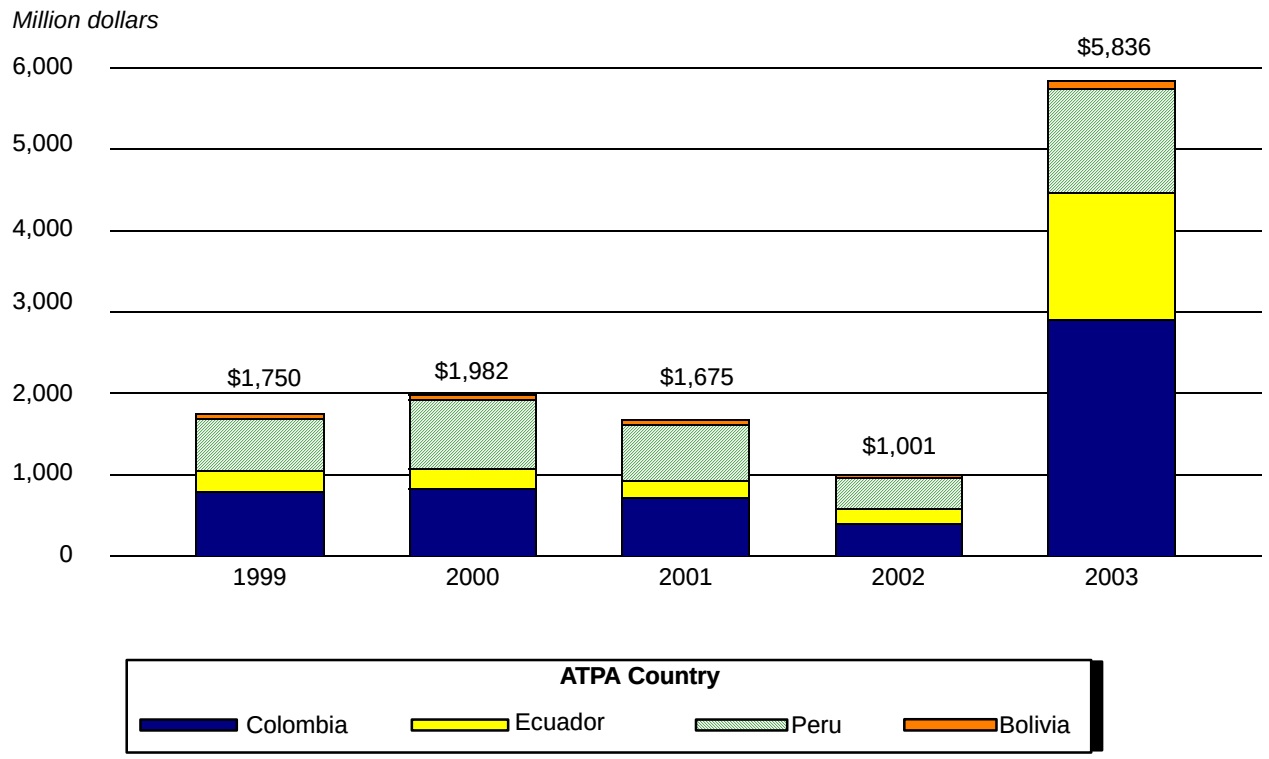
[1] ATPA includes imports under ATPDEA.

[2] Because of the lapse of ATPA and the implementation of ATPDEA in 2002, entries under ATPA in 2003 are not strictly comparable to entries under ATPA in 2002. For more detail, see section “Methodology for analyzing imports under the expanded ATPA” in chapter 2.

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, 1999-2003



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

Imports under ATPA were also much higher in 2003 than in 2001 for each ATPA country, in part because ATPDEA was in effect in 2003. However, the expansion of ATPA affected beneficiary countries to different degrees, depending on the product composition of their exports to the United States. Because petroleum derivatives are high-value ATPDEA products, their duty-free entry under ATPA in 2003 raised the relative share in total imports under the expanded ATPA accounted for by Colombia and Ecuador at the expense of the other two ATPA countries: Peru and Bolivia. The newly duty-free entry of apparel and other miscellaneous ATPDEA products benefitted all ATPA countries to some degree due to their labor-intensity, but in terms of their import value under ATPA, these benefits are less apparent than those conferred by petroleum products.

Compared with 2001, the last full year of the original ATPA, Colombia's share of U.S. imports under ATPA rose from 43 percent to nearly 50 percent in 2003, and Ecuador's share surged from 13 percent to nearly 27 percent. Meanwhile, Peru's relative share of imports under ATPA dropped from 41 percent in 2001 to 22 percent in 2003, even though Peru is an important exporter to the United States of newly

duty-free apparel products. Bolivia's share of U.S. imports under ATPA dropped from 3.2 percent in 2001 to 1.6 percent in 2003.

Colombia

In 2003, Colombia was the major source of 10 leading products entered under ATPA (table 2-7). Six were ATPDEA products: four petroleum derivatives and two apparel products. Heavy petroleum oils alone accounted for more than half of all imports under ATPA from Colombia in 2003. Three of the original ATPA products supplied principally by Colombia were flowers; the others were cigarettes and cane sugar.

Flowers was the largest product category among imports from Colombia under the original ATPA,[49] but their relative importance under the expanded program is now dwarfed by petroleum derivatives. Notable is the disappearance from the list of leading imports of products that had been important from Colombia under the original ATPA, including pigment dispersions, nonadhesive plates and sheet, and certain iron and steel, as discussed earlier in this chapter.

Ecuador

Ecuador was the major source of two leading imports under ATPA in 2003: light petroleum oils and pouched tuna (table 2-7). Roses, cut flowers suitable for bouquets, and naphthas were additional major products from Ecuador under ATPA (table 2-10). Guavas, mangoes, and wood products also come principally from Ecuador. As discussed earlier, imports of these products continued to increase in 2003, but they lost relative significance because of the higher value petroleum-related imports now under the expanded program.

It should be noted that significant imports from Ecuador enter the United States outside ATPA, including the products that have NTR duty rates of free, such as bananas and shrimp, and canned tuna, which remains dutiable.

Peru

Due to four apparel imports under ATPDEA that originate principally or exclusively in Peru, this country was the major supplier of 7 of the leading 20 imports under ATPA in 2003 (table 2-7). The three nonapparel products on the list had been leading imports under the original ATPA: copper cathodes, asparagus, and jewelry. Imports from Peru of these products were discussed earlier in the chapter. In addition, Peru continued to be the third-ranking U.S. supplier of onions, which was replaced on the list of leading ATPA imports by newly eligible petroleum-related products.

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[49] In its testimony at the hearing held on Feb. 10, 2004, by the United States International Trade Commission regarding a possible free-trade agreement of the United States with the Andean countries, 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 entered under ATPA, by sources, 2001-03

Source	HTS Provision	Description	2001	2002	2003	Change, 2002-03[1]
			1,000 dollars			*Percent*
Colombia	2709.00.20	Petroleum oils and oils from bituminous minerals, crude, testing 25 degrees A.P.I. or more	0	66,571	1,536,212	2,207.6
	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.	0	6,134	189,140	2,983.3
	2709.00.10	Petroleum oils and oils from bituminous minerals, crude, testing under 25 degrees A.P.I.	0	40,072	156,647	290.9
	0603.10.60	Roses, fresh cut	117,095	51,006	144,743	183.8
	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	5,212	129,896	2,392.5
	0603.10.70	Chrysanthemums, standard carnations, anthuriums and orchids, fresh cut	91,664	46,284	98,198	112.2
		Total	208,759	215,280	2,254,836	947.4
Ecuador	2709.00.10	Petroleum oils and oils from bituminous minerals, crude, testing under 25 degrees A.P.I.	0	79,732	1,207,291	1,414.2
	0603.10.60	Roses, fresh cut	63,145	18,758	59,714	218.3
	0603.10.80	Cut flowers and flower buds suitable for bouquets or ornamental purposes, fresh cut, nesi	30,126	13,041	44,984	245.0
	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	4,510	25,792	471.8
	1604.14.30	Tunas and skipjack, not in oil, in airtight containers, nesoi	0	0	25,474	([2])
		Total	93,271	116,042	1,363,255	1,074.8

See notes at end of table.

Table 2-10–*Continued*
Leading U.S. imports for consumption entered under ATPA, by sources, 2001-03

Source	HTS Provision	Description	2001	2002	2003	Change, 2002-03[1]
				1,000 dollars		*Percent*
Peru	7403.11.00	Refined copper cathodes and sections of cathodes	429,379	248,663	447,368	79.9
	6110.20.20	Sweaters, pullovers and similar articles, knitted or crocheted, of cotton, nesoi	0	0	180,933	([2])
	6105.10.00	Men's or boys' shirts, knitted or crocheted, of cotton	0	0	99,484	([2])
	2709.00.10	Petroleum oils and oils from bituminous minerals, crude, testing under 25 degrees A.P.I.	0	0	70,791	([2])
	6109.10.00	T-shirts, singlets, tank tops and similar garments, knitted or crocheted, of cotton	0	0	68,559	([2])
	0709.20.90	Asparagus, nesi, fresh or chilled	26,660	31,041	59,493	91.7
		Total	456,039	279,704	926,628	231.3
Bolivia	7113.19.50	Articles of jewelry and parts thereof, of precious metal except silver, except necklaces and clasps	24,437	16,545	28,687	73.4
	7113.19.29	Gold necklaces and neck chains, other than rope or mixed link	6,997	9,747	20,063	105.8
	6105.10.00	Men's or boys' shirts, knitted or crocheted, of cotton	0	0	10,579	([2])
	4418.20.80	Doors and their frames and thresholds, of wood, other than French doors	8,890	6,127	8,746	42.8
	6110.20.20	Sweaters, pullovers, sweatshirts, waistcoats, and similar articles, knitted or crocheted, of cotton, nesoi.	0	0	7,860	([2])
		Total	40,325	32,418	75,935	134.2

[1] Because of the lapse of ATPA and the implementation of ATPDEA in 2002, entries under ATPA in 2003 are not strictly comparable to entries under ATPA in 2002. For more detail, see section "Methodology for analyzing imports under the expanded ATPA" in chapter 2.

[2] Not meaningful.

Note.—The abbreviation "nesoi" stands for "not elsewhere specified or otherwise included." The abbreviation "nesi" stands for "not elsewhere specified or included."

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

Bolivia

Bolivia was the principal source of one leading import under ATPA in 2003: gold jewelry (table 2-7). The United States imports this product from all ATPA countries, but in 2003, Bolivia boosted its share of the U.S. market as compared with 2001 at the expense of Peru. The increase in U.S. jewelry imports from Bolivia in general has been discussed earlier in this report. Major imports from Bolivia under ATPA in 2003 were two jewelry products, two apparel products, and wood doors (table 2-10).

U.S. Exports

In 2003, ATPA countries combined ranked 15th as a U.S. export market, ahead of Thailand, but behind Switzerland. Ever since U.S. exports to ATPA countries dropped sharply in 1999, this trade flow has not recovered. Weak demand in the region for imports was caused by the politically volatile environment of ATPA countries, their poor economic performance, and their deteriorating exchange rates in terms of the U.S. dollar. In 2003, U.S. exports to ATPA countries amounted to $6.5 billion, only 1 percent more than in 2002, and 25 percent less than in 1998 (table 2-1). During the last 5 years, U.S. exports to the region have increased in only four major product categories: organic chemicals, plastics, mineral fuels, and cotton products.

Non-electrical machinery, equipment, appliances, and parts (HTS 84) remained the leading 2-digit HTS product category of U.S. exports to the region in 2003, accounting for 24 percent of the total (table 2-11, figure 2-4).[50] Such exports declined somewhat in 2003. Exports of electrical machinery (HTS 85), the second leading category, accounted for 9.5 percent of the total, edging up a little. The combined exports of these two machinery groups to ATPA countries were responsible for over one-third of all U.S. exports to ATPA countries during the year, somewhat less than in 1999.

Among the 20 leading U.S. exports to ATPA countries in 2003, 6 were classified as non-electrical machinery, equipment, appliances, and parts (table 2-12); these were destined principally for oil and gas extraction, mining, and data processing. Only one leading export, transmission apparatus with reception apparatus (cell phones), was an electrical machinery product.

Exports of organic chemicals (HTS 29)–the third leading category of U.S. exports to the region–continued to increase in 2003, up 18.4 percent compared with 2002 (table 2-11). This group of products gained significance in total U.S. exports to ATPA countries

[50] In the United States, export data can be reported under Schedule B, the separate U.S. export schedule based on the Harmonized Tariff Schedule, but in most cases exporters can use HTS categories for reporting trade. For purposes of this report, and for ease of comparison with the analysis on imports, this section is discussed in terms of 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, 1999-2003

HTS Chapter	Description	1999	2000	2001	2002	2003
		Value *(1,000 dollars)*				
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof . . .	1,598,029	1,602,759	1,720,395	1,624,715	1,580,572
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television recorders and reproducers, parts and accessories	618,746	602,835	629,030	607,976	618,380
29	Organic chemicals	347,206	472,660	417,604	473,033	560,398
10	Cereals	444,363	331,085	359,635	439,742	437,034
39	Plastics and articles thereof	289,268	365,905	350,532	370,050	379,471
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	94,053	104,335	134,404	169,203	253,743
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof	185,958	198,485	224,113	235,413	221,790
48	Paper and paperboard; articles of paper pulp, paper or paperboard	238,738	247,955	220,542	221,241	219,100
87	Vehicles, other than railway or tramway rolling stock, and parts and accessories thereof	210,929	163,728	192,938	145,096	166,661
52	Cotton, including yarns and woven fabrics thereof	55,788	102,674	106,513	111,982	162,078
	Subtotal	4,083,078	4,192,420	4,355,706	4,398,450	4,599,227
	All other	2,180,091	2,102,669	2,007,628	2,065,311	1,926,467
	Total	6,263,169	6,295,089	6,363,334	6,463,762	6,525,695

See note at end of table.

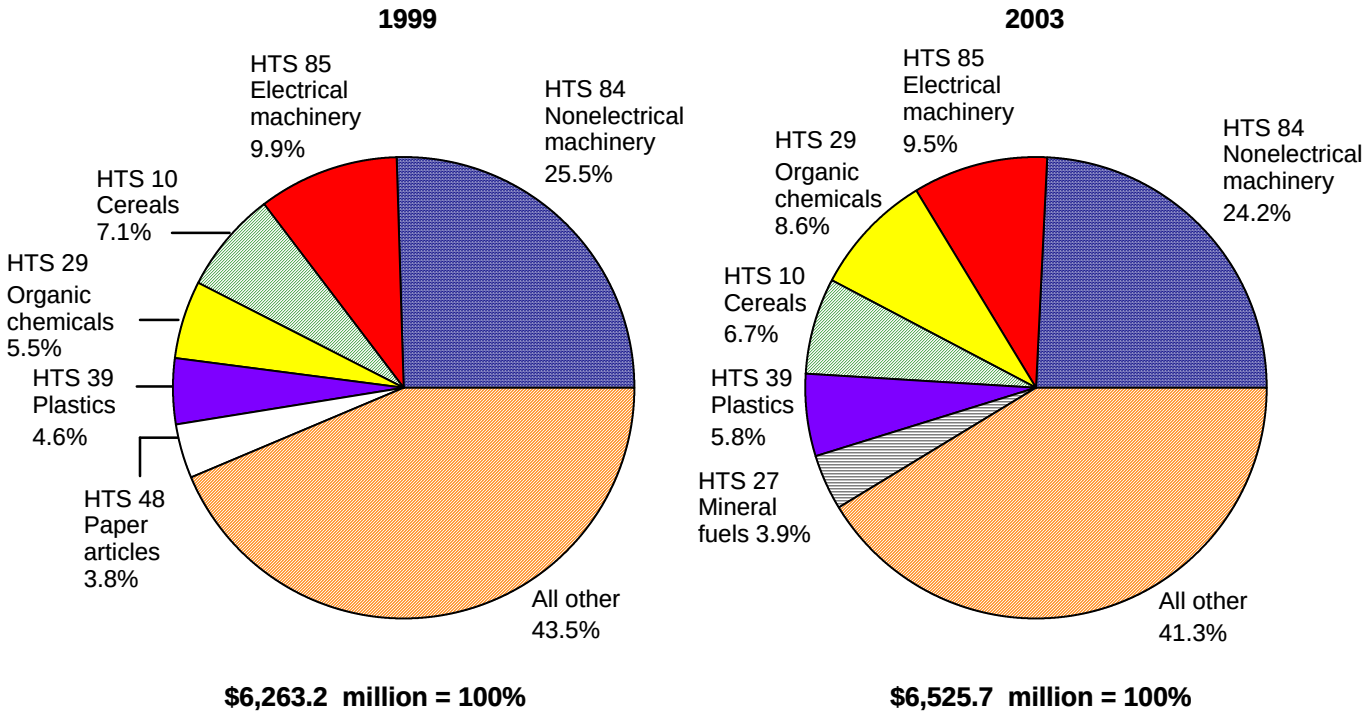
Table 2-11—*Continued*
U.S. exports to ATPA countries, by major product categories, 1999-2003

HTS Chapter	Description	1999	2000	2001	2002	2003
		Percent of total				
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	25.5	25.5	27.0	25.1	24.2
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television recorders and reproducers, parts and accessories	9.9	9.6	9.9	9.4	9.5
29	Organic chemicals	5.5	7.5	6.6	7.3	8.6
10	Cereals	7.1	5.3	5.7	6.8	6.7
39	Plastics and articles thereof	4.6	5.8	5.5	5.7	5.8
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	1.5	1.7	2.1	2.6	3.9
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof	3.0	3.2	3.5	3.6	3.4
48	Paper and paperboard; articles of paper pulp, paper or paperboard	3.8	3.9	3.5	3.4	3.4
87	Vehicles, other than railway or tramway rolling stock, and parts and accessories thereof	3.4	2.6	3.0	2.2	2.6
52	Cotton, including yarns and woven fabrics thereof	0.9	1.6	1.7	1.7	2.5
	Subtotal	65.2	66.6	68.5	68.0	70.5
	All other	34.8	33.4	31.5	32.0	29.5
	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
Composition of U.S. exports to ATPA countries, by major product categories, 1999 and 2003



Note.—Percentages may not add to 100 because of rounding.
Source: Compiled from official statistics of the U.S. Department of Commerce.

in recent years, accounting in 2003 for 8.6 percent of the total, compared with 7.3 percent in 2002 and 5.5 percent in 1999. There were three leading U.S. export products to ATPA countries within the organic chemicals category in 2003: vinyl chloride, styrene, and propene (propylene) (table 2-12). Exports of vinyl chloride were up 25.6 percent; styrene, by 38.5 percent; and propene, by 19.8 percent compared with 2002. Colombia, and to a smaller extent Ecuador, were the destinations for most of these U.S. exports to the ATPA region.

ATPA countries are an important market for U.S. cereals, if not a growing one. In 2003, cereals accounted for 6.7 percent of total U.S. exports to the region; less than in 1999 (7.1 percent), and less than in 2002 (6.8 percent) (table 2-11, figure 2-4). Wheat and yellow corn were the second- and third-leading U.S. exports to the ATPA community in 2003 as wheat exports increased but corn exports were down (table 2-12).

Table 2-12
Leading U.S. exports to ATPA countries, by HTS provisions, 2001-03

HTS Provision	Description	2001	2002	2003	Change, 2002-03
			1,000 dollars		*Percent*
8431.43.80	Parts suitable for use solely or principally with boring or sinking machinery, nesoi	228,897	263,573	246,499	-6.5
1001.90.20	Wheat & meslin other than durum or seed wheat	158,945	194,305	224,243	15.4
1005.90.20	Yellow dent corn	184,109	217,426	189,883	-12.7
8525.20.90	Transmission apparatus with reception apparatus, not transceivers, for radiotelephony, radiotelegraphy, radiobroadcasting, or television	124,142	124,425	157,092	26.3
8473.30.00	Parts and accessories of automatic data processing machines and units thereof	104,335	105,670	137,295	29.9
2903.21.00	Vinyl chloride (chloroethylene)	73,687	100,744	126,540	25.6
2710.19.10[1]	Distillate/residual fuel oil (including blends) derived from petroleum oils or oil of bituminous minerals, testing 25 degrees A.P.I. or more	41,376	54,878	122,913	124.0
4804.11.00	Kraft liner, uncoated, unbleached, in rolls or sheets	94,705	95,312	106,759	12.0
8431.39.00	Parts suitable for use solely or principally with lifting, handling, loading, or unloading machinery, nesoi	95,791	77,357	98,494	27.3
3100.00.00	Fertilizers covered under 2510.10/20.0000, 2809.20.0010/20, 2814.10.0000, or 3101.00.0000-3105.90.0000, aggregated to prevent disclosure	92,275	87,505	94,961	8.5

See notes at end of table.

Table 2-12–*Continued*
Leading U.S. exports to ATPA countries, by HTS provisions, 2001-03

HTS Provision	Description	2001	2002	2003	Change, 2002-03
			1,000 dollars		*Percent*
5201.00.10	Cotton, not carded or combed, having a staple length under 28.575 mm (1 1/8 inches)	70,993	73,358	82,574	12.6
3901.10.00	Polyethylene having a specific gravity of less than 0.94, in primary forms	47,460	56,989	63,052	10.6
8803.30.00	Parts of airplanes and helicopters, nesoi.	48,199	60,739	60,005	-1.2
2902.50.00	Styrene (vinylbenezene; phenylethylene)	44,785	42,761	59,213	38.5
3907.60.00	Polyethylene terephthalate in primary forms	26,715	35,095	56,518	61.0
2901.22.00	Propene (Propylene)	15,856	43,889	52,572	19.8
8474.90.00	Parts for machinery used in sorting, screening, grinding, mixing, shaping, etc., earth, stone, ores, or other mineral substances	72,726	47,888	49,746	3.9
2710.19.30[2]	Lubricating oils, with or without additives, from petroleum oils and bitumin minerals (other than crude) from petroleum minimum 70 percent by weight from petroleum oils	33,854	21,399	43,797	104.7
8471.50.00	Digital processing units other than those of subheading 8471.41 and 8471.49, nesoi.	93,164	63,523	36,466	-42.6
8431.49.90	Parts suitable for use solely or principally with the machinery of heading 8429 or 8430, nesi	29,171	21,349	36,394	70.5
	Subtotal	1,681,185	1,788,186	2,045,014	14.4
	All other	4,682,150	4,675,576	4,480,680	-4.2
	Total	6,363,334	6,463,762	6,525,695	1.0

[1] Imports for HTS 2710.19.10 were reported under 2710.00.10 during 2001.
[2] Imports for HTS 2710.19.30 were reported under 2710.00.30 during 2001.

Note.—The abbreviation “nesoi” stands for “not elsewhere specified or otherwise included.” The abbreviation “nesi” stands for “not elsewhere specified or included.”

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

U.S. exports to the region of refined mineral fuels and oils continued to increase in 2003, owing in part to higher crude oil prices. Two leading exports shown in table 2-12 are petroleum derivatives. Other major U.S. export categories to ATPA countries in 2003 were plastics, instruments and their parts, paper and paperboard articles, and automotive products (table 2-11). Exports of automotive products were up in 2003 from the prior year, but they remained well below their value in 1999. Exports of plastics also edged up in 2003, and they have grown since 1999. In 2003, aircraft and parts (HTS 88), traditionally a leading U.S. export category to the region, did not rank among the top 10 categories, because such exports declined by 43 percent during the year.

U.S. exports of cotton, including yarns and fabrics (HTS 52), to ATPA countries increased in the last 5 years, especially during 2003. The implementation of ATPDEA boosted U.S. exports of cotton yarns and fabrics to ATPA countries (mostly to Colombia) because they were inputs for the Andean apparel products destined to enter the U.S. market under the program. In 2003, these cotton products accounted for 2.5 percent of all U.S. exports to the region, compared with 0.9 percent of the total in 1999 and 1.7 percent in 2002.[51]

Table 2-13 ranks the four ATPA countries as U.S. export markets in 2003 in the following order: Colombia, Peru, Ecuador, and Bolivia (see also figure 2-5). This order is the same as it was in 2001,[52] and it is unlike the ranking of ATPA countries on the U.S. import side (table 2-9), where Ecuador is second and Peru third. In 2003, U.S. exports increased to Colombia and Peru, but declined to Ecuador and Bolivia, reflecting primarily the economic and political conditions in each country.

Colombia

In 2003, the Colombian economy experienced modest growth. The GDP rose by 3.7 percent compared with 1.7 percent in 2002.[53] This growth is attributed to mining (especially of coal), construction, and the financial sector. Colombia's exports, which had contracted in 2002, were up by over 4 percent in 2003 as the country's rising exports to the United States offset a slump in its exports to Venezuela. Colombia's total imports increased by 6 percent.[54] Interventions by the central bank of the country in

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[51] For more information on textiles and apparel, see the chapter 3 section on "Probable Future Effects of ATPA."

[52] During 2002, Ecuador replaced Peru temporarily as the second-largest recipient of U.S. exports among ATPA countries, because of its imports of U.S. machinery and equipment for the country's second oil pipeline, which then was still under construction.

[53] U.S. Department of State telegram, "Post Response Regarding USITC Andean Investment and Drug Crop Survey for Report on ATPA/ATPDEA 2003," message reference No. 7300, prepared by U.S. Embassy, Bogota, July 23, 2004.

[54] United Nations, Economic Commission for Latin America and the Caribbean (ECLAC), *Preliminary Overview of the Economies of Latin America and the Caribbean, 2003*, *Colombia*, December 2003, and The Economic Intelligence Unit, *Colombia, Country Commerce,* December 2003. All numbers concerning the economies of the four ATPA countries in 2003 are preliminary.

Table 2-13
U.S. exports to ATPA countries, by markets, 1999-2003

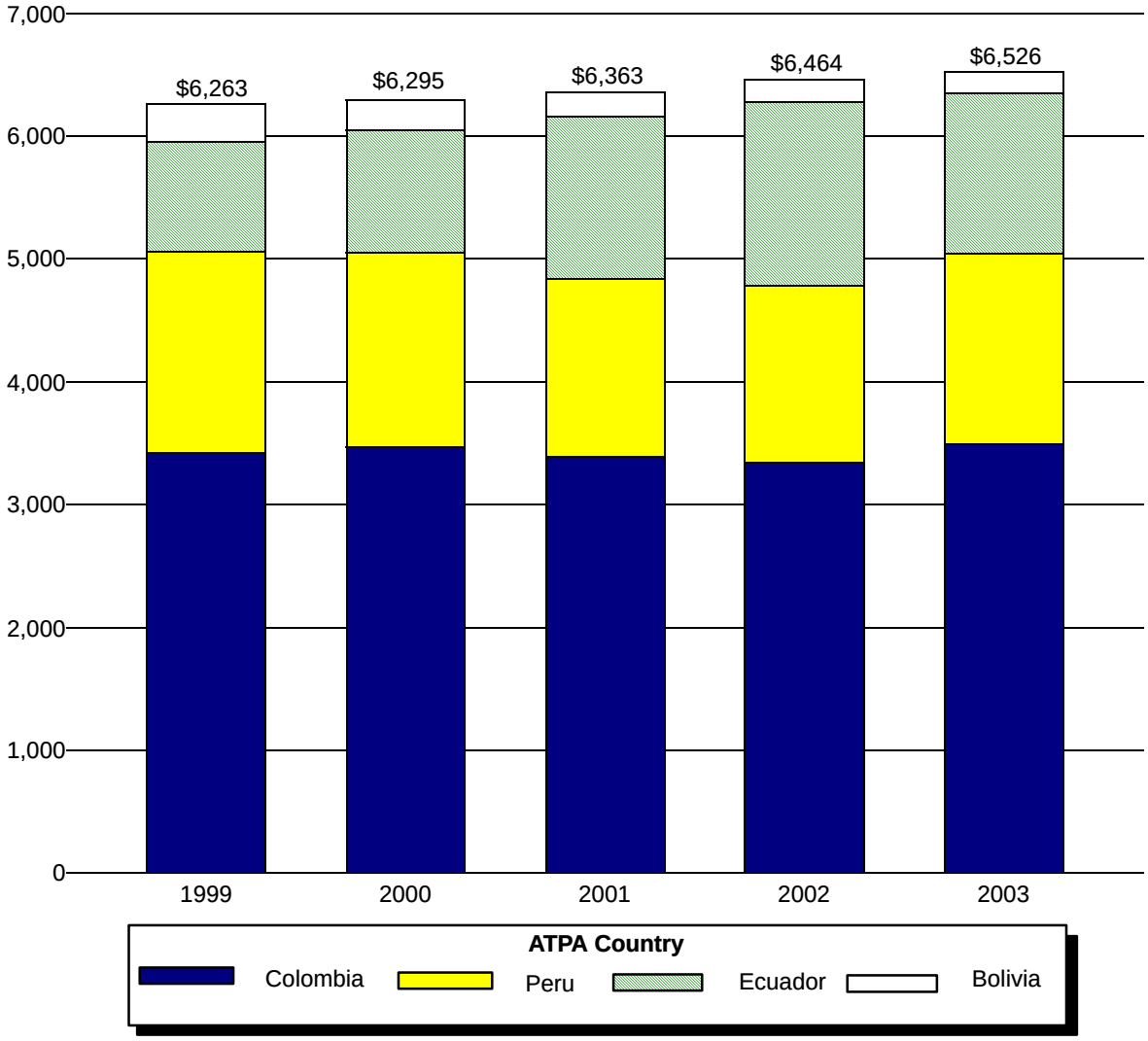
Market	1999	2000	2001	2002	2003	Change, 2002-03
			Value *(1,000 dollars)*			*Percent*
Colombia	3,429,513	3,474,881	3,391,561	3,345,084	3,496,277	4.5
Peru	1,630,743	1,579,760	1,450,497	1,441,052	1,551,604	7.7
Ecuador	896,255	999,858	1,319,141	1,495,839	1,306,139	-12.7
Bolivia	306,659	240,590	202,136	181,786	171,675	-5.6
Total	6,263,169	6,295,089	6,363,334	6,463,762	6,525,695	1.0
			Percent of total			*In percentage points*
Colombia	54.8	55.2	53.3	51.8	53.6	1.8
Peru	26.0	25.1	22.8	22.3	23.8	1.5
Ecuador	14.3	15.9	20.7	23.1	20.0	-3.1
Bolivia	4.9	3.8	3.2	2.8	2.6	-0.2
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, 1999-2003

Million dollars



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

the foreign exchange market resulted in a more stable, though lower exchange rate in 2003 than in 2002. This had a moderating effect on inflation, the annual rate of which was 6.1 percent.[55]

Colombia continued to be the dominant destination of U.S. exports to ATPA countries as well as the dominant source of its imports. U.S. exports to Colombia amounted to $3.5 billion in 2003, more than half of U.S. exports to ATPA countries combined (table 2-13, figure 2-5). Colombian demand for U.S. machinery, parts, and equipment–especially for oilfields, automatic data processing, and communications–increased during the year, following a sharp drop in 2002. U.S. machinery exports to Colombia were nonetheless lower in 2003 than in 1999. The share in total U.S. exports to Colombia of electrical and non-electrical machinery, combined, was less than 30 percent in 2003.

Colombia accounted for most of the surge of U.S. exports of organic chemicals to ATPA countries in recent years. In 2003, organic chemicals were the second leading category of U.S. exports to Colombia, accounting for 13 percent of the total. Vinyl chloride (the second-ranking U.S. export product to Colombia), styrene, and propene exports to Colombia surged during the year.

However, yellow corn continued to be the number one U.S. export to Colombia, where such corn is used primarily in the animal feed industry. U.S. exports of yellow corn to Colombia remained largely stable, while wheat exports were up.

Notable also is the rise, by almost half, of U.S. exports of cotton products to Colombia in 2003, and the change in the composition of such exports, all resulting from the implementation of ATPDEA.[56] Whereas in 2002, cotton, not carded or combed, accounted for 61.5 percent of all U.S. cotton exports to Colombia, the share of the raw products in the total declined to 49 percent in 2003, while the share of woven fabrics and yarns of cotton increased. U.S. exports of cotton yarns, and especially of uncut cotton fabrics, to Colombia surged during the year.

Peru

A wave of strikes in May 2003, and a subsequent 30-day national emergency, declared by Peru's president, constrained the country's economic performance during the year.[57] Nonetheless, the Peruvian economy grew by 4 percent,[58] only half a

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[55] United Nations, Economic Commission for Latin America and the Caribbean (ECLAC), *Preliminary Overview of the Economies of Latin America and the Caribbean, 2003*, *Colombia*, December 2003.

[56] For more information, see chapter 3 section on "Probable Future Effects of ATPA."

[57] The Economic Intelligence Unit, *Peru, Country Commerce, December 2003* and United Nations, Economic Commission for Latin America and the Caribbean (ECLAC), *Preliminary Overview of the Economies of Latin America and the Caribbean, 2003*, *Peru,* December 2003. All numbers concerning the economies of the four ATPA countries in 2003 are preliminary.

[58] United Nations, Economic Commission for Latin America and the Caribbean (ECLAC), *Preliminary Overview of the Economies of Latin America and the Caribbean, 2003, Peru,* December 2003.

percentage point slower than in 2002. Mining and manufacturing were the main areas of expansion. Peru's exports of goods and services increased by 11.4 percent. This rate outpaced the 8.6-percent growth of Peru's imports, enabling the country to record a merchandise trade surplus in 2003, as in 2002. Gold exports, up in terms of both volume and price, were responsible for over 20 percent of the increase in Peru's total exports.[59] The opening of the Antamina mine in 2001 made possible the rapid rise of Peru's mining products exports in 2002 and 2003.

The United States is Peru's principal trading partner. In 2003, U.S. exports to Peru amounted to $1.6 billion, up 7.7 percent from 2002 (table 2-13). Peru purchased 23.8 percent of U.S. exports to ATPA countries combined (see also figure 2-5). U.S. exports to Peru were up in most leading 2-digit HTS product groups. Electrical and non-electrical machinery, equipment, and parts continued to dominate this trade flow, accounting together for 37.8 percent of the total during the year. U.S. exports to Peru of products classified as non-electrical machinery, i.e., principally computers and machinery and equipment used in mining, increased by some 12 percent in 2003. Exports of electrical machinery remained stable. Plastics, which accounted for another 7.4 percent of total U.S. exports to Peru, rose by over 10 percent. A 53-percent surge of U.S. wheat exports, a near 19-percent rise in U.S. cotton exports, and a near 36-percent rise in U.S. soybean oil exports to Peru during 2003 should also be noted. Wheat continued to be the number one U.S. export to Peru.

Ecuador

Ecuador's economic performance deteriorated in 2003; the estimated growth of the country's GDP was 2 percent compared with 3.6 percent in 2002.[60] Economic growth in Ecuador largely tracks the performance of the country's petroleum sector. Petroleum production continued to be slow during the first 9 months of the year, but Ecuador's second crude pipeline, completed in August, was expected to generate more growth in the last quarter of 2003 and thereafter.[61]

Despite the problems with Ecuador's crude oil production during most of the year, the volume of its crude exports increased by 4.8 percent and the value of such exports climbed by 25.4 percent. This considerable growth in oil export value, and a 16-percent increase in banana exports, helped Ecuador to reach a 17.5-percent rate of growth of its overall exports in 2003. Because such export growth was combined with a slight dip in Ecuador's imports during the year, the country's balance of trade improved significantly.[62]

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[59] Ibid.

[60] United Nations, Economic Commission for Latin America and the Caribbean (ECLAC), *Preliminary Overview of the Economies of Latin America and the Caribbean, 2003*, *Ecuador,* December 2003. All numbers concerning the economies of the four ATPA countries in 2003 are preliminary.

[61] The Economic Intelligence Unit, *Ecuador, Country Commerce,* December 2003.

[62] United Nations, Economic Commission for Latin America and the Caribbean (ECLAC), *Preliminary Overview of the Economies of Latin America and the Caribbean, 2003*, *Ecuador,* December 2003.

The slowdown of imports for Ecuador's second oil pipeline, which was completed in 2003, and the country's slack overall import activity, are reflected in the shrinking Ecuadorian market for U.S. products during 2003. U.S. exports to Ecuador amounted to $1.3 billion, down nearly 13 percent from 2002. Ecuador was the destination of 20 percent of all U.S. exports to ATPA countries in 2003, compared with 23 percent in 2002 (table 2-13 and figure 2-5).

Some 40 percent of all U.S. exports to Ecuador consisted of electrical and non-electrical machinery, equipment, and parts in 2003. Such exports were significantly lower in 2003 than in 2002, especially exports of oil-field machinery, equipment, and parts, due to the completion of the oil pipeline. U.S. exports of cereals to Ecuador were also considerably lower, as were exports of paper products, plastics, and various instruments. However, the value of U.S. refined petroleum products to Ecuador was 40 percent higher than in 2002; in fact, U.S. exports in this category have risen steadily in the last 5 years. U.S. exports of organic chemicals to Ecuador were up as well.

Bolivia

The Bolivian economy performed poorly in 2003, for the fifth consecutive year. A political crisis during the year that resulted in the resignation of President Gonzalo Sanches de Lozada, and his replacement with Vice-President Carlos Mesa in October, was one of the factors that depressed growth. GDP growth is estimated at 2.5 percent in 2003. In recent years, Bolivia's slack growth resulted in a decline in per capita GDP, which in 2003 was below the 1998 level. Bolivia has suffered from a drop in prices of several of its major exports, from the economic consequences of its coca eradication program, and slack demand for its products from neighboring countries.[63] Although gas extraction and soy cultivation were buoyant in 2003, these are not labor-intensive activities, and therefore unable to alleviate the country's high level of unemployment and poverty.

In 2003, Bolivia's economy was characterized by a low level of domestic demand and imports. The country's overall imports are estimated to have declined by 11 percent. Paradoxically, Bolivia's exports have grown rapidly during this past year of political and economic distress; they were up by an estimated 17 percent in 2003, owing mostly to increased sales of natural gas, soybeans, silver, and tin. Bolivia's foreign trade registered a small surplus during the year.[64]

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[63] United Nations, Economic Commission for Latin America and the Caribbean (ECLAC), *Preliminary Overview of the Economies of Latin America and the Caribbean, 2003*, *Bolivia,* December 2003. All numbers concerning the economies of the four ATPA countries in 2003 are preliminary.

[64] Ibid.

Reflecting Bolivia's shrinking overall imports, U.S. exports to Bolivia amounted to $172 million in 2003, 5.6 percent less than in 2002, and 44 percent less than in 1999. U.S. exports to Bolivia contracted each year during the 5 years shown (table 2-13, figure 2-4). In 2003, Bolivia accounted for only 2.6 percent of total U.S. exports to all ATPA countries, compared with 4.9 percent in 1999. U.S. exports to Bolivia of non-electrical machinery, equipment, and parts declined significantly in 2003; such exports continued, nonetheless, to be the number one U.S. export category to Bolivia, destined mostly for use in the country's natural gas fields. U.S. exports in most other categories were up during the year from their 2002 value, including electrical machinery, by 28 percent, and cereals, by more than half.

CHAPTER 3
Impact of ATPA on the United States and Probable Future Effects

Two issues are addressed in this chapter: the impact of the Andean Trade Preference Act (ATPA) on the United States in 2003 and the probable future effects of the program.[1] Items most affected by ATPA preferences were identified in an impact analysis and specific U.S. industries were examined. Information on ATPA-related investment in the countries was the main source for the estimates of probable future effects. This information was collected from U.S. embassies in the region and other public sources.

Impact of ATPA on the United States in 2003

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, 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 of U.S. GDP. As pointed out in chapter 2, the total value of U.S. imports from ATPA countries remained small in 2003, amounting to 0.93 percent of total U.S. imports, while imports under ATPA provisions totaled 0.47 percent of total U.S. imports.

In addition, 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] ATPDEA has sharply increased the number of products and

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[1] As discussed in chapter 1, the term "ATPA" shall refer to ATPA as amended by ATPDEA, and the term "original ATPA" shall 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.

value of imports benefiting from ATPA, especially apparel and petroleum and petroleum products. However, the erosions noted above will continue, and the margin of preference that ATPA-country apparel producers receive because of U.S. apparel quotas that apply to other countries will fall significantly starting in 2005, when most U.S. textile and apparel quotas end.

To evaluate the impact of ATPA, it is appropriate to consider 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 1991-2001), ATPA has 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 be 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 recent 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, 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 2003 and had the largest potential impact on competing U.S. industries.

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[5] Public Law 107-210, the Trade Act of 2002. The Andean Trade Promotion and Drug Eradication Act (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 2003 with past reports.

Products That Benefited Exclusively From ATPA in 2003

U.S. imports of products benefiting exclusively from ATPA in 2003 were defined as those that entered free of duty under ATPA[6] and were not eligible to enter free of duty under NTR rates or under other programs, such as GSP.[7] Consistent with this definition, GSP-eligible goods imported from ATPA countries that were entered under ATPA preferences were considered to benefit exclusively from ATPA only if imports of the item from a designated beneficiary country had exceeded GSP competitive-need limits and had therefore been removed from GSP.[8]

The value of U.S. imports that benefited exclusively from ATPA increased from $740 million in 2002 to $5.2 billion in 2003 (44.9 percent of total U.S. imports from ATPA countries), an increase of over 600 percent (table 3-1). Although the value of imports of ATPA-exclusive items under the original ATPA roughly doubled from 2002 to 2003 (largely because of the program's lapse for 7 months in 2002), most of the increase was accounted for by items newly eligible under ATPDEA, especially petroleum and petroleum products. 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. 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]

The 20 leading items that benefited exclusively from ATPA in 2003 are shown in table 3-2. The most notable change in the value of such imports was for four petroleum

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[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.

[7] Since 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 deal with 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 in 2003 dropped to 23 percent, but the share was over 50 percent in 2003 when only original ATPA products are considered. 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.

Table 3-1
Total imports from ATPA beneficiaries, imports entered under ATPA, and imports that benefited exclusively from ATPA, 1999-2003

Item	1999	2000	2001	2002	2003
Total imports from ATPA beneficiaries:					
Value (*million dollars*[1])	9,830	11,117	9,569	9,611	11,639
Imports entered under ATPA:[2]					
Value (*million dollars*[1])	1,750	1,982	1,675	1,001	5,836
Percent of total	17.8	17.8	17.5	10.4	50.1
Imports that benefited exclusively from ATPA:					
Value (*million dollars*[1])	939	1,312	1,086	740	5,230
Percent of total	9.6	11.8	11.3	7.7	44.9

[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 ch. 1.

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

items–heavy crude oil (HTS 2709.00.20), light crude oil (HTS 2709.00.10), light fuel oil (HTS 2710.19.05), and naphthas (HTS 2710.11.25), all of which became newly eligible for ATPA preferences in late 2002. Imports of these items increased 23 fold, 12 fold, 33 fold, and 18 fold, respectively, from 2002 to 2003.[11]

Eight products were added to the list of 20 leading import items benefiting exclusively from ATPA in 2003–knitted cotton tops (HTS 6110.20.20), men's or boys' knitted cotton shirts (HTS 6105.10.00), knitted cotton t-shirts (HTS 6109.10.00), men's or boys' woven cotton pants (HTS 6203.42.40), women's or girls' woven cotton pants (HTS 6204.62.40), women's or girls' knitted cotton shirts (HTS 6106.10.00), tuna in airtight containers[12] (HTS 1604.14.30), and knitted manmade fiber tops (HTS 6110.30.30)–all made newly eligible for preferences by ATPDEA. There were no imports of apparel items under ATPA before 2003. Six of these products were among the 20 leading imports under ATPA in 2003. (See table 2-7.)

[11] The large changes in exclusively benefiting imports of petroleum and petroleum products reflect mainly the availability of ATPA preferences for these products for the entire year in 2003, rather than for 2 months in 2002. (Imports of petroleum and petroleum products under ATPA actually occurred in only one month–December–in 2002.) The value of total imports of these products from ATPA countries changed from 2002 to 2003 as follows: heavy crude oil–94 percent increase; light crude oil–64 percent increase; light fuel oil–19 percent decrease; and naphthas–11 percent increase. ATPA preferences probably have little to do with changes in U.S. imports of petroleum and petroleum products from ATPA countries because the ad valorem equivalent duties on such products were less than 0.5 percent in 2003.

[12] 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.

Table 3-2
Leading imports that benefited exclusively from ATPA, 2003

(1,000 dollars)

HTS number	Description	Customs value	C.i.f. value
2709.00.20	Petroleum oils and oils from bituminous minerals, crude, testing 25 degrees A.P.I. or more	1,556,843	1,604,539
2709.00.10	Petroleum oils and oils from bituminous minerals, crude, testing under 25 degrees A.P.I.	1,434,729	1,541,387
7403.11.00[1]	Refined copper cathodes and sections of cathodes	447,368	458,288
0603.10.60	Roses, fresh cut	204,473	256,332
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.	236,458	253,315
6110.20.20	Sweaters, pullovers and similar articles, knitted or crocheted, of cotton, nesi	202,232	209,754
2710.11.25	Naphthas (exc. motor fuel/mtr fuel blend. stock) fr petroleum oils & bitumin minerals (o/than crude) or preps 70%+ by wt. fr petroleum oils	174,970	183,121
0603.10.70[2]	Chrysanthemums, standard carnations, anthuriums and orchids, fresh cut	98,198	124,933
6105.10.00	Men's or boys' shirts, knitted or crocheted, of cotton	115,382	119,017
0709.20.90	Asparagus, nesi, fresh or chilled	60,498	100,799
6109.10.00	T–shirts, singlets, tank tops and similar garments, knitted or crocheted, of cotton	84,559	88,575
2402.20.80	Cigarettes containing tobacco but not containing clove, paper–wrapped	55,271	56,370
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	50,922	52,532
6204.62.40	Women's or girls' trousers, breeches and shorts, not knitted or crocheted, of cotton, nesi	37,888	39,655
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	19,235	33,564
6106.10.00	Women's or girls' blouses and shirts, knitted or crocheted, of cotton	29,743	30,851
1604.14.30	Tunas and skipjack, not in oil, in airtight containers, n/o 7 kg, not of U.S. possessions, over quota	25,474	26,220
0710.80.97	Vegetables nesi, uncooked or cooked by steaming or boiling in water, frozen, reduced in size	16,126	19,219
6110.30.30	Sweaters, pullovers and similar articles, knitted or crocheted, of manmade fibers, nesi	17,666	17,957
6908.90.00	Glazed ceramic flags and paving, hearth or wall tiles; glazed ceramic mosaic cubes and the like, nesi	14,284	17,198

[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, nesi, stands for "not elsewhere specified or included."

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

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 2003. 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 2003

The analytical approach for estimating the welfare and displacement effects of ATPA is 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 analysis was conducted on the 20 leading items that benefited exclusively from ATPA (table 3-2).[13] Estimates of welfare and potential U.S. industry displacement effects were made. Industries that experienced estimated displacement of more than 5 percent of the value of U.S. production, based on upper estimates, were selected for further analysis. A limited number of U.S. producers benefited from ATPA preferences because they supplied inputs to apparel assembled in ATPA countries. Those U.S. producers supplying cut apparel parts are included in the welfare and industry effects analysis. Those supplying fabric are not explicitly analyzed because of data limitations,[14] but U.S. exports of textiles (SITC classification 65) to ATPA countries have risen from $100 million in 2002 to $148 million in 2003 as the relative share of exports has shifted to fabric and away from apparel parts.

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 2003; they are ranked on the basis of their c.i.f. import values.[15] Those products represented 93 percent of the $5.2 billion in imports that benefited exclusively from ATPA during 2003.[16] The five leading ATPA-exclusive imports in 2003 were: (1) heavy crude oil, (2) light crude oil, (3) copper cathodes (HTS 7403.11.00) from Peru (which exceeded its GSP competitive-need limit), (4) fresh-cut roses, and (5) light fuel oil. Colombia was the leading supplier of heavy crude oil, fresh-cut roses, and light fuel oil; Ecuador was the leading supplier of light crude oil; and Peru was the leading supplier

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[13] 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.

[14] 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.

[15] 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.

[16] 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.

of copper cathodes.[17] In 2002, copper cathodes ranked first among ATPA-exclusive imports, and light crude oil ranked second.[18]

For any particular item, 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.[19] These market shares varied considerably in 2003 (table 3-3). For instance, the market share of ATPA-exclusive imports of fresh-cut roses was approximately 81 percent, whereas the market share of ATPA-exclusive imports of cigarettes (HTS 2402.20.80) was 0.13 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 2003.[20] Estimates of the gains in consumer surplus and the losses in tariff revenue, as well as measures of the potential displacement of U.S. production, are discussed next.

Effects on U.S. consumers

Knitted cotton tops provided the largest gain in consumer surplus resulting exclusively from ATPA tariff preferences in 2003, from $27 million to $31 million (table 3-4). Without ATPA, the price that U.S. consumers would have paid for imports of knitted cotton tops from ATPA countries would have been approximately 16.3 percent higher (the ad valorem duty rate, adjusted for freight and insurance charges). Men's or boys' knitted cotton shirts provided the second-largest gain in consumer surplus, from $18 million to $20 million. Without ATPA, the price of imports of such shirts from ATPA countries would have been approximately 19.2 percent higher. In general, products providing the largest gains in consumer surplus also have either 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 knitted manmade fiber tops, lower tariff revenues offset 66 percent to 82 percent of the gain in consumer surplus; for tuna in airtight containers, the offset was about 76 percent to 85 percent; and for women's or girls' knitted cotton shirts, the offset was about 77 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.

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

[18] For the list of items benefiting exclusively from ATPA in 2002, see USITC, *ATPA, Ninth Report, 2002*, p. 3-5.

[19] 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.

[20] 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, 2003

HTS number	Description	Imports from ATPA countries (c.i.f. value) (A)	Apparent U.S. consumption (B)[1]	Market share (A/B)
		1,000 dollars		*Percent*
2709.00.20	Petroleum oils and oils from bituminous minerals, crude, testing 25 degrees A.P.I. or more	1,604,539	84,822,269	1.89
2709.00.10	Petroleum oils and oils from bituminous minerals, crude, testing under 25 degrees A.P.I.	1,541,387	57,044,755	2.70
7403.11.00	Refined copper cathodes and sections of cathodes	458,288	5,181,985	8.84
0603.10.60	Roses, fresh cut	256,332	317,890	80.64
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.	253,315	16,527,032	1.53
6110.20.20	Sweaters, pullovers and similar articles, knitted or crocheted, of cotton, nesi	209,754	7,862,396	2.67
2710.11.25	Naphthas (exc. motor fuel/mtr fuel blend. stock) fr petroleum oils & bitumin minerals (o/than crude) or preps 70%+ by wt. fr petroleum oils	183,121	5,453,977	3.36
0603.10.70	Chrysanthemums, standard carnations, anthuriums and orchids, fresh cut	124,933	164,796	75.81
6105.10.00	Men's or boys' shirts, knitted or crocheted, of cotton	119,017	1,908,071	6.24
0709.20.90[2]	Asparagus, nesi, fresh or chilled	100,799	333,952	40.23
6109.10.00	T-shirts, singlets, tank tops and similar garments, knitted or crocheted, of cotton	88,575	4,638,565	1.91
2402.20.80	Cigarettes containing tobacco but not containing clove, paper-wrapped	56,370	44,847,910	0.13
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	52,532	8,090,606	0.65
6204.62.40	Women's or girls' trousers, breeches and shorts, not knitted or crocheted, of cotton, nesi	39,655	7,697,672	0.52
0709.20.10[2]	Asparagus, fresh or chilled, not reduced in size, if entered September 15 to November 15, inclusive, and transported to the U.S. by air	33,564	-	-
6106.10.00	Women's or girls' blouses and shirts, knitted or crocheted, of cotton	30,851	1,349,912	2.29
1604.14.30	Tunas and skipjack, not in oil, in airtight containers, n/o 7 kg, not of U.S. possessions, over quota	26,220	538,906	4.87
0710.80.97	Vegetables nesi, uncooked or cooked by steaming or boiling in water, frozen, reduced in size	19,219	([3])	([3])
6110.30.30	Sweaters, pullovers and similar articles, knitted or crocheted, of manmade fibers, nesi	17,957	4,100,002	0.44
6908.90.00	Glazed ceramic flags and paving, hearth or wall tiles; glazed ceramic mosaic cubes and the like, nesi	17,198	1,994,570	0.86

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

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

[3] U.S. production data not available.

Note.—The abbreviation, nesi, stands for "not elsewhere specified or 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, 2003

(*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
2709.00.20	Petroleum oils and oils from bituminous minerals, crude, testing 25 degrees A.P.I. or more	6,168	6,192	6,110	6,156	59	35
2709.00.10	Petroleum oils and oils from bituminous minerals, crude, testing under 25 degrees A.P.I.	2,856	2,862	2,843	2,854	13	8
7403.11.00	Refined copper cathodes and sections of cathodes	4,374	4,413	4,276	4,353	98	60
0603.10.60	Roses, fresh cut	13,346	13,448	12,812	13,010	534	438
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.	471	472	469	470	2	1
6110.20.20	Sweaters, pullovers and similar articles, knitted or crocheted, of cotton, nesi	27,431	30,524	21,901	27,301	5,531	3,223
2710.11.25	Naphthas (exc. motor fuel/mtr fuel blend. stock) fr petroleum oils & bitumin minerals (o/than crude) or preps 70%+ by wt. fr petroleum oils	521	523	518	521	4	2
0603.10.70	Chrysanthemums, standard carnations, anthuriums and orchids, fresh cut	6,037	6,091	5,800	5,904	237	187
6105.10.00	Men's or boys' shirts, knitted or crocheted, of cotton	17,801	20,055	13,780	17,640	4,021	2,415
0709.20.90[1]	Asparagus, nesi, fresh or chilled	12,652	13,414	11,541	12,979	1,112	435
6109.10.00	T–shirts, singlets, tank tops and similar garments, knitted or crocheted, of cotton	11,535	12,841	9,206	11,486	2,329	1,354
2402.20.80	Cigarettes containing tobacco but not containing clove, paper–wrapped	6,023	6,370	5,381	6,023	643	346
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	6,815	7,595	5,432	6,793	1,383	802
6204.62.40	Women's or girls' trousers, breeches and shorts, not knitted or crocheted, of cotton, nesi	5,085	5,659	4,064	5,069	1,021	590
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	–	–	–	–	–	–
6106.10.00	Women's or girls' blouses and shirts, knitted or crocheted, of cotton	4,565	5,165	3,514	4,539	1,051	626
1604.14.30	Tunas and skipjack, not in oil, in airtight containers, n/o 7 kg, not of U.S. possessions, over quota	2,440	2,705	1,843	2,292	597	413
0710.80.97	Vegetables nesi, uncooked or cooked by steaming or boiling in water, frozen, reduced in size	([2])	([2])	([2])	([2])	([2])	([2])
6110.30.30	Sweaters, pullovers and similar articles, knitted or crocheted, of manmade fibers, nesi	3,804	4,618	2,497	3,767	1,307	851
6908.90.00	Glazed ceramic flags and paving, hearth or wall tiles; glazed ceramic mosaic cubes and the like, nesi	1,180	1,270	1,011	1,177	169	93

[1] Analysis for HTS 0709.20.10 and HTS 0709.20.90 is combined under HTS 0709.20.90.

[2] Welfare and displacement effects were not calculated because of unavailability of U.S. production data.

Note.—The abbreviation, nesi, stands for "not elsewhere specified or 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, 2003

HTS number	Description	U.S. production	Reduction in U.S. production			
			Value		Share	
			Upper estimate	Lower estimate	Upper estimate	Lower estimate
		(*1,000 dollars*)			*Percent*	
2709.00.20	Petroleum oils and oils from bituminous minerals, crude, testing 25 degrees A.P.I. or more	35,000,000	10,722	5,591	0.03	0.02
2709.00.10	Petroleum oils and oils from bituminous minerals, crude, testing under 25 degrees A.P.I.	30,000,000	6,303	3,287	0.02	0.01
7403.11.00	Refined copper cathodes and sections of cathodes	2,404,361	7,520	3,757	0.31	0.16
0603.10.60	Roses, fresh cut	51,900	3,756	606	7.24	1.17
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.	6,892,000	579	302	0.01	(1)
6110.20.20	Sweaters, pullovers and similar articles, knitted or crocheted, of cotton, nesi	268,200	114	20	0.04	0.01
2710.11.25	Naphthas (exc. motor fuel/mtr fuel blend. stock) fr petroleum oils & bitumin minerals (o/than crude) or preps 70%+ by wt. fr petroleum oils	2,366,000	951	496	0.04	0.02
0603.10.70	Chrysanthemums, standard carnations, anthuriums and orchids, fresh cut	28,946	1,820	295	6.29	1.02
6105.10.00	Men's or boys' shirts, knitted or crocheted, of cotton	274,100	4,576	1,029	1.67	0.38
0709.20.90[2]	Asparagus, nesi, fresh or chilled	160,892	14,507	3,982	9.02	2.48
6109.10.00	T-shirts, singlets, tank tops and similar garments, knitted or crocheted, of cotton	2,004,900	7,612	1,723	0.38	0.09
2402.20.80	Cigarettes containing tobacco but not containing clove, paper-wrapped	46,000,000	11,276	4,941	0.02	0.01
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	3,093,600	5,183	1,175	0.17	0.04
6204.62.40	Women's or girls' trousers, breeches and shorts, not knitted or crocheted, of cotton, nesi	1,768,000	2,425	550	0.14	0.03
0709.20.10[2]	Asparagus, fresh or chilled, not reduced in size, if entered September 15 to November 15, inclusive, and transported to the U.S. by air	-	-	-	-	-
6106.10.00	Women's or girls' blouses and shirts, knitted or crocheted, of cotton	450,800	3,208	725	0.71	0.16
1604.14.30	Tunas and skipjack, not in oil, in airtight containers, n/o 7 kg, not of U.S. possessions, over quota	9,984	265	151	2.66	1.52
0710.80.97	Vegetables nesi, uncooked or cooked by steaming or boiling in water, frozen, reduced in size	(3)	(3)	(3)	(3)	(3)
6110.30.30	Sweaters, pullovers and similar articles, knitted or crocheted, of manmade fibers, nesi	225,000	152	34	0.07	0.02
6908.90.00	Glazed ceramic flags and paving, hearth or wall tiles; glazed ceramic mosaic cubes and the like, nesi	542,912	1,046	348	0.19	0.06

[1] Less than 0.005 percent.

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

[3] Welfare and displacement effects were not calculated because of unavailability of U.S. production data.

Note.—The abbreviation, nesi, stands for "not elsewhere specified or included."

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

Overall, the estimated net welfare effects of ATPA were small. The gain in consumer surplus (column A of table 3-4) was greater than the corresponding decline in tariff revenue (column B) for all of the products analyzed for which data were available. Of the resulting estimated net welfare gains, the largest were for knitted cotton tops ($3.2 million to $5.5 million), men's or boys' knitted cotton shirts ($2.4 million to $4.0 million), and knitted cotton t-shirts ($1.4 million to $2.3 million). Asparagus (HTS 0709.20.10 and 0709.20.90) and fresh-cut roses had the largest net welfare gains in 2002.[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 (2.5 percent to 9.0 percent displaced, valued at $4.0 million to $14.5 million); fresh-cut roses (1.2 percent to 7.2 percent displaced, valued at $0.6 million to $3.8 million); and chrysanthemums, etc. (1.0 percent to 6.3 percent of U.S. domestic shipments displaced, valued at $0.3 million to $1.8 million), mainly because of the very high U.S. market shares enjoyed by these products. (See table 3-3.) However, even the upper estimates of the displacement share for the majority of the products benefiting exclusively from ATPA were less than 1 percent.

Highlights of U.S. Industries Most Affected by ATPA

Industries having estimated displacements of 5 percent or more, based on upper estimates, were chosen for further analysis. In 2003, three products that benefited exclusively from ATPA met this criterion: asparagus, fresh-cut roses, and chrysanthemums, etc. Asparagus also was identified as having an estimated displacement of 5 percent or more in 2002.[23] Asparagus and cut flowers are discussed in greater detail in the following section.

Fresh or Chilled Asparagus

U.S. imports of fresh or chilled asparagus entered under HTS 0709.20.10 in 2003 were dutiable at the NTR rate of 5 percent ad valorem; imports entered under HTS

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[21] See USITC, *ATPA, Ninth Report, 2002*, pp. 3-10 and 3-11. The apparel items that show the large welfare impacts in 2003 were eligible for preferences for only 2 months in 2002 and no eligible apparel items were entered under ATPA preferences in 2002.

[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.

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

0709.20.90 in 2003 were dutiable at 21.3 percent ad valorem.[24] Imports entered under each of these provisions are eligible for duty-free treatment under ATPA, CBERA, the United States-Israel Free Trade Agreement, and the United States-Jordan Free Trade Agreement. Under NAFTA, duties on imports of fresh asparagus from Mexico under HTS 0709.20.10 were eliminated in 1999 and the duty on imports from Mexico under HTS 0709.20.90 will be reduced to zero in 2009.[25] Imports under HTS 0709.20.10 were eligible for duty-free treatment under the GSP from all designated beneficiary developing countries except Peru, which had exceeded the competitive-need limit and thus was ineligible in 2003. Imports entered under HTS 0709.20.90 are eligible for duty-free treatment under GSP if they are the product of a least-developed beneficiary country. (No ATPA country qualifies as a least-developed beneficiary country.)

Total U.S. imports of fresh asparagus amounted to $148.7 million in 2003, up 10 percent from $135.3 million in 2002, 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 37 percent of total U.S. fresh asparagus consumption (quantity basis). Such imports amounted to $79.9 million in 2003, up by 35 percent from $59.3 million in 2002, with imports from Peru accounting for 99 percent of total imports from ATPA countries in 2003. Peru has remained by far the major Andean supplier of fresh asparagus to the U.S. market in recent years and was also the largest overall foreign supplier in 2003, supplying 53 percent of total imports in 2003. Mexico supplied 45 percent of U.S. fresh asparagus imports in 2003. In recent years, small amounts of fresh asparagus imports were entered from Colombia.

U.S. production of fresh-market asparagus amounted to 139.2 million pounds in 2003, up by 10 percent from 2002 and by 1 percent from 2001.[27] Production value rose by 15 percent from 2002 to $160.9 million in 2003 but was down by 16 percent from 2001.[28] The leading states producing fresh-market asparagus in 2003 were California (which sells virtually all of its production to the fresh market), Washington, and Michigan. The leading states producing asparagus for processing were Washington and Michigan. Michigan asparagus growers have been supplying greater amounts to the fresh market in recent years because the market for canned and frozen asparagus has remained stagnant.[29] U.S. per capita consumption of

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[24] Fresh or chilled asparagus entered under HTS 0709.20.10 is the same product as that entered under HTS 0709.20.90, except that the asparagus has not been reduced in size, has been entered only from September 15 to November 15, inclusive, in any year, and has been transported to the United States by air.

[25] In 2003, imports of fresh or chilled green asparagus from Mexico under HTS 0709.20.90 were dutiable at a rate of 5.8 percent ad valorem if entered during the month of January and 8.3 percent ad valorem if entered during the period from February 1 to June 30, inclusive.

[26] Includes HTS 0709.20.10 and 0709.20.90.

[27] USDA, National Agricultural Statistics Service, *Vegetables*, publication No. Vg 1-2 (04), January 2004, p. 47.

[28] Ibid.

[29] "Asparagus Growers Pledge Unity to Fight Unfair Foreign Imports, Anti-bargaining Tactics on Home Soil," *AgriNotes & News*, Michigan Farm Bureau, Apr. 4, 2002, found at Internet address *http://www.michiganfarmbureau.com*, retrieved May 19, 2003.

fresh-market asparagus amounted to 1.0 pounds for 2003, the same as in 2002 but up from 0.6 pounds annually in the years prior to ATPA.[30] Per capita consumption of canned and frozen asparagus has been stagnant at 0.2 and 0.1 pounds, respectively, for a number of years.

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 between July and the following January when overall U.S. production is low but California production is starting to become available. In recent years, however, imports from ATPA countries (mainly Peru) and Mexico have been entered in significant amounts during June and the following February through April, when U.S. production would normally be at its peak, resulting in some displacement of domestic production.

Mexico has been supplanted by Peru as the most important foreign supplier of fresh asparagus to the U.S. market. The overall cost of production for asparagus in Mexico has risen owing to increased costs of imported inputs and water usage.[31] The country's asparagus production was forecast to rise in 2003 by 3 percent over that of the previous year because of higher yields resulting from the use of better asparagus seed, more efficient irrigation systems, and more favorable weather conditions during the growing season.[32] Domestic asparagus consumption in Mexico is forecast to fall somewhat to more historic levels in the near future and exports of the bulk of the country's production to the United States are expected to continue.[33] Production advantages in ATPA countries for raising asparagus may be partially offset by lower transportation costs for Mexican asparagus shipments to U.S. markets.[34]

The growth of U.S. fresh-asparagus imports from ATPA countries is expected to continue in the near future. Peru remains one of the largest global producers of asparagus, with annual production levels greater than those in the United States and Mexico combined.[35] Asparagus became the leading agricultural export from Peru in 2003.[36] Peruvian asparagus production rose 2.3 percent from 2002 to 2003, and is forecast to rise 1 percent from 2003 to 2004.[37] Changes in land tenure are attracting greater amounts of local and foreign investment capital, with investors looking to support the production of exportable crops such as asparagus with a stable foreign

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[30] USDA, Economic Research Service, *Vegetables and Melons Situation and Outlook Yearbook*, publication No. VGS-2004, July 2004, p. 16.

[31] USDA, FAS, *Mexico Asparagus Annual 2003*, GAIN Report #MX3082, June 13, 2003, p. 4.

[32] Ibid., p. 3.

[33] Ibid., p. 4.

[34] About two-thirds of asparagus production in Mexico occurs in the States of Sinaloa and Baja California, border states to the United States. USDA, FAS, *Mexico Asparagus Annual 2003*, GAIN Report #MX3082, June 13, 2003, p. 3. For more information, see USITC, *ATPA, Eighth Report, 2001*, p. 3-17.

[35] USDA, FAS, *World Horticultural Trade and U.S. Export Opportunities*, Circular FHORT 11-02, Nov. 2002, "Asparagus Production and Trade in Selected Countries," pp. 50-55, found at Internet address *http://www.fas.usda.gov*, retrieved May 19, 2003.

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

[37] Ibid., p. 6.

demand.[38] Large tracts of land owned by cooperatives and once used for sugar production are now being planted with asparagus.[39] 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.[40] Exports of fresh asparagus from Peru have risen considerably in recent years and were up by 27 percent from 2002 to 2003. The United States has been the major export market for Peruvian shipments of green asparagus for a number of years and continues to be so, accounting for about 79 percent of such exports in 2003.[41] There is no official Peruvian government policy encouraging asparagus production.[42] However, Peruvian asparagus exports are being assisted by an export promotion committee (Prompex) and the Peruvian Asparagus Institute (IPE), which provide assistance to growers and exporters in the areas of foreign technology transfer, product research and development, product promotion, and foreign market development.[43] The Peruvian asparagus industry is committed to providing U.S. consumers with asparagus of high quality and safety, with their producers following environmentally friendly production and management practices.[44]

The impact of ATPA on U.S. consumers has been significant in that imports of Peruvian fresh-market asparagus, which historically entered the U.S. market principally when U.S.-produced fresh asparagus was not as readily available, are now available year-round. This has resulted in greater availability of fresh asparagus throughout the year. This extended availability of fresh-market asparagus,[45] together with the overall consumer awareness of, and preference for, healthy foods,[46] may be partly responsible for its higher per capita annual consumption in recent years. The increase in product availability also may have resulted in lower prices for consumers, with preliminary monthly average shipping-point prices for domestically produced fresh-market asparagus in January-July 2003 below those for the corresponding months of 2002.[47]

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

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[38] Ibid., p. 4.
[39] USDA, FAS, *Mexico Asparagus Annual 2003*, GAIN Report #MX3012, July 2, 2003, p. 3.
[40] Ibid., pp. 3-4.
[41] USDA, FAS, *Mexico Asparagus Annual 2004*, GAIN Report #MX4008, June 9, 2004, p. 3.
[42] USDA, FAS, *Mexico Asparagus Annual 2003*, GAIN Report #MX3012, July 2, 2003, p. 5.
[43] Ibid.
[44] Written statement of the Instituto Peruano del Esp‡rrago y Hortalizas (Peruvian Asparagus and other Vegetables Institute) regarding the Andean Trade Preference Act Effect on the U.S. Economy and on Andean Drug Crop Eradication, received June 10, 2004, p. 4.
[45] For more information, see USITC, *ATPA, Seventh Report, 1999*, p. 46.
[46] USDA, FAS, *World Horticultural Trade and U.S. Export Opportunities*, Circular FHORT 11-02, Nov. 2002, "Asparagus Production and Trade in Selected Countries," pp. 50-55, found at Internet address *http://www.fas.usda.gov*, retrieved May 19, 2003.
[47] USDA, Economic Research Service, *Vegetables and Melons Situation and Outlook Yearbook*, publication No. VGS-2003, July 2003, p. 34.

economic activity of ATPA beneficiary countries. ATPA countries supplied 94 percent of the total value of U.S. imports of fresh-cut roses (HTS 0603.10.60) and 92 percent of the total value of U.S. imports of chrysanthemums, etc. (HTS 0603.10.70) in 2003. Virtually all U.S. imports of the two fresh-cut flower categories considered here 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 first and third largest exporters of fresh-cut flowers in the world in 2002, respectively.[48] 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 ($666 million) and 30 percent of Ecuadorian exports ($289 million) in 2002.[49] U.S. companies currently own approximately 17 percent of total Colombian production, and account for nearly 20 percent of total exports to the United States. The value of U.S. investments in the Colombian flower industry is estimated at $250 million.[50]

U.S. fresh-cut flower sales represented $7.6 billion in 2003.[51] That year, the downward trend in the number of commercial U.S. cut-flower growers continued, falling to 548 from 618 the previous year.[52] 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. Low-priced imports continue to put downward price pressure on 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 sold increasingly in supermarkets, home centers, and discount stores.[53] Some U.S. growers have differentiated their products 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.

The sluggish U.S. economy in recent years and the oversupply of flowers on the world market have reduced profit margins of cut-flower exporters in ATPA countries to their

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[48] *Trade Statistics Database*, United Nations Statistics Division.

[49] Ibid.

[50] 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.

[51] 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.

[52] The number of growers includes only those with more than $100,000 in annual sales.

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

current levels of 2-4 percent,[54] generally less than the current tariff preference. 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.[55] In addition, transportation costs for cut flowers from ATPA countries are high, especially so when transportation costs from Miami (the main port of entry) to other U.S. destinations are included. Therefore, the roughly 6 percent to 7 percent U.S. tariff forgone makes up a much smaller portion of the final cost to consumers, mitigating the impact of the tariff preferences under ATPA.

The high market share held by imports from ATPA countries, much of which was attained before ATPA was implemented, means that the small advantages the countries have from ATPA could translate into a modest impact on U.S. growers of roses and chrysanthemums, etc. However, considering the U.S. flower-growing industry as a whole, 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, distributors, as well as U.S. retail florists depend heavily on moderately priced fresh-cut flowers from overseas. Reportedly, imports of cut flowers directly and indirectly contribute approximately 226,000 jobs to the U.S. market[56] in areas such as transportation companies, import brokerage houses, wholesalers, retail florist shops, supermarkets, mass merchandisers, and convenience stores.

Fresh-cut roses

U.S. imports of fresh-cut roses in 2003 were dutiable at the NTR rate of 6.8 percent ad valorem. Such imports were eligible in 2003 for duty-free treatment under the ATPA, CBERA, NAFTA, the United States-Israel Free Trade Area, and the United States-Jordan Free Trade Agreement. Imports of fresh-cut roses are not eligible for duty-free entry under GSP.

U.S. sales of domestically produced roses fell to 135 million stems, valued at $51.9 million, in 2003 from 157 million stems, valued at $58.9 million, the previous year.[57]

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[54] 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.

[55] 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.

[56] 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.

[57] National Agricultural Statistics Service, U.S. Department of Agriculture, *Floriculture Crops, 2003 Summary*, April 2004.

This continued the downward trend in the value of U.S. domestic production of fresh-cut roses which began in the late 1980s as imported roses entered the United States in increasing quantities.

The price of imported roses increased slightly in 2003 over 2002, while the price of U.S. grown roses fell slightly.[58] Imports of roses from all sources accounted for 82 percent of the value of U.S. consumption of roses in 2003. Imports from ATPA countries in 2003 supplied 78 percent of the value of U.S. consumption, compared with 71 percent of its value in 2002.[59] Colombia was the leading supplier with imports from that country accounting for 55 percent of the value of U.S. consumption in 2003. Ecuador was second with imports accounting for 23 percent of the value of U.S. consumption in 2003.

U.S. imports of fresh-cut roses from all sources totaled $217 million in 2003, an increase of 14 percent over the previous year. Colombia and Ecuador were the leading suppliers, accounting for 67 percent and 28 percent, respectively, of the total value in 2003. U.S. imports of fresh-cut roses from all ATPA sources totaled $205 million in 2003, 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 2003, and Ecuador accounted for 29 percent. Peru and Bolivia supplied less than one tenth of one percent of imports under the ATPA program.

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

U.S. imports of fresh-cut chrysanthemums, standard carnations, anthuriums, and orchids were dutiable in 2003 at the NTR rate of 6.4 percent ad valorem. Such imports were eligible for duty-free treatment under the GSP (excluding those from Colombia, which exceeded the competitive-need limit), ATPA, CBERA, NAFTA, the United States-Israel Free Trade Agreement, and the United States-Jordan Free Trade Agreement. In 2003, virtually all U.S. imports of fresh-cut chrysanthemums and other flowers under HTS 0603.10.70 from ATPA beneficiary countries entered free of duty under the ATPA program.

U.S. sales of domestically produced fresh-cut chrysanthemums, etc. decreased by 6 percent, from $30.6 million in 2002 to $28.9 million in 2003.[60] Among the major flowers in this category, sales of chrysanthemums and carnations fell, while sales of orchids increased 10 percent by volume and 9 percent by value. U.S. consumption of fresh-cut chrysanthemums, etc. increased by 14 percent in 2003 to $145 million. Imports from all sources accounted for 75 percent of the value of consumption in 2003,

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[58] Economic Research Service, U.S. Department of Agriculture, *Floriculture and Nursery Crops Outlook*, Sept. 17, 2003.

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

[60] National Agricultural Statistics Service, U.S. Department of Agriculture, *Floriculture Crops, 2003 Summary*, April 2004.

down only slightly from the 2002 share. Imports from ATPA countries, virtually all from Colombia, supplied 68 percent of the value of total U.S. consumption in 2003, the identical share for 2002.

U.S. imports of fresh-cut chrysanthemums, etc. from all sources increased from $97 million in 2002 to $108 million in 2003. Virtually all of the increase was accounted for by increased imports of standard carnations and chrysanthemums from Colombia. Among ATPA beneficiary countries, Colombia was by far the leading supplier, accounting for 91 percent of the total import value from all sources in 2003. Ecuador, the next largest ATPA supplier, accounted for less than one percent of total imports. Bolivia accounted for a relatively insignificant share of imports, and no imports of chrysanthemums, etc. from Peru were recorded in 2003. ATPA beneficiary countries supplied $99 million of U.S. imports of chrysanthemums, etc. in 2003, up 14 percent over the previous year. Colombia supplied nearly all, or 99 percent, of the value of such U.S. imports under ATPA in 2003.

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 2 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 2003, using investment expenditures as a proxy for future trade effects of ATPA on the United States.[61] With the implementation of ATPDEA in 2002, the Commission also monitored investment in those products eligible for duty-free treatment under ATPDEA.

The most recent official foreign direct investment (FDI) statistics show that FDI flows into the ATPA region declined very slightly in 2002 to $5.3 billion, despite substantial declines worldwide as well as to the Latin America and the Caribbean region as a whole (table 3-6).[62] Because FDI in the Andean region is concentrated in resource-based industries, such as hydrocarbons and mining, it was less affected by

[61] The methodology 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.

[62] United Nations Conference on Trade and Development, *World Investment Report 2003:FDI Policies for Development: National and International Perspectives*, New York and Geneva, 2003, pp. 249-250.

Table 3-6
Foreign direct investment inflows, by host regions and by economies, 1991-2002

(Million dollars)

Host region/economy	1991-96 (annual average)	1997	1998	1999	2000	2001	2002
World	254,326	481,911	686,028	1,079,083	1,392,957	823,825	651,188
Developing countries	91,502	193,224	191,284	229,295	246,057	209,431	162,145
Latin America and the Caribbean	27,069	73,275	82,040	108,255	95,358	83,725	56,019
ATPA	3,421	8,862	6,564	5,371	4,361	5,662	5,324
Bolivia	212	879	1,023	1,008	723	660	553
Colombia	1,279	5,562	2,829	1,452	2,237	2,521	2,034
Ecuador	392	724	870	648	720	1,330	1,275
Peru	1,538	1,697	1,842	2,263	681	1,151	1,462

Source: UNCTAD, *World Investment Report 2003: FDI Policies for Development: National and International Perspectives.*

the unfavorable international economic situation.[63] In 2002, inflows of FDI increased to Peru, declined to Bolivia and Colombia, and remained fairly stable to Ecuador. Preliminary statistics for 2003 show that FDI flows to the ATPA countries continued to decline.[64]

Because it is difficult to isolate trends in investment related to ATPA-eligible products alone, information on ATPA-related investment activity and trends during 2003 was obtained primarily from U.S. embassies in the Andean region; information on apparel-related investments was also gathered from a variety of published sources. The information that follows in the country sections below was drawn largely from official telegrams from these U.S. embassies, except as noted.

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

Bolivia

According to the U.S. Embassy in Bolivia, ATPA continues to be "an important incentive to nurture a progressive entrepreneurial class in Bolivia." The Embassy reports that

[63] United Nations, Economic Commission for Latin America and the Caribbean (ECLAC), *Foreign Investment in Latin America and the Caribbean, 2002*, 2003, p. 13, found at Internet address *http://www.eclac.org/*, retrieved June 3, 2003.

[64] United Nations, Economic Commission for Latin America and the Caribbean (ECLAC), *Foreign Investment in Latin America and the Caribbean, 2003*, 2004, p. 25, found at Internet address *http://www.eclac.org/*, retrieved May 25, 2004.

large companies continue to take advantage of ATPA trade preferences, particularly those in the areas of textiles and apparel, wood manufactures, and gold jewelry. According to the Embassy, Bolivian exports of clothing and accessories reached record-high levels in 2003. However, ATPA-related jobs are still needed in Bolivia, where political tensions have constrained economic growth and the unemployment rate is about 12 percent.[65]

Official FDI flows to Bolivia are estimated to have fallen in 2003, largely due to smaller flows to the hydrocarbons sector. Political instability, which ultimately resulted in the resignation of President Gonzalo Sanchez de Lozada in October 2003, and uncertainties regarding the future of the natural gas sector contributed to the decline.[66] Specific information on ATPA-related investments in 2003 was not available.

In April 2003, the Bolivian Government announced a new export plan to take advantage of ATPDEA benefits (Supreme Decree 27020).[67] The plan establishes incentives for export production and measures to improve the organization of small and micro manufacturers in four sectors–textiles and apparel, jewelry, leather, and wood products–chosen according to their production and market potential. The plan is focusing first on Bolivia's textile and apparel industry. It will create a series of large production centers, dubbed *maquicentros*, that will bring together small producers and artisans lacking export resources to act as subcontractors for the few large firms already operating at capacity and accustomed to large-scale export operations. According to a first evaluation of the program by the Bolivian Government in August 2003, exports to the United States increased in all of the categories except jewelry.[68] The U.S. Embassy reported that 62 new micro and small companies joined the formal economy[69] in 2003 and began exporting either directly or through subcontracting to larger exporters, including 14 companies producing wood doors and windows, 7 companies producing wood, 15 companies producing wood furniture, and 20 companies producing apparel.[70] The Bolivian Government is also currently drafting another export-related plan called "Red de Fomento," or "Incentive Network." The purpose of this plan is to bring together all government offices involved with export promotion in one place to coordinate a national export strategy.[71]

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[65] U.S. Department of State telegram, "2003 USITC ATPDEA Impact Report," message reference No. 2487, prepared by U.S. Embassy, La Paz, Aug. 4, 2004.

[66] United Nations, Economic Commission for Latin America and the Caribbean (ECLAC), *Foreign Investment in Latin America and the Caribbean, 2003*, May 2004.

[67] U.S. Department of State telegram, "8000 Jobs by Christmas? Bolivia Unveils ATPDEA Plan," message reference No. 1710, prepared by the U.S. Embassy, La Paz, May 9, 2003.

[68] Ministerio de Desarrollo Economico, *Primera Evaluacion, Plan de Acciones Inmediatas y de Corton Plazo, para el aprovechamiento del ATPDEA*, August 2003, found at *http://www.desarrollo.gov.bo/atpdea/atpdea.htm*, retrieved June 30, 2004.

[69] According to the U.S. Embassy in Bolivia, about 65 percent of Bolivia's economy is estimated to be in the informal sector.

[70] U.S. Department of State telegram, "2003 USITC ATPDEA Impact Report," message reference No. 2487, prepared by U.S. Embassy, La Paz, Aug. 4, 2004.

[71] Ibid.

Bolivia is a very small supplier of textiles and apparel to the United States. However, the implementation of ATPDEA has motivated Bolivian textile and apparel producers to focus on initiating or increasing exports to the U.S. market. According to a Bolivian textile representative, taking advantage of unused production capacity could boost textile exports from the current $30 million per year to over $200 million and create about 10,000 new jobs.[72] Texturbol, reportedly the sole Bolivian producer of polyester fiber fabrics, began to export polyester apparel to the United States in 2003, thereby benefitting from trade preferences granted by the ATPDEA.[73] In the first 6 months of 2003, the increase in Bolivia's textile and apparel exports generated 1,600 new jobs.[74] The U.S. Embassy reported that the number of exporting companies rose 26 percent to 98 during 2003.[75] U.S. imports of textiles and apparel from Bolivia rose in 2003 by 84 percent over the 2002 level, to $34 million (table 2-8).

Colombia

According to the U.S. Embassy in Colombia, ATPA (including ATPDEA) has been a "critical engine" in promoting nontraditional exports and has "particularly benefited Colombia over the past decade. ATPA exports to the United States have increased in value and as a percent of total Colombian exports every year since 1993."[76] In addition, Colombia's improved growth rate of 3.7 percent in 2003 "was boosted by increased exports to the U.S. market," Colombia's largest export destination, which more than offset significant declines in its exports to Venezuela, previously a major importer from Colombia.[77] The Embassy also noted that U.S. exports to Colombia have benefited from ATPDEA; in January-May 2004, U.S. exports to Colombia climbed 23 percent over the same period in 2003, "fueled by exports to ATPDEA-benefited sectors."

The Embassy reported that the Colombian Government says that many of the product categories offering the strongest export potential became eligible for tariff preferences under ATPDEA. According to the Colombian National Exporters Association, "ATPDEA has permitted the country to increase sales in new dynamic industries like textiles and shoes."[78] The Colombian Government reports that leading

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[72] BBC News, "Bolivia Textile Firms Fear Lost Opportunity," Jan. 29, 2003, found at *http://news.bbc.uk/2/hi/business/2707193.stm*, retrieved June 25, 2004.

[73] "Bolivia: Texturbol Exports Apparel to the United States," Sept. 3, 2003, found at *http://bharattextile.com/newsitems/1985127*, retrieved June 28, 2004.

[74] "Bolivia: Textile Exports Doubles During Jan-June," Aug. 23, 2003, found at *http://bharattextile.com/newsitems/1984817*, retrieved June 28, 2004.

[75] U.S. Department of State telegram, "2003 USITC ATPDEA Impact Report," message reference No. 2487, prepared by U.S. Embassy, La Paz, Aug. 4, 2004.

[76] U.S. Department of State telegram, "Post Response Regarding USITC Andean Investment and Drug Crop Survey for Report on ATPA/ATPDEA 2003," message reference No. 7300, prepared by U.S. Embassy, Bogota, July 23, 2004.

[77] See also, U.S. Department of State telegram, "2003 Review of the Colombian Economy," message reference No. 66, prepared by U.S. Embassy, Bogota, Jan. 5, 2004.

[78] U.S. Department of State telegram, "Colombian Private and Public Sector Preparations for FTA Negotiations: On the Right Track, But Still a Ways to Go," message reference No. 1280, prepared by U.S. Embassy, Bogota, Feb. 9, 2004.

exports under ATPA in 2003 were petroleum, fresh-cut flowers, and apparel, and that sectors that showed significant growth under ATPA in 2003 were tobacco and ceramic products.[79]

Official Colombian statistics show that foreign direct investment in the country fell 17 percent in 2003. Investment in the manufacturing sector, which represented 18 percent of FDI, remained stable, possibly "indicative of ATPDEA's influence against the background of weak FDI inflow."[80] Recent investments in manufacturing in Colombia include projects by Hewlett Packard to set up an assembly plant and by Samsonite to open a subsidiary. The U.S. Embassy was also able to identify new and/or expansion investments in apparel (see Textile and Apparel Industry below); leather goods; gold and silver ingots, platinum powder, and gold, silver, and platinum jewelry; cookies and candies; and color paint cards for paint distributors. The Embassy's survey indicated that a majority of the companies use U.S. inputs, including machinery and parts as well as inputs into the final product. Some of the companies indicated the investments would not have been made in the absence of ATPA. In a poll of manufacturers conducted by the Colombian Manufacturers Association, nearly 70 percent of those polled said they were developing strategies to improve their market position to take advantage of ATPDEA as well as a potential U.S.-Andean free trade agreement (FTA) now under negotiation. The U.S. Embassy noted that "Colombians feel confident an FTA will be negotiated and go into effect before ATPDEA expires. Many have increased their strategic investments in anticipation of the FTA."

Textile and Apparel Industry

The textile and apparel sector is a significant source of economic activity in Colombia, accounting for about 2 percent of Colombia's GDP.[81] The sector employs about 120,000 people directly[82] and an additional 600,000 people indirectly,[83] including workers involved with packaging and transportation of sector goods. In 2001, sector production totaled roughly $2.6 billion.[84] Colombia's exports of textiles and apparel, most of which went to the United States, totaled $539 million in 2003, an increase of 46 percent over the 2002 level.

Colombia's apparel industry is geographically concentrated in Medellin (accounting for about 50 percent of total production) and Bogota (36 percent). Colombia's textile

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[79] U.S. Department of State telegram, "Post Response Regarding USITC Andean Investment and Drug Crop Survey for Report on ATPA/ATPDEA 2003," message reference No. 7300, prepared by U.S. Embassy, Bogota, July 23, 2004.

[80] Ibid.

[81] Americo Rios, "Apparel & Textile Opportunities under ATPDEA," *International Market Insight*, 2003, U.S. & Foreign Commercial Service and U.S. Department of State.

[82] Employment statistics compiled by DANE - Encuesta Anual Manufacturera, Colombia, transmitted via e-mail by Ximena Gomez H. to USITC staff, Aug. 2, 2004.

[83] Leonie Barrie, "Clothing from Colombia," just-style.com, Feb. 9, 2004, found at *http://www.sweatshopwatch.org/global/articles/clothing_feb04.html*, retrieved June 21, 2004.

[84] Data from Colombia's National Statistics Administrative Department, Central Bank (DANE), supplied by Camilo Martinez, Assistant Director for Market Intelligence, Proexport, e-mail to USITC staff, Feb. 10, 2004.

and apparel sector is integrated from the production of raw materials to the manufacture of intermediate inputs such as yarns and fabrics to the production of apparel. Colombia's annual fabric production of about 800 million square meter equivalents (SMEs) falls short of demand, however. As a result, Colombia imports fabrics, as well as fibers and yarns.[85] Colombia's imports of raw cotton from the United States in 2003 increased by 14 percent over the 2002 level to 43,323 metric tons, most of which consists of short-length cotton fiber, which is not produced in Colombia.[86] Colombia's imports of both yarns and fabrics from the United States in 2003 rose by 177 percent over the 2002 level to slightly under $24 million.

In response to the shortage of domestic yarns and fabrics, Colombian firms have also been seeking to form alliances and joint ventures with foreign investors to help meet export demand.[87] In February 2004, Colombian textile firm Crystal Vestimundo and U.S. yarn producer Parkdale Mills signed a joint venture to invest $20 million to set up a yarn mill in the free zone of Rionegro (Antioquia).[88] The plant has set a production target of 1,000 tons of yarn per year in the first stage of the project. Textile companies in the Antioquia region also plan to invest a total of $60 million by the end of 2006 to expand production capacity.[89] Other new projects include a $32 million investment by Fabricato-Tejicondor, Colombia's largest textile company, in new production equipment to increase capacity and to update facilities that produce cotton and cotton/polyester blend yarns and fabrics as well as nonwovens, disposable articles, and apparel interlinings.[90] The company also plans to invest $15 million in 2004 for new machinery for producing fabrics and $28 million to increase its production of denim.[91] A representative of Fabricato-Tejicondor said that the ATPDEA helped fabric sales rise by 50 percent in the last year.[92] Coltejer, a vertically integrated fabric manufacturer–producing more than 112 million square meters of indigo denim, corduroy, twill, and other fabrics–plans to invest $22 million to expand and upgrade

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[85] Leonie Barrie, "Clothing from Colombia," just-style.com, Feb. 9, 2004, found at *http://www.sweatshopwatch.org/global/articles/clothing_feb04.html*, retrieved June 21, 2004.

[86] USDA Foreign Agricultural Service, "Colombia -Cotton and Products - Annual 2004," *Gain Report*, May 1, 2004.

[87] Leonie Barrie, "Clothing from Colombia," just-style.com, Feb. 9, 2004, found at *http://www.sweatshopwatch.org/global/articles/clothing_feb04.html*, retrieved June 21, 2004.

[88] Parkdale Mills has stated that the shipments of raw materials for garment production in Colombia have increased significantly and are expected to continue growing. See, "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.

[89] Leonie Barrie, "Clothing from Colombia," just-style.com, Feb. 9, 2004, found at *http://www.sweatshopwatch.org/global/articles/clothing_feb04.html*, retrieved June 21, 2004; and "Colombia: Antioqua Textile Firms to Invest $60 Million by 2006," just-style.com, Jan. 7, 2004, found at *http://just-style.com/news*, retrieved Jan. 7, 2004.

[90] Nicolas de Greiff, "Fabricato-Tejicondor Expands Operations," *Textile World*, Apr. 2004, pp. 22-23 and "Colombia: Fabricato-Tejicondor Plans Modernization," Mar. 4, 2004, found at *http://www.bharattextile.com*, retrieved June 28, 2004.

[91] Ibid.; and "Colombia: Textile Firms to Enhance Installed Capacity," Feb. 14, 2004, found at *http://www.bharattextile.com/newsitems/1988477*, retrieved June 28, 2004.

[92] Leonie Barrie, "Clothing from Colombia," just-style.com, Feb. 9, 2004, found at *http://www.sweatshopwatch.org/global/articles/clothing_feb04.html*, retrieved June 21, 2004.

its manufacturing and processing facilities.[93] Vanylon, a producer of nylon fiber located in Barranquilla, is planning a $2.5 million investment in new equipment and machinery to expand production.[94] The U.S. Embassy identified investments in 2003 by Levi Strauss Eximco of Colombia and C. I. BTWO, both producers of jeans and tops. Industry sources in Colombia also report that foreign investment from Asia may be imminent. Hong Kong-based firms are believed to be considering setting up factories and participating in joint ventures with Colombian companies in order to take advantage of competitive prices and proximity to the U.S. market.[95]

Ecuador

The U.S. Embassy in Ecuador indicated that ATPA had a significant effect on Ecuadorian exports in 2003, particularly in terms of the number of different products that were exported under the program. ATPA exports included cut flowers, tuna, apparel, wood products, and a variety of food, fruits, and vegetables. More nontraditional exports benefiting from ATPA were vegetable ivory, tilapia, organic baby bananas, tropical flowers, aromatic herbs, bamboo, and plywood. In addition, the Embassy reported that the Ministry of Labor indicated that between 2001 and 2003, 29,266 new jobs were created as a result of increased production and export activity due to ATPA. However, the Embassy noted that large investment decisions affecting ATPA-eligible products have been hindered by the short time frame of ATPA, which is scheduled to expire in 2006.[96]

The U.S. Embassy reported that ATPA's lapse in 2002 "took its toll on exports and job creation." According to the Embassy, exporters used a variety of strategies during the lapse; some accepted lower profit margins or loss of sales to maintain U.S. customers and some declined new orders from the United States. Others exported more to non-U.S. markets. As income fell, exporters asked for loans, trimmed jobs, and delayed investment in new equipment.

Although the Embassy indicated that there is no specific information available to assess the impact of ATPA on the flower sector in Ecuador, flower industry officials in Ecuador claim that exports to the United States have grown and will continue to increase because non-ATPA beneficiaries must pay a tariff of 6.4 or 6.8 percent. According to the U.S. Embassy, the flower industry has experienced the largest growth of any agricultural sector over the past 15 years. Ecuador has 4,972 acres planted with roses, the largest number of acres planted with roses in the world, followed by Colombia with 3,954 acres. According to Ecuadorian Government and industry sources, the flower industry ranks as the fourth largest exporter in Ecuador and, while exports continue to

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[93] Ibid.

[94] "Colombia: Vanylon Plans to Expand Production," found at *http://www.BharatTextile.com*, June 22, 2004, retrieved June 28, 2004.

[95] "Colombia's (and Hong Kong's) Clothing Firms Cash in on U.S. Trade Deal," *International Market News*, Mar. 18, 2004, found at *http://www.tdctrade.com/imn/04031803/clothing123.htm*, retrieved June 23, 2004.

[96] E-mail communication from the U.S. Embassy in Quito, Ecuador, to USITC staff, Aug. 4, 2004.

increase to the United States, exports are also increasing to other markets (particularly European countries). Although most flower farms responding to the Embassy's survey did not provide investment information, one company indicated that it had invested $2.5 million in 2003.

In addition to flowers, exporters are now taking advantage of ATPDEA benefits for pouched tuna and textiles and apparel. According to the U.S. Embassy, 11 percent of the tuna industry produces pouched tuna, which industry experts say offers the best sales potential in the United States since pouched tuna is duty free under ATPA. The Embassy said that the tuna industry expects to double its exports to the United States in 2004. According to a report from the U.S. Consulate in Guayaquil, officials from Empesec, Ecuador's largest exporter of packed tuna, claim that the tuna industry is moving away from low-profit traditional canning factories into higher profit pouch products targeted at the U.S. market.[97] Currently, the large majority of Empesec tuna shipped to the United States is packed in pouches and marketed under the Starkist label. According to company officials, additional buildings on site are available to double capacity by the end of 2004. The U.S. Embassy in Quito also conducted a survey of tuna exporters and found that major investments were made in 2003 to build a new packing plant for pouched tuna and to build a larger freezer to increase holding capacity, resulting in the largest tuna freezer in the country at Grupo Albacora.

Ecuador's textile and apparel sector is small but is viewed as relatively strong with state-of-the-art equipment, strong investment, and good quality but limited apparel production.[98] In 2001, the sector represented 19.2 percent of Ecuador's manufacturing GDP and generated 25,000 direct and 100,000 indirect jobs.[99] Most of Ecuador's textiles are exported to Colombia and Peru for cutting and sewing into garments targeted for export to the U.S. market.[100] The United States is a leading market for Ecuador's apparel exports, accounting for 43 percent of Ecuador's apparel exports in 2002.[101] In 2003, U.S. imports of textiles and apparel from Ecuador rose by 14 percent over the 2002 level to $18 million (table 2-8). The Ecuadorian Textile Association indicated that 97 percent of the cotton used is imported from the United States.[102]

According to the U.S. Embassy, the Ecuadorian Textile Association reported that the textile industry purchased capital goods valued at $8.1 million in 2003. The U.S. Embassy also conducted a survey and was able to identify $1.35 million in new and

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[97] U.S. Department of State telegram, "Guayaquil Tuna Plant Takes Advantage of ATPDEA Benefits and U.S. Market Trends," message reference No. 490, prepared by American Consulate, Guayaquil, May 13, 2004.

[98] Cotton Board, "Cotton News from the Andean Region," Jan. 2003, found at *http://www.cottonboard.org*, retrieved June 25, 2004.

[99] Ibid.

[100] Ibid.

[101] Based on United Nations trade data for 2002 for Ecuador's exports of clothing and accessories.

[102] E-mail communication from the U.S. Embassy in Quito, Ecuador, to USITC staff, Aug. 4, 2004.

expansion-related investment in 2003 by apparel companies that export garments to the United States. These companies indicated that the investments would not have been made in the absence of ATPA benefits. In October 2003 there was speculation about a potential investment by a U.S. firm, National Textile Company, in Ecuador's textile industry, which could cause Ecuador's textile industry to be the number one export industry after oil and could create a significant number of jobs.[103] No additional information was available about this potential investment at the time of publication.

The U.S. Embassy also reported that the footwear and leather industries "have not taken advantage of ATPDEA benefits to any significant extent." According to the Embassy, the industry is fragmented and existing production capacity cannot meet the demand of the U.S. market. About eight leather-processing companies have closed and only two of the large firms have renovated their equipment and upgraded their technology to meet local demand.

Peru

According to the U.S. Embassy in Peru, ATPA has played a central role in encouraging investment in nontraditional export-oriented products and creating badly needed jobs. The Embassy cites asparagus and apparel as the leading ATPA success stories. In 2003, asparagus became Peru's largest agricultural export, overtaking coffee. Peru is now also the world's largest exporter of asparagus, which directly employs roughly 50,000 people. Exports of asparagus are expected to increase further in 2004.[104]

The U.S. Embassy also cited ATPA's role in promoting apparel exports and investment (see Textile and Apparel Industry below). However, the Embassy noted that Peruvian Government officials and business people generally believe "that idle installed capacity in the last few years in several important industries [particularly the apparel industry] have made it unnecessary" to make major investments; in 2003 only "limited investments were oriented towards modernization of existing capacity." Furthermore, the short time frame of ATPDEA, which expires in 2006, has delayed consideration by many companies of major investments.[105] Government officials contend that "the unilateral, time-limited ATPDEA benefits do not attract sufficient long-term investment in Peru."[106] The Embassy also noted that the local media reported that the lapse of ATPA in 2002 had a major effect on exports and jobs. For example, some exporters had to decline new orders from the United States while others had to accept lower profit margins or sales at a loss in order to retain customers. Also, to reduce costs after ATPA lapsed, exporters had to eliminate jobs.[107]

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[103] "USA: Ecuador Waits for National Textile Investment Decision," found at *www.bharattextile.com/newsitems/1985986*, retrieved June 28, 2004.

[104] U.S. Department of State telegram, "Peru USITC 2003 Annual Report on ATPA/ATPDEA," message reference No. 3312, prepared by U.S. Embassy, Lima, July 9, 2004.

[105] Ibid.

[106] U.S. Department of State telegram, "Visit of Peru's Prime Minister Beatriz Merino: Trade and Investment Background," message reference No. 4336, prepared by U.S. Embassy, Lima, Sept. 4, 2003.

[107] U.S. Department of State telegram, "Peru USITC 2003 Annual Report on ATPA/ATPDEA," message reference No. 3312, prepared by U.S. Embassy, Lima, July 9, 2004.

Official statistics on foreign direct investment (FDI) in Peru show that the stock of FDI remained stable in the agriculture, manufacturing, mining, fisheries, and oil and gas sectors in 2003 compared with 2002.[108] The Embassy reported that agro-business leaders indicated there were no new major investment projects in the sector in 2003, and none are expected in 2004.[109] However, Embassy officials have highlighted Peru's agricultural opportunities, noting increasing exports under ATPA of mangoes, artichokes, and onions to the United States.[110]

Textile and Apparel Industry

The textile and apparel sector is a major source of economic activity in Peru, accounting for 13 percent of manufacturing GDP in 2003.[111] The sector employs 9 percent of the population, directly supporting 150,000 families and indirectly supporting an additional 350,000 families.[112] The sector is integrated–from the production of raw material inputs (cotton, alpaca, llama, and vicuna) to the manufacture of intermediate fabrics and to the production of apparel. The Peruvian sector produces a range of products from basic apparel to high-end specialties.[113] Although Peru has a history of producing tanguis and pima cotton (long and extra-long staple, respectively), current production yields are low (29 percent below the world average), which constrains the growth of the Peruvian textile industry and causes Peru to import raw cotton, primarily from the United States.[114]

Peru exports a significant share of its sector production, mostly to the United States, which accounted for 75 percent of Peru's apparel exports in 2002[115] and approximately 82 percent of Peru's textile and apparel exports in 2003.[116] In 2003,

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[108] Source: Proinversion, Peru's privatization and investment promotion agency, as provided in U.S. Department of State telegram, "Peru USITC 2003 Annual Report on ATPA/ATPDEA," message reference No. 3312, prepared by U.S. Embassy, Lima, July 9, 2004.

[109] U.S. Department of State telegram, "Peru USITC 2003 Annual Report on ATPA/ATPDEA," message reference No. 3312, prepared by U.S. Embassy, Lima, July 9, 2004.

[110] U.S. Department of State telegram, "Charge Discusses Free Trade at Peruvian Congress," message reference No. 6034, prepared by U.S. Embassy, Lima, Dec. 3, 2003.

[111] Data are from Peru's MITINCI Elaboracion Comite Textile SNI, e-mail transmission from Renzo Villa, attache, Embassy of Peru, Aug. 4, 2004 to USITC staff.

[112] Ibid.

[113] Cotton Board, "Cotton News from the Andean Region," Jan 2003, found at *http://www.cottonboard.org/index.asp*, retrieved June 25, 2004. Industry sources report that Peruvian cotton knit shorts for men and boys have traded for an average 48 percent premium over the world price since 1989, and Peru's rank as a foreign supplier of men's knit shirts has climbed from 21st in 1989 to 8th in 2002. The Peruvian products are primarily aimed at the high-end golf shirt market. Thus, they serve a niche market. See Cotton Incorporated, "Competition Among Foreign Suppliers: Price Isn't the Whole Story," Summer 2003, found at *http://www.cottoninc.com/TextileConsumper/homepage.cfm?Page=3609*, retrieved June 23, 2004.

[114] Cotton Board, "Cotton News from the Andean Region," Jan. 2003, found at *http://www.cottonboard.org/index.asp*, retrieved June 25, 2004.

[115] Based on United Nations trade data for 2002 (the latest year available) for Peru's exports of clothing and accessories.

[116] Based on Peruvian Government trade statistics, as reported in U.S. Department of State telegram, "Peru USITC 2003 Annual Report on ATPA/ATPDEA," message reference No. 3312, prepared by U.S. Embassy, Lima, July 9, 2004.

U.S. sector imports from Peru (almost all of which were apparel) rose by 31 percent in value over the 2002 level to $516 million (table 2-8). Representatives of the Peruvian Government attributed the large increase to ATPDEA trade preferences.[117] Industry sources in Peru state that Peru's apparel exports are known for their high quality and that most are manufactured from locally grown cotton.[118]

New foreign investment in Peru's textile and apparel sector since the ATPDEA went into effect has reportedly been limited and statistics on such investment are considered unreliable.[119] According to Prompex, Peru's government trade promotion body, Peru's investment in its textile sector was about $100 million in 2003.[120] The U.S. Embassy reported that a private bank, Wiese Sudameris Bank (BWS), said that imports of machinery for the textile and apparel industry reached $85 million in 2003, an 11.2 percent increase over 2002. Although machinery imports account for only part of total investment, they serve as an indication of the direction of investment in this industry.[121]

Industry sources have reported that the number of new garment exporting companies has grown since the implementation of ATPDEA, but have noted that much of the increase in the volume of sector exports can be attributed to existing exporting companies.[122] According to the U.S. Embassy in Peru, to meet growing U.S. orders in 2002-2003, Peruvian textile and apparel companies used existing idle installed capacity and made small incremental additions to capacity. Some major apparel companies also subcontracted their orders to medium and small companies, which had underutilized capacity and were normally oriented to the domestic market. Such developments "led to significant new jobs." However, the Embassy reported that ATPDEA's temporary nature as well as the elimination of textile and apparel quotas on January 1, 2005, have had a "dampening effect" on investment projects.[123]

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[117] Mercedes Araoz, Senior Advisor to the Minister of Foreign Trade for FTA Negotiations, Embassy of Peru, statement before the USITC, Feb. 10, 2004 public hearing, p. 65 of the transcript. Since the ATPDEA, industry sources in Peru report increased interest from U.S. buyers and note that Peruvian textile producers have boosted their exports to meet demand from companies such as J.C. Penney Co. See "Peru: Textile Maker Surges Country Economy," found at *http://bharattextile.com/newitems/1983282*, Mar. 13, 2003, retrieved June 28, 2004.

[118] "Peru: Popularity of Cotton Exports Growing in the United States," Just-style.com, Feb. 17, 2004.

[119] Sociedad Nacional de Industrias, facsimile to Commission staff, delivered via the Embassy of Peru, Jan. 26, 2004. Mercedes Araoz, Senior Advisor to the Minister of Foreign Trade for FTA Negotiations, Embassy of Peru, statement before the USITC, Feb. 10, 2004, public hearing, p. 72 of the transcript.

[120] "U.S. Eagerly Buys Up Peru's Surging Clothing Exports," Feb. 17, 2004, found at *http://www.fibre2fashion.com/news/NewsDetails.asp?News_id=5946*, retrieved June 23, 2004.

[121] U.S. Department of State telegram, "Peru USITC 2003 Annual Report on ATPA/ATPDEA," message reference No. 3312, prepared by U.S. Embassy, Lima, July 9, 2004.

[122] Sociedad Nacional de Industrias, facsimile to Commission staff, delivered via the Embassy of Peru, Jan. 26, 2004.

[123] U.S. Department of State telegram, "Peru USITC 2003 Annual Report on ATPA/ATPDEA," message reference No. 3312, prepared by U.S. Embassy, Lima, July 9, 2004.

Nonetheless, the Embassy was able to identify expansion-related investments valued at $4.9 million in 2003 by several of Peru's major textile and apparel companies.[124] Other ATPDEA-related investments include a project developed by Peru Fashions which is expected to generate $16 million in apparel exports to the United States and an investment of several hundred thousand dollars in plain-woven fabric production.[125] In August 2003, the Peruvian Nuevo Mundo company opened a new garment factory that is producing 50,000 garments per month; production is expected to expand to 280,000 garments per month in 2004.

The U.S. Embassy reports that business leaders and government officials project nearly $1 billion in total exports of textiles and apparel from Peru in 2004. The private bank BWS in Peru estimates that apparel exports to the United States will climb 20 percent in 2004. However, BWS cautions that orders from U.S. companies could decline in late 2004 as purchasers wait for the expiration of the textile and apparel quotas and increased access to the U.S. market by Asian suppliers.[126]

Conclusion

Based on an examination of ATPA-related investment in 2003, 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 2003 was small (0.93 percent by value). Imports that benefited exclusively from ATPA in 2003 made up an even smaller share–just 0.42 percent. However, ATPDEA may promote increased exports to the United States of products newly eligible for trade preferences–for example, articles of apparel and pouched tuna. In Ecuador, tuna packing plants are retooling and expanding to take advantage of ATPDEA benefits for pouched tuna. The Commission also identified a number of new and expansion-related investments in textiles and apparel, flowers, leather goods, jewelry, and cookies and candy in 2003 in the Andean region, which may generate increased exports to the United States in the future.

One U.S. Embassy noted that the potential for an FTA with the United States is beginning to encourage investment.[127] In testimony before the Commission and the USTR in relation to the proposed U.S.-Andean FTA, foreign officials and U.S. companies expressed support for an FTA as a means to foster business certainty and attract long-term investment.[128]

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[124] Ibid.

[125] U.S. Department of State telegram,"USITC Annual ATPA/ATPDEA Report," message reference No. 3383, prepared by U.S. Embassy, Lima, July 8, 2003.

[126] U.S. Department of State telegram, "Peru USITC 2003 Annual Report on ATPA/ATPDEA," message reference No. 3312, prepared by U.S. Embassy, Lima, July 9, 2004.

[127] U.S. Department of State telegram, "Post Response Regarding USITC Andean Investment and Drug Crop Survey for Report on ATPA/ATPDEA 2003," message reference No. 7300, prepared by U.S. Embassy, Bogota, July 23, 2004.

[128] For example, see Mercedes Araoz, Senior Advisor to the Minister of Foreign Trade of Peru for FTA Negotiations, submission to the United States International Trade Commission concerning the U.S.-Andean Countries Free-Trade Agreement: Advice Concerning the Probable Economic Effect of Providing Duty-Free Treatment for Imports (Inv. Nos. TA-131-28 and TA-2104-10), Feb. 10, 2004.

CHAPTER 4
Impact of APTA on Drug-Related Crop Eradication and Crop Substitution in 2003

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 of certain imports from Bolivia, Colombia, Ecuador, and Peru, thereby promoting economic alternatives to illicit drug activity. This chapter assesses the estimated effects of ATPA[1] on drug-related crop eradication and crop substitution efforts of each of these countries during 2003.

Overview

Cocaine remains the greatest concern among all drugs considered to threaten the United States.[2] According to the U.S. Department of State's *International Narcotics Control Strategy Report (INCSR),* coca flourishes in only three ATPA countries, with Colombia leading world coca cultivation, and Peru and Bolivia distant second and third rank producers, respectively.[3] Ecuador is a major transit country for drugs and precursor chemicals, but there is no evidence that it cultivates illicit crops to any significant degree.[4] Although the ATPA legislation focuses on coca cultivation, opium poppy–the raw material needed to produce heroin–is also cultivated in Colombia. The U.S. Department of State estimates that Colombia and Mexico account for 4 to 6 percent of worldwide opium poppy cultivation, in addition to being the staging points for the bulk of the heroin that enters the United States.[5]

Few legal crops can compete viably with coca in terms of economic return, marketability, and supportive infrastructure. For example, coca can be cultivated in soil and climate conditions unsuitable for many commercial crops. Coca is often grown

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

[2] U.S. Department of State, "Policy and Program Developments," *International Narcotics Control Strategy Report 2003 (INCSR 2003)*, Mar. 1, 2004, found at Internet address *http://www.state.gov/g/inl/rls/nrcrpt/2003/*, retrieved Mar. 24, 2004, p. 1 of 19. (The Internet HTML format of *INCSR 2003* provides no page numbers for reference. The page numbers cited refer to the page of a section once printed to hard copy; e.g., "p. 18 of 36" means that the cited section produced 36 pages in hard copy, of which the cited information is located on the 18th page of those 36 pages.)

[3] U.S. Department of State, "Policy and Program Developments," *INCSR 2003*, p. 1 of 19.

[4] U.S. Department of State, "South America – Ecuador," *INCSR 2003*, p. 18 of 36.

[5] U.S. Department of State, "Policy and Program Developments," *INCSR 2003*, pp. 1 of 19 and 2 of 19. The *INCSR 2002* notes that Colombian drug traffickers have been planting opium poppy in neighboring countries as insurance against aggressive eradication efforts. The 2002 report says that narcotics traffickers supply farmers in neighboring countries with seeds, technical assistance, and cash loans, and cites the steady rise in seizures of opium latex in 2002 by the Peruvian National Police as evidence of the expansion of poppy cultivation and opium trafficking in Peru.

in regions controlled by armed insurgents who encourage its cultivation. Moreover, it can take time for countries to develop legal products of sufficient quality and in sufficient quantity to be able to penetrate the U.S. and other foreign markets. The commercial success of alternative development programs is often contingent on the improvement of physical and economic infrastructure in a country, such as bridge and road construction or other measures that support legal economic activity where little or none was present before, which in turn can hinge on government economic policies that are affected by external factors.

The Commission recognizes that ATPA is but a single element of a multifaceted effort to combat the drug problem. For example, U.S. foreign aid programs, such as support for Plan Colombia, as well as foreign bilateral and multilateral aid donors, also provide assistance. Consequently, it is difficult to isolate ATPA's impact on drug-related crop eradication and crop substitution or alternative development and no precise estimate can be made.

The Commission's assessments in this chapter are based on analysis of relevant literature regarding ATPA countries, including unclassified U.S. embassy reports and published reports from relevant U.S. Government agencies on drug crop control and alternative development in ATPA countries. Based on this information, the Commission estimates that in 2003, ATPA continued to have a small, indirect, but positive effect in support of illicit coca eradication and crop substitution efforts of the ATPA beneficiaries, despite the program's lapse during much of the previous year.

Role of ATPA in Counternarcotics Efforts

Congress enacted ATPA in 1991 to provide incentives to Bolivia, Colombia, Ecuador, and Peru to diversify their economies and provide alternatives to the illegal drug trade. The Andean Trade Promotion and Drug Eradication Act (ATPDEA), signed into law in 2002, provides enhanced trade benefits for the four ATPA beneficiary countries to expand opportunities for economic development and political stability in the region. The trade-based incentives of ATPA (including ATPDEA) encourage exports, production, and employment, which stimulate economic growth and development in the beneficiary countries.[6] Although few products or industries encouraged by ATPA are likely to act as direct substitutes for illicit coca cultivation or be located precisely in the often isolated coca-growing regions, ATPA has encouraged new production and the growth of industries that otherwise might not have developed in the beneficiary countries. As a result, ATPA contributes to counternarcotics efforts by providing new sources of employment for workers that might otherwise turn to illicit crop-growing activities. The U.S. Embassy in Colombia pointed out that these job opportunities provided by ATPA are particularly important now, given the acceleration of drug-crop

[6] For an analysis of these effects, see USITC, *ATPA, Seventh Report, 1999*, (Investigation No. 332-352) USITC publication 3358, September 2000, chapter 4.

eradication in Colombia.[7] Notable examples of ATPA-supported industries include the flower industry in Colombia and Ecuador and the asparagus industry in Peru. ATPA is also encouraging investment in the cotton-textile-apparel production chain in Peru and Colombia, where textile and apparel exports from Peru and Colombia to the United States have already increased in 2003 from 2002 levels, and where the creation of a substantial number of new export-oriented jobs is expected in coming years.[8]

Regional Cultivation and Eradication Trends During 2003

In 2003, coca eradication in the ATPA countries reached a record high, resulting in net coca cultivation of only 173,450 hectares in the region, the lowest figure yet recorded.[9] This decrease stems largely from the second consecutive annual decline in net coca cultivation in Colombia, which fell from an all-time high of 169,800 hectares in 2001 to 144,450 hectares in 2002 and 113,850 hectares in 2003. Table 4-1 shows coca cultivation and eradication trends in the ATPA countries during 1991-2003; figure 4-1 shows net coca cultivation trends in Bolivia, Colombia, and Peru during the same period.[10]

Since 1991, net coca cultivation in the ATPA countries has averaged roughly 200,000 hectares, fluctuating broadly between 173,000 and 224,000 hectares. Notably, the record high level of 223,700 hectares for the region was reached in 2001 and only 2 years later in 2003, the record low of 173,450 hectares was recorded. In the mid 1990s, as Bolivia and Peru initiated and intensified coca eradication campaigns, net cultivation began to decline in these countries, but was offset by a steady increase in Colombia, which reached a record high of 169,800 hectares in 2001. That year, net coca cultivation in Colombia accounted for over three-quarters of all net coca cultivation in the ATPA countries, also a record high.

The pronounced shift of coca cultivation into Colombia was met with intensive efforts by the Government of Colombia, supported by the United States, to eradicate the coca. In 1999, then-Colombian President Pastrana developed Plan Colombia, which began a

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[7] U.S. Department of State telegram, "Post Response Regarding USITC Andean Investment and Drug Crop Survey for Report on ATPA/ATPDEA 2003," message reference No. 7300, prepared by U.S. Embassy, Bogota, July 23, 2004.

[8] Ibid., and U.S. Department of State telegram, "Peru USITC 2003 annual report on ATPA/ATPDEA," message reference No. 3312, prepared by U.S. Embassy, Lima, July 7, 2004.

[9] 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.

[10] In June 2004, the Government of Colombia and the United Nations Office on Drugs and Crime (UNODC) issued their fifth annual joint survey of coca cultivation in Colombia for 2003. This report confirms the trend and magnitude found in the U.S. Government reporting on coca cultivation in Colombia during 2003. However, because the Colombian-UNODC survey has used a different remote sensing methodology since 1999, its figures are not directly comparable to figures produced by U.S. Government surveys. United Nations, Office on Drugs and Crime, and the Government of Colombia, *Colombia: Coca Cultivation Survey for 2003*, June 2004, found at Internet address *http://www.unodc.org/pdf/colombia/colombia_coca_survey_2003.pdf*, retrieved July 20, 2004.

Table 4-1
Coca cultivation and eradication in the ATPA countries, in hectares, 1991-2003

Year	Bolivia[1]	Colombia[2]	Ecuador[3]	Peru	Total[4]
			Total Cultivation		
1991	53,388	38,472	120	120,800	212,780
1992	48,652	38,059	0	129,100	215,811
1993	49,597	40,493	0	108,800	198,890
1994	49,158	49,610	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	[6]N/A	0	52,500	N/A
2000	22,253	183,200	0	40,200	245,653
2001	([5])	[6]N/A	0	37,900	N/A
2002	([5])	[6]N/A	0	42,000	N/A
2003	([5])	[6]N/A	0	42,463	N/A
			Eradication		
1991	5,488	972	80	0	6,540
1992	3,152	959	0	0	4,111
1993	2,397	793	0	0	3,190
1994	1,058	4,910	0	0	5,968
1995	5,493	8,750	0	0	14,243
1996	7,512	5,600	0	1,259	14,371
1997	7,026	19,000	0	3,462	29,488
1998	11,621	N/A	0	7,825	N/A
1999	16,999	43,246	0	13,800	74,045
2000	7,653	47,371	0	6,200	61,224
2001	9,435	84,251	0	3,900	97,586
2002	11,839	122,695	0	7,000	141,534
2003	10,000	132,817	0	11,313	154,130
			Net Cultivation		
1991	47,900	37,500	40	120,800	206,240
1992	45,500	37,100	0	129,100	211,700
1993	47,200	39,700	0	108,800	195,700
1994	48,100	44,700	0	108,600	201,400
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	14,600	136,200	0	34,100	184,900
2001	19,900	169,800	0	34,000	223,700
2002	24,400	144,450	0	36,000	204,850
2003	28,450	113,850	0	31,150	173,450

[1] Beginning in 2001, U.S. Government aerial surveys of Bolivian coca began to cover the 12–month period beginning in June rather than beginning in January. This change in the benchmark period for net cultivation rendered meaningless for Bolivia from 2001 forward the previous relation where net cultivation plus eradication figures sum to total cultivation.

[2] For Colombia, net cultivation figures from *INCSR 2003*, except for 2003 figure, which was taken from Office of National Drug Control Policy, "2003 Coca cultivation estimates for Colombia," Mar. 22, 2004, found at Internet address *http://www.whitehousedrugpolicy.gov/news/press04/032204.html*, retrieved Mar. 29, 2004.

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

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

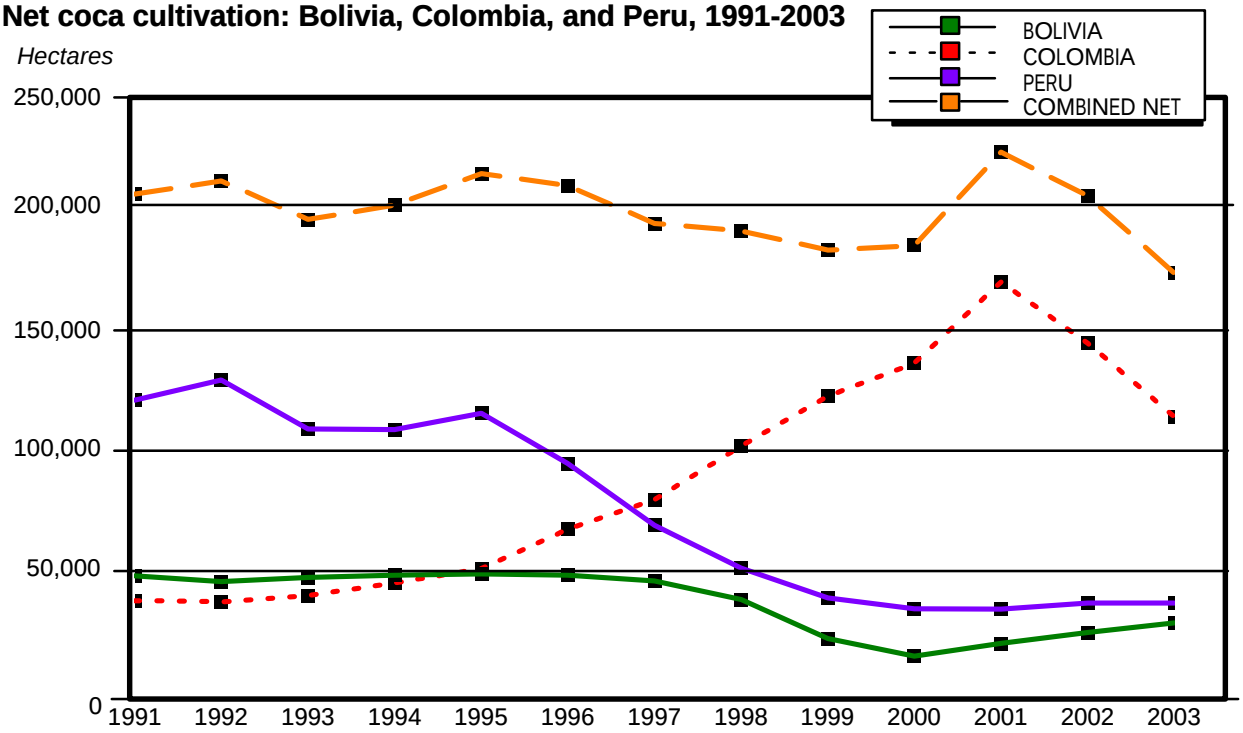
[5] Not meaningful. See table footnote 1.

[6] Official data unavailable. Unofficial data could be derived where net cultivation plus eradication figures yield an estimate for total cultivation.

Note.—N/A indicates data are not available.

Source: United States Department of State, Bureau for International Narcotics and Law Enforcement Affairs, *International Narcotics Control Strategy Report 2003 (INCSR 2003)*, March 2004, and previous reports, unless otherwise stated.

Figure 4-1
Net coca cultivation: Bolivia, Colombia, and Peru, 1991-2003



Source: U.S. Department of State, *INCSR 2003* (March 2004) and previous reports; and Office of National Drug Control Policy (Mar. 22, 2004) estimate for Colombia, 2003.

multipronged assault to eradicate coca and eliminate its related narcotics traffic.[11] Plan Colombia set out an integrated strategy of four components: (1) combating the narcotics industry, (2) reviving the Colombian economy, (3) strengthening democratic development in Colombian society, and (4) promoting a political dialogue with armed insurgents in Colombia.[12] Beginning in 2000, the United States supported Plan Colombia with a multiyear assistance package of $1.3 billion.[13] With the major help of aerial fumigation, a record number of hectares was eradicated in 2002-2003, resulting in the first decline in recent years in net coca cultivation in Colombia during 2002: a 15-percent decrease to 144,450 hectares–followed by a 20-percent decline in 2003 to 113,850 hectares.[14]

Peru eradicated 11,313 hectares of coca in 2003, the second highest annual level recorded, which resulted in 31,150 hectares of net coca cultivation, the lowest on record. On the other hand, Bolivia eradicated 10,000 hectares of coca, a slight decline from the previous year, and net coca cultivation registered 28,450 hectares, the highest level since 1998.

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[11] U.S. Department of State, "Plan Colombia," fact sheet, Mar. 14, 2001.
[12] Ibid.
[13] Ibid.
[14] Compiled from data in U.S. Department of State, *INCSR 2003*, and Office of National Drug Control Policy, News and Public Affairs, "2003 Coca Cultivation Estimates for Colombia," Mar. 22, 2004, found at Internet address *http://www.whitehousedrugpolicy.gov/news/press04/032204.html,* retrieved Mar. 29, 2004.

Bolivia

In 2003, net coca cultivation in Bolivia increased for the third consecutive year, reaching 28,450 hectares, up 17 percent from 2002 and up 95 percent from its low point of 14,600 hectares in 2000.[15] Nevertheless, net cultivation in 2003 remains substantially below the amount measured during the decade 1987-96 when net coca cultivation averaged nearly 48,000 hectares annually.[16] Eradication efforts in Bolivia increased from their low point in 1994 of 1,058 hectares to over 7,000 hectares by 1996 and 1997, before increasing dramatically in 1998 and 1999, reaching nearly 17,000 hectares eradicated in 1999. Eradication efforts fell off in 2000 to 7,653 hectares before again increasing to 9,435 hectares in 2001; 11,839 hectares in 2002; and reaching an estimated 10,000 hectares for 2003. According to the U.S. Embassy in Bolivia, the annual rate of eradication has declined slightly due to the "increasing complexity and costs associated with eradicating ever-smaller parcels of coca cultivation that in turn are spread over an area the size of New Jersey."[17]

Coca cultivation in Bolivia is located largely in two broad areas: (1) the mountainous region of the Yungas, and (2) the lowland tropics of the Chapare. In the Yungas, east and northeast of the capital La Paz, the indigenous population has grown coca for millennia for traditional use in ceremonies and medicine.[18] Under Law 1008 of July 19, 1988, some traditional coca cultivation is legally permitted–up to 12,000 hectares–in the regions of the North and South Yungas and other places where coca has been grown historically for traditional social reasons.[19] However, unconstrained coca cultivation in the Yungas by coca farmers[20] has become a major challenge for Bolivia.[21] The *INCSR 2003* estimates that coca cultivation increased by 4,500 hectares in the Yungas in 2003 and is becoming a source of illicit coca, even as the government forcibly eradicated most of the crop in the Chapare region, the recent center of the illicit Bolivia coca trade.[22] Preliminary analysis of imagery data from June-August

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[15] Effective June 1, 2001, the U.S. Government survey of Bolivian net 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. *INCSR 2001*, p. II-20.

[16] Compiled from data in U.S. Department of State, *INCSR 2003*.

[17] U.S. Department of State telegram, "2003 USITC ATPDEA Impact Report," message reference No. 2487, prepared by U.S. Embassy, La Paz, Aug. 4, 2004.

[18] U.S. Department of State, "South America – Bolivia," *INCSR 2003*, p. 4 of 36.

[19] 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. Traditional coca production zones include under the 1988 law the North and South Yungas, Murillo, Muñeca, Franz Tamayo e Inquisivi (Depto. de La Paz), and los Yungas de Vandiola (Depto. de Cochabamba, Prov. Tiraque, Prov. Carrasco).

[20] Known as *cocaleros*, coca farmers that grow the illegal coca leaf that supplies narcotics traffickers with the initial material that is refined progressively into coca paste, coca base, and finally cocaine powder.

[21] U.S. Department of State, "South America – Bolivia," *INCSR 2003*, p. 4 of 36.

[22] U.S. Department of State, "Policy and Program Developments," *INCSR 2003*, p. 2 of 19.

2003 done by the United Nations Office on Drugs and Crime (UNODC) suggests huge growth in coca cultivation in the Yungas, on the average of 100 percent,[23] making the Yungas now the principal coca growing area in Bolivia.[24]

The U.S. Department of State cites several reasons why *cocaleros* are migrating into the nontraditional areas of the Yungas.[25] These include the hope that Law 1008, which allows certain legitimate coca cultivation, will be extended to the coca crops currently being planted in the Yungas by the cocaleros, as well as the greater ease with which militant cocaleros have been able to protect their coca plantings with force against the government because of the mountainous terrain in the Yungas.[26]

In the Chapare, southeast of La Paz, coca cultivation is illegal and efforts to eradicate it have been successful, largely due to policy changes implemented by former President Banzer (1997-2001), which use special police units to forcibly eradicate illegal coca cultivation.[27] Nonetheless, cocalero forces have resisted this eradication program, first in the Chapare and now also in the Yungas region. Led prominently by Evo Morales of the Bolivian Moviemiento al Sindicalismo (MAS) party, which supports the illegal cultivation of coca and an end to the eradication program, cocalero forces are attempting to associate their illicit coca cultivation with the legal and limited coca cultivation permitted in the Yungas by claiming similar rights as those afforded to the indigenous populations in the Yungas.[28] Several alternative development projects in the Yungas funded by the United States Agency for International Development (USAID) were dynamited in December 2003 in efforts to intimidate government development workers.[29]

The Sanchez de Lozada government, narrowly elected in June 2002, unveiled its budget proposal in February 2003, which touched off riots and a police revolt in the capital that nearly toppled the government.[30] Associated with the previous Banzer-Quiroga administrations that inaugurated the Dignity Plan of forced coca

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[23] U.S. Department of State telegram, "UNODC imagery shows anecdotal evidence of large increase of coca cultivation in the Yungas," message reference No. 4423, prepared by the U.S. Embassy, La Paz, Dec. 8, 2003.

[24] U.S. Department of State telegram, "Field assessment of CN efforts in the Yungas and Chapare," message reference No. 804, prepared by the U.S. Embassy, La Paz, Mar. 8, 2004.

[25] Ibid.

[26] Ibid.

[27] U.S. Department of State, "South America – Bolivia," *INCSR 2003*, p. 4 of 36; U.S. Department of State, Bureau of Western Hemisphere Affairs, Background Note: Bolivia, November 2003, found at Internet address *http://www.state.gov/r/pa/ei/bgn/26466.htm*, retrieved on Apr. 23, 2004; U.S. Department of State telegram, "Field assessment of CN efforts in the Yungas," message reference No. 804, prepared by the U.S. Embassy, La Paz, Mar. 8, 2004.

[28] U.S. Department of State, "South America – Bolivia," *INCSR 2003*, p. 6 of 36; U.S. Department of State, "Policy and Program Developments," *INCSR 2003*, p. 1 of 19.

[29] U.S. Department of State telegram, "Yungas development project dynamited," message reference No. 4540, prepared by the U.S. Embassy, La Paz, Dec. 18, 2003; U.S. Department of State telegram, "Second dynamiting of Yungas development NGO," message reference No. 4644, prepared by the U.S. Embassy, La Paz, Dec. 31, 2003.

[30] U.S. Department of State telegram, "Bolivia unveils austerity package," prepared by U.S. Embassy, La Paz, message reference No. 539, Feb. 10, 2003; U.S. Department of State telegram, "Bolivia: demarche request for crisis support," prepared by U.S. Department of State, Washington DC, message reference No. 46665, Feb. 20, 2003.

eradication in the Chapare, widespread protests[31] against the government grew during the year until, in October, demonstrations left approximately 80 persons dead, forcing President Sanchez de Lozada to resign on October 17, 2003.[32] Vice President Carlos Mesa assumed the presidency in a constitutional transfer of power.[33] According to the U.S. Embassy in Bolivia, the administration of President Mesa has "publicly declared its intention to continue with an eradication policy, despite its political weakness and...constant cocalero calls for change."[34]

Alternative Development

The United States Agency for International Development program goals in Bolivia aim to consolidate democracy, achieve broad-based equitable and sustainable development, and reduce narcotics production and trafficking.[35] These programs try to target key issues of poverty and social exclusion, focusing particularly on the rural population.[36] USAID has helped the Government of Bolivia: (1) increase net household income from legal economic activity in the Yungas region; (2) establish a Community Development Fund to provide financing for productive infrastructure development, road maintenance and other investments identified by the participating communities in the Yungas region; (3) ensure that illegal and excess coca was eliminated in the Chapare region by developing sustainable farm-level production and market linkages for legal crops; and (4) provide direct assistance to those Chapare farmer families residing in certified coca-free areas.[37] In past years, efforts to eliminate coca cultivation in the tropical Chapare region have focused USAID alternative development projects on providing appropriate crop substitutes and alternative employment and economic opportunities. The more recent shift in illicit coca cultivation to the Yungas has led USAID to also shift attention toward promoting alternative development projects of a different nature, appropriate for the isolated and steeply mountainous region of the Yungas.

During 2003 in the Yungas, USAID reported that under its Yungas Development Initiative it began 44 projects, continued 40 additional projects at various stages of design, and completed another 96 rural and small-town infrastructure projects.[38] These include projects such as potable water systems, schools, coffee postharvest plants, and similar productive and social infrastructure. USAID also continued "social

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[31] U.S. Department of State telegram, "Recent attacks and damage to alternative development sites in the Cochabamba tropics," message reference No. 1339, prepared by the U.S. Embassy, La Paz, Apr. 10, 2003.

[32] U.S. Department of State, Bureau of Western Hemisphere Affairs, *Background Note: Bolivia*, November 2003, found at Internet address *http://www.state.gov/r/pa/ei/bgn/26466.htm*, retrieved on Apr. 23, 2004.

[33] Ibid.

[34] U.S. Department of State telegram, "2003 USITC ATPDEA Impact Report," message reference No. 2487, prepared by U.S. Embassy, La Paz, Aug. 4, 2004.

[35] USAID, "Bolivia: USAID Program Profile," found at Internet address *http://www.usaid.gov/locations/latin_america_caribbean/country/program_profiles/boliviaprofile.html,* retrieved June 9, 2004.

[36] Ibid.

[37] Ibid.

[38] U.S. Department of State, "South America – Bolivia," *INCSR 2003*, p. 5 of 36.

capital" projects, such as providing scholarships for 33 students to attend regional university programs in agricultural and veterinary science as well as health science.[39] To date, this program has trained about 60,000 residents from 454 communities in the Yungas in disease prevention, and also supported programs to provide medical treatment to over 2,000 patients for tuberculosis and leishmaniasis. The USAID Yungas program constructed 240 latrines benefitting about 6,000 people, maintained and improved 112 kilometers of rural mountain roads and constructed three major bridges in the process, and provided technical assistance to help over 5,000 families in 116 communities in coffee harvest and postharvest techniques. This support helped increase exports of coffee by 300 percent over the previous year, to over $1 million.[40]

During 2003 in the Chapare, USAID supported net coca reduction by deepening and broadening alternative development assistance.[41] By the end of fiscal year 2003, USAID had assisted nearly 26,000 farm families, and the area of legal crops increased to 129,703 hectares from 127,013 hectares the previous year.[42] However, violence and road blockades mounted by cocalero forces slowed progress, stopping all implementation of alternative development assistance for 2 months during 2003. Presently, there are 97 agribusiness firms supplying inputs to and/or purchasing products from these licit alternative development enterprises on a regular basis, 70 percent of which receive USAID support.[43] The annual family income from these licit products increased from $1,706 in 2000[44] to $2,055 in 2001, $2,138 in 2002, and $2,270 in 2003.[45] The number of jobs related to this legitimate activity rose to nearly 53,000 by the end of calendar year 2003.[46] The wholesale value of licit agriculture leaving the Chapare in 2003 registered over $25 million, a 25-percent increase over 2002.[47] The end of the 2002 economic crisis in Argentina has improved market access significantly for alternative development products exported from the Chapare.[48]

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[39] Ibid.

[40] Ibid.

[41] Ibid.

[42] U.S. Department of State telegram, "Bolivia 2003-2004 International Narcotics Control Strategy Report *(INCSR)* – Alternative Development," message reference No. 4483, prepared by U.S. Embassy, La Paz, Dec. 15, 2003.

[43] U.S. Department of State, "Counternarcotics and Law Enforcement Country Program: Bolivia," fact sheet, Mar. 26, 2003, found at *http://www.state.gov/g/inl/rls/fs/19080.htm*, retrieved June 5, 2004.

[44] U.S. Department of State, "South America – Bolivia," INCSR 2003, p. 5 of 36; USAID, "USAID Helps Transform the Chapare; Remove Bolivia from the Drug Economy," May 11, 2004, found at Internet address *http://www.usaid.gov/locations/latin_america_caribbean/country/bolivia/boliviachapare.html*, retrieved June 4, 2004.

[45] U.S. Department of State, "South America – Bolivia," *INCSR 2003*, p. 5 of 36.

[46] U.S. Department of State, "U.S. Policy and the Andean Counterdrug Initiative (ACI)," Mar. 2, 2004, found at *http://www.state.gov/g/inl/rls/rm/30077.htm*, retrieved July 29, 2004.

[47] U.S. Department of State, "South America - Bolivia," *INCSR 2003*, p. 5 of 36, p. 6 of 36; U.S. Department of State telegram, "Bolivia 2003-2004 International Narcotics Control Strategy Report *(INCSR)* – Alternative Development," message reference No. 4483, prepared by U.S. Embassy, La Paz, Dec. 15, 2003.

[48] U.S. Department of State, "South America – Bolivia," *INCSR 2003*, p. 5 of 36.

USAID estimates a 30-percent increase in banana exports, to a total of 22,000 metric tons; and a 250-percent increase in pineapple export volume, to a total of 900 metric tons.[49] USAID has also initiated major new activities involving land titling, health, and environment, as well as activities to strengthen democracy in the region.[50]

The U.S. Embassy in Bolivia reported that ATPA has had a "moderately positive effect" on the sale of alternative development products from the Chapare. For example, the Embassy cites one company, Indatrop, which has used ATPA to cut costs by 10 percent on exports of palm hearts to the United States. Indatrop has recently invested in an additional production line to produce new products specifically for the U.S. market in response to current customers, including other canned alternative development vegetables and tropical fruit. According to the Embassy, Indatrop plans to triple exports to the U.S. market. Other companies in the area are also trying to access the U.S. market, and are currently improving quality to meet U.S. standards. Historically, many agricultural products from the Chapare have not been exported to the United States because of difficulties meeting U.S. quality standards, and logistical or transport problems have made the Bolivian product less competitive in comparison to products from other Andean countries (fresh bananas) or Asia (dried fruits).[51]

In other efforts to create alternatives to coca growing, USAID is supporting trade and export promotion activities that help to improve market opportunities for Bolivian products.[52] Projects that are currently underway or are being studied include improving exports of Chapare bananas to Argentina by removing trade bottlenecks; expanding textile and apparel subcontracting in the Chapare to supply existing factories in the non-coca-growing areas; creating collection hubs for wood from the Chapare and other areas, thereby reducing bottlenecks and opening new markets for Chapare timber; and promoting leather plants in Cochabamba to increase purchases of the raw material from the Chapare.[53]

Colombia

In 2003, net coca cultivation in Colombia was estimated to have decreased for the second consecutive year, after nearly a decade of continuous increase.[54] In 1992, net cultivation measured 37,100 hectares, which rose nearly 360 percent to a peak of 169,800 hectares by 2001, before declining 15 percent to 144,450 hectares in 2002, and a further 21 percent to 113,850 hectares in 2003.[55] In 2003, the Government of

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[49] Ibid.

[50] Ibid.

[51] U.S. Department of State telegram, "2003 USITC ATPDEA Impact Report," message reference No. 2487, prepared by U.S. Embassy, La Paz, Aug. 4, 2004.

[52] U.S. Department of State telegram, "Promoting Trade in Support of Counter-narcotics Objectives," message reference No. 2263, prepared by the U.S. Embassy, La Paz, July 15, 2004.

[53] Ibid.

[54] Office of National Drug Control Policy, "2003 Coca cultivation estimates for Colombia," Mar. 22, 2004, found at Internet address *http://www.whitehousedrugpolicy.gov/news/press04/032204.html*, retrieved Mar. 29, 2004.

[55] Ibid.; and U.S. Department of State, "South America – Colombia," *INCSR 2003*, pp. 17-18 of 36.

Colombia, supported by the United States, eradicated illegal crops at a record-setting pace, largely through joint U.S.-Colombian efforts involving the aerial fumigation program. This effort continued despite warlike conditions that continue to pit armed insurgent groups using proceeds from narcotics and arms trafficking against the government and, for the first time in 2003, against American targets.[56] In 2001, eradication efforts in Colombia accelerated sharply, from 47,371 hectares of coca eradicated in 2000 to 132,817 hectares in 2003, an increase of 180 percent over 3 years.[57] During approximately the first half of 2004, 70,834 hectares of coca were eradicated.[58]

In 2003, the U.S.-Colombian aerial eradication program is also estimated to have sprayed nearly 3,000 hectares of opium poppy.[59] Although reliable data for opium poppy cultivation are much more limited, available statistics from the U.S. Department of State suggest that between 1995 and 2001, net cultivation of poppy averaged over 6,700 hectares per year, ranging from roughly 6,000 to 7,500 hectares. However, net cultivation declined by nearly 25 percent in 2002, the latest year statistics are available, from approximately 6,500 hectares in 2001 to 4,900 hectares in 2002.[60]

In August 2003, drug interdiction efforts were boosted with the reintroduction of the Air Bridge Denial (ABD) program, after a 2-year hiatus following the tragic shootdown in Peru of an innocent missionary aircraft mistaken for an illegal narcotics trafficker.[61] By year end 2003, ABD operations in Colombia were credited with the destruction of four aircraft, the capture of three aircraft, the seizure of one speed boat, and the seizure of 5 metric tons of cocaine.[62]

Nonetheless, despite dramatic progress against the narcotics trade, Colombia remains a major drug producing country.[63] Proceeds from narcotics trafficking

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[56] U.S. Department of State, "South America – Colombia," *INCSR 2003*, p. 13 of 36.

[57] Data compiled from U.S. Department of State, "South America – Colombia," *INCSR 2003.*

[58] U.S. Department of State telegram, "Post Response Regarding USITC Andean Investment and Drug Crop Survey for Report on ATPA/ATPDEA 2003," message reference No. 7300, prepared by U.S. Embassy, Bogota, July 23, 2004.

[59] U.S. Department of State, "Policy and Program Developments," *INCSR 2003*, p. 1 of 19. According to the U.S. Department of State, armed groups are reported to have moved into the coffee growing regions of Colombia to take advantage of cheap labor as well as the basic similarity of coffee growing practices to coca cultivation. The Revolutionary Armed Forces of Colombia (FARC) has subsequently brought to Colombia, via Ecuador, Afghan and Thai technical experts on poppy cultivation to teach FARC guerillas and other armed groups how to grow opium poppy. The FARC is reportedly attracted by the prospect of campesino families cultivating poppy on small, hard-to-detect fields in the mountains at higher elevations that would offset losses should coca cultivation at more vulnerable lower elevations be eradicated. U.S. Department of State telegram, "STAFFDEL Mereu reviews coffee and narcotics issues with Gabriel Silva," prepared by U.S. Embassy, Bogota, Colombia, message reference No. 8335, Sept. 8, 2003.

[60] Compiled from information in U.S. Department of State, *INCSR 2003*; Office of National Drug Control Policy, "Statement from the Office of National Drug Control Policy Regarding the Latest Estimate for Poppy Cultivation in Colombia," May 9, 2003, found at Internet address *http://www.whitehousedrugpolicy.gov/news/press03/050903.html*, retrieved Mar. 29, 2004.

[61] U.S. Department of State, "South America – Colombia," *INCSR 2003*, p. 14 of 36.

[62] Ibid.

[63] U.S. Department of State, "South America – Colombia," *INCSR 2003*, p. 13 of 36.

finance armed groups such as the Revolutionary Armed Forces of Colombia (FARC), United Self Defense Forces of Colombia (AUC), and, to a lesser extent, the National Liberation Army (ELN).[64] In February 2003, the FARC detonated a car bomb at a social club in Bogota, killing 36 people; a motorcycle bomb outside a nightclub in Florencia in September, killing 26; and launched a grenade attack on several restaurants in Bogota in November, killing one and injuring 72.[65] However, progress was also registered in 2003 in the war on the drug traffickers when, after months of peace talks, the government and several AUC commanders reached a tentative agreement to dismantle a number of AUC fronts within the next 2 years.[66] In November 2003, the first of the fronts was demobilized in Medellin.[67]

A significant component of the illicit crop eradication program in Colombia has been the aerial fumigation program, which has been subject to close scrutiny as a result.[68] Under the program, the Colombian National Police in 2003 resolved over half of the 4,000 complaints of spray damage to legitimate crops, paying out compensation in the five cases determined to have merit.[69] In related activity, the United States Department of Agriculture trained 10 Colombian scientists in 2003 in the analysis of glyphosate–the herbicide used to eradicate illegal coca and poppy cultivation–as well as health care professionals at the Colombian National Institute of Health in identification and management of different types of pesticide and herbicide poisoning.[70]

On June 26, 2003, a Colombian court ordered the Government of Colombia to suspend its aerial eradication program pending further study of the effects of the herbicide glyphosate on human health and the environment.[71] Colombian government officials said they would appeal the ruling, and "press on with spraying in the meantime."[72] The U.S. Congress, for its part, requires the U.S. Secretary of State to

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[64] Ibid.

[65] Ibid.

[66] Ibid.

[67] Ibid.

[68] U.S. Department of State, "Policy and Program Developments," *INCSR 2003*, p. 2 of 19; and U.S. Department of State, "Report on Issues Related to the Aerial Eradication of Illicit Coca in Colombia," December 2003, found at Internet address *http://www.state.gov/g/inl/rls/rpt/aeicc/27484pf.htm,* retrieved June 4, 2004. In October 2001, the Government of Colombia instituted a compensation procedure for growers whose legal crops were sprayed in error. Of over 4,000 complaints received under this procedure, 63 percent were investigated and rejected as invalid (including many where legal crops were damaged because they were interspersed with illicit crops), and 37 percent are in the process of being verified, with a total of five complaints deemed credible and awarded compensation to date.

[69] U.S. Department of State, "Aerial Eradication of Illicit Coca and Opium Poppy in Colombia," 2003, found at Internet address *http://www.state.gov/g/inl/rls/rpt/aeicc/c10854.htm*, retrieved June 4, 2004.

[70] Compiled from information in U.S. Department of State, *INCSR 2003*; Office of National Drug Control Policy, "Statement from the Office of National Drug Control Policy Regarding the Latest Estimate for Poppy Cultivation in Colombia," May 9, 2003, found at Internet address *http://www.whitehousedrugpolicy.gov/news/press03/050903.html*, retrieved Mar. 29, 2004.

[71] Vanessa Arrington, "Colombian Drug Spraying Flights Suspended," Associated Press newswire, June 26, 2003, found at Internet address *http://itc.newsedge-web.com/NewsEdge/Application*, retrieved July 1, 2003.

[72] Ibid.

certify annually that the use of the herbicide glyphosate is not considered to pose unreasonable health or safety risks to humans or the environment.[73] In 2002, the U.S. Environmental Protection Agency (EPA) provided the U.S. Department of State with a thorough technical review of the U.S. Department of State's use of glyphosate in the Government of Colombia's coca spray program.[74] The report confirmed that the application rates of the aerial fumigation program in Colombia were within the parameters listed on U.S. glyphosate labels.[75]

On December 15, 2003, the U.S. Secretary of State certified again to the U.S. Congress that the EPA found that the herbicide mixture used is in accordance with EPA label requirements for comparable use in the United States for aerial crop fumigation and does not pose unreasonable risks of adverse effects to humans or the environment.[76] The EPA did recommend using an alternative formulation of the herbicide that was less concentrated, and therefore less toxic, to reduce the potential for acute eye irritation in farmers harvesting the illicit crops.[77] The EPA also noted some concern over spray drift to legal crops nearby illicit coca or poppy crops.[78]

Alternative Development

The U.S. Agency for International Development has developed several activities to directly support Plan Colombia. USAID's expanded program is designed to "foster an effective justice system, observance of basic human rights, increased democratic participation, stronger local governments, a decline in government corruption, improved social infrastructure, a reduction in illicit crop production, and assistance for internally displaced persons."[79]

A major component of USAID support for Plan Colombia is the alternative development program, specifically in the area of counternarcotics. According to USAID, "This program comprises efforts in targeted communities to foster the voluntary and permanent abandonment of illicit crops grown in Colombia. Coca and opium poppy are the principal illicit crops grown in Colombia."[80] Typically, alternative

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[73] K. Larry Storrs, Congressional Research Service, *Andean Regional Initiative (ARI): FY2003 Supplemental and FY2004 Assistance for Colombia and Neighbors*, July 25, 2003, RL32021, p. 12.

[74] U.S. Department of State, "Report on Issues Related to the Aerial Eradication of Illicit Coca in Colombia," December 2003, found at Internet address *http://www.state.gov/g/inl/rls/rpt/aeicc/27484pf.htm*, retrieved June 4, 2004.

[75] K. Larry Storrs, Congressional Research Service, *Andean Regional Initiative (ARI): FY2003 Supplemental and FY2004 Assistance for Colombia and Neighbors*, July 25, 2003, RL32021, p. 12.

[76] U.S. Department of State, "Aerial Eradication of Illicit Coca and Opium Poppy in Colombia," 2003, found at Internet address *http://www.state.gov/g/inl/rls/rpt/aeicc/c10854.htm*, retrieved June 4, 2004.

[77] U.S. Department of State, "Report on Issues Related to the Aerial Eradication of Illicit Coca in Colombia," December 2003, found at Internet address *http://www.state.gov/g/inl/rls/rpt/aeicc/27484pf.htm*, retrieved June 4, 2004.

[78] Ibid., pp. 7-9 of 13.

[79] Michael Deal, USAID Director in Colombia, USAID Program in Colombia, Mar. 18, 2004, p. 10 of 16, found at Internet address *http://usembassy.state.gov/bogota/wwwsaidc.shtml*, retrieved Mar. 29, 2004.

[80] Ibid., p. 13 of 16.

development aid is offered to communities that voluntarily agree to eradicate such crops. According to the U.S. Embassy in Colombia, in 2003, "USAID programs contributed to the manual eradication of 5,807 hectares of illicit crops through formal agreements with community beneficiaries."[81]

In an effort to stem illicit crop production, in 1999 USAID launched a 3-year, $15 million alternative development program to target small producers of opium poppy and coca in four southwestern departments of Colombia (Cauca, Huila, Nariño, Tolima). Through Plan Colombia, USAID is expanding its alternative development assistance from this 3-year pilot program to a new, 5-year, $80 million activity that is intended specifically to improve alternative legitimate economic opportunities. The strategy underlying these two programs is to reinforce the initial crop substitution efforts with productive infrastructure. Specifically, USAID's alternative development activity will promote not only the production of permanent legal crops but also marketing development, provision of credit, and social infrastructure to ensure support for sustainable economic development. The alternative development program contains four components, according to USAID: (1) strengthening of national and local institutions, (2) expansion of licit crop production, (3) natural resource and environmental management, and (4) development of rural social infrastructure.[82]

To strengthen national and local institutions, USAID supports the technical and organizational strengthening of the Colombian Government's alternative development agency, Plan Nacional de Desarrollo Alternativo (PNDA) (formerly PLANTE). To foster production of licit crops, USAID will finance adaptive research and extension; capital for input purchasing, processing, and marketing; business organization and management; and basic productive infrastructure directly related to production activities, such as collection centers, processing plants, roads, and bridges. To manage environmental issues, USAID aims to mitigate any negative environmental impact of alternative development activities. Projects will include agroforestry programs to diversify crops, animals, forage, and trees, as well as projects to promote integrated pest management. Finally, as part of the alternative development approach, USAID will support public infrastructure installation in areas where illicit crops were grown, including construction of schools, health care facilities, water sanitation systems, and electrification services.[83]

According to the U.S. Embassy in Colombia, in 2003 the USAID program supported 28,209 hectares of legal crops and completed 282 infrastructure projects in the coca-growing areas. The alternative crops promoted in the coca-growing regions include aloe, cotton, hearts of palm, African palm, cacao, rubber, specialty and regular coffee, cattle, forest products, fisheries, silage, plantain, papaya, and hot

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[81] U.S. Department of State telegram, "Post Response Regarding USITC Andean Investment and Drug Crop Survey for Report on ATPA/ATPDEA 2003," message reference No. 7300, prepared by U.S. Embassy, Bogota, July 23, 2004.

[82] Michael Deal, *USAID Program in Colombia*, Mar. 18, 2004, p. 13 of 16.

[83] Ibid., p. 14 of 16.

peppers. Alternative crops promoted in the poppy-growing areas include yellow passion fruit (maracuy), specialty coffee, potatoes, dairy products, and beans.[84]

In Colombia, the effect of ATPA on drug crop eradication and crop substitution has been indirect, since most of the investment related to ATPA has been made in areas where there is no illicit drug cultivation. The flower industry in Colombia has been consistently cited as an important example of a product that has benefited from ATPA and provided employment for workers that may otherwise turn to illicit crop-growing activities. One flower company official recently stated that the industry provides a significant source of legitimate and stable employment, directly employing over 83,000 workers and indirectly supporting nearly 75,000 jobs.[85] Colombian Government officials have noted that an FTA with the United States "will promote stability in the region, through the advancement of viable alternatives to the illegal drug business."[86]

Ecuador

According to the U.S. Department of State, there is no evidence that illicit crops are cultivated to any significant degree in Ecuador, although Ecuador is a major transit country for drugs and precursor chemicals for the manufacture of narcotics.[87] By 1992, Ecuador eliminated illicit coca cultivation within its borders. Drug cultivation in Ecuador is currently reported to be negligible, with the military and police quick to eradicate plantations they encounter.[88] In 2003, about 5,400 cultivated coca plants were destroyed in various locations near the Colombian border.[89] Indeed, security along Ecuador's northern border with Colombia, where major conflict is ongoing in the Colombian departments of Nariño and Putomayo, is an important concern for the government.[90] Colombian guerilla activity has encroached on Ecuadorian border

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[84] U.S. Department of State telegram, "Post Response Regarding USITC Andean Investment and Drug Crop Survey for Report on ATPA/ATPDEA 2003," message reference No. 7300, prepared by U.S. Embassy, Bogota, July 23, 2004.

[85] Randy Schenauer, Director of Logistics and Wholesale Operations, KaBloom, testimony to the United States Trade Representative Trade Policy Staff Committee concerning the U.S.-Andean Free Trade Agreement, Mar. 18, 2004, pp. 48-56.

[86] H.E. Amb. Luis Alberto Moreno, Colombian Ambassador to the United States, submission to the United States International Trade Commission concerning the U.S.-Andean Countries Free-Trade Agreement: Advice Concerning the Probable Economic Effect of Providing Duty-Free Treatment for Imports (Inv. Nos. TA-131-28 and TA-2104-10), Feb. 10, 2004; and Harold Elder, Director of the Trade Bureau, Embassy of Colombia, submission to the United States International Trade Commission concerning the U.S.-Andean Countries Free-Trade Agreement: Advice Concerning the Probable Economic Effect of Providing Duty-Free Treatment for Imports (Inv. Nos. TA-131-28 and TA-2104-10), Feb. 10, 2004.

[87] U.S. Department of State, "South America – Ecuador," INCSR 2003, p. 18 of 36.

[88] U.S. Department of State telegram, "Assistant Secretary Tony Wayne's January 29-31 Visit," Jan. 26, 2004, prepared by U.S. Embassy, Quito, message reference No. 243.

[89] U.S. Department of State, "South America – Ecuador," *INCSR 2003*, p. 21 of 36.

[90] U.S. Department of State, Bureau of Western Hemisphere Affairs, "Foreign Relations," *Background Note: Ecuador*, December 2003, p. 7 of 10, found at Internet address *http://www.state.gov/r/pa/ei/bgn/2906.htm* , retrieved June 4, 2004.

areas, at times intimidating local populations, demanding extortion payments, and practicing vigilante justice.[91] Foreign oil workers in Ecuador working along the northern border have also been kidnapped by Colombian-based criminals.[92]

Alternative Development

The United States assists in Ecuador's economic development directly through USAID, as well as through multilateral organizations.[93] The USAID program in Ecuador aims to conserve biodiversity in the environment, increase support for democracy, increase economic opportunities for the poor, and improve the quality of life for the population living along Ecuador's northern and southern borders.[94] USAID's Northern Border Program is aimed at containing the spread of a coca/cocaine economy into Ecuador by strengthening northern border communities through an integrated strategy of "preventive" (rather than alternative) development.[95] Activities funded under this program include: (1) support for social infrastructure projects, such as potable water and sanitation; (2) support for productive infrastructure, such as farm-to-market roads, small bridges, and irrigation canals; (3) strengthening of local government capacity and citizen participation; (4) increasing employment and income through legal productive activities, such as raising cacao to ultimately market and export a specialty chocolate product; and (5) a communications/public diplomacy strategy to create support for these activities.[96]

The cut-flower industry is the most notable example in Ecuador of an industry that has benefited from ATPA. ATPA trade preferences have also provided opportunities for other agricultural products, such as fresh fruits and vegetables. According to the Government of Ecuador, such opportunities have played an important role in discouraging Ecuadorians from growing narcotic crops and preventing the entrenchment of narcotics trafficking.[97] The Ecuadorian Government strongly supports an FTA with the United States, as it would "magnify these effects on the Ecuadorian economy, and it would contribute to consolidate democracy and stability."[98]

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[91] Ibid.

[92] Ibid.

[93] USAID, "Ecuador – Congressional Budget Justification for Fiscal Year 2005 (CBJ FY2005)," May 24, 2004, data sheet for Northern Border Development Program strategic objective No. 518-013, FY2001 through FY2006, found at Internet address *http://www.usaid.gov/policy/budget/cbj2005/lac/pdf/518-013.pdf*, retrieved June 4, 2004.

[94] USAID, "Ecuador: USAID Program Profile," found at Internet address *http://www.usaid.gov/locations/latin_america_caribbean/country/program_profiles/ecuadorprofile.html*, retrieved June 4, 2004.

[95] USAID, "Ecuador – Congressional Budget Justification for Fiscal Year 2005 (CBJ FY2005)," May 24, 2004, data sheet for Northern Border Development Program strategic objective No. 518-013, FY2001 through FY2006, found at Internet address *http://www.usaid.gov/policy/budget/cbj2005/lac/pdf/518-013.pdf*, retrieved June 4, 2004.

[96] Ibid.

[97] Embassy of Ecuador, submission to the United States International Trade Commission concerning the U.S.-Andean Countries Free-Trade Agreement: Advice Concerning the Probable Economic Effect of Providing Duty-Free Treatment for Imports (Inv. Nos. TA-131-28 and TA-2104-10), Feb. 13, 2004, pp. 1-8.

[98] Ibid.

Peru

In 2003, net coca cultivation in Peru decreased slightly to 31,150 hectares, the lowest level registered in over a decade, and starkly below the average net cultivation of roughly 116,000 hectares during 1987-95. A dramatic decline in net coca cultivation started in 1996, falling 70 percent from 115,300 hectares in 1995 to approximately 34,000 hectares in 2000 and 2001. Eradication efforts were initiated in 1996, rising from nil to a peak eradication in 1999 of 13,800 hectares. In 2003, over 11,313 hectares were eradicated, the highest level since 1999. About 60 percent was forced eradication while 40 percent was voluntary under the Government of Peru's "autoeradication" policy that directly ties alternative development benefits–such as health and education training or road infrastructure construction–to a community's voluntary, permanent elimination of illegal coca cultivation.[99]

In February 2003, cocaleros protested the government's forced coca eradication program by briefly shutting down the highway linking the Huallaga Valley to points eastward in a series of well-organized strikes.[100] The cocalero representatives demanded an end to eradication, withdrawal of nongovernmental organizations from the coca growing valleys, and an alternative development program that puts funds directly into the hands of the cocaleros.[101]

In April 2003, roughly 15,000 cocaleros marched on the capital, Lima, seeking an end to governmental restrictions on coca cultivation.[102] The cocalero farmers said they did not support drug trafficking, but protested that substituting legal crops (such as coffee, bananas, cocoa, tropical fruits, and similar alternative development program crops) for illicit coca does not offer a decent living and requires government subsidies to make up for the lower-priced alternative crops.[103] President Toledo issued Executive Decree DS-044 in April 2003, which restricts forced eradication to coca planted since November 2000, coca growing in national parks, and coca growing near coca processing facilities such as maceration pits and processing facilities.[104] There were no

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[99] U.S. Department of State, "South America – Peru," *INCSR 2003*, p. 26 of 36.

[100] Ibid.

[101] Ibid. Protesters agreed to suspend their strikes and demonstrations in return for government reconsideration of its coca eradication policy. Elliot Gotkine, "Peru's coca farmers accept truce," BBC News, Mar. 5, 2003, found at Internet address *http://news.bbc.co.uk/go/pr/ fr/-/2/hi/ business/2821539.stm*, retrieved May 5, 2004.

[102] They also demanded release of their leader, Nelson Palomino, who was jailed Feb. 21, 2003 on charges of kidnapping journalists and having links to Peruvian guerillas. BBC, "Peru's coca farmers stage protest," BBC News, Apr. 22, 2003, found at Internet address *http://news.bbc.co.uk/go/ pr/fr/-/2/hi/business/2965423.stm*.

[103] Ibid.; and BBC, "Peruvian anger over coca plans," BBC News, Oct. 22, 2003, found at Internet address *http://news.bbc.co.uk/go/pr/fr/-/2/hi/americas/3208788.stm*, retrieved May 5, 2004. Coca farmers may receive up to $2.42 per kilogram of coca leaf, for example, approximately 2 to 5 times as much as the $0.50-$1.50 kilogram for cacao, coffee, or other alternative crops. U.S. Department of State, "Coca economics in Peru," prepared by U.S. Embassy, Lima, message reference No. 2696, June 2, 2003.

[104] U.S. Department of State, "South America – Peru," *INCSR 2003*, p. 26 of 36.

further national strikes by cocaleros in 2003, even though the majority of forced eradication taking place in 2003 was in the final 6 months after decree DS-044 was issued.[105] Due to the potential for social unrest, forced eradication was limited to areas considered "nonconflictive" such as San Martin and near Pucallpa.[106]

Alternative Development

USAID's alternative development program in Peru is a key component of the U.S. Government's comprehensive counternarcotics strategy.[107] In June 2002, the U.S. Government began supporting the Peruvian voluntary eradication program for coca, which directly links benefits under alternative development programs to a voluntary commitment on the part of a community and its political leaders to permanently eliminate illegal coca cultivation. The autoeradication policy signed up 330 communities in 2003. About 4,290 hectares of coca have been eliminated under this approach, most of which was in the last half of 2003, according to the U.S. Department of State.[108]

This USAID program, running from fiscal year (FY) 2002 through FY2007, involves a multi-sector, integrated development approach in the seven Peruvian regions where most illicit coca is grown.[109] It promotes social and economic infrastructure projects that provide income to beneficiaries, with the goal of bringing jobs and sustainable development to former coca-growing regions.[110] In 2003, the U.S. Government committed up to $8 million per month to support this voluntary approach to coca eradication.[111]

In 2003, the alternative development program in Peru completed infrastructural work on 751 kilometers of road, 6 bridges, 4 irrigation systems, 32 health posts, 79 schools, and continues work on over 500 kilometers of rural roads. This program is also

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[105] Ibid., pp. 26 of 36 and 28 of 36.

[106] Ibid., pp. 26 of 36. Nonetheless, in February 2004, Peruvian coca growers met to discuss ways to confront the government over its forced coca eradication policy before financially viable alternative crops are available. Leaders representing up to 50,000 cocaleros, such as the Agricultural Producers' Association of the Apurimac-Ene River Valleys, say reducing illicit coca cultivation is possible if higher subsidies are paid to grow less profitable alternative crops, such as coffee or fruit. Hannah Hennessy, "Peru's coca growers demand help," BBC News, Feb. 19, 2004, found at Internet address *http://news.bbc.co.uk/go/pr/fr/-/2/hi/business/2800655.stm*, retrieved May 5, 2004. In May 2004, some 3,000 coca growers staged another march on Lima to protest forced eradication of coca cultivation. BBC, "Peru coca growers march on Lima," BBC News, May 4, 2004, found at Internet address *http://news.bbc.co.uk/go/pr/fr/-/2/hi/americas/3682101.stm*, retrieved May 5, 2004.

[107] USAID, "Peru – Congressional Budget Justification for Fiscal Year 2005 (CBJ FY2005)," May 24, 2004, data sheet for strategic objective No. 527-013, FY2002-FY2007, found at Internet address *http://www.usaid.gov/policy/budget/cbj2005/lac/pdf/527-013.pdf*, retrieved June 4, 2004.

[108] U.S. Department of State, "South America – Peru," *INCSR 2003*, pp. 26 of 36 and 28 of 36.

[109] USAID, "Peru – Congressional Budget Justification for Fiscal Year 2005 (CBJ FY2005)," May 24, 2004, data sheet for strategic objective No. 527-013, FY2002-FY2007, found at Internet address *http://www.usaid.gov/policy/budget/cbj2005/lac/pdf/527-013.pdf,* retrieved June 4, 2004.

[110] U.S. Department of State, "South America – Peru," INCSR 2003, pp. 26 of 36.

[111] Ibid.

helping to develop public-private partnerships to generate private investment in major roads and infrastructure. It is currently contracting to rehabilitate 170 kilometers of a major link between national markets and the Huallaga Valley–a major coca growing location in Peru. Under the ombudsman services project, the alternative development program is helping to resolve conflicts with, and intimidation by, narcotics interests in coca growing areas, and aims to increase the number of cases tried in these areas.[112]

In 2003, the alternative development program supported in financial terms business deals that increased sales by $9.5 million, along with supporting forest concessionaires that generated 400 permanent jobs and commercialized $5 million in lumber. The alternative development program also financed $1.5 million in loans, supported mechanisms to make available $12 million in credit over the next 5 years [2004-2009] in coca growing areas, and issued the initial 200 of 4,300 land titles to be conveyed.[113]

A major project likely to provide significant alternative employment opportunities to illicit coca cultivation is a venture signed in April 2003 by a consortium of American and Brazilian companies to convert sugar cane produced in the Huallaga Valley into ethanol. Petroperu has agreed to purchase ethanol from the consortium to replace leaded gasoline in Peru, which is to be phased out in 2005. The multistage, 10-year project is supposed to spur investment of $185 million as well as 200,000 new jobs from the construction of a 1,000 kilometer ethanol pipeline, distilleries, and additional sugar cane planting, and envisions exporting ethanol to California beginning in January 2006.[114]

One of the best established examples of a Peruvian industry taking advantage of ATPA benefits has been the asparagus industry.[115] According to the Peruvian Asparagus Institute, asparagus is the most important agricultural export from Peru.[116] The Institute stated that the industry directly employs 50,000 workers, roughly 60 percent of which are women, of particular importance because this often adds a second salary to low income families in Peru and thereby raises living standards. The Institute notes that about 40 percent of all workers in the industry come from the mountainous regions of Peru where illegal coca cultivation occurs, migrating to find legal employment in the asparagus industry in its two main locations (1) along the coast of Peru south of the capital, Lima; and (2) in the tropical lowlands of the lower Huallaga Valley near major coca growing areas. Both the Government of Peru and the Peruvian Asparagus Importers Association noted that the asparagus industry, which is a labor-intensive industry, has been particularly helpful in creating jobs, which help alleviate rural

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[112] Ibid.

[113] Ibid.

[114] U.S. Department of State, "Peru Economic Notes, April 7, 2003," prepared by U.S. Embassy, Lima, message reference No. 1762, Apr. 7, 2003.

[115] For more information on asparagus, see chapter 3.

[116] *Instituto Peruano del Esparrago y Hortalizas* (Peruvian Asparagus and Other Vegetables Institute), submission to the Commission concerning the Impact of the Andean Trade Preference Act (Investigation No. 332-352), June 10, 2004, pp. 1-4.

poverty and provide alternatives to illegal activities.[117] The Peruvian Government added that it strongly supports an FTA with the United States because it will act like an "ATPDEA-plus mechanism," enhancing the U.S.-Peru economic relationship, promoting long-term investment, and creating employment.[118]

[117] Mercedes Araoz, Senior Advisor to the Minister of Foreign Trade of Peru for FTA Negotiations, submission to the United States International Trade Commission concerning the U.S.-Andean Countries Free-Trade Agreement: Advice Concerning the Probable Economic Effect of Providing Duty-Free Treatment for Imports (Inv. Nos. TA-131-28 and TA-2104-10), Feb. 10, 2004, pp. 1-6; and Matthew A. De Carlo, Peruvian Asparagus Importers Association, testimony to the United States Trade Representative Trade Policy Staff Committee concerning the U.S.-Andean Free Trade Agreement, Mar. 18, 2004, pp. 44-48.

[118] Mercedes Araoz, Senior Advisor to the Minister of Foreign Trade of Peru for FTA Negotiations, submission to the United States International Trade Commission concerning the U.S.-Andean Countries Free-Trade Agreement: Advice Concerning the Probable Economic Effect of Providing Duty-Free Treatment for Imports (Inv. Nos. TA-131-28 and TA-2104-10), Feb. 10, 2004, pp. 1-6.

APPENDIX A
Federal Register Notice

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 2003 ATPA report.

EFFECTIVE DATE: March 17, 2004.

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 10th report, covering calendar year 2003, is to be submitted by September 30, 2004.

Written Submissions

The Commission does not plan to hold a public hearing in connection with the preparation of this tenth 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. 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); any submissions that contain confidential business information must also conform with the requirements of section 201.6 of the Commission's *Rules of Practice and Procedure* (19 CFR 201.6). Section 201.8 of the rules require 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 information must be deleted. Section 201.6 of the rules require 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 confidential business information be clearly identified by means of brackets.

All written submissions, except for confidential business information, will be made available in the Office of the Secretary to the Commission for inspection by interested parties. The Commission intends to publish only a public report in this investigation. Accordingly, any confidential business information received by the Commission in this investigation will not be published in a manner that could reveal the operations of the firm supplying the information. 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 11, 2004.

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 Commission's Rules (19 CFR 201.8) (*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*).

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

By order of the Commission.

Issued: March 17, 2004.

Marilyn R. Abbott,

Secretary to the Commission.

[FR Doc. 04–6439 Filed 3–22–04; 8:45 am]

BILLING CODE 7020–02–P

INTERNATIONAL TRADE COMMISSION

[Inv. No. 337–TA–493]

In the Matter of Certain Zero-Mercury-Added Alkaline Batteries, Parts Thereof, and Products Containing Same; Notice of a Commission Determination Not To Review an Initial Determination Terminating the Investigation With Respect to One Respondent on the Basis of a Consent Order; Issuance of Consent Order

AGENCY: International Trade Commission.

ACTION: Notice.

SUMMARY: Notice is hereby given that the U.S. International Trade Commission has determined not to review an initial determination ("ID") of the presiding administrative law judge ("ALJ") granting the joint motion of complainants Energizer Holdings, Inc. and Eveready Battery Co., Inc., and respondent Golden Million Enterprises, Inc. to terminate the above-captioned investigation with respect to that respondent on the basis of a consent order.

FOR FURTHER INFORMATION CONTACT: Michael K. Haldenstein, Esq., Office of the General Counsel, U.S. International Trade Commission, telephone (202) 205–3041. Copies of the ALJ's ID and all other nonconfidential documents filed in connection with this investigation are or will be available for inspection during official business hours (8:45 a.m. to 5:15 p.m.) in the Office of the Secretary, U.S. International Trade Commission, 500 E Street SW., Washington, DC 20436, telephone (202) 205–2000. Hearing-impaired persons are advised that information on this matter can be obtained by contacting the Commission's TDD terminal on (202) 205–1810. General information concerning the Commission may also be obtained by accessing its Internet server (*http://www.usitc.gov*). The public record for this investigation may be viewed on the Commission's electronic docket (EDIS) at http://edis.usitc.gov.

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

Submissions for the Record
Investigation No. 332-352

American Apparel & Footwear Association[1]

The American Apparel & Footwear Association (AAFA) expressed support for the Andean Trade Promotion and Drug Eradication Act (ATPDEA) and indicated a belief that the "partnership will expand further if we can secure swift enactment of a commercially meaningful FTA." The AAFA noted that "trade is still operating on interim, not final, Customs regulations" and that the interim regulations along with "the restrictive nature of the short supply program have caused [companies] to place business elsewhere or have forced them to not realize duty savings that would have otherwise been available to them." The AAFA also provided several observations gleaned from the trade statistics. For example, total apparel imports from the Andean region increased 45 percent from 2001 to 2003, reversing a period of decline; 82.6 percent of these imports entered the United States under the ATPDEA. Additionally, the AAFA found that the U.S. textile industry has benefitted from the apparel partnership, with yarn and fabric exports to the Andean region increasing. The AAFA commends "the relative success of this program," despite some limitations, and believes "it serves as a good foundation for a more comprehensive, reciprocal, predictable, and permanent relationship" under a free trade agreement.

Instituto Peruano del Esp‡rrago y Hortalizas (Peruvian Asparagus and Other Vegetables Institute)[2]

The Peruvian Asparagus and Other Vegetables Institute provided data and other information about the asparagus industry in Peru to show the importance of Peruvian asparagus to the U.S. economy and consumers and the contribution of Peruvian asparagus to meeting ATPA's goals of promoting broad-based economic development and providing alternatives to illegal activities. According to the Institute, the Peruvian asparagus industry "directly employs over 50,000 workers," 40 percent of which come from the mountainous regions of Peru close to where most of the coca is harvested. Near the Department of Ica, the largest producer of asparagus in Peru, inhabitants must "choose between migrating to the rain forest and working in illicit

[1] Submission to the Commission by Stephen Lamar, Senior Vice President of the American Apparel & Footwear Association, received July 27, 2004.

[2] Submission to the Commission by the Instituto Peruano del Esp‡rrago y Hortalizas, received June 10, 2004.

activities, such as coca leaf cultivation and drug trafficking or migrating to the coast, specifically to Ica, and working in asparagus production." The asparagus industry, therefore, provides "a legal alternative for those workers." The Institute also pointed out that much of the materials with which to grow and package the asparagus, such as seeds, fertilizer, and jars, as well as freight services, are purchased from American companies. As a result, the Institute claims that 70 cents of every U.S. dollar spent on fresh asparagus remains "in U.S. hands." In addition, according to the Institute, U.S. consumption of fresh asparagus has climbed as a result of the greater availability of Peruvian asparagus, which is exported to the United States during months when there is little U.S. production. With respect to frozen asparagus, the Institute says that the Peruvian industry has diversified the supply (through, for example, different processing and presentations) and created a "new, different market segment."

International Intellectual Property Alliance[3]

The International Intellectual Property Alliance (IIPA), a private-sector coalition that represents the U.S. copyright-based industries in bilateral and multilateral efforts to improve international protection of copyrighted materials, addressed 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." Among the challenges encountered are the growing levels of piracy and the failure of the countries to enforce their current copyright laws, even after reform. According to IIPA, music piracy has "reached unacceptable levels" of 70 percent in all four countries and video piracy has reached 90 percent in Ecuador and Bolivia. Because of copyright piracy, the trade losses for U.S. companies in 2003 exceeded $250 million, according to IIPA estimates. IIPA believes "inadequate and ineffective copyright enforcement has failed to stem this problem" resulting in continued piracy and trade losses. To combat the problem, IIPA believes that the IPR criteria of ATPDEA "should be applied to ensure that these countries substantially improve both their copyright laws as well as enforcement practices." IIPA submitted a detailed report of each ATPDEA country's piracy, enforcement, and reforms as additional evidence.

[4] Submission to the Commission by Maria Strong, Vice President and General Counsel of the International Intellectual Property Alliance, received June 1, 2004.

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 2003.[1] The economic effects of ATPA duty reductions[2] were evaluated with a comparative static analysis. Since ATPA tariff preferences were already in effect in 2003, 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 2003. 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

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

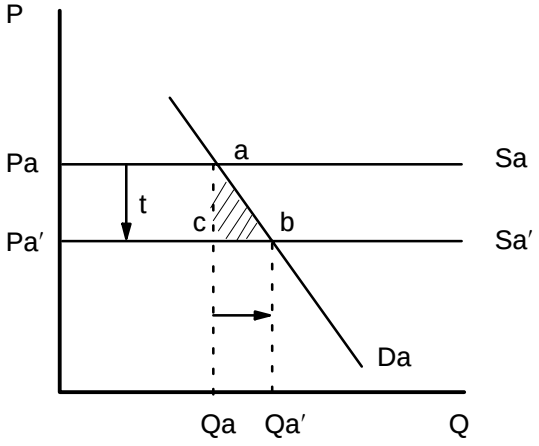
[2] Although the term "duty reduction" is used, the methodology employed in the analysis for this report applies equally to a duty elimination (which is a duty reduction in the full amount of the duty).

[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.

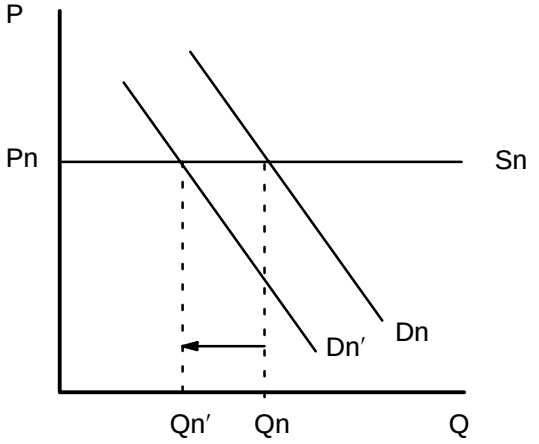
[4] This is technically true only if income effects are negligible. Given the small U.S. expenditure on goods from ATPA countries, income effects are likely to be negligible for the products under consideration. See R. Willig, "Consumer's Surplus Without Apology," *American Economic Review*, 66 (1976),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

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

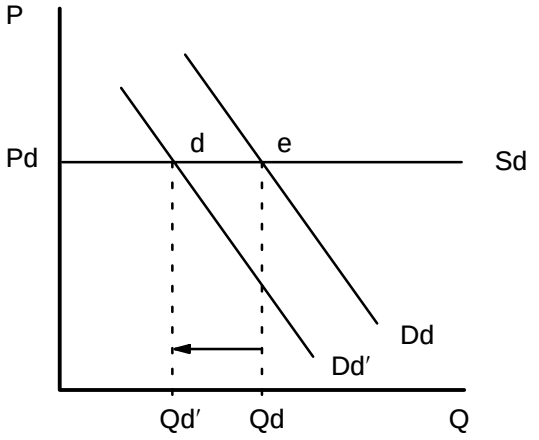
Figure C-1
Partial equilibrium analysis of the effects of ATPA duty provisions on U.S. imports



a. ATPA imports



b. non-ATPA imports



c. U.S. domestic output

elastic supply curves greatly simplifies computation although it leads to an upward bias in the estimates of the welfare and domestic displacement effects on the U.S. economy.[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.

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

$$(1) \qquad (Q_a / Q_a') = (P_a / P_a')^{\varepsilon_{aa}}$$

$$(2) \qquad (Q_n / Q_n') = (P_a / P_a')^{\varepsilon_{na}}$$

$$(3) \qquad (Q_d / Q_d') = (P_a / P_a')^{\varepsilon_{da}}$$

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

$$(1)' \qquad (Q_a / Q_a') = (1+t)^{\varepsilon_{aa}}$$

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

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

where ε_{ij} is the uncompensated elasticity of demand for good i with respect to price j. The values for the elasticities ε_{aa}, ε_{na}, and ε_{da} are derived from the following relations:

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

$$(5) \qquad \varepsilon_{na} = V_a(\sigma_{na} + \eta)$$

$$(6) \qquad \varepsilon_{da} = V_a(\sigma_{da} + \eta)$$

where the V_i's are market shares for ATPA imports, non-ATPA imports, and domestic output, respectively, η is the aggregate demand elasticity, and the σ_{ij}'s are the elasticities of substitution between the ith and jth products.[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

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[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, 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.

can be identified (for example, the U.S. value of components assembled abroad under HTS heading 9802.00.80 is recorded and data are readily available), it is possible to estimate the effect of ATPA tariff preferences on U.S. producers of the components. In the case of cut apparel parts used in the assembly of apparel in ATPA countries, the U.S.-produced cut parts are recorded as apparel production in the United States and the effect of ATPA tariff preferences can be added to the (negative) displacement effects for that industry.

Given equations (1)′ through (3)′, one can derive the following equations for calculating the changes in consumer surplus, tariff revenue, and domestic output:

Consumer surplus (where k is a constant)

$$\text{area of trapezoid } P_a abP_a' = \int_{P_a'}^{P_a} kP_a^{\varepsilon_{aa}} dP_a$$

$$= [1/(1+\varepsilon_{aa})]\,[(1+t)^{(1+\varepsilon_{aa})} - 1]P_a'Q_a' \quad \text{if } \varepsilon_{aa} \neq -1$$

$$= k \ln(1+t) \quad \text{if } \varepsilon_{aa} = -1$$

Tariff revenue from U.S. imports from ATPA partners

$$\text{area of rectangle } P_a acP_a' = (P_a - P_a')Q_a$$

$$= P_a' tQ_a \quad \text{given } P_a = P_a'(1+t)$$

$$= tP_a'Q_a'(1+t)^{\varepsilon_{aa}} \quad \text{given } Q_a = Q_a'(1+t)^{\varepsilon_{aa}}$$

Domestic output

$$\text{area of rectangle } Q_d' deQ_d = P_d(Q_d - Q_d')$$

$$= P_d Q_d'[(1+t)^{\varepsilon_{da}} - 1]$$

The change in the value of U.S. cut apparel parts = $uP_a'Q_a'[(1+t')^{\varepsilon_{aa}} - 1]$, where u is the ratio of the value of U.S. cut apparel parts to total imports under ATPA, and t′ is the ad valorem equivalent of duties paid on imports under HTS heading 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

$P_dQ_d'[(1+t)^{\varepsilon_{da}} - 1] + uP_a'Q_a'[(1+t')^{\varepsilon_{aa}} - 1]$.