THE SHARE OF U.S. IMPORTS ENTERING UNDER FTAS REMAINS SMALL FROM CERTAIN FTA PARTNERS

Joanne Guth (joanne.guth@usitc.gov)

Summary: Importers of products from countries that are U.S. free trade agreement (FTA) partners do not always seek the preferential rates provided for by the FTA. This situation may occur for a number of reasons. The normal trade relations rate (NTR) may already be duty free for the product, the product may not satisfy the rules of origin (ROO) requirements of the FTA, or the importer may not bother to seek the FTA rate. As a result, for some U.S. FTA partners, such as Singapore, Israel, Costa Rica, and Morocco, less than 25% of their exports to the United States enter under the FTA, but 60% enter duty free under NTR rates. The product composition of a country's exports plays a big role in determining the extent to which the country's exporters will make use of the FTA provisions.

Table 1 shows that in 2010, the share of U.S. imports from Singapore, Israel, Costa Rica, and Morocco entering under the FTA ranged from 6.7% to 23.8%. For these countries, less than 10% of the products incurred U.S. duties in 2010. The product composition of the four countries' U.S. exports and whether they meet the FTA's ROO requirements affected whether the exports enter under the FTA. The Information Technology Agreement allows a variety of U.S. imports to enter NTR duty free while special accords such as the Pharmaceuticals Agreement (PA) provide duty-free treatment to other U.S. imports.

Table 1. Selected FTA partners: FTA implementation date and U.S. imports by duty treatment (percent), 2010

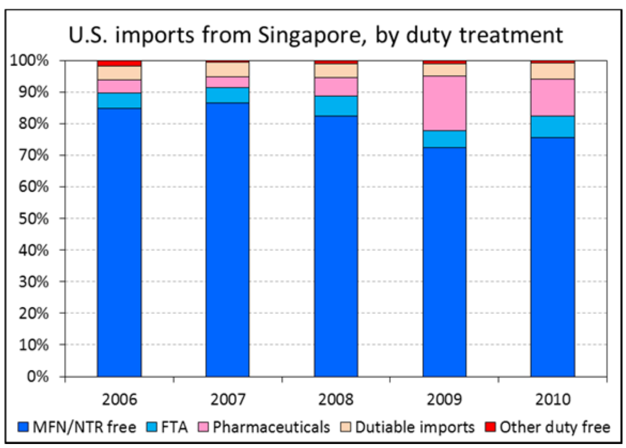
FTA partner	Implementation date	Share of U.S. imports that enter under NTR duty rates		Share of U.S. imports under the FTA	Share of other duty-free imports (includes special accords
		Free of duty	Dutiable		
Singapore	Jan. 1, 2004	75.6	5.1	6.7	12.7
Israel	Sept. 1, 1985	82.7	2.4	13.0	1.9
Costa Rica	Jan. 1, 2009	82.5	2.5	15.0	0.0
Morocco	Jan. 1, 2006	63.9	9.3	23.8	3.0

Source (for the table and all graphs): U.S. International Trade Commission (USITC) DataWeb.

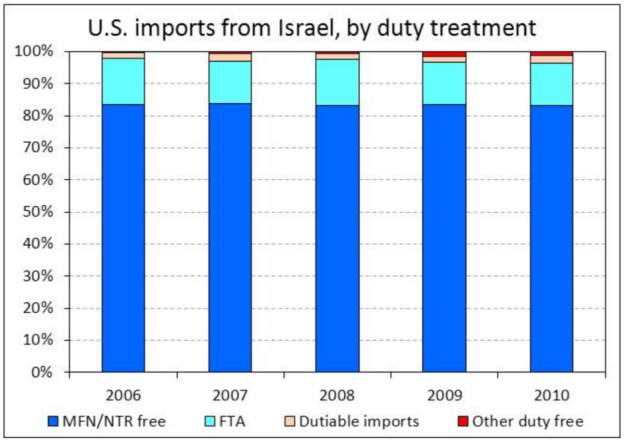
As of year-end 2011, the United States had entered into 11 bilateral and multiparty FTAs, for a total of 17 FTA partner countries. In 2010, U.S. imports under the FTAs in effect at the time amounted to $311.3 billion, equaling 52.8% of total U.S. imports from FTA partners. Over recent years, most U.S. FTA partners have entered 40%–65% of U.S. imports under their FTA, while others (e.g., El Salvador and Honduras, both members of CAFTA-DR) have entered over 70% of their U.S. imports under FTA provisions, on average.

U.S. imports from Singapore

Of all FTA partners, Singapore supplied the lowest share of U.S. imports to enter under an FTA—just 6.7% in 2010, while 75.6% entered NTR free. Leading U.S. imports from Singapore included nonelectrical and electrical machinery and parts (especially computers and parts, and printing machinery parts), which entered mostly NTR free, but also under the FTA or subject to NTR duties. Other leading imports included pharmaceuticals, which entered NTR free, and organic chemicals, which generally can enter under the PA or the FTA; the PA does not require compliance with the FTA's rules of origin. Leading imports incurring duties included nonelectrical and electrical machinery, precision instruments, and oil-related products.



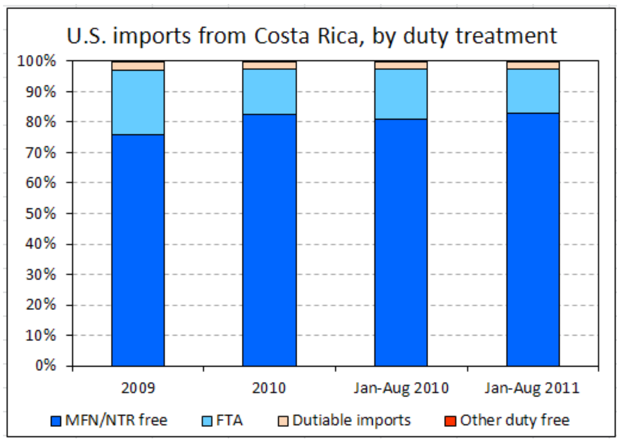
U.S. imports from Israel



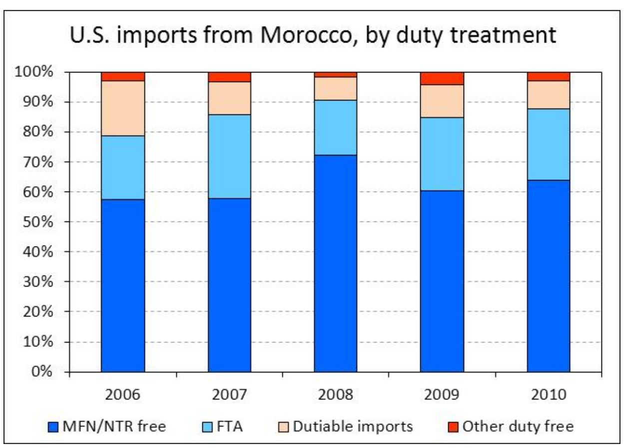
A small share (13.0%) of U.S. imports from Israel entered under the FTA in 2010 while 82.7% entered NTR free. Only 2.4% of U.S. imports from Israel faced duties. Leading products imported NTR free were nonindustrial diamonds, pharmaceuticals, and electrical machinery. Leading imports incurring duties were oil-related products and certain precision instruments. A variety of imports entered under the FTA, including electrical and nonelectrical machinery and parts, plastics, precision instruments, and organic chemicals.

U.S. imports from Costa Rica

Like Israel, Costa Rica entered only a small share of its U.S. imports (15.0%) under the FTA (CAFTA-DR) while 82.7% entered NTR free in 2010. Major imports from Costa Rica were NTR free nonelectrical and electrical machinery and parts, in particular printed circuit assemblies (computer parts) and semiconductors. Other leading NTR free products included medical devices, bananas, and coffee. Leading U.S. imports from Costa Rica under CAFTA-DR, which Costa Rica joined in January 2009, were pineapples, cantaloupes, radial tires, and apparel. These products were previously duty free under the Caribbean Basin Initiative (and to a lesser extent the GSP). U.S. imports incurring duties included naphthas, aluminum articles, seeds, and various parts of electrical machinery.



U.S. imports from Morocco



Only a small share of U.S. imports from Morocco (23.8%) entered under the FTA in 2010. Nearly two-thirds were eligible to enter NTR free, including phosphates, fertilizers, and other mineral goods. Leading U.S. imports under the FTA were agricultural products (e.g., clementines, olives, olive oil, and sardines), textiles and apparel, and footwear. Goods that still incurred duties (9.3% of imports) were primarily textiles and apparel. Many textiles and apparel goods were potentially eligible for duty-free treatment under the FTA, but they had to meet the FTA's ROO; also, the FTA's transition periods for eliminating the tariffs and applicable tariff-rate quotas did not end until January 1, 2011.

Disclaimer: The views expressed are those of the author and not those of the USITC or any of its Commissioners.