

United States International Trade Commission

# The Impact of the Andean Trade Preference Act

Ninth Report 2002

Investigation No. 332-352  
USITC Publication 3637  
September 2003



# **U.S. International Trade Commission**

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# **U.S. International Trade Commission**

Washington, DC 20436

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

**Ninth Report 2002**

Investigation No. 332-352



**Publication 3637**

**September 2003**

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# ABSTRACT

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The submission of this study to Congress continues a series of annual reports by the U.S. International Trade Commission (“the Commission”) 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 2002 and represents the ninth 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 2002. However, U.S. imports of ATPA-exclusive asparagus, which accounted for 7 percent of all ATPA-exclusive imports, were estimated to have potentially significant effects on the domestic asparagus industry, primarily because of imports from Peru. U.S. imports of all of the 20 leading ATPA-exclusive items produced net welfare gains for U.S. consumers in 2002. 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 likely 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 2002. Coca eradication reached a record high, driven primarily by the largest-ever eradication efforts in Colombia, where net cultivation declined for the first time in a decade. 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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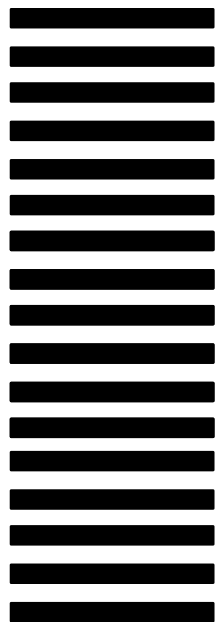
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# EXECUTIVE SUMMARY

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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 preferences retroactive to December 4, 2001, through December 31, 2006, and authorized the extension of ATPA preferences to additional products. ATPDEA amendments were implemented by Presidential proclamation on October 31, 2002. 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, it also adds a broader product coverage and has more liberal product-qualifying rules.

This report, the ninth in a series, covers the impact on the United States of ATPA during calendar year 2002. Section 206 of ATPA requires the Commission to prepare an annual report assessing both the actual and the probable future effects of ATPA on the U.S. economy generally, on U.S. industries, and on U.S. consumers, and to estimate the effect of ATPA on drug-related crop eradication and crop substitution efforts of the beneficiary countries.

Partial-equilibrium analysis was used to estimate the impact of ATPA on the United States. The probable future effect of ATPA on the United States was estimated by an examination of ATPA-eligible investment in the beneficiary countries during 2002. 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*.<sup>1</sup>

## Main Commission findings

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- Of the \$1.0 billion in U.S. imports that entered under ATPA in 2002, imports valued at \$740 million could not have received tariff preferences under any other program. The five leading items benefiting exclusively from ATPA in 2002 were copper cathodes from Peru, which had exceeded its GSP competitive-need limit; light crude oil; fresh-cut roses; heavy crude oil; and certain asparagus. Both light crude oil and heavy crude oil became newly eligible for duty-free treatment under ATPDEA in 2002.

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<sup>1</sup> Appendix A contains a copy of the *Federal Register* notice and appendix B contains a summary of a submission received in response to the notice.

- The overall effect of ATPA-exclusive imports on the U.S. economy and on consumers continued to be negligible in 2002. With the expiration of ATPA in late 2001, U.S. imports under ATPA declined 40.2 percent in 2002 compared with 2001. In 2002, the value of duty-free U.S. imports under ATPA accounted for just 0.09 percent of total U.S. imports, or nearly 0.01 percent of the U.S. gross domestic product (GDP).
- Asparagus provided the largest gain in consumer surplus (\$7.0 million to \$7.4 million) from lower prices and higher consumption. Fresh-cut roses provided the second-largest gain in consumer surplus (\$4.4 million to \$4.6 million) resulting exclusively from ATPA tariff preferences in 2002. U.S. imports of all of the 20 leading ATPA-exclusive items produced net welfare gains (consumer surplus net of U.S. Treasury losses) for U.S. consumers in 2002. Asparagus yielded the largest net welfare gain, valued at \$234,000 to \$616,000, followed by fresh-cut roses and cigarettes.
- The Commission's economic and industry analyses indicate that one U.S. industry—asparagus—may have experienced displacement of more than 5 percent of the value of U.S. production in 2002 (2.0 percent to 7.3 percent displacement, valued at \$2.1 million to \$7.4 million).
- The probable future effect of ATPA on the United States is expected to be minimal in most economic sectors. ATPA's lapse during the first 7 months of 2002 and the uncertainty regarding its renewal likely dampened investment in some ATPA-eligible products. The largest future effect of ATPA will probably result from the enhanced preferences granted under ATPDEA. The Commission was able to identify recent investments in the textile and apparel sector in response to ATPDEA benefits. The Commission was also able to identify investments in the export-oriented production of other ATPA-eligible products, including jewelry and wood manufactures.
- In 2002, ATPA continued to have 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 for much of 2002. Coca eradication in the region reached a record high in 2002, driven primarily by the largest-ever eradication efforts in Colombia. As a result, net cultivation in Colombia declined for the first time in a decade. ATPA also remained an important source of employment creation for workers who might otherwise have grown illicit coca or entered the drug trade by supporting such industries as flowers in Colombia and asparagus in Peru.

## Trade-related activities in 2002

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- In 2002, the U.S. merchandise trade deficit with ATPA countries narrowed slightly, amounting to \$3.1 billion. U.S. exports to ATPA countries, at \$6.5 billion, were up slightly compared with 2001; U.S. imports from ATPA countries, at \$9.6 billion, remained virtually the same as in 2001. The lack of growth in overall U.S. imports from the Andean region may be attributed to the economic slowdown in the United States, which dampened U.S. demand for most imports, as well as the expiration of both the ATPA and GSP programs during the first 7 months of the year.
- Since October 31, 2002, when ATPDEA's benefits were implemented, all of the 20 leading imports from ATPA countries in 2002, except canned tuna, have been free of duty. These 19 products can enter duty-free either under Normal Trade Relations (NTR) tariff rates, ATPA, or GSP.
- During the atypical year of 2002, U.S. imports under ATPA were affected by two special factors: (a) the lapse of ATPA trade preferences during the first 7 months of the year, which had an adverse effect on this trade, and (b) the implementation of ATPDEA during the last 2 months of the year, which increased U.S. imports under the program.
- U.S. imports under ATPA declined 40.2 percent in 2002 to \$1.0 billion, representing 10.4 percent of total U.S. imports from ATPA countries. The decline was caused largely by the lapse of ATPA trade preferences and uncertainties about the program's future during the first 7 months of the year. Furthermore, the lack of an administrative system to allow entries of otherwise eligible goods to be identified (as used whenever GSP benefits expire) may also have contributed to the decline. A portion of potential ATPA trade shifted to GSP, and another portion became dutiable.
- Despite the implementation of ATPDEA for only 2 months of the year, it caused major changes to the list of the 20 leading imports entering under ATPA in calendar year 2002. Five formerly ineligible petroleum-derivative products appeared on the list, displacing some other products that in prior years had been leading imports under ATPA. Copper cathodes, however, remained the number one item on the list, followed by petroleum oils and roses. Petroleum derivatives accounted for nearly all U.S. imports under ATPDEA during 2002.
- In 2002, Colombia accounted for 40.4 percent of all imports entering under ATPA, Peru for 38.2 percent, Ecuador for 17.8 percent, and Bolivia for 3.7 percent. Notable was the rise in Ecuador's share (up from 12.9 percent in 2001), which resulted from the inclusion of petroleum products under ATPDEA.

- Electrical and non-electrical machinery—principally for oil and gas extraction, other mining, data processing, and communications—remained the leading U.S. exports to the region, even though such exports continued to decline in 2002. Conversely, U.S. exports in most other major product categories—organic chemicals, cereals, plastics, instruments, and aircraft—were up during 2002.
- In 2002, Colombia received 51.8 percent, Ecuador 23.1 percent, Peru 22.3 percent, and Bolivia 2.8 percent of all U.S. exports to ATPA countries. Ecuador was the only ATPA country to which U.S. exports were higher in 2002 than in 2001.



# CHAPTER 1

## Introduction

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The U.S. Congress enacted the Andean Trade Preference Act (ATPA)<sup>1</sup> in 1991 to encourage the South American Andean countries of Bolivia, Colombia, Ecuador, and Peru to reduce drug-crop cultivation and production by fostering the production and exports of nontraditional products. ATPA authorizes the President to proclaim preferential rates of duty on 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),<sup>2</sup> but ATPA is not a permanent tariff program.

ATPA expired on December 4, 2001, but was renewed retroactive to that date on August 6, 2002, under the Andean Trade Promotion and Drug Eradication Act (ATPDEA), part of the Trade Act of 2002.<sup>3</sup> ATPDEA amended ATPA to authorize duty-free treatment for certain products previously excluded from ATPA trade preferences. ATPDEA amendments were implemented by Presidential proclamation on October 31, 2002.<sup>4</sup> ATPA, as amended, will expire on December 31, 2006.

During the period when ATPA was not in effect, imports of goods previously eligible to claim the ATPA tariff preference were subject to ordinary or column 1-general duties at the time of entry.<sup>5</sup> Because the U.S. Generalized System of Preferences (GSP) program also had lapsed during this time period, GSP tariff preferences were not available for goods eligible under that program.<sup>6</sup> Duties paid on ATPA-eligible

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<sup>1</sup> 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).

<sup>2</sup> 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.

<sup>3</sup> Public Law 107-210, title XXXI.

<sup>4</sup> 67 F.R. 67283.

<sup>5</sup> Effective Feb. 15, 2002, by Presidential directive the importers of articles that formerly qualified for duty-free treatment under ATPA were granted the option to defer the payment of estimated duties and fees after entry of these products until May 16, 2002. Because Congress did not renew or extend ATPA prior to May 16, 2002, importers were required to pay all applicable duties and fees by May 16, 2002. See 67 F.R. 7070 and U.S. Customs Service memo, "Expiration of Deferred Payment Period for Merchandise Previously Eligible for Duty-Free Treatment Under the Andean Trade Preference Act," May 6, 2002, found at Internet address <http://www.customs.gov/impoexpo/expandean.htm>, retrieved June 13, 2002. This deferral did not apply to goods formerly eligible for reduced-duty benefits under ATPA as that status was not mentioned in the directive; reduced-duty preferences were terminated by ATPDEA.

<sup>6</sup> For more information on the relationship between ATPA and GSP, see the section on GSP later in this chapter.

articles became eligible for refund when ATPA was renewed on August 6, 2002, retroactive to December 4, 2001.<sup>7</sup> However, unlike the treatment made available to identify GSP-eligible shipments during such lapses of authority, no administrative system was set up to assist in the identification of ATPA shipments.

This report fulfills a statutory mandate under ATPA that the U.S. International Trade Commission ("USITC" or "the Commission") report annually on the economic impact of ATPA on U.S. industries, consumers, and the economy in general, as well as on the estimated effect of ATPA on drug-related crop eradication and crop substitution efforts of the beneficiary countries.<sup>8</sup> The report is the ninth in the series and covers calendar year 2002. Thus, this report covers the approximately 7-month period (January 1-August 6, 2002) when ATPA was not in effect as well as November-December 2002 when ATPDEA amendments were first implemented.

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

## Organization of the Report

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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 2002. Chapter 3 estimates the effects of ATPA in 2002 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 analyzes the impact of ATPA on drug-crop eradication and crop substitution in the beneficiary countries.

Appendix A reproduces the *Federal Register* notice by which the Commission solicited public comment and appendix B contains a summary of a submission received in response to the *Federal Register* notice. Appendix C explains the economic model used to derive the findings presented in chapter 3. Finally, appendix D contains a list of frequently used abbreviations.

## Summary of the ATPA Program

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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

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<sup>7</sup> U.S. Customs Service memo, "Retroactive Renewal of the Andean Trade Preference Act," Aug. 7, 2002, found at Internet address <http://www.customs.gov/impexpo/atparenewal.htm>, retrieved Oct. 10, 2002.

<sup>8</sup> The reporting requirement is set forth in sec. 206(b) of ATPA (19 U.S.C. 3204(b)).

products imported into the customs territory of the United States, based on importer claims for this treatment. 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.<sup>9</sup> The statute authorizes the President to terminate such designations or suspend or limit a country's ATPA benefits at any time;<sup>10</sup> the President can withdraw 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.<sup>11</sup> ATPA beneficiaries are also required, among other things, to take steps to afford internationally recognized worker rights as defined under the GSP program<sup>12</sup> and to provide effective protection of intellectual property rights (IPR), including copyrights for film and television material.<sup>13</sup> By 1993, all four countries had been designated for ATPA benefits.<sup>14</sup> During the 10 years that the original ATPA was in effect, its benefits were not withdrawn from any country on the basis of worker rights, inadequate protection of IPR, or lack of U.S. certification for cooperation on narcotics.<sup>15</sup>

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,<sup>16</sup> including those criteria that apply to country eligibility under the original ATPA,<sup>17</sup> as well as several new criteria.<sup>18</sup> The additional criteria that must be taken into account by the President include the extent to which the country has implemented its World Trade Organization (WTO) commitments and participated in the Free-Trade Area of the Americas (FTAA) process; provides protection of IPR and

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<sup>9</sup> 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.

<sup>10</sup> 19 U.S.C. 3202(e).

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

<sup>12</sup> Sec. 502(b)(2)(G) and 502(c)(7), Trade Act of 1974, and 19 U.S.C. 2462(b)(2)(G) or 2462(c)(7).

<sup>13</sup> 19 U.S.C. 3202(c).

<sup>14</sup> Bolivia and Colombia were designated for ATPA benefits in 1992; Ecuador and Peru were designated in 1993.

<sup>15</sup> Commission staff interview with the Office of the U.S. Trade Representative (USTR), June 18, 2002.

<sup>16</sup> 19 U.S.C. 3203(b)(6)(B).

<sup>17</sup> Sections 203(c) and 203(d).

<sup>18</sup> Section 204(b)(6)(B).

internationally recognized worker rights; has implemented its commitments to eliminate the worst forms of child labor; has cooperated with the United States on counternarcotics initiatives; has implemented an international anticorruption convention; has applied transparent, nondiscriminatory, and competitive procedures in government procurement; and 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 an extensive review of ATPA beneficiaries' compliance with these requirements. On October 31, 2002, the President designated all four ATPA beneficiary countries as ATPDEA beneficiary countries.<sup>19</sup>

### *Trade Benefits Under ATPA*

ATPA provides duty-free treatment to qualifying imports from designated beneficiary countries.<sup>20</sup> 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.<sup>21</sup> 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.<sup>22</sup> 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.<sup>23</sup>

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<sup>19</sup> 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, requires USTR to submit a report by April 30, 2003, and 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.

<sup>20</sup> 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.

<sup>21</sup> 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.

<sup>22</sup> 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.

<sup>23</sup> 19 U.S.C. 3203(b).

ATPDEA authorizes duty-free treatment for some of the products previously ineligible for ATPA preferences, including certain textiles and apparel, footwear,<sup>24</sup> 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,<sup>25</sup> are also eligible for duty-free treatment under ATPDEA. Nearly 6,300 rate lines or products are now covered by ATPA trade preferences, of which about 700 were added by ATPDEA.<sup>26</sup> 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.<sup>27</sup> 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<sup>28</sup> in full toward the value threshold. In addition, goods with an ATPA content of 20 percent of the customs value and the remaining 15 percent attributable to U.S.-made (excluding Puerto Rican) materials or components,<sup>29</sup> and goods containing inputs that undergo double

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<sup>24</sup> While the President extended ATPDEA duty-free treatment to most eligible products, he did not include 17 footwear rate lines on the basis of their import sensitivity in the context of imports from ATPDEA countries.

<sup>25</sup> 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.

<sup>26</sup> 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 are duty free under Normal Trade Relations (NTR) rates). U.S. imports under the remaining approximately 10 percent of rate lines are dutiable.

<sup>27</sup> 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)).

<sup>28</sup> 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.

<sup>29</sup> 19 U.S.C. 3203(a).

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.<sup>30</sup>

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.<sup>31</sup> 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. This provision was important for Bolivia and Peru whose production is based not only on cotton and wool, but also on specialty fine hairs from indigenous llamas, alpacas, and vicuña.<sup>32</sup>

Apparel 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 2002, U.S. imports of apparel from the Andean countries accounted for about 0.5 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. Inclusion of the regional fabric provisions was important to the Andean countries, because these countries, particularly Colombia and Peru, have established textile industries. The principal textile and apparel provisions of ATPDEA are summarized in table 1-1.

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<sup>30</sup> 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.

<sup>31</sup> The dyeing, printing, and finishing requirement does not refer to post-assembly and other operations such as garment dyeing and stone washing.

<sup>32</sup> Numerous industry sources in these countries report that the specialty fine hairs from indigenous llamas, alpacas, and vicuña are sought in high-end apparel articles that create unique niche apparel markets for Bolivia and Peru.

**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 <sup>1</sup>
Certified handloomed, handmade, and folklore articles	*Originating in Andean countries
Certain brassieres cut and sewn or otherwise assembled in the United States, or one or more Andean 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 Andean 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 Andean 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 Andean 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 Andean countries from U.S. fabrics	*Must be of U.S. yarn

<sup>1</sup> 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.

## *ATPA and GSP*

The four ATPA beneficiaries also are GSP beneficiaries.<sup>33</sup> ATPA and GSP provisions are similar in many ways, and many products can enter the United States free of duty under either program. Both programs offer increased access to the U.S. market. Like ATPA, GSP requires that eligible imports (1) be imported directly from beneficiaries into the customs territory of the United States, (2) meet the (usually double) substantial transformation requirement for any foreign inputs, and (3) contain a minimum of 35 percent qualifying value content. The documentary requirements necessary to claim either ATPA or GSP duty-free entry are identical—a Certificate of Origin Form A has to be presented at the time the qualifying products enter the United States, though slightly varying value-related information is required under the two programs.

However, the two programs differ in several ways that tend to make Andean producers prefer the more 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,<sup>34</sup> even though they have been renewed retroactively, the interruptions have encouraged suppliers to use ATPA instead. 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.<sup>35</sup> All

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<sup>33</sup> 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 and following) and was renewed for an additional 10 years pursuant to title V of the Trade and Tariff Act of 1984 (Public Law 98-573, 98 Stat. 3018 and following), as amended (19 U.S.C. 2461 and following). Since that time, the GSP program has expired and been renewed several times. GSP expiration and renewal issues are discussed later in this section.

<sup>34</sup> 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).

<sup>35</sup> Public Law 107-210, sec. 4101.



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 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.<sup>36</sup> Although both ATPA and GSP were not in effect in 2002 until August 6, when the Trade Act of 2002 renewed both programs, 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.<sup>37</sup>

## Analytical Approach

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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 1992-1993. Imports of products that became eligible with the implementation of ATPDEA on October 31, 2002, are just beginning to have an effect on the U.S. economy as a whole and on U.S. industries and consumers.

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<sup>36</sup> See chapter 2 for an analysis of the trends in the use of GSP and ATPA.

<sup>37</sup> 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.

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.

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 2002;<sup>38</sup> 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.<sup>39</sup>

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 likely would have occurred if NTR tariffs had been in place for beneficiary countries in 2002. Actual 2002 market conditions are compared with a hypothetical case in which NTR duties are imposed for the year.<sup>40</sup> The effects of ATPA duty reductions for 2002 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.<sup>41</sup> 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.<sup>42</sup> The

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<sup>38</sup> 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.

<sup>39</sup> A copy of the notice appears in appendix A.

<sup>40</sup> The lapses of ATPA and GSP during the first 7 months of 2002 produced disruptions in both trade patterns and recordkeeping. "Actual" market conditions used for analysis reflect reported data.

<sup>41</sup> A more detailed explanation of the approach can be found in appendix C.

<sup>42</sup> 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

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, decreases in U.S. producer surplus are not captured in this analysis, but the effects of ATPA duty reductions on most U.S. industries are expected to be small.

This analysis estimates potential net welfare effects and industry displacement, and these estimates reflect a range of assumed substitutabilities between ATPA products and competing U.S. output. The upper estimates reflect the assumption of high substitution elasticities,<sup>43</sup> 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 (table 3-2).<sup>44</sup> The analysis provides estimates of welfare and potential U.S. industry displacement. Industries for which estimated upper potential displacement is more than 5 percent of the value of U.S. production are selected for further analysis.

Commission analysis of the probable future effects of ATPA 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. To assess the impact of ATPA on drug-crop eradication and crop substitution, 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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<sup>42</sup>—*Continued*

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.

<sup>43</sup> 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.

<sup>44</sup> 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

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### Introduction

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This chapter covers U.S. trade with the four countries that are designated as ATPA and ATPDEA beneficiaries: Bolivia, Colombia, Ecuador, and Peru. The principal purpose of the chapter is to examine U.S. imports under the preferential provisions of ATPA, as amended by ATPDEA<sup>1</sup> during 2002, but total U.S. imports from ATPA countries and U.S. exports to ATPA countries are also examined.

The year 2002 was an atypical year in the history of ATPA. As discussed in chapter 1, for the major part of the year (Jan.1-Aug. 6), the program was inoperative. On August 6, 2002, ATPA was renewed retroactively and amended by ATPDEA. However, retroactive application was not fully achieved, and ATPDEA amendments were not implemented by proclamation until October 31.<sup>2</sup> Because of the changes in the scope of ATPA during 2002, and the administrative difficulties in handling program changes, imports under the program are not strictly comparable with such imports recorded in prior years and will not be strictly comparable with imports recorded in future years. Moreover, recordkeeping for customs entries that might be eligible under ATPA was disrupted because of the lapse, and the automated entry system was not fully updated until 2003.<sup>3</sup>

The chapter is organized as follows. First, it reviews trends in overall U.S. imports from ATPA countries and discusses the effects of ATPA's legislative developments during the transitional year of 2002 on U.S. imports under the ATPA program and total U.S. imports from ATPA countries. Then, the chapter analyzes leading U.S. imports under ATPA (which includes imports eligible under the original ATPA as well as newly eligible imports under ATPDEA), and finally, U.S. exports to ATPA countries. Throughout the chapter, trade is discussed primarily on an 8-digit Harmonized Tariff Schedule (HTS) subheading basis. The relative importance of individual beneficiary countries as sources of and destinations for this trade also is covered.

During 2002, economic growth in the Andean region continued to be sluggish. Peru, with a 4.5-percent gross domestic product (GDP) growth (preliminary) had the highest

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<sup>1</sup> As discussed in chapter 1, the term "ATPA" refers to ATPA as amended by ATPDEA, and the term "original ATPA" is used to identify the original ATPA program that expired in December 2001.

<sup>2</sup> For more detail on these developments, see chapter 1, and the section entitled "A Transitional Year" in chapter 2.

<sup>3</sup> ATPA data covering the period when ATPA was not in effect are incomplete and may be subject to future revision. ATPDEA data, which were only collected for 2 months in 2002, may include collection errors.

growth rate and also a positive trade and payments balance. The rate of growth in the other three ATPA countries was lower, and their trade deficits widened. The slowdown of oil extraction in Colombia and Ecuador, along with the deterioration of the natural gas industry in Bolivia, had a negative impact on the economies of these countries; on the other hand, the construction of a crude oil pipeline contributed to an estimated growth rate of 3.5 percent in Ecuador.<sup>4</sup>

All ATPA countries suffered from weak demand in the United States and in their regional partner countries owing to economic slowdown. They also shared the problem of external indebtedness. Meanwhile, U.S. data show a collective deficit of the United States in merchandise trade<sup>5</sup> with ATPA countries in 2002, which has existed since 1999 (table 2-1 and figure 2-1). The trade deficit largely reflects the significant share of total imports from the region accounted for by petroleum. U.S. data also show a trade deficit in 2002 vis-à-vis each ATPA country, except Bolivia.

In 2002, U.S. exports to ATPA countries amounted to \$6.5 billion. Since 1999, these exports have remained above \$6 billion, but substantially below the levels registered during 1995-98. Meanwhile, U.S. imports from ATPA countries rose steadily between 1998 and 2000, exceeding \$11 billion in 2000, before falling to \$9.6 billion in both 2001 and 2002. The most important portion of this trade, imports of mineral fuels, mineral products, and bituminous substances (HTS chapter 27), also remained stable

<sup>4</sup> United Nations, Economic Commission for Latin America and the Caribbean (ECLAC), *Preliminary Overview of the Economies of Latin America and the Caribbean*, December 2002.

<sup>5</sup> All references in this report to exports, imports, and trade balances refer to merchandise trade and exclude trade in services.

**Table 2-1**  
**U.S. trade with ATPA countries, 1991-2002**

Year	U.S. exports <sup>1</sup>	Share of U.S. exports to the world	U.S. imports <sup>2</sup>	Share of U.S. imports from the world	U.S. trade balance
	<i>Million dollars</i>	<i>Percent</i>	<i>Million dollars</i>	<i>Percent</i>	<i>Million dollars</i>
1991 .....	3,798.2	0.9	4,969.5	1.0	-1,171.3
1992 .....	5,319.7	1.3	5,058.7	1.0	261.0
1993 .....	5,359.1	1.2	5,282.3	0.9	76.7
1994 .....	6,445.0	1.3	5,879.5	0.9	565.5
1995 .....	7,820.2	1.4	6,968.7	0.9	851.4
1996 .....	7,718.7	1.3	7,867.6	1.0	-148.9
1997 .....	8,681.8	1.3	8,673.6	1.0	8.2
1998 .....	8,670.1	1.4	8,361.0	0.9	309.1
1999 .....	6,263.2	1.0	9,830.2	1.0	-3,567.0
2000 .....	6,295.1	0.9	11,117.2	0.9	-4,822.1
2001 .....	6,363.3	1.0	9,568.7	0.8	-3,205.3
2002 .....	6,463.8	1.0	9,611.5	0.8	-3,147.7

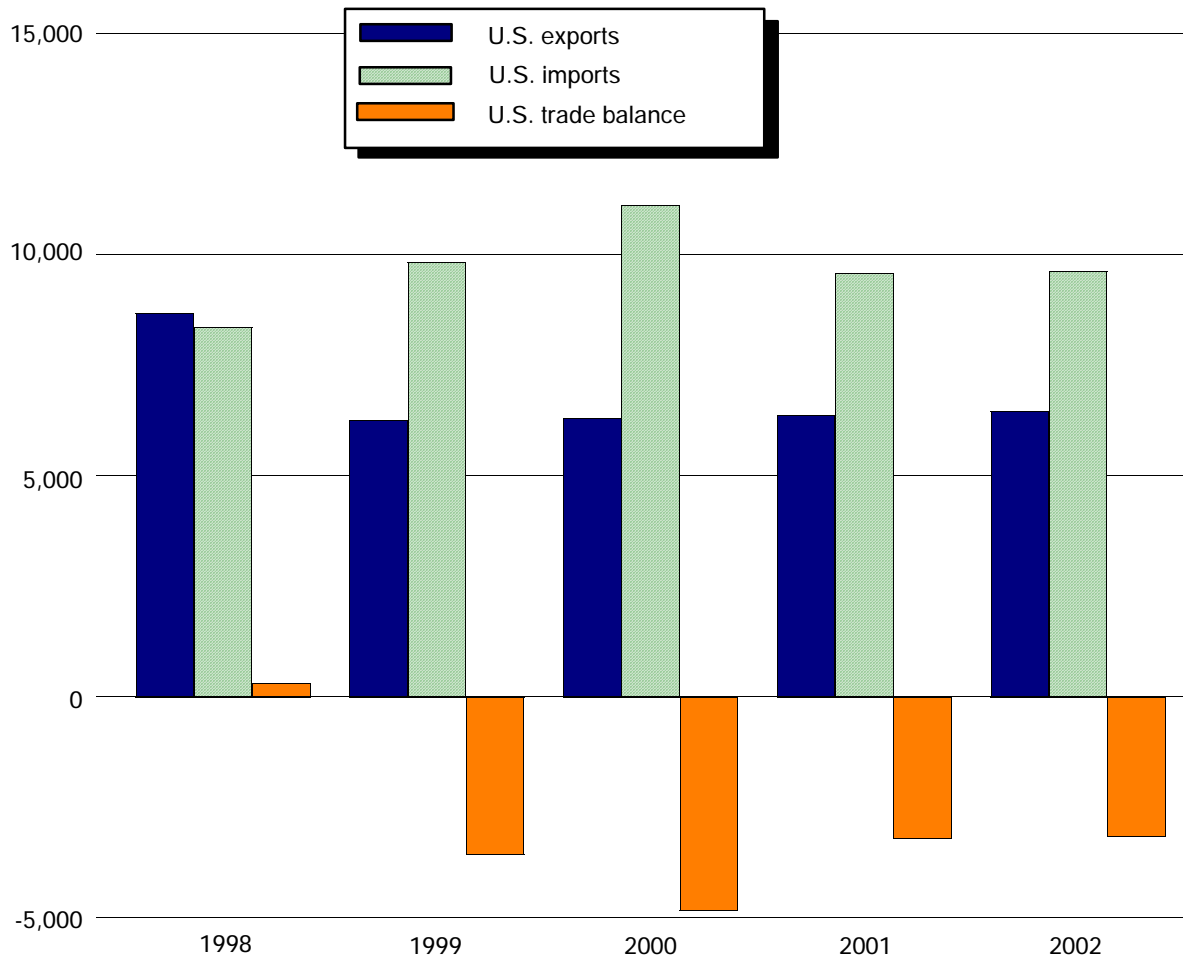
<sup>1</sup> Domestic exports, f.a.s. basis.

<sup>2</sup> 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, 1998-2002**

*Million dollars*



U.S. exports	8,670.1	6,263.2	6,295.1	6,363.3	6,463.8
U.S. imports	8,361.0	9,830.2	11,117.2	9,568.7	9,611.5
U.S. trade balance	309.1	-3,567.0	-4,822.1	-3,205.3	-3,147.7

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

in 2002 compared with 2001 (table 2-2). The economic slowdown in the United States dampened U.S. demand for most imports, including imports from the Andean region. The expiration of both the ATPA and GSP programs—a lapse that continued during the better part of the year—may also have contributed to the lack of growth in overall U.S. imports from ATPA countries.

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. In the period 1999 through 2002, the share dropped to 1.0 percent or less (table 2-1). The combined share of ATPA countries as a supplier of the U.S. market ranged between 0.9 and 1.0 percent of overall U.S. imports from the world through the year 2000. This ratio dropped, however, to 0.8 percent in 2001 and 2002.

## U.S. Imports

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Total U.S. imports from ATPA countries (including both the portions eligible and ineligible for ATPA preferences) remained virtually the same in 2002 as in 2001, amounting to \$9.6 billion. ATPA countries collectively were the 23rd largest supplier of U.S. imports from the world (the same as in 2001), larger than Switzerland but smaller than Indonesia. Table 2-2 shows the composition of total U.S. imports from ATPA countries by major product categories during 1998-2002. Mineral products and bituminous substances (HTS chapter 27), the dominant category of U.S. imports from ATPA countries, have accounted for over 40 percent of the total in the last 3 years .

Figure 2-2 shows how the composition of U.S. imports from ATPA countries has changed during the last 5 years. In 1998, jewelry, coffee, and fish were leading U.S. import categories after the dominant mineral group. However, since then, a shift in jewelry imports away from most South American sources to Far Eastern ones, and depressed prices of gold and gemstones, have lowered the relative significance of jewelry in U.S. imports from ATPA countries. The relative importance of coffee also has diminished as coffee prices have declined. U.S. imports of fish from the Andean region, in which shrimp dominates, have been reduced by a virus that stunted the growth of shrimp larvae. Thus, in 2002, the dominance of minerals has become more pronounced, jewelry a less important second-ranking category, and coffee and fish were replaced by fruits and nuts (primarily bananas) and knitted apparel as the third-ranking and fourth-ranking product groups in U.S. imports from ATPA countries.

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

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<sup>6</sup> The imports of the new ATPA products, 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, 1998-2002

HTS Chapter	Description	1998	1999	2000	2001	2002
		Value (1,000 dollars)				
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes . . . . .	2,397,896	3,555,699	4,783,829	3,916,000	3,914,722
71	Natural or cultured pearls, precious or semiprecious stones, imitation jewelry; coin . . . . .	912,388	704,196	467,933	358,474	561,067
08	Edible fruit and nuts; peel of citrus fruit or melons . . . . .	516,568	587,067	517,442	497,762	547,036
61	Articles of apparel and clothing accessories, knitted or crocheted . . . . .	370,696	463,069	536,544	483,580	480,899
74	Copper and articles thereof . . . . .	240,448	353,731	601,776	506,178	470,012
09	Coffee, tea, mate and spices . . . . .	834,876	629,643	541,473	371,385	401,610
06	Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage . . . . .	454,385	438,735	441,745	408,752	382,941
03	Fish and crustaceans, molluscs and other aquatic invertebrates . . . . .	729,590	533,682	345,307	365,743	349,116
62	Articles of apparel and clothing accessories, not knitted or crocheted . . . . .	242,985	245,379	294,488	270,133	270,305
29	Organic chemicals . . . . .	132,313	292,501	477,396	307,416	243,866
	Subtotal . . . . .	6,832,145	7,803,703	9,007,934	7,485,422	7,621,575
	All other . . . . .	1,528,892	2,026,513	2,109,291	2,083,239	1,989,908
	Total . . . . .	8,361,036	9,830,217	11,117,225	9,568,661	9,611,482

See notes at end of table.

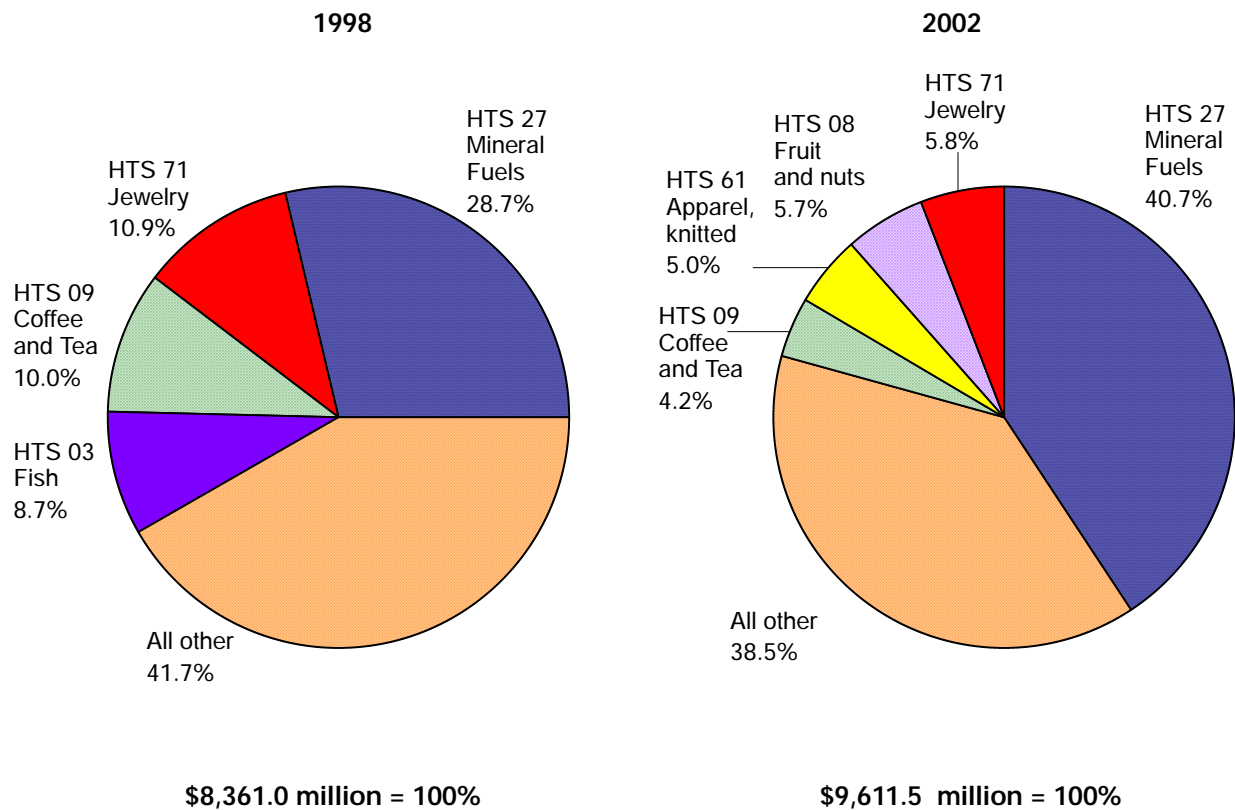
Table 2-2—Continued  
 Leading U.S. imports for consumption from ATPA countries, by major product categories, 1998-2002

HTS Chapter	Description	1998	1999	2000	2001	2002
		Percent of total				
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes . . . . .	28.68	36.17	43.03	40.93	40.73
71	Natural or cultured pearls, precious or semiprecious stones, imitation jewelry; coin . . . . .	10.91	7.16	4.21	3.75	5.84
08	Edible fruit and nuts; peel of citrus fruit or melons . . . . .	6.18	5.97	4.65	5.20	5.69
61	Articles of apparel and clothing accessories, knitted or crocheted . . . . .	4.43	4.71	4.83	5.05	5.00
74	Copper and articles thereof . . . . .	2.88	3.60	5.41	5.29	4.89
09	Coffee, tea, mate and spices . . . . .	9.99	6.41	4.87	3.88	4.18
06	Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage . . . . .	5.43	4.46	3.97	4.27	3.98
03	Fish and crustaceans, molluscs and other aquatic invertebrates . . . . .	8.73	5.43	3.11	3.82	3.63
62	Articles of apparel and clothing accessories, not knitted or crocheted . . . . .	2.91	2.50	2.65	2.82	2.81
29	Organic chemicals . . . . .	1.58	2.98	4.29	3.21	2.54
	Subtotal . . . . .	81.71	79.38	81.03	78.23	79.30
	All other . . . . .	18.29	20.62	18.97	21.77	20.70
	Total . . . . .	100.00	100.00	100.00	100.00	100.00

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 from ATPA countries, by major product categories, 1998 and 2002**



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

Products that enter free of duty under NTR rates include many traditional products of ATPA countries: coffee, bananas, gold bullion, shrimp, and unalloyed tin. In this group of commodities, notable is a 163 percent surge in gold bullion imports from ATPA countries in 2002 compared with 2001 (table 2-3).

Canned tuna (HTS 1604.14.30), which is not eligible for ATPA trade preferences but dutiable under NTR rates, has been the principal form of tuna imported from ATPA countries.<sup>7</sup> Ecuador, the only significant producer and exporter of canned tuna among ATPA countries, became the second-ranking source of U.S. imports in 2001, after Thailand. In 2002, U.S. imports from Ecuador continued to surge substantially (by 165 percent).

<sup>7</sup> HTS 1604.14.30 includes pouched tuna, which is eligible for duty-free treatment under the amended ATPA. Tuna is also imported as an intermediate product of canned tuna from ATPA countries, referred to as “loins” in the trade. This product has been eligible for trade preferences under the original ATPA for years, and will be discussed later in this chapter.

**Table 2-3  
Leading U.S. imports for consumption from ATPA countries, by HTS provisions, 2000-02**

HTS Provision	Description	1,000 dollars			Change, 2001-02 Percent
		2000	2001	2002	
2709.00.10	Petroleum oils and oils from bituminous minerals, crude, testing under 25 degrees A.P.I. ....	1,057,583	686,221	1,016,696	48.16
2709.00.20	Petroleum oils and oils from bituminous minerals, crude, testing 25 degrees A.P.I. or more .....	1,142,458	786,975	995,476	26.49
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	0	577,235	( <sup>1</sup> )
7403.11.00	Cathodes and sections of cathodes, of refined copper .....	566,402	455,889	446,912	-1.97
0803.00.20	Bananas, fresh or dried .....	413,633	391,052	427,875	9.42
0901.11.00	Coffee, not roasted, not decaffeinated .....	478,781	317,053	340,984	7.55
7108.12.10	Gold, nonmonetary, bullion and dore .....	198,376	100,264	263,260	162.57
2701.12.00	Bituminous coal, whether or not pulverized, but not agglomerated .....	199,410	314,231	248,374	-20.96
0306.13.00	Shrimps and prawns, cooked in shell or uncooked, dried, salted or in brine, frozen ..	223,270	252,137	226,706	-10.09
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	0	210,516	( <sup>1</sup> )
2713.11.00	Petroleum coke, not calcined .....	317,019	318,232	192,890	-39.39
6110.20.20	Sweaters, pullovers, sweatshirts, waistcoats, and similar articles, knitted or crocheted, of cotton, n.e.s.o.i. ....	196,032	180,538	179,228	-0.73
0603.10.60	Roses, fresh cut .....	192,436	188,521	175,449	-6.93
2711.29.00	Petroleum gases and other gaseous hydrocarbons, except natural gas .....	302,419	228,046	172,973	-24.15
2710.19.10	Distillate/residual fuel oil (including blends) derived from petroleum oils or oil of bituminous minerals, testing 25 degree A.P.I. or more .....	0	0	165,858	( <sup>1</sup> )
8001.10.00	Unwrought tin, not alloyed .....	104,812	92,884	103,622	11.56
1604.14.30	Tunas and skipjack, not in oil, in airtight containers, over 7 kilograms, or over quota	5,596	38,746	102,754	165.20
0603.10.80	Cut flowers and flower buds suitable for bouquets, n.e.s.o.i. ....	92,044	90,491	92,298	2.00
0603.10.70	Chrysanthemums, standard carnations, anthuriums and orchids .....	121,322	99,098	86,535	-12.68
6105.10.00	Men's or boys' shirts, knitted or crocheted, of cotton .....	89,235	79,656	85,857	7.79
	Subtotal .....	5,700,829	4,620,033	6,111,498	32.28
	All other .....	5,416,396	4,948,628	3,499,985	-29.27
	Total .....	11,117,225	9,568,661	9,611,482	0.45

<sup>1</sup> Not meaningful.

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

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

## *A Transitional Year*

The year 2002 was one of transition with the lapse of ATPA over the first 7 months and the implementation of ATPDEA during the last 2 months. Accordingly, 2002 can be subdivided (with some approximation) into three discrete periods: (1) January-July, when ATPA had lapsed; (2) August-October, when the original ATPA was in effect; and (3) November-December, when ATPDEA was implemented.

Figure 2-3 shows how the changes in the status of ATPA during these three periods affected U.S. imports under the ATPA program compared with the same periods of 2001. Figure 2-4 shows how the same changes may have affected total U.S. imports from ATPA countries during these three periods.

### **January-July 2002: ATPA is Not in Effect**

Despite ATPA's expiration at the end of 2001, entries under the program continued to be reported during January-July 2002.<sup>8</sup> As expected, U.S. imports under ATPA fell sharply in this period. The decline was 84.5 percent compared with January-July 2001 (figure 2-3). Imports of some products previously eligible for ATPA tariff preferences were also eligible for GSP preferences, and shifted to GSP. Notably, the GSP program was also inoperative during January-July 2002. Yet, the experience of Andean suppliers with previous lapses in the GSP program reportedly left them more certain that GSP, rather than ATPA, would be renewed retroactively (see chapter 1). In addition, several former ATPA-eligible products entered as dutiable at NTR tariff rates, especially those ATPA products that had not been eligible for GSP.

ATPA's lapse during January-July 2002 not only restricted imports under ATPA; it also may well have depressed overall U.S. imports from ATPA countries, as shown in figure 2-4. The renewed obligation to pay duties on imports of certain leading ATPA products may have contributed to the 13.2 percent decline in all U.S. imports from ATPA countries during January-July 2002 compared with the same period of 2001.<sup>9</sup>

### **August-October 2002: Original ATPA is Reauthorized**

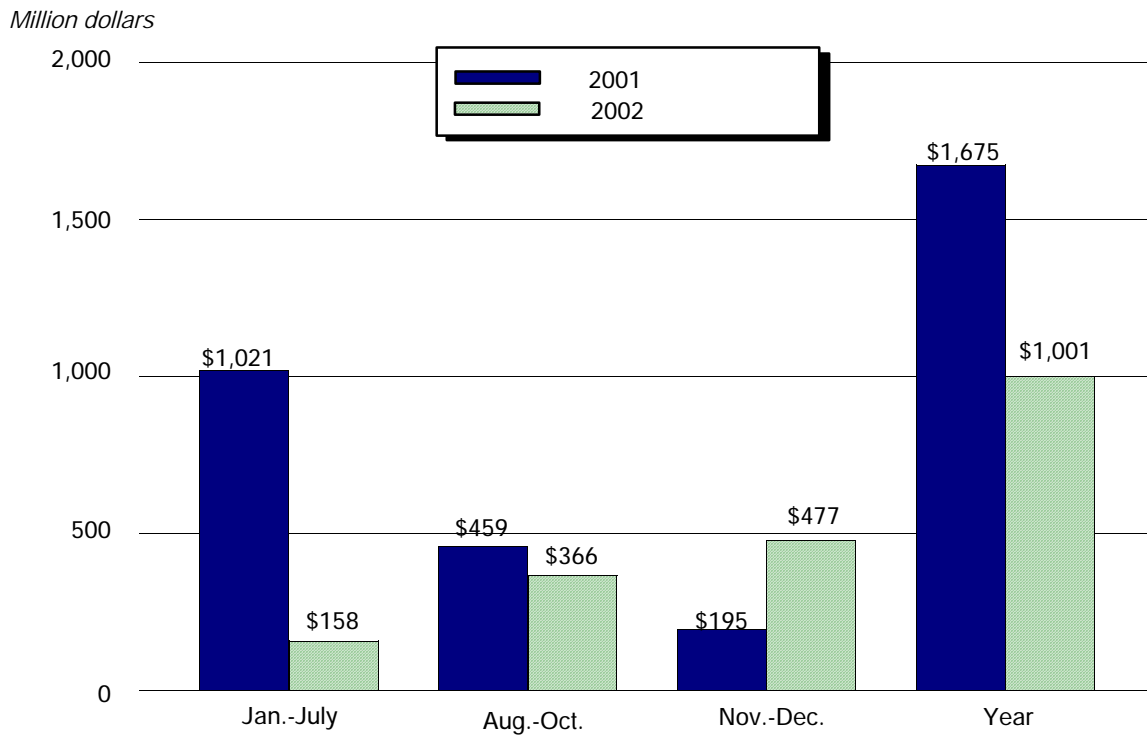
During the 3 months following the renewal of ATPA, eligible entries under the original program became free of duty once again and some importers may have shifted from GSP back to ATPA. Nonetheless, the expiration of ATPA had a delayed effect, upsetting the continuity of the program. Although imports under ATPA recovered from their low level recorded during January-July, they remained 20 percent lower during

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<sup>8</sup> One reason might be that on February 15, 2002, the U.S. Customs Service published a temporary rule that granted importers of articles that formerly qualified for duty-free treatment under ATPA the option to defer the payment of estimated duties and fees after entry of these products until May 16, 2002. For more information, see chapter 1.

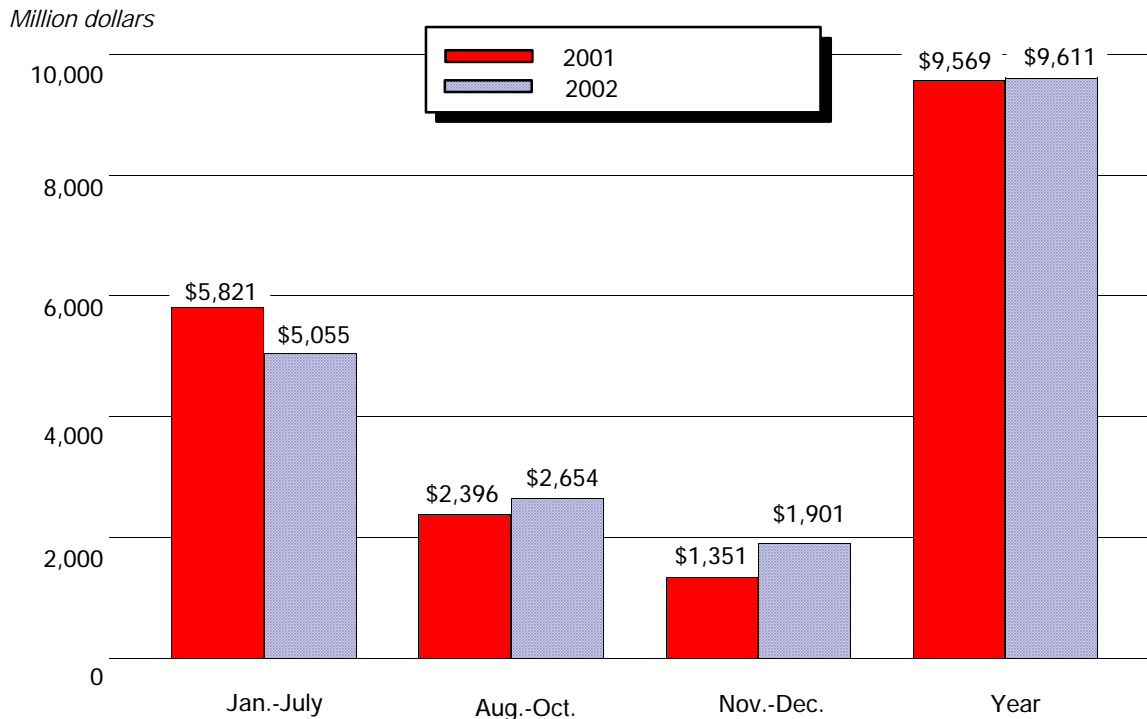
<sup>9</sup> See also Joanne Guth and Magda Kornis, "The Andean Trade Preference Act: An Update," USITC, *International Economic Review*, Nov./Dec. 2002.

**Figure 2-3**  
**U.S. imports *under* ATPA, by specified periods, 2001 and 2002**



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

**Figure 2-4**  
**U.S. imports *from* ATPA countries, by specified periods, 2001 and 2002**



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

August-October 2002 than in the comparable period of 2001 (figure 2-3). Overall U.S. imports from ATPA countries also recovered after ATPA's renewal. As figure 2-4 shows, such imports were 11 percent higher during August-October 2002 than in the comparable 3 months of 2001.

### **November-December 2002: ATPDEA is Implemented**

The new eligibility of petroleum and derivatives for tariff preferences under ATPDEA resulted in a substantial increase in imports under ATPA for this short period. Imports under ATPA were 145 percent higher during November-December 2002 than they had been in the comparable period of 2001 (figure 2-3). Overall U.S. imports were up 41 percent (figure 2-4).

### **The Year 2002**

The positive effect on U.S. imports of the implementation of ATPDEA during the last 2 months of the atypical year of 2002 only partly offset the negative effect of the lapse of ATPA during the first 7 months. This resulted in a 40 percent decline of imports under ATPA in 2002 (figure 2-3). The long lapse of ATPA and the relatively small volume of trade believed to have been given the preference retroactively, apparently depressed overall imports from ATPA countries as well; they remained essentially unchanged from 2001 (figure 2-4).

U.S. imports under ATPDEA totaled \$212 million in 2002.<sup>10</sup> Petroleum-based products accounted for the overwhelming portion of this trade. No imports of textile or apparel articles, or pouched tuna under ATPDEA were officially recorded in 2002,<sup>11</sup> and only negligible amounts of the other newly eligible items were recorded.

Developments in the last 2 months of 2002 foreshadow significant changes in the scope and composition of imports under the expanded ATPA. Five petroleum derivatives that were excluded from preferences under the original ATPA were among the leading imports under ATPA for the year 2002, displacing other products from the list.<sup>12</sup> By the end of 2003, after ATPDEA has been in effect for the entire year, major changes will likely emerge in the patterns of ATPA trade by commodity and by country.<sup>13</sup>

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<sup>10</sup> See table 2-5 later in this chapter.

<sup>11</sup> Trade in textiles and apparel is discussed separately below. Although ATPDEA duty-free entry is provided to certain tuna in foil or flexible containers weighing with their contents no more than 6.8 kg, no such imports were recorded in 2002.

<sup>12</sup> See table 2-6 in "Leading Imports Under ATPA" later in this chapter.

<sup>13</sup> As noted in chapter 3, during the first 4 months of 2003, petroleum and petroleum products accounted for over half of the value of U.S. imports under ATPA.

## Duty Treatment

Because several formerly ATPA-eligible imports became dutiable once again when ATPA expired late in 2001, the dutiable share of U.S. imports from ATPA countries surged from 40 percent in 2001 to 48 percent in 2002 (table 2-4).<sup>14</sup> For the same reason, calculated duty revenues from ATPA countries in 2002 of \$170 million were higher than the \$144 million registered in 2001. Meanwhile, the average duty rate declined from 3.8 percent ad valorem in 2001 to 3.7 percent as petroleum-related ATPDEA imports, which represent a large portion of the total U.S. import value from ATPA countries, could enter free of duty as of October 31, 2002.

Imports from ATPA countries entered duty-free in 2002 in one of the following ways: (1) unconditionally free under NTR tariff rates (37.5 percent of all imports from these countries); (2) conditionally free under GSP (5.0 percent); (3) conditionally free under the original ATPA (8.1 percent); (4) conditionally free under ATPDEA (2.2 percent); and (5) conditionally free under other programs (1.6 percent). Thus, imports under ATPA (the sum of imports under the original ATPA and ATPDEA) accounted for 10.3 percent of all imports, according to data based on adjusted entries (table 2-5).<sup>15</sup>

<sup>14</sup> When adjusted for misreported entries, the dutiable share of total imports in 2002 was 45.5 percent (table 2-5).

<sup>15</sup> Table 2-5 is the only table in this report that presents adjusted data; e.g., data that have been adjusted for entries that were erroneously reported by importers in inappropriate categories. All other tables in this chapter are based on entries as reported. Therefore, the data presented in table 2-5 may conflict with the data in table 2-4 and other tables in this report. For example, the dutiable share of imports is shown to be 47.8 percent in table 2-4 and 45.5 percent in table 2-5; the percentage share of entries under ATPA is shown to be 10.3 percent in table 2-5, but 10.4 percent is used elsewhere in the report, based on reported entries.

**Table 2-4**  
**U.S. imports for consumption from ATPA countries: Dutiable value, calculated duties, and average duty, 1998-2002**

Item	1998	1999	2000	2001	2002
Dutiable imports <sup>1</sup>					
(1,000 dollars) . . . . .	2,661,246	3,459,748	4,517,161	3,798,848	4,598,474
Dutiable as a share of total					
(percent) . . . . .	31.8	35.2	40.6	39.7	47.8
Calculated duties					
(1,000 dollars) . . . . .	104,950	123,263	142,367	144,098	169,498
Average duty					
(percent) <sup>2</sup> . . . . .	3.94	3.56	3.15	3.79	3.69

<sup>1</sup> 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.

<sup>2</sup> Average duty = (calculated duty/dutiable value) \* 100.

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



**Table 2-5  
U.S. imports for consumption from Bolivia, Colombia, Ecuador, and Peru, by duty treatments, 1998-2002**

Item	Bolivia	Colombia	Ecuador	Peru	ATPA total	Share of total
<b>1998:</b>						
Total imports	220,140	4,425,163	1,773,917	1,925,286	8,344,507	100.0
Dutiable value <sup>1</sup>	34,989	1,736,822	441,474	447,961	2,661,246	31.9
ATPA reduced duty	1,070	24,800	308	8	26,187	0.3
Duty-free value <sup>2</sup>	185,151	2,688,341	1,332,443	1,477,325	5,683,261	68.1
Col. 1-general <sup>3</sup>	108,453	1,795,720	1,081,552	682,198	3,667,923	44.0
GSP <sup>4</sup>	7,773	42,645	14,579	125,054	190,051	2.3
ATPA <sup>5</sup>	68,559	685,088	232,694	632,668	1,619,010	19.4
Production Sharing <sup>6</sup>	258	155,813	2,210	292	158,572	1.9
Other duty free <sup>7</sup>	108	9,075	1,408	37,113	47,705	0.6
<b>1999:</b>						
Total imports	224,167	5,813,997	1,852,631	1,870,815	9,761,610	100.0
Dutiable value <sup>1</sup>	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 <sup>2</sup>	183,694	3,637,086	1,239,748	1,414,103	6,474,632	66.3
Col. 1-general <sup>3</sup>	114,969	2,532,774	950,556	727,927	4,326,225	44.3
GSP <sup>4</sup>	7,934	46,485	19,190	51,684	125,293	1.3
ATPA <sup>5</sup>	60,606	774,866	259,334	631,098	1,725,903	17.7
Production Sharing <sup>6</sup>	93	141,287	5,062	253	146,695	1.5
Other duty free <sup>7</sup>	93	141,674	5,607	3,141	150,515	1.5
<b>2000:</b>						
Total imports	184,250	6,601,802	2,266,975	1,979,099	11,032,126	100.0
Dutiable value <sup>1</sup>	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 <sup>2</sup>	153,727	4,096,323	1,016,697	1,407,134	6,673,881	60.5
Col. 1-general <sup>3</sup>	86,240	2,968,505	729,924	515,885	4,300,554	39.0
GSP <sup>4</sup>	5,783	66,144	28,569	45,054	145,549	1.3
ATPA <sup>5</sup>	60,786	800,951	247,084	845,849	1,954,670	17.7
Production Sharing <sup>6</sup>	420	130,189	5,475	29	163,112	1.2
Other duty free <sup>7</sup>	499	130,534	5,646	317	136,997	1.2

See footnotes at end of table.

**Table 2-5—Continued**  
**U.S. imports for consumption from Bolivia, Colombia, Ecuador, and Peru, by duty treatments, 1998-2002**

Item	Bolivia	Colombia	Ecuador	Peru	ATPA total	Share of total
Percent						
<b>2001:</b>						
Total imports	165,130	5,606,493	1,964,503	1,805,483	9,541,609	100.0
Dutiable value <sup>1</sup>	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 <sup>2</sup>	137,926	3,437,168	1,039,053	1,220,971	5,835,118	61.2
Col. 1-general <sup>3</sup>	66,557	2,427,508	735,723	416,658	3,646,446	38.2
GSP <sup>4</sup>	9,543	68,247	33,007	73,446	184,242	1.9
ATPA <sup>5</sup>	53,220	696,607	216,054	686,285	1,652,166	17.3
Production Sharing <sup>6</sup>	318	86,120	5,912	7	92,357	1.0
Other duty free <sup>7</sup>	8,288	158,686	48,357	44,576	259,907	2.7
<b>2002:</b>						
Total imports	160,220	5,382,368	2,115,973	1,952,921	9,611,482	100.0
Dutiable value <sup>1</sup>	27,883	2,426,684	1,095,938	824,837	4,375,343	45.5
ATPA reduced duty <sup>8</sup>		5,126	1	3	5,130	0.1
Duty-free value <sup>2</sup>	132,337	2,955,684	1,020,034	1,128,084	5,236,139	54.5
Col. 1-general <sup>3</sup>	62,917	2,207,748	764,114	572,900	3,607,679	37.5
GSP <sup>4</sup>	31,520	204,166	74,618	165,467	475,771	5.0
ATPA <sup>5</sup>	36,972	278,823	85,712	381,801	783,309	8.1
ATPDEA <sup>9</sup>	147	120,199	92,021	10	212,377	2.2
Other duty free <sup>10</sup>	781	144,749	3,569	7,905	157,004	1.6

<sup>1</sup> Dutiable value excludes the U.S. content entering under HTS subheading 9802.00.80 and subheading 9802.00.60, and misreported imports.

<sup>2</sup> Calculated as total imports less dutiable value.

<sup>3</sup> Value of imports which have a col. 1-general duty rate of free.

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

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

<sup>6</sup> 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.

<sup>7</sup> Calculated as a remainder, and represents imports entering free of duty under column 1-special.

<sup>8</sup> ATPDEA eliminated the reduced-duty provision of the original ATPA.

<sup>9</sup> ATPDEA program became effective October 31, 2002. ATPDEA data was only collected for 2 months in 2002 and may include collection errors.

<sup>10</sup> 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.

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

Imports under GSP increased from 1.9 percent of total imports from ATPA countries in 2001 to 5.0 percent in 2002, as a portion of imports of formerly ATPA-eligible items shifted to GSP during the 7 months that ATPA was not in effect. The share of imports free of duty under NTR tariff rates declined slightly from 38.2 percent in 2001 to 37.5 percent of the total in 2002, yet they continued to be the largest group of U.S. imports from ATPA countries.

### ***Leading Imports Under ATPA***

Table 2-6 shows that five of the six new products on the list of 20 leading imports under ATPA in 2002 are attributable to the inclusion of formerly ineligible products in the expanded program. Conversely, some products that had been prominent in 2001 are absent from the 2002 list, because they either were dutiable when ATPA was not in effect, or were entered under GSP, or were simply displaced by the new items.

### **New Leading Imports under ATPDEA**

As mentioned earlier, five leading petroleum derivatives that had not been eligible for trade preferences under the original ATPA, became leading ATPA imports in 2002. Only gold rope necklaces and neck chains (HTS 7113.19.21), the sixth new leading import product under ATPA, did not achieve leading import status owing to ATPDEA's implementation.<sup>16</sup>

#### ***Mineral fuels and derivatives***

Light petroleum oils (HTS 2709.00.10)<sup>17</sup> and heavy petroleum oils (HTS 2709.00.20)<sup>18</sup> were number two and number four on the list of leading products imported in 2002 under ATPA (table 2-6 and table 2-7). The other three leading petroleum-related imports were distillate and residual fuel oils derived from either light petroleum oils (HTS 2710.19.05)<sup>19</sup> or heavy petroleum oils (HTS 2710.19.10),<sup>20</sup> and naphthas (HTS 2710.11.25).<sup>21</sup>

All five petroleum derivatives eligible under the amended ATPA are also on the list of leading imports from ATPA countries (table 2-3). One other major petroleum derivative imported from ATPA countries, petroleum gases (HTS 2711.29.00), is free of duty on an NTR basis.

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<sup>16</sup> For more information on jewelry, see "Jewelry" later in this chapter.

<sup>17</sup> Light petroleum oils (HTS 2709.00.10) are also on the list of leading items that benefited exclusively from ATPA (see chapter 3).

<sup>18</sup> Heavy petroleum oils (HTS 2709.00.20) are also on the list of leading items that benefited exclusively from ATPA (see chapter 3).

<sup>19</sup> Distillate and residual fuel oils derived from light oil (HTS 2710.19.05) are also on the list of leading items that benefited exclusively from ATPA (see chapter 3).

<sup>20</sup> Distillate and residual fuel oils derived from heavy oil (HTS 2710.19.10) are also on the list of leading items that benefited exclusively from ATPA (see chapter 3).

<sup>21</sup> Naphthas (HTS 2710.11.25) are also on the list of leading items that benefited exclusively from ATPA (see chapter 3).

**Table 2-6**  
**Leading U.S. imports for consumption under ATPA, by HTS provisions, 2000-02**

HTS Provision	Description	1,000 dollars				Change, ATPA 2001-02 source	Leading source
		2000	2001	2002 <sup>1</sup>	Percent		
7403.11.00	Cathodes and sections of cathodes, of refined copper .....	565,651	429,379	248,663	-42.1	Peru	
2709.00.10 <sup>2</sup>	Petroleum oils and oils from bituminous minerals, crude, testing under 25 degrees A.P.I. ....	0	0	119,804	( <sup>3</sup> )	Ecuador	
0603.10.60	Roses, fresh cut .....	192,420	180,283	69,765	-61.3	Colombia	
2709.00.20 <sup>2</sup>	Petroleum oils and oils from bituminous minerals, crude, testing 25 degrees A.P.I. or more .....	0	0	66,571	( <sup>3</sup> )	Colombia	
0603.10.70	Chrysanthemums, standard carnations, anthuriums and orchids .....	121,311	92,342	46,539	-49.6	Colombia	
0603.10.80	Cut flowers and flower buds suitable for bouquets, n.e.s.o.i. ....	91,947	85,244	43,302	-49.2	Colombia	
7113.19.50	Gold jewelry, except necklaces and clasps .....	64,663	78,685	36,704	-53.4	Bolivia	
0709.20.90	Asparagus, fresh or chilled, not reduced in size, not entered Sept. 15-Nov. 15 .....	33,412	28,261	31,589	11.8	Peru	
3212.90.00	Pigments dispersed in nonaqueous media, in liquid or paste form, used in making paints; dyes and coloring matter packaged for retail sale .....	199,393	194,628	29,866	-84.7	Colombia	
7113.19.29	Gold necklaces and neck chains, other than rope or mixed link .....	18,302	24,449	21,828	-10.7	Peru	
2402.20.80	Cigarettes containing tobacco but not clove, paper-wrapped .....	937	13,781	20,524	48.9	Colombia	
0709.20.10	Asparagus, fresh or chilled, not reduced in size, entered Sept. 15-Nov. 15 .....	9,991	15,239	18,729	22.9	Peru	
0603.10.30	Miniature (spray) carnations, fresh cut .....	33,673	24,584	13,239	-46.1	Colombia	
2710.11.25 <sup>2</sup>	Naphthas, not motor fuel/blending stock, from petroleum oils/oils from bituminous minerals, minimum 70 percent by weight of such products .....	0	0	9,722	( <sup>3</sup> )	Colombia	

See footnotes at end of table.

Table 2-6—Continued  
Leading U.S. imports for consumption under ATPA, by HTS provisions, 2000-02

HTS Provision	Description	2000				2001				2002 <sup>1</sup>				Change, ATPA 2001-02 source	Leading ATPA source	
		1,000 dollars				1,000 dollars				Percent						
7113.19.21	Rope necklaces and neck chains of gold .....	20,700		10,005		9,232										
0804.50.40	Guavas, mangoes, and mangosteens, fresh, if entered during the period from September 1, in any year, to the following May 31, inclusive .....	20,530		17,742		7,601										
2710.19.05 <sup>2</sup>	Distillate and residual fuel oil (including blends) derived from petroleum or oils from bituminous minerals, testing under 25 degrees A.P.I. ....	0		0		7,263										( <sup>3</sup> ) Colombia
0703.10.40	Onions, other than onion sets or pearl onions not over 16 mm in diameter, and shallots, fresh or chilled .....	4,285		11,131		6,683										
2710.19.10 <sup>2</sup>	Distillate/residual fuel oil (including blends) derived from petroleum oils or oil of bituminous minerals, testing 25 degree A.P.I. or more .....	0		0		6,584										( <sup>3</sup> ) Ecuador
4421.90.97	Articles of wood, n.e.s.o.i. ....	0		0		6,571										( <sup>3</sup> ) Ecuador
	Subtotal .....	1,377,214		1,205,753		820,779										-31.9
	All other .....	604,418		468,854		180,037										-61.6
	Total .....	1,981,632		1,674,607		1,000,816										-40.2

<sup>1</sup> ATPA includes imports under ATPDEA.

<sup>2</sup> Item is newly eligible under ATPDEA.

<sup>3</sup> Not meaningful.

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

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

**Table 2-7**  
**Leading U.S. imports under ATPA in 2002, change in value of U.S. imports from ATPA countries in 2002 from 2001, and mode of entry as a share of total imports, by HTS provisions, 2001-02**

HTS provision	Product description and estimated ad valorem duty equivalent	Change in total imports, 2001-02	Share of total imports in 2002, entering under—				
			ATPA	GSP	Other duty-free program	All duty free	Dutiable
7403.11.00	Cathodes and sections of cathodes, of refined copper (NTR 1.0%) . . . . .	-2.0	55.6	0.0	0.0	55.6	44.4
2709.00.10	Petroleum oils and oils from bituminous minerals, crude, testing under 25 degrees A.P.I. (NTR 0.3%) . . . . .	48.2	11.8	0.0	0.0	11.8	88.2
0603.10.60	Roses, fresh cut (NTR 6.8%) . . . . .	-6.9	39.8	0.0	0.0	39.8	60.2
2709.00.20	Petroleum oils and oils from bituminous minerals, crude, testing 25 degrees A.P.I. or more (NTR 0.4%) . . . . .	26.5	6.7	0.0	1.3	7.9	92.1
0603.10.70	Chrysanthemums, standard carnations, anthuriums and orchids (NTR 6.4%) . . . . .	-12.7	53.8	0.1	0.0	53.9	46.1
0603.10.80	Cut flowers and flower buds suitable for bouquets, n.e.s.o.i. (NTR 6.4%) . . . . .	2.0	46.9	31.3	0.0	78.2	21.8
7113.19.50	Gold jewelry, except necklaces and clasps (NTR 5.5%) . . . . .	-4.8	44.8	46.4	1.6	92.7	7.3
0709.20.90	Asparagus, fresh or chilled, not reduced in size, not entered Sept. 15-Nov. 15 (NTR 21.3%) . . . . .	18.1	77.9	0.0	0.0	77.9	22.1
3212.90.00	Pigments dispersed in nonaqueous media, in liquid or paste form, used in making paints; dyes and coloring matter packaged for retail sale (NTR 3.1%) . . . . .	-83.8	93.7	0.0	0.0	93.7	6.3
7113.19.29	Gold necklaces and neck chains, other than rope or mixed link (NTR 5.5%) . . . . .	55.5	52.7	43.3	0.0	96.0	4.0
2402.20.80	Cigarettes containing tobacco but not clove, paper wrapped (NTR 12.3%) . . . . .	103.8	62.1	0.0	0.0	62.1	37.9
0709.20.10	Asparagus, fresh or chilled, not reduced in size, entered Sept. 15 Nov. 15 (NTR 5.0%) . . . . .	23.0	100.0	0.0	0.0	100.0	0.0

See footnotes at end of table.

Table 2-7—Continued

Leading U.S. imports under ATPA in 2002, change in value of U.S. imports from ATPA countries in 2002 from 2001, and mode of entry as a share of total imports, by HTS provisions, 2001-02

HTS provision	Product description and estimated ad valorem duty equivalent	Change in total imports, 2001-02	Share of total imports in 2002, entering under—				
			ATPA	GSP	Other duty-free program	All duty free	Dutiable
0603.10.30	Miniature (spray) carnations, fresh cut (NTR 3.2%)	-7.6	54.8	18.1	0.0	73.0	27.0
2710.11.25 <sup>1</sup>	Naphthas, excluding motor fuel or motor fuel blending stock, 70 percent or more of petroleum or oils of bituminous minerals by weight (NTR 0.4%)	-16.2	4.6	0.0	35.4	40.0	60.0
7113.19.21	Rope necklaces and neck chains of gold (NTR 5.0%)	78.6	51.7	3.3	0.0	55.0	45.0
0804.50.40	Guavas, mangoes, and mangoosteens, fresh, if entered during the period from September 1, in any year, to the following May 31, inclusive (NTR 8.4%)	24.2	25.1	53.6	0.0	78.7	21.3
2710.19.05 <sup>1</sup>	Distillate and residual fuel oil, including blends, derived from petroleum or oils of bituminous minerals, testing under 25 degrees A.P.I. (NTR 0.2%)	-16.2	1.3	0.0	0.0	1.3	98.7
0703.10.40	Onions, other than onion sets or pearl onions not over 16 mm in diameter, and shallots, fresh or chilled (NTR 1.3%)	17.7	42.5	51.3	0.0	93.8	6.2
2710.19.10 <sup>1</sup>	Distillate and residual fuel oil, including blends, derived from petroleum or oils of bituminous minerals, testing 25 degrees A.P.I. or more (NTR 0.4%)	-16.2	4.0	0.0	0.0	4.0	96.0
4421.90.97 <sup>2</sup>	Articles of wood, n.e.s.o.i (NTR 3.3%)	-3.1	48.1	23.6	0.0	71.7	28.3

<sup>1</sup> Petroleum products percentage change based on 4-digit HTS 2710.

<sup>2</sup> Wood products percentage change based on 6-digit HTS 4421.90.

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

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

Total U.S. imports from ATPA countries of light petroleum oils increased by almost one half of their 2001 value, and imports of heavy oils rose by 26.5 percent, even though only relatively small portions of such imports entered in 2002 under ATPA (table 2-7). The remainder was dutiable at relatively low rates, ranging from 0.2 percent to 0.4 percent ad valorem. The increases of these imports resulted from higher annual average prices that refiners pay for crude petroleum.<sup>22</sup>

It should be noted that total U.S. imports from ATPA countries of goods of HTS chapter 27 (mineral fuels, oils, bituminous substances) products did not rise in 2002 (table 2-2), because the increases in imports of the oil derivatives mentioned above were offset by sharp declines in imports of some other products in the category, including petroleum cokes and gases. In addition, the terrorist group Fuerzas Armadas Revolucionarias<sup>23</sup> (F.A.R.C.) frequently disrupted the flow of petroleum in northeastern Colombia in 2001 and 2002, reducing Colombia's exports of petroleum to the United States.

### Other Leading Imports

Most of the other leading imports under the enhanced ATPA during 2002 appeared on lists of leading imports under the original ATPA in earlier years. They are copper cathodes, various cut flowers, two kinds of asparagus, pigments, cigarettes, guavas and mangoes, onions, and articles of wood.

#### *Copper cathodes*

In 2002, for the fifth year in a row, refined copper cathodes (HTS 7403.11.00)<sup>24</sup> continued to be the number one product on the list of leading U.S. imports under ATPA. Copper cathodes were also the fourth-leading import item from ATPA countries under all entry categories (table 2-3). Refined copper cathodes are the major traded form of copper produced by mining companies.

Peru is the sole U.S. supplier of this product in the ATPA community, and continues to be the largest supplier of refined copper cathodes to the United States among all countries. In 2002, Peru accounted for nearly one-third of all U.S. imports of this product, shipping somewhat more than Canada, the second-largest supplier, and Chile, the third-largest. The value of imports from Peru began to drop in 2001, as worldwide oversupply depressed copper prices. Although imports by value declined again in 2002, Peru increased its share of total U.S. imports.

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<sup>22</sup> Prices, starting out low in January, increased steadily throughout 2002.

<sup>23</sup> F.A.R.C. stands for Revolutionary Armed Forces of Colombia, a wing of the country's Communist Party, and Colombia's oldest, best equipped guerilla group.

<sup>24</sup> Refined copper cathodes (HTS provision 7403.11.00) are also on the list of leading items that benefited exclusively from ATPA (see chapter 3).



During the years before 2002, most U.S. imports of refined copper cathodes from Peru entered under ATPA because they exceeded GSP competitive-need limits and thus were eligible for duty-free entry only under ATPA. Thus, in 2002, when ATPA was not in effect, the product became dutiable (table 2-7). The product's dutiable status, however, does not seem to have significantly affected overall U.S. imports of copper cathodes from Peru on an annual basis; their 2-percent decline may have been a continuation of a downward trend related to market conditions.

### *Flowers*

The flower sector has been the number one beneficiary of the ATPA program since its implementation in 1991. All four flower items that were previously among the leading imports under ATPA—roses, chrysanthemums,<sup>25</sup> cut flowers suitable for bouquets, and miniature carnations—remained on the 2002 list of leading imports under ATPA (table 2-6). However, the value of total imports of fresh cut flowers from ATPA countries (HTS 0603.10) dropped 6.4 percent during this atypical year. Three flower products imported from ATPA countries—roses, chrysanthemums, and cut flowers suitable for bouquets—also appear on the 2002 list of leading imports under all entry categories from ATPA countries (table 2-3).

Roughly two-thirds of the U.S. cut flower market continues to be served by imports.<sup>26</sup> Colombia and Ecuador are the number one and number two U.S. suppliers of flowers among all countries of the world, accounting in 2002 for 54.7 percent and 16.5 percent, respectively, of all U.S. imports. The Dole Fresh Fruit International Co. owns and operates 23 flower farms in Colombia and Ecuador through its subsidiary, Americaflor Limitada, the world's largest grower of fresh flowers.<sup>27</sup> 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.

The removal of ATPA duty-free treatment for flowers in December 2001 was regarded as a major competitive disadvantage by interested parties. Both Colombian and Ecuadorian flower growers warned that, because profit margins are so slim in the highly competitive flower business (an average of 2 to 4 percent),<sup>28</sup> the cost of the duty (between 3.2 and 6.8 percent ad valorem) imposed on flower imports after ATPA expired threatened the viability of some of the flower farms. According to the

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<sup>25</sup> Roses (HTS 0603.10.60) and chrysanthemums (HTS 0603.10.70) are also on the list of leading items that benefited exclusively from ATPA (see chapter 3).

<sup>26</sup> United States International Trade Commission, "Imports Continue to Dominate the U.S. Flower Market," *Press Release*, 03-24, March 6, 2003.

<sup>27</sup> Richard Harrah, President, Dole Fresh Fruit International Co., his prepared statement to the Subcommittee on International Trade, United States Senate, for a hearing held on the Andean Trade Preference Act, Aug. 3, 2001.

<sup>28</sup> Submission to the Commission by Susan M. Schmidt, Counsel for Colombian Flower Exporters Association, received July 2, 2002, in connection with USITC, *Andean Trade Preference Act: Impact on U.S. Industries and Consumers and on Drug Crop Eradication and Crop Substitution, Eighth Report 2001*, Inv. No. 332-352, September 2002.

Colombian Flower Exporters Association (Asocolflores), the tariffs cost the floral industry about \$2.5 million per month, and affected shipments in 2002 for Valentine's Day and Mother's Day, which represent the major portion of total annual shipments.<sup>29</sup>

As a result of the reimposition of duties on cut flower imports, flower growers in ATPA countries began to take various measures to control expenses, such as curtailing investment, market development, training, and social and environmental programs. Asocolflores noted that profit margins are less than the tariff preference granted by ATPA.<sup>30</sup> The Association of Floral Importers of Florida claimed that the expiration of ATPA jeopardized the continued viability of the association's members and its 6,100 employees, as well as 220,000 other U.S. jobs dependent on imported flowers from ATPA countries.<sup>31</sup>

Imports continued to decline in 2002, as they had done in 2001, and profit margins may have suffered as well. Imports of roses from ATPA countries dropped 6.9 percent during the year as 60.2 percent became dutiable (roses are not eligible for duty-free treatment under GSP). Imports of chrysanthemums were down 13 percent as 46 percent of imports entered in the dutiable category. Imports of miniature carnations dropped 7.6 percent; 27 percent of their imports became dutiable and there was a shift from ATPA to GSP (table 2-7). Imports of cut flowers suitable for bouquets, however, were up 2 percent in 2002 with 21.8 percent of imports subject to duties.

### *Jewelry*

The 2002 list of leading imports under ATPA continued to feature three gold jewelry products classified under HTS provision 7113.19; the same number as contained in the 2001 list (table 2-6). U.S. imports of jewelry (HTS provision 7113) from ATPA countries have declined in recent years. In contrast, U.S. trade data show increases in imports of these products from sources such as India, Thailand, Hong Kong, and China.

In view of the downward trend of imports of recent years, a less than 5 percent decline of jewelry (HTS 7113) imports from ATPA countries in 2002 does not indicate that ATPA's expiration had an adverse effect on this trade. More than 90 percent of various items of jewelry and jewelry parts (HTS 7113.19.50) entered free of duty in 2002 as imports took greater advantage of the GSP program than they had in prior years (table 2-7).<sup>32</sup> Similarly, 96 percent of imports of gold necklaces and neck chains (HTS 7113.19.29) were free of duty in 2002, owing to entries switching from ATPA to GSP. Total imports of this product reached record levels in 2002, surging 55.5 percent.

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<sup>29</sup> Ibid.

<sup>30</sup> Ibid.

<sup>31</sup> Submission to the Commission by Lin Watts, Executive Vice President of Association of Floral Importers of Florida, received June 28, 2002, in connection with USITC, *Andean Trade Preference Act: Impact on U.S. Industries and Consumers and on Drug Crop Eradication and Crop Substitution, Eighth Report 2001*, Inv. No. 332-352, September 2002.

<sup>32</sup> In 2001, only 10 percent of imports entered under GSP and 89 percent entered under ATPA.

Imports of gold rope necklaces (HTS 7113.19.21)<sup>33</sup> were up 79 percent, recovering from their low level in 2001, even though 45 percent of imports of this product entered as dutiable, at a rate of 5 percent ad valorem. As mentioned earlier, this jewelry product is the only non-petroleum product that newly appeared on the 2002 list of leading items under ATPA.

Peru, which ranks as the 13<sup>th</sup>-largest jewelry (HTS 7113) supplier to the United States, was a major U.S. source of all three items, and the number one U.S. supplier of gold rope necklaces and chains. It is also the largest U.S. jewelry supplier among ATPA countries. However, U.S. imports from Peru declined in 2002. Jewelry imports increased, meanwhile, from Bolivia and Colombia, the other ATPA-country suppliers.

### *Asparagus*

Fresh asparagus (HTS subheadings 0709.20.10 and 0709.20.90)<sup>34</sup> has been consistently among the leading products imported under ATPA, and remained so in 2002.<sup>35</sup> Virtually all U.S. imports of asparagus from ATPA countries originate in Peru, which is the second-ranking U.S. supplier of fresh asparagus, accounting for 43 percent of all U.S. imports in 2002. Most of the remaining imports are from Mexico, the number one supplier. Mexico's advantage of lower transportation costs to U.S. markets is believed to offset some of the advantage ATPA countries may have in their cost of production.<sup>36</sup>

Asparagus is a labor-intensive, high-value perennial crop, generally harvested in significant amounts 3 years after planting. As such, its production represents a significant long-term investment for growers. The Peruvian asparagus industry has dramatically increased production in the past decade, and is now producing fresh asparagus virtually year round. As a result of ATPA's implementation, asparagus has become Peru's second largest export crop.<sup>37</sup> The country is virtually the sole foreign supplier of asparagus entering the United States from September 15 to November 15, when domestic production is low.

In 2002, total U.S. imports of asparagus from ATPA countries under HTS subheading 0709.20.10 were up by 23 percent and under HTS subheading 0709.20.90 were up by 18 percent (table 2-7). The continued growth in imports indicates that the absence of

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<sup>33</sup> Gold rope necklaces (HTS 7113.19.21) are also on the list of leading items that benefited exclusively from ATPA (see chapter 3).

<sup>34</sup> HTS subheading 0709.20.10 includes fresh or chilled asparagus not reduced in size, entered during the period from September 15 to November 15, inclusive, in any year, and transported to the United States by air. HTS subheading 0709.20.90 includes all other fresh or chilled asparagus.

<sup>35</sup> Fresh asparagus imported under both HTS subheading 0709.20.10 and HTS subheading 0709.20.90 are also on the list of leading items that benefited exclusively from ATPA (see chapter 3).

<sup>36</sup> United States General Accounting Office, "Impacts of the Andean Trade Preference Act on Asparagus Producers and Consumers," GAO-01-315, found at Internet address <http://www.GAO.gov/>, retrieved June 3, 2002.

<sup>37</sup> Ibid.

preferential duty treatment under ATPA did not adversely affect Peruvian supply. The U.S. asparagus industry has expressed concern about the competition of Peruvian asparagus in the U.S. market, stating that "Peruvian imports are displacing U.S. asparagus production at an alarming rate."<sup>38</sup>

### *Pigments*

Pigment dispersions (HTS 3212.90.00)<sup>39</sup> remained a leading import under ATPA in 2002, even though imports (both total and under ATPA) dropped precipitously, by more than four-fifths of their 2001 value.<sup>40</sup> The United States first imported pigment dispersions from the ATPA region (Colombia) in 1997, when the Colombian Government offered export subsidies for these products to stimulate their manufacturing and exports, and bring hard currency into the country.<sup>41</sup>

In 1999, Colombia was the leading U.S. supplier of pigment dispersions among all countries in the world as U.S. imports surged from that country. U.S. imports continued to grow in 2000, with pigments becoming the second-leading ATPA item that year. The upward trend of imports stopped in 2001, when they dipped somewhat. Until 2002, virtually all such imports from Colombia entered under ATPA.

In January 2002, the Colombian Government reduced the export subsidies, and in August 2002 removed them.<sup>42</sup> For the year, Colombia accounted for less than one-third of all U.S. imports of HTS 3212.90.00 pigment dispersions, compared with four-fifths of the total in 1999. The share of Germany and Canada, the second- and third-largest U.S. suppliers, increased significantly, although Colombia continued to be the principal U.S. source of this product.

Pigments seem to be the only leading import under ATPA in which total U.S. imports dropped spectacularly, by more than four-fifths, in 2002 (table 2-7). The removal of Colombian export subsidies might have been mostly responsible for this steep decline, because without subsidies it became less economical for Colombian companies to manufacture this product.<sup>43</sup> ATPA's long lapse during the year, and uncertainty before August 6, 2002 about whether ATPA would be renewed, may also have contributed to U.S. customers sourcing this product away from Colombia. Shifting

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<sup>38</sup> 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.

<sup>39</sup> 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.

<sup>40</sup> Pigments are also on the list of leading items that benefited exclusively from ATPA (see chapter 3).

<sup>41</sup> Based on a telephone conversation and e-mail communication with Mr. Bruce Edwards, Metalor USA Refining Corp., Aug. 12, 2003.

<sup>42</sup> *Ibid.*

<sup>43</sup> Colombia is committed to phase out export subsidies, which are inconsistent with the WTO Agreement on Subsidies and Countervailing Measures, and issued various decrees to correct its restrictive trade practices. See, USTR, *2002 National Trade Estimate Report on Foreign Trade Barriers*, p. 75.

entries to GSP to avoid duties was not an option, because imports of Colombian pigments exceeded the competitive-need limit and thus were eligible for duty-free treatment only under ATPA.

### *Cigarettes*

Total U.S. imports of cigarettes (HTS 2402.20.80)<sup>44</sup> from ATPA countries more than doubled in 2002 compared with 2001, the first year in which U.S. cigarette imports were recorded in meaningful quantities from the ATPA region, specifically from Colombia. In 2002, Colombia was the second-ranking U.S. supplier of this product worldwide, preceded only by Japan. Canada was the third-ranking U.S. source. Notably, Peru joined Colombia in 2002 as an ATPA supplier of cigarettes.

Whereas in 2001 virtually all cigarettes the United States imported from ATPA countries entered under ATPA free of duty, during 2002, 38 percent of imports became dutiable (table 2-7). The ad valorem rate of duty for this product is 12.3 percent. Had ATPA been operative throughout the year, cigarette imports would likely have increased even more.

### *Guavas and mangoes*

Seasonal guavas and mangoes (HTS 0804.50.40), which enter the United States from September 1 through May 31, come from Peru and Ecuador in the ATPA region. Worldwide, the principal U.S. suppliers are Mexico (almost 40 percent of U.S. imports in 2002), and Brazil (24 percent in 2002). Peru was the third-ranking U.S. supplier in 2002, accounting for 17.7 percent of total U.S. imports, and Ecuador was fourth, with 9.2 percent.

Whereas U.S. imports of guavas and mangoes were up 16.1 percent from all countries in 2002, imports from ATPA countries increased more, by 24.2 percent, indicating no obvious adverse effect on trade of ATPA's expiration during part of the year. More than one-half of U.S. imports entered under GSP, and a quarter of the total entered under ATPA; thus the bulk of the trade remained free of duty. The remainder was dutiable at a rate of 8.4 percent ad valorem.

### *Onions*

For the past 2 years, onions (HTS 0703.10.40) have been a leading import under ATPA. Peru was the third-ranking U.S. supplier of imported onions among all countries in 2002, accounting for over 10 percent of total U.S. imports. Most onions the United States imports originate in Mexico (71 percent of total imports in 2002), followed by Canada (14 percent).

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<sup>44</sup> Cigarettes (HTS 2402.20.80) are also on the list of leading items that benefited exclusively from ATPA (see chapter 3).

The United States first registered significant imports of onions from ATPA countries, mostly under ATPA, some under GSP, in 1999. After dropping substantially in 2000, onion imports under ATPA rose in 2001. In 2002, during the better part of which preferential treatment under ATPA had lapsed, over one-half of U.S. onion imports from ATPA countries entered duty-free under GSP, and only 6.2 percent entered as dutiable, at a rate of 1.3 percent ad valorem (table 2-7). Overall imports of onions were up 18 percent from all ATPA countries in 2002, but 23 percent from Peru, the principal ATPA supplier. Imports from Ecuador and Colombia were very small from the outset, and further declined in 2002. Thus, continued growth of U.S. imports in 2002 indicates that onion imports were not affected by the lack of preferential treatment under ATPA.

### *Articles of wood*

In 2002, total U.S. imports of articles of wood not elsewhere specified or included (n.e.s.o.i.) (HTS 4421.90.97) from ATPA countries declined 3.1 percent, compared with imports of articles of wood n.e.s.o.i (HTS 4421.90.98) in 2001.<sup>45</sup> Because of the lapse of ATPA during part of the year, 28 percent entered in the dutiable category at 3.3 percent ad valorem, and 24 percent entered under GSP (table 2-7). Owing to the fluctuation of U.S. wood products' (HTS 4421.90) imports from ATPA countries in recent years, the small decline in 2002 imports is probably not attributable to ATPA's lapse during part of the year.

Virtually the only ATPA-country source of U.S. imports was Ecuador, which was the ninth-ranking U.S. supplier worldwide of HTS 4421.90.97 in 2002. The United States imports wood products primarily from Canada and China.

### **Former Leading Imports Under the Original ATPA**

The six new products on the 2002 list of leading imports under ATPA (table 2-6) replaced six products that had been on the list in 2001. Table 2-8 shows those products that ceased to be leading imports under ATPA in 2002, including the percentage change in total U.S. imports from ATPA countries of these products from 2001 to 2002, and other data that might explain how ATPA's expiration contributed to a decline in their relative importance in ATPA trade.

For each product listed in table 2-8, a sharply diminished portion of total imports was entered under ATPA in 2002 compared with 2001. Entries of some products shifted from ATPA to GSP, as importers hoped to retroactively obtain duty-free treatment under that program. Other entries were dutiable. Also, total imports (i.e., imports entered under all categories) of each of these products significantly declined in 2002, except for nonadhesive plates and sheets (table 2-8).

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<sup>45</sup> Both the 2002 and 2001 tariff lines were basket categories. Despite their reclassification, HTS 4421.90.97 (in the 2002 HTS) and HTS 4421.90.98 (in the 2001 HTS) are believed to be largely comparable.

Table 2-8

Leading imports under ATPA in 2001 that ceased to be leading imports under ATPA in 2002, change in value of U.S. imports from ATPA countries in 2002 from 2001, and mode of entry as a share of total imports, by HTS provisions, 2001-02

HTS provision	Product description and estimated ad valorem duty equivalent	Change in total imports, 2001-02	Share of total imports in 2002, entering under—				
			ATPA	GSP	Other duty-free program	All duty free	Dutiable
1701.11.10	Raw sugar not containing added flavoring or coloring (NTR 3.4%) . . . . .	-47.7	15.0	70.1	0	85.1	14.9
7901.11.00	Zinc not alloyed, unwrought, containing 99.99% or more by weight of zinc (NTR 1.5%) . . . . .	-33.8	14.9	75.9	0	90.8	9.2
1604.14.40	Tunas and skipjack, not in airtight containers (NTR 0.4%) . . . . .	-17.9	14.4	0.0	0	14.4	85.6
3921.12.19	Nonadhesive plates, sheets, film, foil and strip, cellular, of polymers of vinyl chloride, combined with textile materials, n.e.s.o.i. (NTR 5.3%) . . . . .	12.7	19.6	78.8	0	98.4	1.6
7113.19.10	Rope and chain for jewelry, of gold (NTR 0.7%) . . . . .	-37.7	32.2	62.5	0	94.6	5.4
7306.20.60	Iron or nonalloy steel, seamed, w/ext. Diam. 406.4mm or less or o/than circ. X-sect, tubing of a kind used for drilling for oil/gas (NTR 0.4%) . . . . .	-58.0	60.3	0.0	0	60.3	39.7

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

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

### *Sugar*

Sugar imports from ATPA countries are measured on a fiscal year basis, as they are subject to tariff-rate quotas (TRQs). Even when ATPA preferences lapsed, ATPA countries filled (or nearly filled) their TRQs in fiscal year 2002. The in-quota tariffs are negligible, but there was a shift from ATPA to GSP to receive duty-free treatment. Already in 2001, a year during which ATPA was in effect for 11 months, duty-free imports began to enter under GSP instead of ATPA. This shift to GSP continued in 2002; imports under GSP accounted for 70 percent of total imports compared with 42 percent in 2001 (table 2-8). Whereas no sugar imports from ATPA countries had been dutiable in 2001, 15 percent entered in the dutiable category in 2002 at a 3.4 percent ad valorem rate.

While calendar year 2002 data show a drop in sugar imports from Colombia and Peru, it is not to be seen as an actual decline in such imports. Timing is such that these countries shipped sugar in calendar year 2001 to fill the fiscal year 2002 TRQ. From Ecuador, unlike in prior years, there were no U.S. sugar imports at all during 2002, because Ecuador sold back its quota to the Commodity Credit Corporation of the U.S. Department of Agriculture.

### *Zinc*

Total U.S. imports of unwrought zinc (HTS 7901.11.00) from ATPA countries dropped by 34 percent in 2002, continuing a downward trend, which followed a peak of such imports in 1999 (table 2-8). The steady 3-year decline of U.S. zinc imports from ATPA countries, as well as from other countries since 1999, reflects worldwide oversupply, depressed prices, high inventories, and declining U.S. demand in recent years, owing to the sluggish U.S. economy.

Through the years, virtually all zinc imports from ATPA countries have entered the United States under preferential provisions, mostly under ATPA, some under GSP. In 2001, two-thirds of such imports entered under ATPA and 26 percent under GSP. These proportions changed in 2002, when ATPA accounted for 15 percent of entries, GSP for more than three-fourths, and the remainder became dutiable at 1.5 percent ad valorem. The lapse of ATPA, as well as of GSP during 2002, might have contributed to the decline of U.S. zinc imports from ATPA countries during the year, but the decline was probably mostly the result of sustained, depressed market conditions for the metal, and competition from other suppliers.

Peru is the only U.S. supplier among ATPA countries of this product.<sup>46</sup> Worldwide, Peru was the second-largest U.S. supplier of zinc after Canada until 2001, when Mexico pushed Peru to third place. Peru remained the third-ranking U.S. supplier in 2002, but accounted for only 5.6 percent of all U.S. imports, compared with 16 percent for Mexico, and 67 percent for Canada. In 1999, Peru's share of the U.S. market was almost 10 percent.

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<sup>46</sup> 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.



### *Tuna not in airtight containers*

HTS provision 1604.14.40 is an intermediate product, referred to as “loins” in the trade, which is used in canneries as input for canned or pouched tuna, the final product. Only loins were eligible for duty-free treatment under the original ATPA, but pouched tuna became eligible under ATPDEA.

U.S. imports of “loins” from ATPA countries have been declining since their peak in 1999. In 2002, such imports dropped by 18 percent (table 2-8). Although Ecuador was still the second-ranking U.S. supplier of loins worldwide, its share of U.S. imports continued to fall. Ecuador accounted for 28 percent of total U.S. imports in 2002, compared with 71 percent in 2000. Thailand, the third-ranking supplier, accounted for 16 percent of the total in 2002.

In 2001, almost four-fifths of all imports of loins from Ecuador entered under ATPA; the remainder was dutiable. In 2002, ATPA’s long lapse reversed these proportions; 85.6 percent of U.S. imports entered as dutiable, at a rate of 0.4 percent ad valorem, and only 14.4 percent entered under ATPA. For years, Ecuador, the region’s only big exporter of loins, had also been the leading U.S. supplier of this product worldwide. In 2001, however, Fiji displaced Ecuador to second leading source, as Ecuador’s share of total U.S. imports fell to 35.5 percent, and Fiji’s share soared to 53.6 percent.

Ecuador’s diminishing importance in U.S. loin imports during 2000 and 2001 resulted, in part, from an action of the StarKist company. StarKist, which had imported the Ecuadorian intermediate tuna product, closed its cannery in Puerto Rico and moved those operations to Ecuador. This move enabled Ecuador to produce more of the higher value-added tuna in airtight containers (mostly canned tuna).<sup>47</sup> As a result, a portion of the loins from Ecuador were withdrawn from the trade, and U.S. imports from that country declined.

In addition, Bumble Bee Seafoods converted most of its plant in Puerto Rico to loin processing, thus becoming a competitor for Ecuadorian loins. Before this happened, the Ecuadorian operations of Bumble Bee Seafoods had performed the labor-intensive “loining” phase for Bumble Bee’s canned tuna, and shipped the cooked filets to automated plants in California, which then did the canning.

### *Nonadhesive plates and sheets*

Nonadhesive plates and sheets (HTS provision 3921.12.19), a leading U.S. import under ATPA in 2001, was not on the list in 2002, even though overall U.S. imports from ATPA countries of this product were up 12.7 percent (table 2-8). Nonadhesive plates and sheets are used as upholstery or upholstery coverings in a variety of end uses, including automotive, restaurant seating, boats, wheelchairs, etc.

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<sup>47</sup> Ecuador is also the second-ranking supplier of the U. S. market of canned and pouched tuna (collectively referred to as “tuna in airtight containers”), which is one of the leading U.S. imports from ATPA countries (table 2-3).

Colombia, the only ATPA-country supplier, was the number one U.S. source of this particular 8-digit item in 2002 worldwide, followed by Taiwan and Canada. Colombia had been the second-leading source of the entire HTS 6-digit provision of this and similar products (HTS provision 3921.12) for years through 2001, after Canada. In 2002, Colombia became the number one supplier of the 6-digit product group (as well as of the 8-digit specific product), accounting for almost one quarter of all U.S. imports, followed by Canada, with 15.8 percent.

The long absence of ATPA in 2002, and the reimposition of duties on U.S. imports of nonadhesive plates and sheets at a rate of 5.4 percent, caused an initial decline in imports, but does not seem to have adversely affected trade in 2002 on an annual basis.<sup>48</sup>

### *Gold ropes and chains*

Overall imports of gold ropes and chains (HTS 7113.19.10)—predominantly from Peru, but some from Bolivia—fell 38 percent in 2002 (table 2-8). Owing to ATPA's expiration, almost two-thirds of U.S. imports entered under GSP, whereas during 2001 and prior years, most imports entered under ATPA. In 2002, only 5.4 percent of imports entered as dutiable.

It is unlikely that the large decline in total imports was caused by ATPA's lapse, since total imports of the other three major jewelry items from ATPA countries either increased substantially or declined only marginally in 2002.<sup>49</sup>

### *Iron or non-alloyed steel tubing*

In December 2001, immediately after ATPA's expiration, total U.S. imports of iron or non-alloyed steel tubing (HTS 7306.20.60) from ATPA countries, specifically from Colombia, plummeted by 71.9 percent compared with imports in December 2000. A 58 percent decline of such imports for the year 2002, which followed a surge in imports in both 2000 and 2001, removed the product from the list of leading imports under ATPA (table 2-8). This decline in imports from Colombia reflected mostly a precautionary strategy by the importer,<sup>50</sup> in view of U.S. unfair trade investigations of oil-country tubular goods that have been instituted with respect to imports from several nations. Two-fifths of imports became dutiable during the year at a rate of 0.4 percent ad valorem; the remainder entered under ATPA.

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<sup>48</sup> In December 2001, the first month of ATPA's lapse, U.S. imports of nonadhesive plates and sheets (HTS subheading 3921.12.19) from ATPA countries dropped 46.4 percent, compared with imports in December 2000.

<sup>49</sup> See more on "jewelry" in the section above on "Other Leading Imports Under ATPA."

<sup>50</sup> Based on a telephone conversation of USITC staff with Mr. Byron Dunn, CEO of Lone Star Steel Company, June 16, 2003.

Colombia is the only ATPA-country source of U.S. imports,<sup>51</sup> and the second-ranking supplier of the iron or non-alloyed steel tubing in question worldwide, after South Korea. In 2002, Colombia accounted for 16.7 percent of all U.S. imports and South Korea for 29.1 percent. In recent years, both South Korea and Colombia lost U.S. market share to smaller suppliers, such as Greece (ranked third in 2002) and Brazil (ranked fourth in 2002).

### *Textile and Apparel Articles*

U.S. imports of qualifying textile and apparel articles from the Andean countries became eligible for preferential treatment with the implementation of ATPDEA, on October 31, 2002 (see discussion of legislation in chapter 1). Total U.S. imports of textiles and apparel from the Andean countries in 2002 declined by \$3.8 million or 0.5 percent from the 2001 level to just under \$800 million, following a decline of \$88 million or 10 percent in 2001 when import demand was negatively affected by the slowdown of the U.S. economy (table 2-9). Andean countries accounted for 1 percent of total U.S. textile and apparel imports by value in 2002.<sup>52</sup> Because ATPDEA went into effect late in 2002, and because of technical difficulties in entry identification and data collection, it is unclear how much textile and apparel trade from the Andean countries entered the United States under ATPDEA by year-end 2002. The level of these imports is believed, however, to have been small.

U.S. textile and apparel imports from the Andean countries in 2002 came almost entirely from Peru (49 percent) and Colombia (46 percent), the second consecutive year in which Peru's shipments were larger than Colombia's. U.S. sector imports from Peru grew by 3 percent in 2002 to \$395 million, while those from Colombia fell by 2 percent to \$370 million. Colombia is the only Andean country subject to U.S. textile and apparel quotas.<sup>53</sup> Unlike Peru, which uses few U.S. components in its apparel export production, Colombia has historically used large quantities of U.S. inputs in the production of apparel for export to the United States and has accounted for most of U.S. apparel imports from the Andean countries entering under HTS heading 9802.00.80.<sup>54</sup> In recent years, however, the share of the total value of U.S. apparel

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<sup>51</sup> U.S. imports of iron and non-alloy steel tubing are largely attributable to a marketing agreement between Tubos del Caribe S.A. (Tubocaribe) and Lone Star Steel, which began in 1997.

<sup>52</sup> 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 (OTEXA). The data are available on OTEXA's Web site at <http://otexa.ita.doc.gov>.

<sup>53</sup> U.S. import 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. Colombia filled 83 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 2002.

<sup>54</sup> Imports of the assembled goods can enter under HTS heading 9802.00.80 (formerly TSUS item 807.00), which 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 2-9**  
**Textiles and apparel: U.S. general imports from ATPA countries, by sources, 1998-2002**

(1,000 dollars)

Country	1998	1999	2000	2001	2002
Peru .....	246,018	323,987	405,650	383,783	395,314
Colombia .....	391,962	408,515	443,766	376,326	369,531
Bolivia .....	17,142	15,662	19,172	18,372	18,718
Ecuador .....	14,407	19,289	23,087	24,704	15,855
Total .....	669,529	767,453	891,675	803,185	799,418

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.

imports from the Andean countries entering under HTS heading 9802.00.80 has been decreasing, falling from 39 percent in 1998 to 17 percent in 2002. This decline likely reflected a shift in Colombia's sector trade from apparel assembly-only operations to "full package"<sup>55</sup> apparel programs in an effort to boost its competitiveness.

### *U.S. Imports by Country*

Since the original ATPA's implementation, Colombia has been the leading source of U.S. imports from ATPA countries (table 2-10), and the leading beneficiary of ATPA as well (table 2-11, figure 2-5). Rankings are provided in table 2-10, table 2-11, and figure 2-5.

Overall U.S. imports declined from Colombia and Bolivia in 2002, and increased from Ecuador and Peru (table 2-10). Imports under ATPA declined sharply from each ATPA country, because of the program's lapse during 7 months of the year (table 2-11, figure 2-5). However, in the cases of Ecuador and Colombia, these declines may have been partly offset by the implementation of ATPDEA for the last 2 months of the year, during which both countries' petroleum derivatives became ATPA-eligible for the first time. Notable in this context is that Ecuador's share of all U.S. imports under ATPA surged from 13 percent in 2001 to 18 percent of the total in 2002 (table 2-11, figure 2-5).

### **Colombia**

In 2002, Colombia was responsible for over 40 percent of U.S. imports under ATPA (table 2-11, figure 2-5). This percentage indicates a significant decline over the years of Colombia's once commanding lead—a 60.2 percent share of the total in 1994. In

<sup>55</sup> 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.

**Table 2-10**  
**U.S. imports for consumption from ATPA countries, by sources,**  
**1998-2002**

Source	1998	1999	2000	2001	2002
<i>Value (1,000 dollars)</i>					
Colombia .....	4,441,685	5,882,599	6,680,611	5,622,631	5,382,368
Ecuador .....	1,773,919	1,852,631	2,266,975	1,975,377	2,115,973
Peru .....	1,925,291	1,870,819	1,985,389	1,805,523	1,952,921
Bolivia .....	220,142	224,167	184,250	165,130	160,220
Total .....	8,361,036	9,830,217	11,117,225	9,568,661	9,611,482
<i>Percent of total</i>					
Colombia .....	53.1	59.8	60.1	58.8	56.0
Ecuador .....	21.2	18.8	20.4	20.6	22.0
Peru .....	23.0	19.0	17.9	18.9	20.3
Bolivia .....	2.6	2.3	1.7	1.7	1.7
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 2-11**  
**U.S. imports for consumption under ATPA, by sources, 1998-2002**

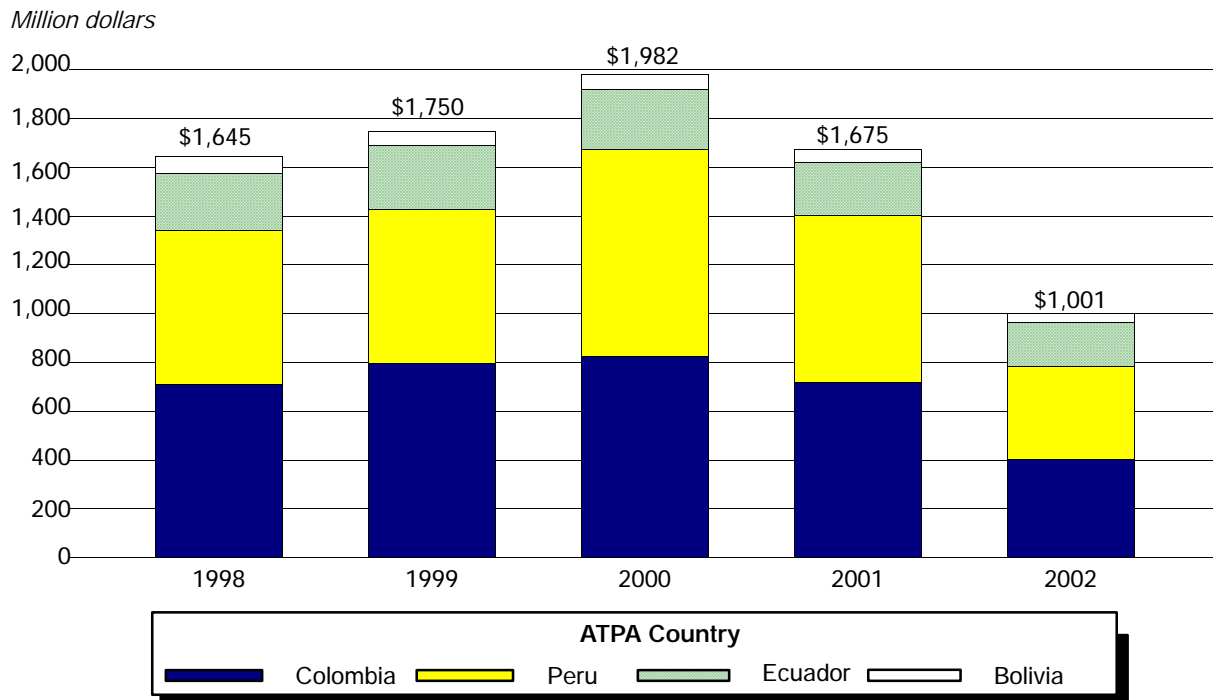
Source	1998	1999	2000	2001	2002 <sup>1</sup>
<i>Value (1,000 dollars)</i>					
Colombia .....	709,889	797,305	826,559	717,966	404,148
Peru .....	632,676	631,180	846,014	686,341	381,814
Ecuador .....	233,002	260,301	247,595	216,300	177,734
Bolivia .....	69,630	61,492	61,464	53,999	37,119
Total .....	1,645,196	1,750,279	1,981,632	1,674,607	1,000,816
<i>Percent of total</i>					
Colombia .....	43.2	45.6	41.7	42.9	40.4
Peru .....	38.5	36.1	42.7	41.0	38.2
Ecuador .....	14.2	14.9	12.5	12.9	17.8
Bolivia .....	4.2	3.5	3.1	3.2	3.7
Total .....	100.0	100.0	100.0	100.0	100.0

<sup>1</sup> 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 2-5**  
**U.S. imports for consumption under ATPA, by sources, 1998-2002**



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

2002, the country was the major source of nine leading products entered under ATPA, four of which were flowers (table 2-6). Flowers continued to be the largest product category among imports under ATPA from Colombia, despite its diminishing relative importance over time.<sup>56</sup> Three other leading imports under ATPA, principally from Colombia—naphthas and two petroleum oil products—were new leading items that entered under ATPDEA.<sup>57</sup> The remaining Colombian products on the list were pigments and cigarettes (see also table 2-12).

Although Colombia gained new, important preferences under ATPDEA through duty-free treatment for its petroleum and derivatives, the country's relative share in ATPA trade continued to decline in 2002 (table 2-11, figure 2-5). This can be explained by the drop in U.S. imports of Colombia's original ATPA products, including flowers and, especially, pigments.

<sup>56</sup> As a means of consolidating their markets, Colombian exporters and importers in Florida formed the Colombia Flower Council (CFC) in 1987 in Miami, with the objective of promoting the consumption of Colombian flowers in the U.S market. (Source: <http://www.colombianflowers.com/>, retrieved on June 3, 2002.)

<sup>57</sup> Ecuador is also an important source of petroleum derivatives.

Table 2-12  
Leading U.S. imports for consumption entered under ATPA, by sources, 2000-02

Source	HTS Provision	Description	1,000 dollars			Change, 2001-02 Percent
			2000	2001	2002	
Colombia	2709.00.20	Petroleum oils and oils from bituminous minerals, crude, testing 25 degrees A.P.I. or more	0	0	66,571	(1)
	0603.10.60	Roses, fresh cut	133,214	117,095	51,006	-56.44
	0603.10.70	Chrysanthemums, standard carnations, anthuriums and orchids	119,480	91,664	46,284	-49.51
	2709.00.10	Petroleum oils and oils from bituminous minerals, crude, testing under 25 degrees A.P.I.	0	0	40,072	(1)
	3212.90.00	Pigments dispersed in nonaqueous media, in liquid or paste form, used in making paints; dyes and coloring matter packaged for retail sale	195,546	194,628	29,866	-84.66
	0603.10.80	Cut flowers and flower buds suitable for bouquets, n.e.s.o.i.	62,309	52,896	29,339	-44.53
2402.20.80	Cigarettes containing tobacco but not clove, paper-wrapped	840	13,358	17,188	28.67	
Peru	7403.11.00	Total	511,390	469,640	280,326	-40.31
		Cathodes and sections of cathodes, of refined copper	565,651	429,379	248,663	-42.09
Ecuador		Total	565,651	429,379	248,663	-42.09
	2709.00.10	Petroleum oils and oils from bituminous minerals, crude, testing under 25 degrees A.P.I.	0	0	79,732	(1)
0603.10.60	Roses, fresh cut	59,127	63,145	18,758	-70.29	
0603.10.80	Cut flowers and flower buds suitable for bouquets, n.e.s.o.i.	27,267	30,126	13,041	-56.71	
2710.19.10	Distillate/residual fuel oil (including blends) derived from oils or oil of bituminous minerals, testing 25 degree A.P.I. or more	0	0	6,584	(1)	
4421.90.97	Articles of wood, n.e.s.o.i.	0	0	6,526	(1)	
Bolivia		Total	86,393	93,271	124,641	33.63
	7113.19.50	Gold jewelry, except necklaces and clasps	29,233	24,437	16,545	-32.30
	7113.19.29	Gold necklaces and neck chains, other than rope or mixed link	8,428	6,997	9,747	39.29
	Total	37,661	31,435	26,292	-16.36	

<sup>1</sup> Not meaningful.

Note.—The abbreviation "nesi" stands for "not elsewhere specified or included." The abbreviation "nesol" stands for "not elsewhere specified or otherwise included."  
Source: Compiled from official statistics of the U.S. Department of Commerce.

## Peru

Peru accounted for 38.2 percent of all U.S. imports under ATPA in 2002 (table 2-11, figure 2-5). Six leading ATPA products listed in table 2-6 originated mainly, or exclusively, in Peru: refined copper cathodes, two types of asparagus, gold chain necklaces, gold necklaces, and onions (table 2-6 and table 2-12). Although U.S. imports of copper cathodes from Peru under ATPA were down considerably during 2002, this product alone accounted for two-thirds of all imports under ATPA from Peru.

## Ecuador

Ecuador accounted for 18 percent of 2002 imports under ATPA (table 2-11, figure 2-5); it was the major source of four leading imports under the program, two of them petroleum derivatives (table 2-6).<sup>58</sup> Even though ATPDEA was in effect for only 2 months of 2002, petroleum derivatives came to dominate 2002 imports from Ecuador under ATPA, accounting for more than 52 percent of this trade.

Roses and cut flowers, which were both leading imports under the program, constituted another important portion of Ecuador's trade under ATPA. In addition, guavas and mangoes, and wood products were imported principally from Ecuador in 2002 (table 2-6, table 2-12).

## Bolivia

Bolivia's share of U.S. imports under ATPA was 3.7 percent in 2002 (table 2-11, figure 2-5). The country was the source of only one leading import item under ATPA: gold jewelry and parts (table 2-6). This remained a leading ATPA product, even though during 2002 Bolivia entered a larger portion of U.S. imports under GSP than under ATPA.

## U.S. Exports

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In 2002, ATPA countries combined ranked 20th as a U.S. export market, ahead of Ireland, but behind Switzerland. U.S. exports to ATPA countries, which increased through 1997 to \$8.7 billion, were down sharply in 1999; thereafter they increased only slightly each year owing to weak demand resulting from the poor performance of the ATPA economies. U.S. exports to ATPA countries amounted to \$6.5 billion in 2002, 25 percent less than in 1998 (table 2-1).

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<sup>58</sup> Colombia is also an important source of petroleum derivatives.



Nonelectrical and electrical machinery, equipment, and parts (HTS chapters 84 and 85) remained the two leading 2-digit HTS product categories of U.S. exports to the region, even though such exports declined during the year (table 2-13, figure 2-6).<sup>59</sup> Combined, the value of U.S. exports of these two machinery groups to ATPA countries was 30 percent lower in 2002 than in 1998, and 5 percent lower than in 2001.

Among the 20 leading U.S. exports to ATPA countries in 2002 in terms of HTS 8-digit provisions, six were classified as nonelectrical machinery, equipment, appliances, and parts; they were destined principally for oil and gas extraction, other mining, and the data processing industries. Only one leading export was an electrical machinery product: transmission apparatus for communications (table 2-14).

Exports to ATPA countries of goods in most other major product groups were up in 2002. Exports of organic chemicals (HTS chapter 29)—the third leading category of U.S. exports to the region—have expanded in recent years, and gained relative share in total U.S. exports to ATPA countries. Such exports were up 13 percent in 2002 compared with 2001 (table 2-13). Within the category, exports of vinyl chloride (an organic chemical) were up 37 percent (table 2-14) and propene (propylene) 177 percent during the year. Exports in the aircraft category were up 69 percent<sup>60</sup> and exports of cereals rose 22 percent.

Table 2-15 ranks the four ATPA countries as U.S. export markets in 2002 in the following order: Colombia, Ecuador, Peru, and Bolivia (see also figure 2-7). This ranking is the same in 2002 as the ranking for the U.S. import side (table 2-10). Ecuador replaced Peru during 2002 as the second-largest recipient of U.S. exports among ATPA countries. Ecuador alone accounts for the slight increase of U.S. exports to the entire region during the year (table 2-15) as U.S. exports to the other ATPA countries declined.

## *Colombia*

In 2002, the Colombian economy grew by only 1.6 percent.<sup>61</sup> The continued contraction of the petroleum extraction industry since its peak in 1999 was a major factor thwarting Colombia's economic growth and exports. The sluggish economies of Colombia's important trading partners, the United States and Latin American nations, and their consequent lower demand for Colombian products, also played a part in

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<sup>59</sup> In the United States, export data are commonly referred to as being reported under Schedule B, the separate U.S. export schedule based on the Harmonized Tariff Schedule. For purposes of this report, and for ease of comparison with the analysis on imports, Schedule B numbers are referred to here as HTS provisions. All Schedule B provisions mirror the HTS or aggregate to HTS provisions, except as noted in the HTS Notice to Exporters, which enumerates unique Schedule B categories that must be used for reporting covered exports.

<sup>60</sup> However, this figure is misleading, because exports of military helicopters, used for drug eradication in Colombia, were reported in 2002 for the first time as foreign trade.

<sup>61</sup> United Nations, ECLAC, *Preliminary Overview of the Economies of Latin America and the Caribbean, 2002*, December 2002. All numbers concerning the economies of the four ATPA countries are preliminary, based on data covering the first three quarters of the year.

**Table 2-13  
U.S. exports to ATPA countries, by major product categories, 1998-2002**

HTS Chapter	Description	1998	1999	2000	2001	2002
		Value (1,000 dollars)				
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof .....	2,158,671	1,598,029	1,602,759	1,720,395	1,624,715
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television recorders and reproducers, parts and accessories .....	1,017,754	618,746	602,835	629,030	607,976
29	Organic chemicals .....	376,097	347,206	472,660	417,604	473,033
10	Cereals .....	499,602	444,363	331,085	359,635	439,742
39	Plastics and articles thereof .....	386,741	289,268	365,905	350,532	370,050
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof .....	265,848	185,958	198,485	224,113	235,413
88	Aircraft, spacecraft, and parts thereof .....	313,133	176,770	198,772	133,159	224,513
48	Paper and paperboard; articles of paper pulp, paper or paperboard .....	260,464	238,738	247,955	220,542	221,241
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes .....	173,041	94,053	104,335	134,404	169,203
38	Miscellaneous chemical products .....	176,781	141,733	149,675	160,120	150,797
	Subtotal .....	5,628,130	4,134,864	4,274,465	4,349,535	4,516,683
	All other .....	3,041,937	2,128,306	2,020,625	2,013,800	1,947,079
	Total .....	8,670,068	6,263,169	6,295,089	6,363,334	6,463,762

See note at end of table.

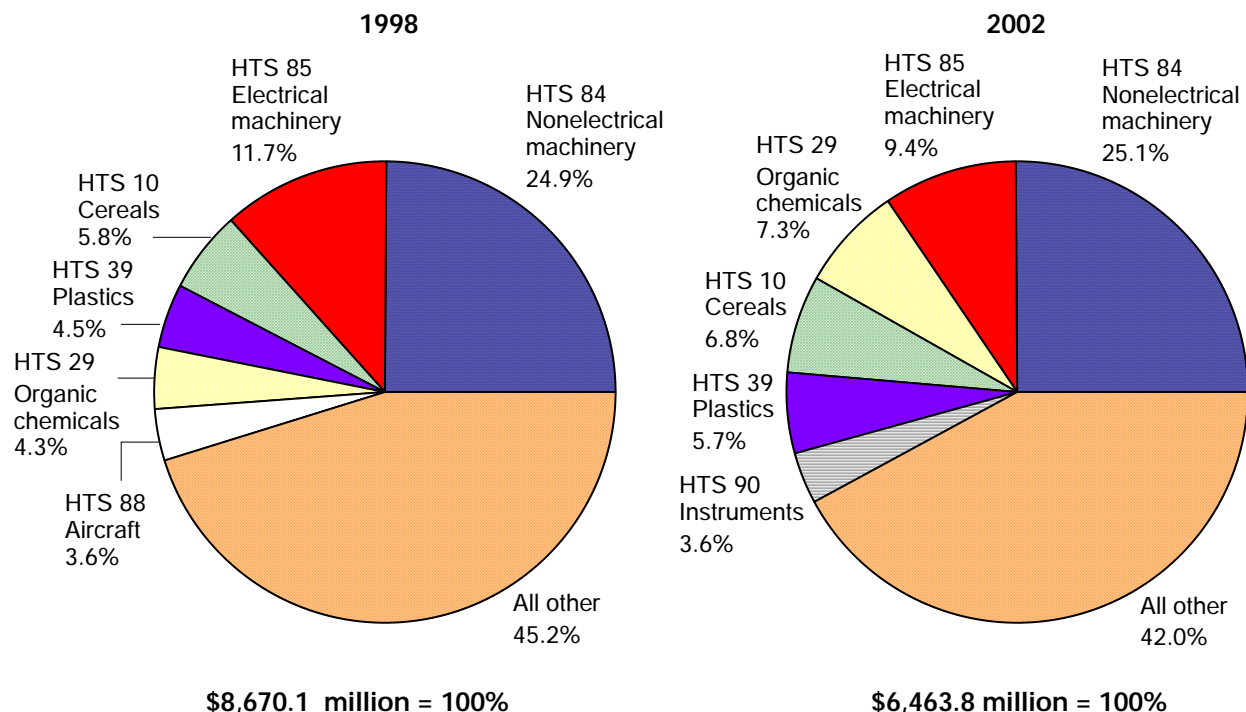
Table 2-13—Continued  
 U.S. exports to ATPA countries, by major product categories, 1998-2002

HTS Chapter	Description	1998	1999	2000	2001	2002
				Percent of total		
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof . . . . .	24.90	25.51	25.46	27.04	25.14
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television recorders and reproducers, parts and accessories . . . . .	11.74	9.88	9.58	9.89	9.41
29	Organic chemicals . . . . .	4.34	5.54	7.51	6.56	7.32
10	Cereals . . . . .	5.76	7.09	5.26	5.65	6.80
39	Plastics and articles thereof . . . . .	4.46	4.62	5.81	5.51	5.73
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof . . . . .	3.07	2.97	3.15	3.52	3.64
88	Aircraft, spacecraft, and parts thereof . . . . .	3.61	2.82	3.16	2.09	3.47
48	Paper and paperboard; articles of paper pulp, paper or paperboard . . . . .	3.00	3.81	3.94	3.47	3.42
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes . . . . .	2.00	1.50	1.66	2.11	2.62
38	Miscellaneous chemical products . . . . .	2.04	2.26	2.38	2.52	2.33
	Subtotal . . . . .	64.91	66.02	67.90	68.35	69.88
	All other . . . . .	35.09	33.98	32.10	31.65	30.12
	Total . . . . .	100.00	100.00	100.00	100.00	100.00

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

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

**Figure 2-6**  
**Composition of U.S. exports to ATPA countries, by major product categories, 1998 and 2002**



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

curtailing Colombia's exports, which were down by 5 percent in 2002. Because Colombia's imports were down by 4 percent, i.e., less than its exports, the country's foreign trade and current account deficits widened in 2002.<sup>62</sup> In addition, the Colombian Government needed to cover its borrowing requirements for 2003 with new loans. However, in January 2003, the Government bolstered confidence by signing a new, 2-year \$2.1 billion stand-by agreement with the International Monetary Fund.<sup>63</sup>

Despite its contracting market for U.S. products in recent years, Colombia remained the dominant purchaser of U.S. exports among the ATPA countries. U.S. exports to Colombia amounted to \$3.3 billion in 2002, more than half of U.S. exports to ATPA countries combined. Colombian demand diminished most for U.S. machinery and equipment, especially electrical. In 2002, U.S. exports to Colombia of nonelectrical machinery products were 25 percent lower than the level recorded in 1998; U.S. exports of electrical machinery were 40 percent less. Compared with 2001, the decline in such exports was 4.6 percent and 3.3 percent, respectively (table 2-13).

<sup>62</sup> Ibid.  
<sup>63</sup> Ibid.

**Table 2-14**  
**Leading U.S. exports to ATPA countries, by HTS provisions, 2000-02**

HTS Provision	Description	1,000 dollars			Change, 2001-02 Percent
		2000	2001	2002	
8431.43.80	Parts for boring or sinking machinery of 8430.41 or 8430.49, nesl . . . . .	224,328	228,897	263,573	15.15
1005.90.20	Yellow dent corn . . . . .	189,484	184,109	217,426	18.10
1001.90.20	Wheat & meslin other than durum or seed wheat . . . . .	116,781	158,945	194,305	22.25
8802.12.00	Helicopters, with an unladen weight over 2,000 kg . . . . .	0	58,677	129,468	120.65
8525.20.90	Transmission apparatus incorp. reception app. (other than transceivers) for radiotelephony, radiotelegraphy, radiobroadcasting or television . . . . .	104,101	124,142	124,425	0.23
8473.30.00	Parts and accessories of automatic data processing machines and units thereof . . . . .	138,607	104,335	105,670	1.28
2903.21.00	Vinyl chloride (Chloroethylene) . . . . .	128,335	73,687	100,744	36.72
4804.11.00	Uncoated, unbleached kraftliner, in rolls or sheets . . . . .	131,903	94,705	95,312	0.64
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 . . . . .	84,282	92,275	87,505	-5.17
8431.39.00	Parts suitable for use solely or principally with the machinery of heading 8428, nesl . . . . .	67,826	95,791	77,357	-19.24
5201.00.10	Cotton, not carded or combed, having a staple length under 28.575 mm, (1-1/8 inches) . . . . .	66,231	70,993	73,358	3.33
8471.50.00	Digital processing units other than those of subheading 8471.41 and 8471.49, nesoi . . . . .	69,921	93,164	63,523	-31.82
8803.30.00	Parts of airplanes and helicopters, nesoi . . . . .	86,674	48,199	60,739	26.02
3901.10.00	Polyethylene having a specific gravity of less than 0.94, in primary forms . . . . .	58,548	47,460	56,989	20.08
2710.19.10	Distillate and residual fuel oil (including blends) derived from petroleum oils or oil of bituminous minerals, testing 25 degree A.P.I. or > . . . . .	0	0	54,878	(1)
8429.11.00	Self-propelled bulldozers and angledozers, for track laying . . . . .	3,410	1,696	51,961	2,962.98

See footnotes at end of table.

Table 2-14—Continued  
Leading U.S. exports to ATPA countries, by HTS provisions, 2000-02

HTS Provision	Description	2000	2001	2002	Change, 2001-02
		1,000 dollars			Percent
2304.00.00	Oilcake and other solid residues, resulting from the extraction of soybean oil .....	45,487	40,167	50,832	26.55
8474.90.00	Parts for the machinery of heading 8474 .....	65,827	72,726	47,888	-34.15
1201.00.00	Soybeans, whether or not broken .....	20,737	30,700	45,898	49.51
2901.22.00	Propene (Propylene) .....	27,576	15,856	43,889	176.81
	Subtotal .....	1,630,059	1,636,524	1,945,740	18.89
	All other .....	4,665,030	4,726,810	4,518,021	-4.42
	Total .....	6,295,089	6,363,334	6,463,762	1.58

<sup>1</sup> Not meaningful.

Note.—The abbreviation “nesi” stands for “not elsewhere specified or included.” The abbreviation “nesol” stands for “not elsewhere specified or otherwise included.”  
Source: Compiled from official statistics of the U.S. Department of Commerce.

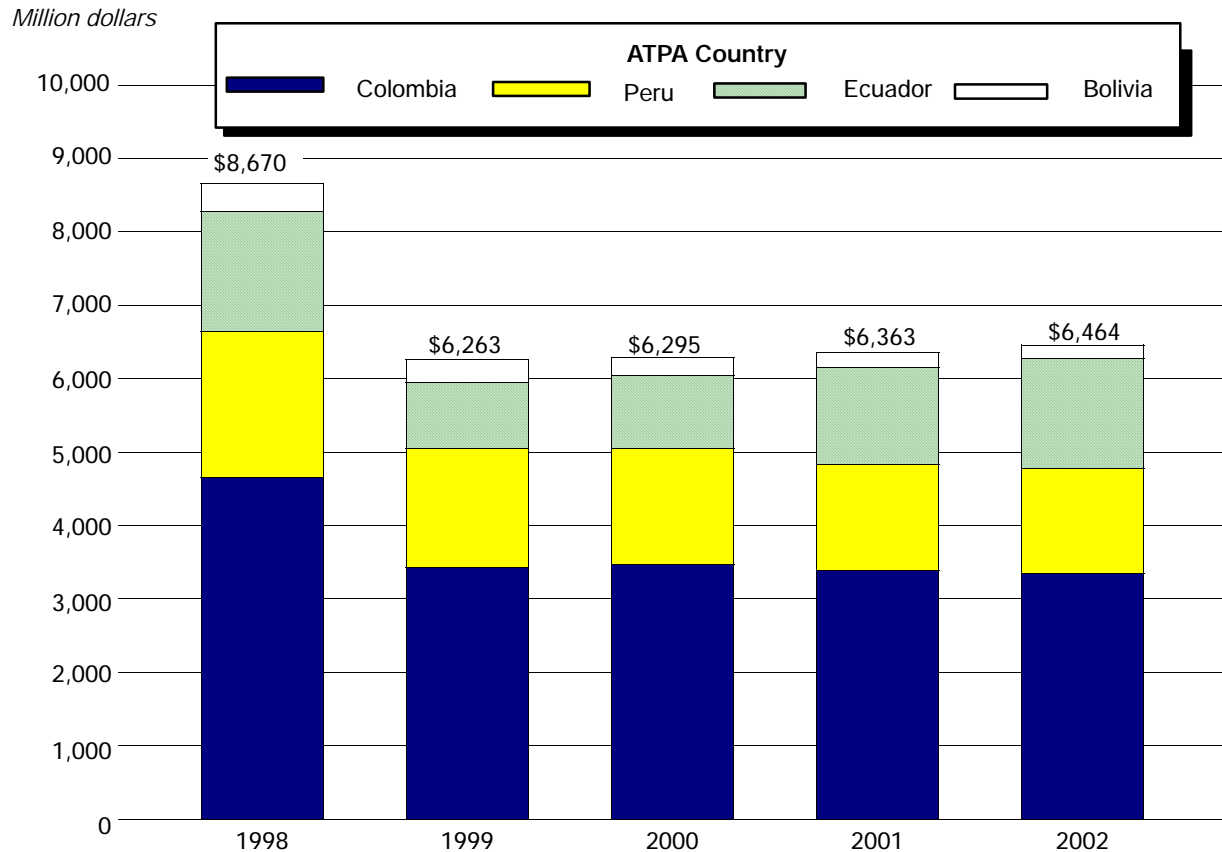
**Table 2-15**  
**U.S. exports to ATPA countries, by markets, 1998-2002**

Market	1998	1999	2000	2001	2002
<i>Value (1,000 dollars)</i>					
Colombia . . . .	4,657,748	3,429,513	3,474,881	3,391,561	3,345,084
Ecuador . . . . .	1,628,753	896,255	999,858	1,319,141	1,495,839
Peru . . . . .	1,991,049	1,630,743	1,579,760	1,450,497	1,441,052
Bolivia . . . . .	392,518	306,659	240,590	202,136	181,786
Total . . . . .	8,670,068	6,263,169	6,295,089	6,363,334	6,463,762
<i>Percent of total</i>					
Colombia . . . .	53.7	54.8	55.2	53.3	51.8
Ecuador . . . . .	18.8	14.3	15.9	20.7	23.1
Peru . . . . .	23.0	26.0	25.1	22.8	22.3
Bolivia . . . . .	4.5	4.9	3.8	3.2	2.8
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 2-7**  
**U.S exports to ATPA countries, by markets, 1998-2002**



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

Over the years, the Colombian market contracted for other U.S. product groups as well, but it increased for aircraft, cereals, organic chemicals, paper and paperboard products,<sup>64</sup> cotton yarns and fabrics, and fertilizers. As in 2001, in 2002 yellow corn was the number one U.S. export to Colombia, where such corn is used primarily in the animal feed industry.<sup>65</sup> Military helicopters ranked second,<sup>66</sup> and vinyl chloride ranked third.

## *Ecuador*

Economic growth in Ecuador largely tracks the performance of the country's petroleum sector. Ecuador's economy grew by 3.4 percent in 2002, compared with 6 percent in 2001. Growth slowed during the year owing to declining crude oil extraction. Meanwhile, work on Ecuador's second pipeline, destined to transport heavy oil only, progressed during the year, making construction the fastest-growing sector of the country's economy (up 18 percent).<sup>67</sup>

Ecuador's exports increased by only 0.9 percent, whereas its imports for the pipeline under construction pushed up overall imports by 17 percent.<sup>68</sup> The high exchange rate of the Ecuadorian currency, which resulted from being tied to the U.S. dollar ("dollarization"), also made imports more expensive. The much slower growth of exports than imports in 2002 further widened Ecuador's trade deficit.<sup>69</sup>

Ecuador's considerable import activity in 2002 is reflected in its expanding market for U.S. products. U.S. exports to Ecuador amounted to \$1.5 billion, up by over 13 percent in 2002; Ecuador was the destination of 23 percent of all U.S. exports to ATPA countries (table 2-15).

Machinery, equipment, and parts accounted for almost half of all U.S. exports to Ecuador in 2002. U.S. exports of electrical machinery and equipment, especially for communications, were up by two-thirds during the year. U.S. exports of nonelectrical machinery and equipment, mostly relating to Ecuador's oil and gas field operations, also increased, as did U.S. exports of cereals, aircraft, and mineral fuels. However, U.S. exports of paper and paperboard products, motor vehicles, organic chemical products, and cotton yarns and fabrics to Ecuador declined.

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<sup>64</sup> Paperboard shipped from the United States to ATPA countries (and some other countries in Latin America) is used mostly to make shipping boxes for fruit trade.

<sup>65</sup> U.S. Department of Commerce, "Colombia, Country Commercial Guide, 2002," found at Internet address <http://www.usatrade.gov>, retrieved May 30, 2002.

<sup>66</sup> As noted above, the exports of military helicopters, used for drug eradication in Colombia, were reported for the first time as foreign trade in 2002.

<sup>67</sup> The Economic Intelligence Unit, *Ecuador, Country Profile, 2003*, retrieved from <http://www.eiu.com> on July 16, 2003; and U.S. Department of Commerce, "Ecuador, Country Commercial Guide, 2002," found at Internet address <http://www.usatrade.gov>, retrieved May 30, 2002.

<sup>68</sup> Ibid.

<sup>69</sup> United Nations, ECLAC, *Preliminary Overview of the Economies of Latin America and the Caribbean, 2002*, December 2002, p. 61.



**Table 2-15**  
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Peru . . . . .	1,991,049	1,630,743	1,579,760	1,450,497	1,441,052
Bolivia . . . . .	392,518	306,659	240,590	202,136	181,786
Total . . . . .	8,670,068	6,263,169	6,295,089	6,363,334	6,463,762
<i>Percent of total</i>					
Colombia . . . .	53.7	54.8	55.2	53.3	51.8
Ecuador . . . . .	18.8	14.3	15.9	20.7	23.1
Peru . . . . .	23.0	26.0	25.1	22.8	22.3
Bolivia . . . . .	4.5	4.9	3.8	3.2	2.8
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.

## *Peru*

With a growth rate of 4.5 percent, Peru's economy performed best among ATPA countries in 2002. Peruvian exports, up 9 percent, were the main engine of growth. The rapid rise of mining products' exports resulted principally from the opening of the Antamina mine in 2001. Peru's exports of nontraditional agricultural products also rose significantly.<sup>70</sup> Because the growth of Peru's exports outpaced its 3 percent growth of imports, the country's balance of trade was slightly positive in 2002, for the first time in 12 years.<sup>71</sup> Peru's financial account also showed a surplus, owing to a higher level of foreign investment than in prior years and to the placement of public bonds. However, the Government was not able to reduce its external debt, which stood at 51 percent of the country's GDP in October 2002.<sup>72</sup>

The country's low level of import activity is reflected in a slight decline of U.S. exports to Peru to \$1.4 billion in 2002; Peru purchased 22 percent of total U.S. exports to ATPA countries (table 2-15). U.S. exports of machinery, equipment, and parts to Peru remained largely stable compared with 2001, as exports of some items in this category soared (such as bulldozers and angledozers, and radio telephones, designed for public cellular radio telecommunications) and others plummeted (such as parts and accessories for computer hardware).

<sup>70</sup> See the previous section on U.S. imports.

<sup>71</sup> United Nations, ECLAC, *Preliminary Overview of the Economies of Latin America and the Caribbean, 2002*, December 2002.

<sup>72</sup> *Ibid.*

Notable was the increase in U.S. exports to Peru of plastics, organic chemicals, soybean products, and light oils. These increases were offset by declines of wheat, gold bullion, and fertilizer exports. Nonetheless, wheat continued to be the number one U.S. product shipped to Peru in 2002.

## ***Bolivia***

For the fourth consecutive year, the Bolivian economy remained stagnant. A decline in demand and prices for Bolivian exports brought a downturn in 1999, and that lower-level activity persisted into 2002.<sup>73</sup> The country's GDP expanded by barely 2 percent in 2002 as the value of the country's exports declined slightly. Bolivia performed poorly in its important mining sector, particularly in the natural gas industry. Sales of Bolivian natural gas contracted almost 10 percent in 2002, as expectations of gas sales to Brazil failed to materialize.<sup>74</sup> Because overall Bolivian imports increased significantly in 2002, the country's trade and current accounts balances continued to deteriorate. An outflow of capital, triggered by the uncertain prospects of Bolivia's domestic economy and the external economic factors on which it depended, aggravated the deterioration of the country's current accounts deficit, which was double the level recorded in the preceding year.<sup>75</sup> In 2002, Brazil overtook the United States as Bolivia's principal trading partner, owing to Bolivia's significant gas exports to that country.<sup>76</sup>

U.S. exports to Bolivia amounted to \$182 million in 2002, 9 percent less than in 2001. These exports amounted to only 42 percent of their 1998 value; since that point they have contracted each year (table 2-15). In 2002, Bolivia accounted for only 2.8 percent of total U.S. exports to all ATPA countries compared with 4.5 percent in 1998. Machinery, equipment, and parts, both electrical and nonelectrical, some relating to gas fields, led the decline. Similarly, U.S. sales of instruments and parts to Bolivia declined markedly; they increased, however, in some smaller export categories, including jewelry, cereals, inorganic chemicals, and pharmaceuticals.

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<sup>73</sup> The Economic Intelligence Unit, *Bolivia, Country Profile, 2003*, retrieved from <http://www.eiu.com> on July 16, 2003.

<sup>74</sup> Ibid., and United Nations, ECLAC, *Preliminary Overview of the Economies of Latin America and the Caribbean, 2002*, December 2002.

<sup>75</sup> Ibid.

<sup>76</sup> The Economic Intelligence Unit, *Bolivia, Country Profile, 2003*, retrieved from <http://www.eiu.com> on July 16, 2003.

# CHAPTER 3

## Impact of ATPA on the United States and Probable Future Effects

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Two issues are addressed in this chapter: the impact of the ATPA trade preference program on the United States in 2002 and the probable future effects of the program.<sup>1</sup> 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.

### Impact of ATPA on the United States in 2002

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Since it was implemented in 1992,<sup>2</sup> 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 has been 0.02 percent or less of U.S. gross domestic product. As pointed out in chapter 2, the total value of U.S. imports from ATPA countries remained small in 2002, amounting to 0.83 percent of total U.S. imports, while imports under ATPA provisions totaled 0.09 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.<sup>3</sup> Sources of this erosion include phased tariff cuts under the Uruguay Round, tariff cuts and eliminations under sectoral trade negotiations, the extension of preferential trading arrangements such as the North American Free Trade Agreement (NAFTA), and the erosion of the ad valorem equivalent of specific duties because of inflation.<sup>4</sup>

Because most U.S. imports from ATPA countries can enter the United States free of duty at general rates or under GSP or are excluded from the program, the Commission focused its analysis of the impact of ATPA on products that can enter free of duty or at reduced duties only under ATPA and not under other programs.

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<sup>1</sup> 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.

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

<sup>3</sup> The higher the ad valorem column 1-general 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 column 1-general rate is more extensively applied—that is, if fewer non-ATPA countries enjoy preferential rates.

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

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.<sup>5</sup> Recordkeeping and data collection for potential ATPA-eligible entries were disrupted by ATPA's lapse and reported data may be incomplete or inaccurate. In the analysis described in this chapter, no attempt was made to quantify any of these uncertainties or disruptions. 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. The addition of newly eligible products under ATPDEA alters the comparability of data and analysis in 2002 with past reports somewhat, but imports of these products occurred in only limited quantities toward the end of the year. Preliminary analysis of data in 2003 indicates that imports of the newly eligible products will play a dominant role among future imports of products benefiting exclusively from ATPA.<sup>6</sup>

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 2002 and had the largest potential impact on competing U.S. industries.

### ***Products That Benefited Exclusively From ATPA in 2002***

U.S. imports of products benefiting exclusively from ATPA in 2002 were defined as those that entered free of duty under ATPA or under the reduced-duty provisions of the original ATPA<sup>7</sup> and were not eligible to enter free of duty under column 1-general rates or under other provisions, such as GSP. 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

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<sup>5</sup> Public Law 107-210, the Trade Act of 2002. The Andean Trade Promotion and Drug Eradication Act (ATPDEA) is Title XXXI of the Act.

<sup>6</sup> For example, for the first 4 months of 2003, petroleum and petroleum products accounted for more than half of the value of products entered under ATPA.

<sup>7</sup> As mentioned in chapter 1, the reduced-duty preferences were terminated by ATPDEA.

**Table 3-1**  
**Total imports from ATPA beneficiaries, imports entered under ATPA, and imports that benefited exclusively from ATPA, 1998-2002**

Item	1998	1999	2000	2001	2002
Total imports from ATPA beneficiaries (million dollars <sup>1</sup> ) .....	8,361	9,830	11,117	9,569	9,611
Imports entered under ATPA: <sup>2</sup>					
Value (million dollars <sup>1</sup> ) .....	1,645	1,750	1,982	1,675	1,001
Percent of total .....	19.7	17.8	17.8	17.5	10.4
Imports that benefited exclusively from ATPA:					
Value (million dollars <sup>1</sup> ) .....	915	939	1,312	1,086	740
Percent of total .....	10.9	9.6	11.8	11.3	7.7

<sup>1</sup> Customs value.

<sup>2</sup> Includes articles entered free of duty and at reduced duties under ATPA provisions (table 2-5). Those provisions are discussed in chapter 1.

Source: Estimated by USITC from official statistics of the U.S. Department of Commerce.

item from a designated beneficiary country had exceeded GSP competitive-need limits and had therefore been removed from GSP.<sup>8</sup>

The value of U.S. imports that benefited exclusively from ATPA decreased from \$1.1 billion in 2001 to \$740 million in 2002, a 32 percent decline (table 3-1). Much of this reduction was the result of the lapse in the program and the reduction of imports recorded under ATPA, although some of the reduction was offset by imports of newly eligible products. Since the implementation of the ATPA program, U.S. imports that benefit exclusively from ATPA have 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, when uncertainties surrounding the long lapse in the GSP program in 1995 and 1996 increased the amount of imports that could benefit exclusively from ATPA.<sup>9</sup> 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

<sup>8</sup> 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.

<sup>9</sup> The U.S. GSP program was not in effect from Aug. 1, 1995 through Sept. 30, 1996. Because of 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 issued before 1995, despite the similar analytical approach used. See USITC, *ATPA, Fourth Report, 1996*, pp. 71-72, for further explanation. Although GSP lapsed in 1997, 1998, 1999, and 2001 (through August 2002), the lapses were considerably shorter than in 1995 and 1996, and quick and retroactive renewals were widely anticipated. Therefore, those lapses were not considered significant enough to warrant a repeat in the post-1996 reports of the assumptions used in the 1995 and 1996 reports. The lower estimates for years after 1996 derive from the assumptions used in designating items that benefit exclusively from ATPA, not from the change in actual usage.

copper cathodes from Peru (HTS subheading 7403.11.00) have come to dominate this category, accounting for around 40 percent of imports benefiting exclusively from ATPA in 2000 and 2001.<sup>10</sup> The share of imports benefiting exclusively from ATPA accounted for by copper cathodes in 2002 dropped to 23 percent. Without copper cathodes, the share benefiting exclusively from ATPA would have been 5.1 percent of total imports from ATPA countries in 2002.

The 20 leading items that benefited exclusively from ATPA are shown in table 3-2. The most notable change in the value of such imports was for refined copper cathodes from Peru, which decreased by \$181 million in value, or 42 percent, from 2001 to 2002. Exclusively benefiting imports of copper cathodes increased rapidly in recent years, more than tripling from 1997 to 2000. However, total imports of copper cathodes from Peru fell only 2 percent in 2002. Because the duty rate for copper cathodes is only 1 percent ad valorem, ATPA preferences probably have a very small influence on imports of such items. Other notable reductions include exclusively benefiting imports of pigments (HTS 3212.90.00) from Colombia, down by \$165 million in value from 2001 to 2002, or 85 percent; fresh-cut roses (HTS 0603.10.60), down by \$111 million, or 61 percent; fresh-cut chrysanthemums, standard carnations, anthuriums, and orchids (HTS 0603.10.70) from Colombia, down \$45 million, or 50 percent; and tunas and skipjack (HTS 1604.14.40), down by \$23 million, or 85 percent. For most of these items, the drop in total imports from ATPA-beneficiary countries was not nearly as large as the drop in exclusively benefiting imports, with the exception of pigments from Colombia, which experienced a drop in total imports of 84 percent. There were other large relative changes in the value of imports of leading items, but these changes were generally from relatively small bases.

Six products were added to the list of 20 leading import items in 2002—light crude oil (HTS 2709.00.10), heavy crude oil (HTS 2709.00.20), naphthas (HTS 2710.11.25), light residual fuel oil (HTS 2710.19.05), and heavy residual fuel oil (HTS 2710.19.10)—all traditional ATPA-country exports made newly eligible for preferences by ATPDEA—and fresh grapes (HTS 0806.10.60), which experienced a large increase in imports.

Leading imports that were identified in previous annual ATPA reports as benefiting exclusively from ATPA between 1992 and 2001 continued to rank among the leading U.S. imports in 2002. Those imports were fresh-cut roses 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.

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<sup>10</sup> 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 3-2**  
**Leading imports that benefited exclusively from ATPA, 2002**

(1,000 dollars)

HTS number	Description	Customs value	C.i.f. value
7403.11.00 <sup>1</sup>	Refined copper cathodes and sections of cathodes .....	248,663	254,244
2709.00.10	Petroleum oils and oils from bituminous minerals, crude, testing under 25 degrees A.P.I. ....	119,804	126,887
0603.10.60	Roses, fresh cut .....	69,765	88,677
2709.00.20	Petroleum oils and oils from bituminous minerals, crude, testing 25 degrees A.P.I. or more .....	66,571	68,992
0603.10.70 <sup>2</sup>	Chrysanthemums, standard carnations, anthuriums and orchids, fresh cut .....	46,284	59,285
0709.20.90	Asparagus, nesi, fresh or chilled .....	31,589	53,557
0709.20.10 <sup>1</sup>	Asparagus, fresh or chilled, not reduced in size, if entered September 15 to November 15, inclusive, and transported to the U.S. by air .....	18,679	32,389
3212.90.00 <sup>2</sup>	Pigments dispersed in nonaqueous media, in liquid or paste form, used in making paints; dyes & coloring matter packaged for retail sale .....	29,866	30,914
2402.20.80	Cigarettes containing tobacco but not containing clove, paper-wrapped ..	20,524	20,992
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 .....	9,722	10,419
7113.19.21 <sup>1</sup>	Gold rope necklaces and neck chains .....	8,657	8,665
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. ....	7,263	7,758
2710.19.10	Distillate and residual fuel oil (including blends) derived from petroleum oils or oil of bituminous minerals, testing 25 degree A.P.I. or > .....	6,584	6,584
6908.90.00	Glazed ceramic flags and paving, hearth or wall tiles; glazed ceramic mosaic cubes and the like, nesi .....	5,323	6,430
0710.80.97	Vegetables nesi, uncooked or cooked by steaming or boiling in water, frozen, reduced in size .....	5,313	6,359
0804.30.40	Pineapples, fresh or dried, not reduced in size, in crates or other packages .....	3,564	4,778
1604.14.40	Tunas and skipjack, not in airtight containers, not in oil, in bulk or in immediate containers weighing with contents over 6.8 kg each .....	3,963	4,286
0806.10.60	Grapes, fresh, if entered during the period July 1 through the following February 14, inclusive .....	3,330	3,850
7306.20.60	Iron or nonalloy steel, seamed, w/ext. diam. 406.4mm or less or o/than circ. x-sect, tubing of a kind used for drilling for oil/gas .....	3,520	3,697
7306.30.50	Iron or nonalloy steel, welded, w/circ. x-sect & ext. diam. 406.4mm or less, pipes, tubes & holl. prof., w/wall thick. of 1.65 mm or more .....	3,135	3,412

<sup>1</sup> 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.

<sup>2</sup> 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 USITC from official statistics of the U.S. Department of Commerce.

## *Welfare and Displacement Effects of ATPA on U.S. Industries and Consumers in 2002*

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).<sup>11</sup> 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.

### **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 2002; they are ranked on the basis of their c.i.f. import values.<sup>12</sup> Those products represented 96 percent of the \$740 million in imports that benefited exclusively from ATPA during 2002.<sup>13</sup> The five leading ATPA-exclusive imports in 2002 were (1) copper cathodes from Peru (which exceeded its GSP competitive-need limit), (2) light crude oil, (3) fresh-cut roses, (4) heavy crude oil, and (5) chrysanthemums and other flowers under HTS 0603.10.70 from Colombia (which exceeded its GSP competitive-need limit). Peru was the leading supplier of copper cathodes; Colombia was the leading supplier of each of the two flower provisions, as well as heavy crude oil; and Ecuador was the leading supplier of light crude oil.<sup>14</sup> In 2001, copper cathodes ranked first among ATPA-exclusive imports, and fresh-cut roses ranked second.<sup>15</sup>

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<sup>11</sup> 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.

<sup>12</sup> 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, where indicated in the text and supporting tables, used c.i.f. values for duty-free items and landed, duty-paid values for reduced-duty items 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 items entering free of duty.

<sup>13</sup> 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 or at reduced 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, indirect shipment patterns, or the lapse of the program during part of 2002.

<sup>14</sup> Leading ATPA suppliers are shown in table 2-6.

<sup>15</sup> For the list of items benefiting exclusively from ATPA in 2001, see *ATPA, Eighth Report, 2001*, p. 3-4.



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.<sup>16</sup> These market shares varied considerably in 2002 (table 3-3). For instance, the market share of ATPA-exclusive imports of fresh-cut chrysanthemums and other flowers under HTS 0603.10.70 from Colombia was approximately 37 percent, whereas the market share of ATPA-exclusive imports of light residual fuel oil was 0.01 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 2002.<sup>17</sup> 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*

Asparagus (HTS subheadings 0709.20.10 and 0709.20.90) provided the largest gain in consumer surplus, from \$7.0 million to \$7.4 million, resulting exclusively from ATPA tariff preferences in 2002 (table 3-4). Without ATPA, the price that U.S. consumers would have paid for imports of asparagus from ATPA countries would have been approximately 8.9 percent higher<sup>18</sup> (the ad valorem duty rate, adjusted for freight and insurance charges). Fresh-cut roses provided the second-largest gain in consumer surplus, from \$4.4 million to \$4.6 million. Without ATPA, the price of imports of fresh-cut roses from ATPA countries would have been approximately 5.4 percent higher. In general, items providing the largest gains in consumer surplus also have either the highest column 1-general 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 glazed ceramic tiles (HTS 6908.90.00), lower tariff revenues offset 84 percent to 92 percent of the gain in consumer surplus; for gold rope necklaces and neck chains (HTS 7113.19.21) from Peru, the offset was about 89 percent to 93 percent; and for cigarettes (HTS 2402.20.80), the offset was about 89 percent to 95 percent. For most of the other items listed in table 3-4, lower tariff revenues offset nearly all of the gain in consumer surplus; this typically occurs when column 1-general duty rates are relatively low, as is the case with most ATPA-exclusive items.

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<sup>16</sup> 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.

<sup>17</sup> The methodology used is described in appendix C.

<sup>18</sup> Weighted average for both asparagus categories.

**Table 3-3**  
**Leading imports that benefited exclusively from ATPA, apparent U.S. consumption, and**  
**ATPA-exclusive market share, 2002**

HTS number	Description	Imports from ATPA countries (c.i.f. value)	Apparent U.S. consumption	Market share (A/B)
		(A)	(B) <sup>1</sup>	(A/B)
		— 1,000 dollars	—	Percent
7403.11.00	Refined copper cathodes and sections of cathodes . . . . .	254,244	3,548,617	7.16
2709.00.10	Petroleum oils and oils from bituminous minerals, crude, testing under 25 degrees A.P.I. . . . .	126,887	42,066,962	0.30
0603.10.60	Roses, fresh cut . . . . .	88,677	300,064	29.55
2709.00.20	Petroleum oils and oils from bituminous minerals, crude, testing 25 degrees A.P.I. or more . . . . .	68,992	119,080,962	0.06
0603.10.70	Chrysanthemums, standard carnations, anthuriums and orchids, fresh cut . . . . .	59,285	159,598	37.15
0709.20.90 <sup>2</sup>	Asparagus, nesi, fresh or chilled . . . . .	53,557	290,143	29.62
0709.20.10 <sup>2</sup>	Asparagus, fresh or chilled, not reduced in size, if entered September 15 to November 15, inclusive, and transported to the U.S. by air . . . . .	32,389	-	-
3212.90.00	Pigments dispersed in nonaqueous media, in liquid or paste form, used in making paints; dyes & coloring matter packaged for retail sale . . . . .	30,914	1,218,344	2.54
2402.20.80	Cigarettes containing tobacco but not containing clove, paper-wrapped . . . . .	20,992	44,481,951	0.05
2710.11.25	Naphthas (exc. motor fuel/mtr fuel blend. stock) fr petroleum oils & bituminous minerals (o/than crude) or preps 70%+ by wt. fr petroleum oils . . . . .	10,419	5,077,737	0.21
7113.19.21	Gold rope necklaces and neck chains . . . . .	8,665	91,541	9.47
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. . . . .	7,758	79,180,742	0.01
2710.19.10	Distillate and residual fuel oil (including blends) derived from petroleum oils or oil of bituminous minerals, testing 25 degree A.P.I. or > . . . . .	6,584	16,808,768	0.04
6908.90.00	Glazed ceramic flags and paving, hearth or wall tiles; glazed ceramic mosaic cubes and the like, nesi . . . . .	6,430	1,877,781	0.34
0710.80.97	Vegetables nesi, uncooked or cooked by steaming or boiling in water, frozen, reduced in size . . . . .	6,359	( <sup>3</sup> )	( <sup>3</sup> )
0804.30.40	Pineapples, fresh or dried, not reduced in size, in crates or other packages . . . . .	4,778	283,938	1.68
1604.14.40	Tunas and skipjack, not in airtight containers, not in oil, in bulk or in immediate containers weighing with contents over 6.8 kg each . . . . .	4,286	( <sup>3</sup> )	( <sup>3</sup> )
0806.10.60	Grapes, fresh, if entered during the period July 1 through the following February 14, inclusive . . . . .	3,850	645,090	0.60
7306.20.60 <sup>4</sup>	Iron or nonalloy steel, seamed, w/ext. diam. 406.4mm or less or o/than circ. x-sect, tubing of a kind used for drilling for oil/gas . . . . .	3,697	3,832,120	0.19

See footnotes at end of table.

**Table 3-3—Continued**  
**Leading imports that benefited exclusively from ATPA, apparent U.S. consumption, and**  
**ATPA-exclusive market share, 2002**

HTS number	Description	Imports from ATPA countries (c.i.f. value)	Apparent U.S. consumption	Market share
		(A)	(B) <sup>1</sup>	(A/B)
		— 1,000 dollars	—	Percent
7306.30.50 <sup>4</sup>	Iron or nonalloy steel, welded, w/circ. x-sect & ext. diam. 406.4mm or less, pipes, tubes & holl. prof., w/wall thick. of 1.65 mm or more . . . . .	3,412	-	-

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

<sup>2</sup> Apparent consumption for HTS subheadings 0709.20.10 and 0709.20.90 were aggregated into one category and reported under HTS subheading 0709.20.90.

<sup>3</sup> U.S. production data not available.

<sup>4</sup> Apparent consumption for HTS subheadings 7306.20.60 and 7306.30.50 were aggregated into one category and reported under HTS subheading 7306.20.60.

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

Source: Estimated by USITC 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 asparagus (\$234,000 to \$616,000), fresh-cut roses (\$165,000 to \$278,000), and cigarettes (\$130,000 to \$242,000). Asparagus and fresh-cut roses also had the largest net welfare gains in 2001.<sup>19</sup>

### *Effects on U.S. producers*

Estimates of the potential displacement of domestic production (table 3-5) were small for most of the individual sectors.<sup>20</sup> The analysis indicates that the largest potential displacement effects were for asparagus (2.0 percent to 7.3 percent displaced, valued at \$2.1 million to \$7.4 million); chrysanthemums, etc. (0.5 percent to 3.3 percent of U.S. domestic shipments displaced, valued at \$0.2 million to \$1.0 million); and fresh-cut roses (0.5 percent to 2.8 percent displaced, valued at \$0.2 million to \$1.5 million). However, even the upper estimates of the displacement share for the majority of the products benefiting exclusively from ATPA were less than 1 percent.

<sup>19</sup> See USITC, *ATPA, Eighth Report, 2001*, p. 3-9.

<sup>20</sup> 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.

**Table 3-4**  
**Estimated welfare effects on the United States of leading imports that benefited exclusively from ATPA, 2002**  
(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
7403.11.00	Refined copper cathodes and sections of cathodes	2,431	2,453	2,376	2,419	55	33
2709.00.10	Petroleum oils and oils from bituminous minerals, crude, testing under 25 degrees A.P.I.	357	358	354	356	3	2
0603.10.60	Roses, fresh cut	4,449	4,572	4,171	4,408	278	165
2709.00.20	Petroleum oils and oils from bituminous minerals, crude, testing 25 degrees A.P.I. or more	264	265	261	263	3	2
0603.10.70	Chrysanthemums, standard carnations, anthuriums and orchids, fresh cut	2,799	2,863	2,644	2,768	155	95
0709.20.90 <sup>1</sup>	Asparagus, nesi, fresh or chilled	6,967	7,394	6,351	7,160	616	234
0709.20.10 <sup>1</sup>	Asparagus, fresh or chilled, not reduced in size, if entered September 15 to November 15, inclusive, and transported to the U.S. by air	-	-	-	-	-	-
3212.90.00	Pigments dispersed in nonaqueous media, in liquid or paste form, used in making paints; dyes & coloring matter packaged for retail sale	862	887	801	849	60	38
2402.20.80	Cigarettes containing tobacco but not containing clove, paper-wrapped	2,254	2,384	2,012	2,254	242	130
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	39	39	38	38	( <sup>2</sup> )	( <sup>2</sup> )
7113.19.21	Gold rope necklaces and neck chains	386	403	344	376	42	28
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.	14	14	14	14	( <sup>2</sup> )	( <sup>2</sup> )
2710.19.10	Distillate and residual fuel oil (including blends) derived from petroleum oils or oil of bituminous minerals, testing 25 degree A.P.I. or >	26	26	26	26	( <sup>2</sup> )	( <sup>2</sup> )
6908.90.00	Glazed ceramic flags and paving, hearth or wall tiles; glazed ceramic mosaic cubes and the like, nesi	478	519	403	477	75	42
0710.80.97	Vegetables nesi, uncooked or cooked by steaming or boiling in water, frozen, reduced in size	( <sup>3</sup> )	( <sup>3</sup> )	( <sup>3</sup> )	( <sup>3</sup> )	( <sup>3</sup> )	( <sup>3</sup> )
0804.30.40	Pineapples, fresh or dried, not reduced in size, in crates or other packages	92	93	87	91	4	3
1604.14.40	Tunas and skipjack, not in airtight containers, not in oil, in bulk or in immediate containers weighing with contents over 6.8 kg each	( <sup>3</sup> )	( <sup>3</sup> )	( <sup>3</sup> )	( <sup>3</sup> )	( <sup>3</sup> )	( <sup>3</sup> )
0806.10.60	Grapes, fresh, if entered during the period July 1 through the following February 14, inclusive	10	10	10	10	( <sup>2</sup> )	( <sup>2</sup> )
7306.20.60 <sup>4</sup>	Iron or nonalloy steel, seamed, w/ext. diam. 406.4mm or less or o/than circ. x-sect, tubing of a kind used for drilling for oil/gas	26	26	26	26	( <sup>2</sup> )	( <sup>2</sup> )

See footnotes at end of table.

**Table 3-4—Continued**  
**Estimated welfare effects on the United States of leading imports that benefited exclusively from ATPA, 2002**  
(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
7306.30.50 <sup>4</sup>	Iron or nonalloy steel, welded, w/circ. x-sect & ext. diam. 406.4mm or less, pipes, tubes & holl. prof., w/wall thick. of 1.65 mm or more .....	-	-	-	-	-	-

<sup>1</sup> Analysis for HTS subheadings 0709.20.10 and 0709.20.90 is combined under HTS subheading 0709.20.90.

<sup>2</sup> Less than \$500.

<sup>3</sup> Welfare and displacement effects were not calculated because of unavailability of U.S. production data.

<sup>4</sup> Analysis for HTS subheadings 7306.20.60 and 7306.30.50 is combined under HTS subheading 7306.20.60.

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

Source: Estimated by USITC 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, 2002**

HTS number	Description	U.S. domestic shipments	Reduction in domestic shipments			
			Value		Share	
			Upper estimate	Lower estimate	Upper estimate	Lower estimate
		1,000 dollars				Percent
7403.11.00	Refined copper cathodes and sections of cathodes	2,145,804	6,744	3,744	0.31	0.17
2709.00.10	Petroleum oils and oils from bituminous minerals, crude, testing under 25 degrees A.P.I.	954,461	34	18	( <sup>1</sup> )	( <sup>1</sup> )
0603.10.60	Roses, fresh cut	53,830	1,513	249	2.81	0.46
2709.00.20	Petroleum oils and oils from bituminous minerals, crude, testing 25 degrees A.P.I. or more	46,747,261	436	227	( <sup>1</sup> )	( <sup>1</sup> )
0603.10.70	Chrysanthemums, standard carnations, anthuriums and orchids, fresh cut	31,364	1,039	171	3.31	0.54
0709.20.90 <sup>2</sup>	Asparagus, nesi, fresh or chilled	101,430	7,424	2,068	7.32	2.04
0709.20.10 <sup>2</sup>	Asparagus, fresh or chilled, not reduced in size, if entered September 15 to November 15, inclusive, and transported to the U.S. by air	-	-	-	-	-
3212.90.00	Pigments dispersed in nonaqueous media, in liquid or paste form, used in making paints; dyes & coloring matter packaged for retail sale	1,112,728	3,488	1,818	0.31	0.16
2402.20.80	Cigarettes containing tobacco but not containing clove, paper-wrapped	44,232,485	4,220	1,849	0.01	( <sup>1</sup> )
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	846,276	27	14	( <sup>1</sup> )	( <sup>1</sup> )
7113.19.21	Gold rope necklaces and neck chains	49,206	686	228	1.39	0.46
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.	60,263,362	46	24	( <sup>1</sup> )	( <sup>1</sup> )
2710.19.10	Distillate and residual fuel oil (including blends) derived from petroleum oils or oil of bituminous minerals, testing 25 degree A.P.I. or >	4,521,540	30	15	( <sup>1</sup> )	( <sup>1</sup> )
6908.90.00	Glazed ceramic flags and paving, hearth or wall tiles; glazed ceramic mosaic cubes and the like, nesi	562,094	567	243	0.1	0.04
0710.80.97	Vegetables nesi, uncooked or cooked by steaming or boiling in water, frozen, reduced in size	( <sup>3</sup> )	( <sup>3</sup> )	( <sup>3</sup> )	( <sup>3</sup> )	( <sup>3</sup> )
0804.30.40	Pineapples, fresh or dried, not reduced in size, in crates or other packages	65,084	104	60	0.16	0.09
1604.14.40	Tunas and skipjack, not in airtight containers, not in oil, in bulk or in immediate containers weighing with contents over 6.8 kg each	( <sup>3</sup> )	( <sup>3</sup> )	( <sup>3</sup> )	( <sup>3</sup> )	( <sup>3</sup> )
0806.10.60	Grapes, fresh, if entered during the period July 1 through the following February 14, inclusive	315,670	8	1	( <sup>1</sup> )	( <sup>1</sup> )

See footnotes at end of table.

**Table 3-5—Continued**  
**Estimated displacement effects on the United States of leading imports that benefited exclusively from ATPA, 2002**

HTS number	Description	Reduction in domestic shipments					
		Value			Share		
		U.S. domestic shipments	Upper estimate	Lower estimate	Upper estimate	Lower estimate	Percent
7306.20.60 <sup>4</sup>	Iron or nonalloy steel, seamed, w/ext. diam. 406.4mm or less or o/than circ. x-sect, tubing of a kind used for drilling for oil/gas	3,296,000	96	50	(1)	(1)	
7306.30.50 <sup>4</sup>	Iron or nonalloy steel, welded, w/circ. x-sect & ext. diam. 406.4mm or less, pipes, tubes & holl. prof., w/wall thick. of 1.65 mm or more	-	-	-	-	-	

<sup>1</sup> Less than 0.005 percent.

<sup>2</sup> Analysis for HTS subheadings 0709.20.10 and 0709.20.90 is combined under HTS subheading 0709.20.90.

<sup>3</sup> Welfare and displacement effects were not calculated because of unavailability of U.S. production data.

<sup>4</sup> Analysis for HTS subheadings 7306.20.60 and 7306.30.50 is combined under HTS subheading 7306.20.60.

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

Source: Estimated by USITC from official statistics of the U.S. Department of Commerce.

## *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 2002, only one product that benefited exclusively from ATPA met this criterion: asparagus. This product category also was identified as having an estimated displacement of 5 percent or more in 2001.<sup>21</sup> Asparagus is discussed in greater detail in the following section.

### **Fresh or Chilled Asparagus**

U.S. imports of fresh or chilled asparagus entered under HTS subheading 0709.20.10 in 2002 were dutiable at the column 1-general rate of 5 percent ad valorem—and if entered under HTS 0709.20.90 in 2002, 21.3 percent ad valorem.<sup>22</sup> 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,<sup>23</sup> 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.<sup>24</sup> Imports under HTS 0709.20.10 were eligible for duty-free treatment under GSP from all designated beneficiary developing countries except Peru, which had exceeded the competitive-need limit and thus was ineligible in 2002. 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.)

U.S. imports of fresh asparagus from ATPA countries have risen over the past decade to account for nearly one-half of total U.S. fresh asparagus consumption.<sup>25</sup> Imports of fresh asparagus amounted to \$135.3 million in 2002, up 16 percent from \$116.9 million in 2001, with rising imports from Peru and Mexico accounting for the bulk of the increase.<sup>26</sup> Other important foreign suppliers included Chile and Colombia. During periods of low product availability from traditional global suppliers, Guatemala and Nicaragua have also supplied significant amounts of fresh asparagus to the U.S. market. U.S. imports of all fresh asparagus from ATPA countries amounted to \$59.3 million in 2002, up 20 percent from \$49.6 million in 2001, with imports from Peru accounting for 98 percent of total imports from ATPA countries in 2002. Peru remains

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<sup>21</sup> See, USITC, *ATPA, Eighth Report, 2001*, p. 3-12.

<sup>22</sup> Fresh or chilled asparagus entered under HTS 0709.20.10 is the same product as that entered under HTS 0709.20.90, except that it has not been reduced in size, has been entered from September 15 to November 15, and has been transported to the United States by air.

<sup>23</sup> Imports of fresh or chilled asparagus from Canada are accorded duty-free status.

<sup>24</sup> In 2002, imports of fresh or chilled green asparagus from Mexico under HTS 0709.20.90 were dutiable at a rate of 7 percent ad valorem if entered during the month of January and 10 percent ad valorem if entered during the period from February 1 to June 30, inclusive.

<sup>25</sup> *Impacts of the Andean Trade Preference Act on Asparagus Producers and Consumers*, Report To Congressional Subcommittees, U.S. General Accounting Office, Washington, D.C., GAO-01-315, March 2001, p. 1.

<sup>26</sup> Includes HTS 0709.20.10 and 0709.20.90.



the largest overall foreign supplier and, as such, the major Andean supplier of fresh asparagus to the U.S. market in recent years, supplying 40 percent and 43 percent, respectively, of total imports in 2001 and 2002. In recent years, significant amounts of fresh asparagus imports have been entered from Chile, principally during October and November.

U.S. production of fresh-market asparagus amounted to 126.7 million pounds in 2002, down 5 percent from 2001 and down 14 percent from 2000.<sup>27</sup> Production value was down 26 percent from 2001 to \$139.6 million in 2002, mostly brought on by a reduction in market prices, and down 19 percent from 2000.<sup>28</sup> The leading states producing fresh-market asparagus in 2002 included 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, with Michigan asparagus growers supplying greater amounts to the fresh market in recent years because the market for canned and frozen asparagus has remained stagnant.<sup>29</sup> U.S. per capita consumption of fresh-market asparagus was forecast at 0.9 pounds for 2002, the same as in 2001 but up from 0.6 pounds annually in the years prior to ATPA.<sup>30</sup> Per capita consumption of canned and frozen asparagus has been stagnant at 0.2 and 0.1 pounds, respectively, for a number of years.

The displacement of U.S. production by imports from ATPA countries is likely to be closer to the lower estimate shown in table 3-5—that is, closer to 2.04 percent than 7.32 percent—resulting in a small impact from ATPA on the U.S. fresh-market asparagus industry. 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 and March, when U.S. production would normally be at its peak, resulting in some displacement of domestic production.

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<sup>27</sup> Production for 2000 was reported at 150.4 million pounds and for 2001 at 137.2 million pounds, but included estimates for production in New Jersey and Oregon. Reported production for 2002 does not include estimates for these two states. Production changes reported in the text exclude New Jersey and Oregon production as well. Excluding those two states yields production of 146.5 million pounds and 134.0 million pounds for 2000 and 2001, respectively. USDA, National Agricultural Statistics Service, *Vegetables*, publication No. Vg 1-2 (03), January 2003, p. 47.

<sup>28</sup> Production value changes reported in text exclude New Jersey and Oregon. Total production value was reported at \$176.0 million in 2000 and \$192.3 million in 2001. Excluding New Jersey and Oregon yields production values of \$173.2 million in 2000 and \$189.9 million in 2001. USDA, National Agricultural Statistics Service, *Vegetables*, publication No. Vg 1-2 (03), January 2003, p. 47.

<sup>29</sup> "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.

<sup>30</sup> USDA, Economic Research Service, *Vegetables and Melons Situation and Outlook Yearbook*, publication No. VGS-2002, July 2002, p. 15.

Mexico remains the most important foreign supplier of fresh asparagus to the U.S. market, even though the overall cost of production for asparagus in Mexico has risen owing to increased costs of imported inputs and water usage.<sup>31</sup> The country's asparagus production was forecast to rise in 2002 by 18 percent.<sup>32</sup> Although domestic asparagus consumption in Mexico is forecast to rise somewhat in the near future, exports of the bulk of the country's production to the United States are expected to continue. Also, production advantages in ATPA countries are partially offset by lower transportation rates for Mexican asparagus shipments to U.S. markets.<sup>33</sup>

The growth of U.S. fresh-asparagus imports from ATPA countries is expected to remain steady in the near future. Peru is still one of the largest global producers of asparagus, with annual production levels greater than those in the United States and Mexico combined, and asparagus remains the second-leading agricultural export from Peru in recent years.<sup>34</sup> Peruvian asparagus production rose 6 percent from 2001 to 2002, and is forecast to rise 5 percent from 2002 to 2003.<sup>35</sup> 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 demand. Large tracts of land owned by cooperatives and once used for sugar production are now being planted with asparagus.<sup>36</sup> 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. Exports of fresh asparagus from Peru have risen considerably in recent years, up 7 percent from 2001 to 2002. 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 82 percent of such exports in 2001.<sup>37</sup> 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.<sup>38</sup>

The impact of ATPA on U.S. consumers has been significant in that imports of Peruvian fresh-market asparagus enter the U.S. market principally when U.S.-produced fresh asparagus is not as readily available, resulting in greater availability of fresh asparagus throughout the year. This extended availability of fresh-market asparagus,<sup>39</sup> together with the overall consumer awareness of, and preference for,

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<sup>31</sup> USDA, FAS, *Mexico Asparagus Annual 2002*, GAIN Report #MX2095, June 14, 2002, p. 2.

<sup>32</sup> *Ibid.*, p. 1.

<sup>33</sup> For more information, see USITC, *ATPA, Eighth Report, 2001*, p. 3-17.

<sup>34</sup> USDA, FAS, *World Horticultural Trade and U.S. Export Opportunities*, Circular FHORT 11-02, November 2002, "Asparagus Production and Trade in Selected Countries," pp. 50-55, found at Internet address <http://www.fas.usda.gov>, retrieved May 19, 2003.

<sup>35</sup> USDA, FAS, *Peru Asparagus Annual 2002*, GAIN Report #PE2011, June 13, 2002, p. 3.

<sup>36</sup> *Ibid.*, p. 3.

<sup>37</sup> *Ibid.*, p. 4.

<sup>38</sup> *Ibid.*, pp. 5-6.

<sup>39</sup> For more information, see USITC, *ATPA, Seventh Report, 1999*, p. 46.

healthy foods,<sup>40</sup> may be partly responsible for its continuing higher per capita annual consumption in recent years. The increase in product availability also may have resulted in lower prices for consumers, although monthly average shipping-point prices for domestically produced fresh-market asparagus have trended upward since 1997.<sup>41</sup>

## Probable Future Effects of ATPA

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The first part of this chapter analyzed the effects on the United States of the elimination of import duties under the original and expanded 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 ATPA 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 2002, using investment expenditures as a proxy for future trade effects of ATPA on the United States.<sup>42</sup> With the implementation of ATPDEA in 2002, the Commission also monitored investment in those products newly eligible for duty-free treatment under ATPDEA.

The most recent official foreign direct investment (FDI) statistics show that FDI flows into the ATPA region increased slightly in 2001 to \$5.1 billion, despite substantial declines worldwide, including the Latin America and the Caribbean region (LAC), owing to the global slowdown (table 3-6).<sup>43</sup> Because FDI in the Andean region is concentrated in resource-based industries, such as hydrocarbons and mining, it was less affected by the unfavorable international situation.<sup>44</sup> In 2001, inflows of FDI increased to Ecuador and Peru, and declined to Bolivia and Colombia. The large increase of FDI to Ecuador primarily reflected investment in the oil sector, including construction of the Trans-Andean Heavy Oil Pipeline. Preliminary statistics for 2002 show that FDI flows

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<sup>40</sup> USDA, FAS, *World Horticultural Trade and U.S. Export Opportunities*, Circular FHORT 11-02, November 2002, "Asparagus Production and Trade in Selected Countries," pp. 50-55, found at Internet address <http://www.fas.usda.gov>, retrieved May 19, 2003.

<sup>41</sup> USDA, Economic Research Service, *Vegetables and Melons Situation and Outlook Yearbook*, publication No. VGS-2002, July 2002, p. 33.

<sup>42</sup> 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.

<sup>43</sup> United Nations Conference on Trade and Development, *World Investment Report 2002: Transnational Corporations and Export Competitiveness*, New York and Geneva, 2002, pp. 303-304.

<sup>44</sup> United Nations, Economic Commission for Latin America and the Caribbean, *Foreign Investment in Latin America and the Caribbean, 2002*, April 2003, pp. 13, found at Internet address <http://www.eclac.org/>, retrieved June 3, 2003.

**Table 3-6**  
**Foreign direct investment inflows, by host regions and by economies, 1990-2001**  
*(Million dollars)*

Host region/economy	1990-95 (annual average)	1996	1997	1998	1999	2000	2001
World .....	225,321	386,140	478,082	694,457	1,088,263	1,491,934	735,146
Developing countries .....	74,288	152,685	191,022	187,611	225,140	237,894	204,801
Latin America and the Caribbean ...	22,259	52,856	74,299	82,203	109,311	95,405	85,373
ATPA .....	2,329	7,280	8,862	6,492	5,364	4,468	5,095
Bolivia .....	152	426	879	952	985	693	647
Colombia .....	843	3,112	5,562	2,828	1,468	2,374	2,018
Ecuador .....	330	500	724	870	648	720	1,330
Peru .....	1,004	3,242	1,697	1,842	2,263	681	1,100

Source: UNCTAD, *World Investment Report 2002: Transnational Corporations and Export Competitiveness*.

to the ATPA countries continued to rise slightly despite significant declines to the LAC region.<sup>45</sup>

Because it is difficult to isolate trends in investment related to ATPA-eligible products alone, information on ATPA-related investment activity and trends during 2002 was obtained from U.S. embassies in the Andean region. 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 ATPA countries responded to the Commission's request for information regarding new or expansion investments related to ATPA-eligible products. Of the four, three were able to provide specific information regarding new or expansion ATPA-related investment. Information on the textile and apparel industries in each of the four countries was also provided.

### ***Bolivia***

According to the U.S. Embassy in Bolivia, ATPA (including ATPDEA) has played an important role in the development of Bolivia's nontraditional sectors. Exports of nontraditional, ATPA-eligible jewelry, wood, leather, and textile and apparel manufactures are beginning to have an important impact on the country's economy.<sup>46</sup> With the advent of ATPDEA, the Bolivian Government is particularly hopeful that its

<sup>45</sup> United Nations, Economic Commission for Latin America and the Caribbean, *Foreign Investment in Latin America and the Caribbean, 2002*, April 2003, pp. 11-15, and 62, found at Internet address <http://www.eclac.org/>, retrieved June 3, 2003.

<sup>46</sup> U.S. Department of State telegram, "Bolivian USITC Investment and Drug Crop Survey," message reference No. 2754, prepared by U.S. Embassy, La Paz, July 25, 2003.

economically depressed textile and apparel sector can increase output rapidly using the estimated 50 percent unused capacity in the sector, which could result in a boost of \$22 million in output and an additional 18,000 new jobs in the short term.<sup>47</sup>

On April 30, 2003, the Bolivian Government announced an ambitious export plan to take advantage of ATPDEA benefits (Supreme Decree 27020).<sup>48</sup> 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. Tax incentives focused on working capital will seek to induce firms to begin exporting or to export more. The government has also created two initial funds totaling \$3.6 million (expected to increase to \$6 million eventually) to finance new investments and working capital. The plan is designed primarily to create jobs, but it will also raise tax revenue for the government. In the short term, the Government of Bolivia estimates new exports in these sectors will increase by one-third and generate 8,000 new jobs. However, developed only recently, the *maquicentro* program still must address a number of issues, including logistics, training to ensure quality control, and protection of intellectual property rights.<sup>49</sup>

According to the U.S. Embassy, the majority of firms in the jewelry, wood, leather, and textile and apparel sectors limited their new investments in 2002 until ATPA was renewed and Bolivia received eligibility for ATPDEA trade benefits in October 2002. Actual data on investment in these sectors are not available. However, the U.S. Embassy conducted a survey of major companies in the textiles and apparel, jewelry, and wood manufacturing sectors, producing cotton garments; gold, silver, and other jewelry; and wood furniture, doors, and frames, respectively. The survey revealed that together these companies made investments related to expansion and/or new facilities totaling \$13.4 million in 2002. All companies indicated that they used inputs from either the United States, Caribbean, or other ATPA beneficiary countries. In each sector, at least half of the companies indicated that investments would not have been made in the absence of ATPA trade preferences.

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<sup>47</sup> U.S. Department of State telegram, “ATPA Scores Big in Bolivia,” message reference No. 2877, prepared by U.S. Embassy, La Paz, Aug. 9, 2002.

<sup>48</sup> 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; and U.S. Department of State telegram, “Bolivian USITC Investment and Drug Crop Survey,” message reference No. 2754, prepared by U.S. Embassy, La Paz, July 25, 2003.

<sup>49</sup> Ibid.

## Textile and Apparel Industry

Bolivia's textile and apparel sector is considered to be in its infancy, but is viewed as capable of competing in the global market because of its high quality and competitively priced products.<sup>50</sup> The sector accounted for 22 percent of the country's industrial labor force in 2000.<sup>51</sup> Sector production is based on cotton, wool, and specialty fine hairs from indigenous llamas and alpacas. The textile and apparel sector consists mostly of small establishments and has some vertically integrated mills. Estimates on the number of textile firms vary widely, ranging up to 3,500;<sup>52</sup> there are an estimated 10,000 apparel firms.<sup>53</sup>

Although Bolivia is a very small supplier of textiles and apparel to the United States, the implementation of the ATPDEA prompted Bolivian textile and apparel producers to focus on increasing export opportunities to the U.S. market. Bolivian textile and apparel producers are seeking to attract new FDI to expand existing plant capacity and to establish new facilities in order to boost exports to the U.S. market.<sup>54</sup> Bolivian government officials estimated that the ATPDEA's tariff benefits could generate \$200 million in FDI and up to 50,000 new jobs in the sector over the next 5 years.<sup>55</sup>

## Colombia

According to the U.S. Embassy in Colombia, ATPA has "particularly benefited Colombia over the past decade."<sup>56</sup> During its first 10 years, ATPA created an estimated 150,000 jobs in Colombia and ATPDEA is expected to create an additional 200,000 new jobs. Colombian statistics show that exports to the United States under ATPA (including ATPDEA) surged during the first quarter of 2003, with petroleum, flowers, and apparel accounting for 93 percent of the exports.<sup>57</sup>

Information on investment in ATPA-related products in 2002 is not available. The U.S. Embassy reported that according to the Colombian Central Bank and Colombia's investment promotion agency Coinvertir, new FDI in Colombia declined 11 percent in 2001 to \$2.5 billion and by 19.5 percent in 2002 to \$2 billion, largely because of

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<sup>50</sup> U.S. Department of State telegram, "Bolivians Propose Tariff and Quota Free Access to U.S. Textiles Market," message reference No. 3788, prepared by U.S. Embassy, La Paz, Aug. 31, 2000.

<sup>51</sup> Ibid. The telegram states that because much of the apparel trade occurs in the "informal economy," it is difficult to compile credible data on the Bolivian textile and apparel sector.

<sup>52</sup> Embassy of Bolivia, "Estudio tecnico de los sector textil y madera en el marco ATPDE," (Technical study of the textile and wood sector in the ATPDEA market), Apr. 30, 2003.

<sup>53</sup> "Bolivia, Brazil, Chile," *Apparel Industry*, Sept. 2000, p. 48.

<sup>54</sup> U.S. Department of State telegram, "Bolivians Want Their Piece of the ATPDEA Pie," message reference No. 3008, prepared by U.S. Embassy, La Paz, Aug. 19, 2002.

<sup>55</sup> U.S. Department of State telegram, "ATPA Scores Big in Bolivia," message reference No. 2877, prepared by U.S. Embassy, La Paz, Aug. 9, 2002.

<sup>56</sup> U.S. Department of State telegram, "ATPA/ATPDEA Investment Activity During 2002," message reference No. 7412, prepared by U.S. Embassy, Bogota, Aug. 8, 2003.

<sup>57</sup> Ibid.

"on-going security problems contributing to the perceived high-risk investment environment." FDI is expected to recover in 2003 as the security situation improves.<sup>58</sup> Both the Colombian Government and the private sector anticipate that ATPDEA will create jobs and provide important new opportunities in the textile and apparel, leather goods, footwear, tuna, and petroleum sectors.<sup>59</sup> According to Colombian officials, ATPDEA will provide the most immediate benefits to the textile and apparel sector. Longer-term prospects are seen for the opening of the tuna and petroleum sectors.<sup>60</sup>

## Textile and Apparel Industry

The textile and apparel industries continue to be a significant source of economic activity and employment for the Andean countries. According to data attributed to Colombia's official manufacturing association, DANE, the textile and apparel sector accounts for 22 percent of manufacturing employment in Colombia.<sup>61</sup> Colombia's textile and apparel firms are concentrated in Medellin and Bogota and the apparel industry is known as a high-quality, just-in-time provider, especially for women's underwear, babies' apparel, and swimwear.<sup>62</sup> Colombia imports a substantial amount of fibers, primarily from the United States, which it uses in its textile and apparel production. Colombia's cotton fiber imports account for more than 65 percent of the country's cotton consumption whereas imports account for over 90 percent of the synthetic fibers used by its textile industry.<sup>63</sup>

Colombia's textile and apparel sector stagnated in the late 1990s, losing ground to countries that benefit from preferential access to the U.S. apparel market, particularly Mexico and the Caribbean Basin countries.<sup>64</sup> Consequently, Colombia's government and textile and apparel sector responded positively to the ATPDEA as a mechanism for improving the country's economy and creating new jobs.<sup>65</sup> In anticipation of the ATPDEA, Colombia's textile and apparel sector began to focus its efforts on increasing export production for the U.S. market. Dyeing and finishing capacity that had been directed principally to the domestic market was expanded to boost exports.<sup>66</sup>

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<sup>58</sup> Ibid.

<sup>59</sup> U.S. Department of State telegram, "Scenesetter: New Challenges and Opportunities for Colombia," message reference No. 6906, prepared by U.S. Embassy, Bogota, Aug. 2, 2002; and U.S. Department of State telegram, "ATPA/ATPDEA Investment Activity During 2002," message reference No. 7412, prepared by U.S. Embassy, Bogota, Aug. 8, 2003.

<sup>60</sup> U.S. Department of State telegram, "Overwhelmingly Positive Colombian Reaction to ATPA Renewal," message reference No. 7033, prepared by U.S. Embassy, Bogota, Aug. 8, 2002.

<sup>61</sup> Director of Marketing, Colombia Trade Bureau, ProExport Colombia, facsimile to USITC staff, July 17, 2003.

<sup>62</sup> U.S. Department of State telegram, "Colombia's Textile Industry After Quotas: Stagnant or Worse," message reference No. 3809, prepared by U.S. Embassy, Bogota, Apr. 26, 2002.

<sup>63</sup> Ibid.

<sup>64</sup> Ibid.; and U.S. Department of State telegram, "Overwhelming Positive Colombian Reaction to ATPA Renewal," message reference No. 7033, prepared by U.S. Embassy, Bogota, Aug. 8, 2002.

<sup>65</sup> U.S. Department of State telegram, "Overwhelming Positive Colombian Reaction to ATPA Approval," message reference No. 7033, prepared by U.S. Embassy, Bogota, Aug. 8, 2002.

<sup>66</sup> Director of Marketing, Colombian Government Trade Bureau, Proexport Colombia, interview by USITC staff, Dec. 7, 2002.

Colombia's textile and apparel sector also began implementing programs to ensure compliance with labor, social, and environmental codes, criteria increasingly used by U.S. companies in selecting foreign partners.<sup>67</sup> According to a published report, the Government's trade bureau, ProExport, has most recently focused on facilitating business relationships between U.S. manufacturers, retailers, and buyers, and Colombian textile and apparel producers.<sup>68</sup>

Colombia's textile and apparel sector has sought to attract additional FDI in order to finance the expansion of production capacity for textile products in which it is especially competitive, such as fabrics (poplin, denim, corduroy, sheeting, and twills).<sup>69</sup> To date, however, FDI in Colombia's textile and apparel sector has been limited. A few producers of manmade fibers are foreign-owned or have foreign capital investment.<sup>70</sup> Colombia still faces challenges in overcoming investors' concerns about security dangers and their perception of Colombia as a high-risk country.<sup>71</sup>

## *Ecuador*

According to the U.S. Embassy in Ecuador, the country's Central Bank reported that provisional foreign investment flows into Ecuador in 2002 reached \$1.3 billion, of which \$1.1 billion was accounted for by the petroleum and mining sector. Foreign direct investment also was made in agriculture and fishing (\$15.0 million), manufacturing (\$56.5 million), finance (\$63.0 million), and commerce (\$45.4 million).

Ecuador's Ministry of Foreign Affairs cites flowers as Ecuador's greatest ATPA success story, noting that their share in total exports grew from 1.3 percent in 1993 to over 4 percent in 2002. However, the U.S. Embassy reported that the flower boom may be ending. Increased competition from the Colombian and Venezuelan flower industries due to the devaluations of these countries' currencies has reduced the competitiveness of Ecuador's flower exports. For example, because of the 29.3 percent devaluation of Colombia's currency during the first trimester of 2003, Colombian flowers are now 25 percent less expensive than those produced in Ecuador. Also, Ecuador pays higher freight costs to the United States than Colombia. According to ExpoFlores, Ecuador's

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<sup>67</sup> "Colombia: Local Industry and Market," *Export Advantage*, found at Internet address <http://web.ita.doc.gov/tacgi/overseas.nsf>, retrieved Jan. 23, 2003.

<sup>68</sup> Jerry Haar and Silvia Reyes, "Trade Liberalization and Market Competitiveness of the Colombian Apparel Industry," *Multinational Business Review*, Fall 2002, p. 16.

<sup>69</sup> As discussed earlier, Colombia has distinguished itself in the production of high-quality, fashion apparel. The emphasis on expansion of its textile production capacity likely reflects the industry's shift from apparel assembly to full package programs to boost its competitiveness.

<sup>70</sup> Director of Marketing, Colombia Trade Bureau, interview by USITC staff, Dec. 7, 2002, and facsimile to USITC staff, Feb. 7, 2003.

<sup>71</sup> U.S. Department of State, "Background Note: Colombia," Apr. 4, 2002, found at Internet address <http://www.state.gov>, retrieved June 25, 2003; and "Colombia—Economic Outlook," *Caribbean/Latin American Profile 2003* (Miami, FL: Caribbean Publishing Co.), p. D-28.



principal association of flower exporters, in June 2003, 12 flower producer-exporters closed down citing their failure to recover invested capital. ExpoFlores also noted that “financing for the sector is virtually nonexistent” and predicted that the recent surge of bankruptcies will continue to affect the sector.<sup>72</sup>

The U.S. Embassy also reported that the National Chamber of Fisheries indicated in December 2002 that several local tuna packing plants had retooled to take advantage of ATPDEA trade preferences for pouched tuna. As a result, the Embassy said that two shipments of pouched tuna were exported to the United States in 2003. However, the Government of Ecuador remains concerned that canned tuna remains excluded from U.S. trade preferences. The National Fisheries Chamber indicated that if Ecuadorian tuna received the same treatment as that of Mexico and Central America, 50,000 new jobs would be created over the next 5 years in Ecuador.

### **Textile and Apparel Industry**

Ecuador’s textile and apparel sector is small, but its products are among the country’s top export priorities.<sup>73</sup> Ecuador’s textile and apparel industries accounted for an estimated 4 percent of the labor force in 2002.<sup>74</sup> The sector produces spun yarns, fabrics, household items, and apparel and its products are known for their “high quality, innovative designs, and low cost.”<sup>75</sup> Ecuador’s textile and apparel sector is largely vertically integrated, with spinning, weaving, cutting, and sewing operations usually managed by the same firm. Most Ecuadorian textile production involves cotton and cotton-blended fabrics and some wool. Because Ecuador’s domestic cotton production meets only 10 percent of demand, the Ecuadorian textile and apparel sector imports most of the cotton it consumes in its textile and apparel production.<sup>76</sup> Apparel accounted for 66 percent of the quantity but 84 percent of the total value of U.S. textile and apparel imports from Ecuador in 2002; textiles and apparel totaled just under \$16 million or 2 percent of total U.S. imports from the Andean countries. The enactment of the ATPDEA in August 2002 was viewed positively by Ecuadorian textile producers and is expected to benefit Ecuador’s textile and apparel sector by increasing access to the U.S. market.<sup>77</sup>

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<sup>72</sup> U.S. Department of State telegram, “Ecuador’s Report to the USITC Annual Andean Investment and Drug Crop Survey,” message reference No. 2513, prepared by U.S. Embassy, Quito, July 25, 2003.

<sup>73</sup> U.S. Department of State telegram, “Ecuador’s Export Priorities,” message reference No. 3693, prepared by U.S. Embassy, Quito, Oct. 31, 2002.

<sup>74</sup> U.S. Department of State telegram, “Ecuador’s Textile Industry,” message reference No. 65849, prepared by U.S. Embassy, Quito, June 5, 2002.

<sup>75</sup> “Textiles–Sector Overview,” found at Internet address <http://www.ecuadorexports.com/textiles.htm>, retrieved Dec. 31, 2002.

<sup>76</sup> Unfavorable weather conditions caused by El Niño during the late 1990s led to declines in Ecuador’s domestic cotton production. U.S. and Foreign Commercial Service, “Best Prospects for Non-Agricultural Foods and Services,” *Ecuador Country Commercial Guide FY 2002*, found at Internet address <http://www.usatrade.gov>, retrieved Oct. 30, 2002.

<sup>77</sup> U.S. Department of State telegram, “Tuna Types Aside, Ecuador is Satisfied with ATPA,” message reference No. 2525, July 31, 2002; and U.S. Department of State telegram, “Ecuador’s Export Priorities,” message reference No. 3693, prepared by U.S. Embassy, Quito, Oct. 31, 2002.

The U.S. Embassy reported forecasts about the industry made by the Textile Industry Association of Ecuador (AITE), which estimates that Ecuadorian garment exports to the United States could reach \$176 million by 2006, a 47-percent increase over current levels, if the industry takes full advantage of ATPDEA benefits. Such an increase would generate 24,000 to 52,600 new jobs. According to AITE, the textile sector invested \$12.4 million in capital goods in 2002 and \$2.2 million in capital goods during the first trimester of 2003. The ready-made garment sector invested \$13.4 million in capital goods in 2002, and \$2.7 million during the first trimester of 2003. This \$30.8 million in investment was aimed at improving productivity and adjusting production to meet international standards.<sup>78</sup>

The U.S. Embassy in Ecuador also conducted a survey of textile and apparel companies that revealed that they have invested nearly \$1 million in 2002 and 2003 in response to ATPDEA benefits. These companies expect to export about \$4.7 million annually to the United States—primarily garments. The survey also revealed that some of the companies purchase up to 85 percent of their inputs, including cotton, from the United States.

## *Peru*

According to the U.S. Embassy in Peru, the expiration of ATPA had a negative effect on exports and slowed new investment in 2002. Peru's National Industries Society (SNI) reported that ATPA's long lapse caused Peruvian exporters to delay or cancel shipments, reduce prices, and/or absorb the amount of the duties. Despite these setbacks, the Embassy notes that ATPA continued to play an important role in encouraging investment in nontraditional export-oriented products and diversification of the production base in Peru. Asparagus exports continued to serve as an example of the positive effect of ATPA preferences. Such exports to the United States increased twentyfold between 1992 and 2002, and are expected to continue to increase, albeit at a slower pace.<sup>79</sup> Exports to the United States of certain fruits, including mangoes and grapes, have also grown in response to ATPA, from nil in 1992 to \$24.3 million and \$5 million, respectively, in 2002. With the expansion of ATPA benefits under ATPDEA, large increases in nontraditional exports such as apparel, handicrafts, and shoes are expected. Exports of jewelry are also expected to climb.<sup>80</sup>

More generally, the Government of Peru announced an economic package in March 2003 to stimulate economic growth and improve government efficiency. This package includes measures to promote overall investment and exports, including exports to take

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<sup>78</sup> U.S. Department of State telegram, "Ecuador's Report to the USITC Annual Andean Investment and Drug Crop Survey," message reference No. 2513, prepared by U.S. Embassy, Quito, July 25, 2003.

<sup>79</sup> U.S. Department of State telegram, "Peru Scen setter for Under Secretary J.B. Penn Visit," message reference No. 5481, prepared by U.S. Embassy, Lima, Oct. 18, 2002.

<sup>80</sup> U.S. Department of State telegram, "ITC Annual ATPA/ATPDEA Report Input," message reference No. 3383, prepared by U.S. Embassy, Lima, July 8, 2003.

better advantage of trade benefits under ATPDEA.<sup>81</sup> The Government's goal is to increase total exports from \$7 billion currently to \$15 billion by 2006.<sup>82</sup> Prompex, the agency charged with promotion of Peruvian exports, has indicated that textiles and apparel is a high-priority sector.<sup>83</sup> Nonetheless, the Government of Peru argues that ATPDEA trade benefits, which are scheduled to expire in 2006, are not a sufficient draw for wary investors. Instead, the Government is pushing to conclude a more permanent bilateral free trade agreement with the United States to consolidate ATPDEA gains and get a head start in attracting U.S. investors prior to the conclusion of negotiations for a FTA.<sup>84</sup>

### **Textile and Apparel Industry**

Peru's textile and apparel sector is vertically integrated from the production of raw material inputs (cotton, alpaca, llama, and vicuña) and fabric production to apparel sewing and packaging. Textile and apparel manufacturing is a major source of employment. Almost 10 percent of the country's population depends on the textile industry, which directly accounted for an estimated 150,000 workers in 2002.<sup>85</sup> Peru's textile and apparel sector benefits from domestic supplies of high-quality pima and tanguis cotton and fine animal hairs from its indigenous alpaca, llama, and vicuña. In recent years, Peruvian textile and apparel manufacturers have increasingly emphasized higher value-added products because they have been unable to compete on price with textile and apparel products from Mexico and the Caribbean Basin countries that benefit from duty-free and quota-free preferential arrangements or with low-cost products from Asian suppliers.<sup>86</sup>

Peru's domestic market for textiles and apparel is small, and therefore a significant share of the country's textile and apparel production is exported. In 2001, for the first time, Peru supplanted Colombia as the largest Andean supplier of textiles and apparel to the United States. Peru's textile and apparel companies have been seeking to increase their presence in the global marketplace in recent years. Many have restructured their production operations and have been implementing new quality-control programs to increase efficiencies and reduce costs.<sup>87</sup> The textile and

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<sup>81</sup> U.S. Department of State telegram, "Peru Announces Growth and Fiscal Measures," message reference No. 1563, prepared by U.S. Embassy, Lima, Mar. 26, 2003.

<sup>82</sup> U.S. Department of State telegram, "Peru Economic Notes, April 7, 2003," message reference No. 1762, prepared by U.S. Embassy, Lima, Apr. 7, 2003.

<sup>83</sup> U.S. Department of State telegram, "DUS Timothy Hauser Visit to Peru," message reference No. 1764, prepared by U.S. Embassy, Lima, Apr. 7, 2003.

<sup>84</sup> U.S. Department of State telegram, "Peru to Lobby USTR for Bilateral FTA as ATPDEA Investment Disputes Still Linger," message reference No. 1303, prepared by U.S. Embassy, Lima, Mar. 11, 2003.

<sup>85</sup> Peruvian Government, written submission to the Commission in connection with "Textiles and Apparel: Assessment of the Competitiveness of Certain Foreign Suppliers to the U.S. Market," Investigation No. 332-448, Feb. 3, 2003.

<sup>86</sup> EXPORAMERICA, "Inclusion of Textiles and Apparel in the Andean Trade Preference Act: Contribution to the Battle Against Coca Production and Illegal Drug Trafficking," Sept. 2000, p. 17.

<sup>87</sup> Olga G. West, "Peru Moda to Focus on Expanding Market Horizons," *Bobbin*, May 2000, pp. 2-18.

apparel sector has been anticipating new trade opportunities resulting from preferential access to the United States. ATPDEA provisions granting preferential treatment for apparel made in Andean countries from regional fabric were considered particularly important for Peru, because its vertically integrated textile and apparel sector uses few U.S. textile inputs.

Actual investment targeting the textile and apparel sector in Peru is not available. According to the U.S. Embassy in Peru, some textile and apparel companies delayed or limited new investment during 2002 until the country was designated eligible to receive ATPDEA benefits. The U.S. Embassy indicated that some of the larger manufacturers began capacity-building investment projects, ranging from a few hundred thousand dollars to a total of \$16 million in late 2002 and 2003. In a survey conducted by the U.S. Embassy, several Peruvian textile and apparel companies indicated that they had together invested about \$1.6 million to expand capacity in response to ATPDEA benefits. These companies plan to export primarily apparel, but also woven fabric, valued at approximately \$20 million in the near future.

Both the local (foreign-owned) Wiese Sudameris Bank and the Textiles Committee of SNI have made estimates regarding future investment and exports in the textile and apparel sector in response to ATPDEA. According to the U.S. Embassy, in late 2002 Wiese Sudameris Bank estimated that ATPDEA-driven investment in the textile and apparel sector during the period 2002-2006 will range between \$220 million (most likely case scenario) and \$340 million (optimistic scenario). Most of this investment would be made in the 2004-2006 period, since there is still unused installed capacity in the industry. Also, according to the bank, businesspeople, and other observers, there will not likely be any large investments but rather, the investment will be made to expand and/or refurbish existing facilities. The Textiles Committee of SNI recently estimated that investments should reach \$108 million in the 2003-2005 period.

Wiese Sudameris Bank also estimated that apparel exports to the United States could increase by 2006 to a range of \$712 to \$906 million, compared with \$375 million in 2002. The SNI Textiles Committee forecasts that exports of apparel will range between \$745 million to \$1.03 billion in 2006. This Committee also estimates that Peruvian exports of fabrics and other textile products could climb from \$14 million in 2002 to \$16-18 million in 2006.

Immediately following the enactment of ATPDEA, the trade press reported that Peruvian President, Alejandro Toledo, announced that ATPDEA would generate no fewer than 1 million new jobs.<sup>88</sup> Subsequent estimates from industry sources in Peru have suggested more modest employment growth—about 205,000 new jobs in cotton production and textile manufacturing as a result of the ATPDEA.<sup>89</sup> Wiese Sudameris Bank estimated that the number of new textile and apparel jobs created by textile and

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<sup>88</sup> "U.S. Duty-Free Treatment Could Boost Peru's Textile Industry," found at Internet address <http://www.emergingtextiles.com>, retrieved Aug. 14, 2002.

<sup>89</sup> Economist Intelligence Unit, "Peru: Fading Export Expectations," *Business Latin America*, Sept. 23, 2002, found at Internet address <http://db.eiu.com>, retrieved Nov. 4, 2002.

apparel sector investments prompted by the ATPDEA could total as high as 135,700.<sup>90</sup> Some Peruvian business leaders have voiced their concern, however, that without substantial foreign investment, the level of new direct and indirect textile jobs will likely be limited.<sup>91</sup> Currently, 90 percent of Peru's textile and apparel firms are owned by Peruvians.<sup>92</sup>

## *Conclusion*

Based on an examination of ATPA-related investment in 2002, 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 2002 was small (0.83 percent by value). Imports that benefited exclusively from ATPA in 2002 made up an even smaller share—just 0.06 percent, lower than recent years because of ATPA's lapse for 7 months in 2002. ATPA's expiration in December 2001 and the accompanying uncertainty regarding its renewal likely dampened investment in certain ATPA-eligible goods during the year. However, ATPDEA may promote increased exports to the United States of products newly eligible for trade preferences—for example, textile and apparel articles and pouched tuna. ATPDEA was only in effect for 2 months during 2002 and little, if any, trade was recorded in the newly eligible items, with the exception of petroleum-based products. However, the Commission identified a number of new investments in textiles and apparel valued at \$4.5 million in 2002 and early 2003 in the Andean region, which are likely to generate increased exports to the United States in the future.

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<sup>90</sup> U.S. Department of State telegram, "ITC Annual ATPA/ATPDEA Report Input," message reference No. 3383, prepared by U.S. Embassy, Lima, July 8, 2003.

<sup>91</sup> The Economist Intelligence Unit, "Peru: Fading Export Expectations," Sept. 23, 2002, found at Internet address <http://db.eiu.com>, retrieved Nov. 4, 2002.

<sup>92</sup> Embassy of Peru, counselor, interview by USITC staff, Jan. 8, 2003.



# CHAPTER 4

## Impact of ATPA on Drug-Related Crop Eradication and Crop Substitution

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The United States enacted 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<sup>1</sup> on the drug-related crop eradication and crop substitution efforts of each of these countries during 2002.

### Overview

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According to the U.S. Department of State, among all drugs “cocaine still poses the greatest drug threat” to the United States.<sup>2</sup> The coca plant is the raw material for producing cocaine, and nearly all cocaine originates in the Andean countries of Colombia, Peru, and Bolivia.<sup>3</sup> Ecuador, also an ATPA beneficiary, is considered by the State Department as “a major transit country for drugs and precursor chemicals” that are used to produce cocaine.<sup>4</sup>

In addition to coca, Colombia is also a producer of opium poppy. Colombia accounts for nearly 2 percent of the world’s opium poppy cultivation, the raw material for heroin, with virtually all of its heroin production destined for the United States.<sup>5</sup> Colombia has taken some steps to eradicate its opium poppy, spraying over 3,000 hectares in 2002, which represented nearly one-half of the 6,500 hectares of opium poppy detected at the end of 2001.<sup>6</sup> Poppy cultivation and opium trafficking have increased in Peru as well, where farmers are supplied with seeds, technical assistance, and cash loans from Colombian narcotics traffickers.<sup>7</sup> The U.S. Department of State did not report data regarding poppy cultivation for Colombia and Peru for 2002, owing to data collection difficulties.<sup>8</sup> For this reason, this chapter focuses exclusively on the effects of ATPA on coca cultivation, production, eradication, and crop substitution.

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

<sup>2</sup> U.S. Department of State, *International Narcotics Control Strategy Report (INCSR)*, March 2003, p. II-3.

<sup>3</sup> For background information on coca cultivation, cocaine processing, and licit traditional uses of coca, see USITC, *ATPA, Eighth Report, 2001*, pp. 4-2 and 4-3. In Bolivia and Peru, cultivation of coca leaf is legal in certain “traditional” areas, often associated with indigenous peoples that have cultivated coca as a licit crop for centuries. Peru legally produces, for example, both coca leaf and cocaine base for medical and commercial consumption in the United States and Europe. *INCSR 2003*, p. IV-40. For further detail, see the section on trends during 2002 as well as the country sections on Bolivia and Peru.

<sup>4</sup> Ecuador successfully eradicated a small area of illicit coca by 1992.

<sup>5</sup> *INCSR 2003*, p. II-3.

<sup>6</sup> *Ibid.*, p. II-4. One hectare is 10,000 square meters, and is equal to approximately 2.54 acres.

<sup>7</sup> *Ibid.*, pp. II-5 and IV-40.

<sup>8</sup> *Ibid.*, p. II-14.

The Commission recognizes that ATPA is but a single element of a multifaceted effort to combat the drug problem. Consequently, no precise estimate can be made of the impact of ATPA on drug-related crop eradication and crop substitution or alternative development. Furthermore, as highlighted in previous reports, drug crop-eradication programs and alternative development efforts in the Andean region—despite some success in reducing net coca cultivation and modest success in generating economic alternatives and employment—have thus far appeared to be less effective in controlling the actual overall supply of illicit drugs.

Few licit crops can compete viably with coca. For example, coca can be cultivated in soil and climate conditions unsuitable for many commercial crops. Coca is often grown in regions controlled by armed insurgents that encourage its cultivation. Moreover, it can take time for countries to develop licit products of sufficient quality and in sufficient quantity that are able to penetrate the U.S. market. The commercial success of alternative development programs is often contingent on the improvement of economic infrastructure in a country, such as road construction or other measures that promote licit 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 estimates that during 2002, ATPA had a small, indirect, but positive overall effect in support of illicit coca eradication and crop substitution efforts. The Commission's assessments in this chapter are based on analysis of relevant literature on the Andean region, including unclassified U.S. embassy reports and published reports from relevant U.S. Government agencies on drug crop control and alternative development in the Andean region.<sup>9</sup>

## Role of ATPA in Counternarcotics Efforts

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ATPA was enacted to provide incentives to Bolivia, Colombia, Ecuador, and Peru to diversify their economies away from narcotics production.<sup>10</sup> As virtually all cocaine sold in the United States originates in these countries, the program functions as a U.S. trade policy tool that contributes to the U.S. fight against drug production and trafficking.<sup>11</sup> ATPA's trade-based incentives generally encourage new production and the growth of new industries that otherwise might not develop in the beneficiary countries. Not all such products or industries are direct substitutes for illicit coca cultivation, are located in coca-cultivating regions, or directly employ or attract workers or capital from coca-cultivating regions. Nonetheless, economic activity encouraged by ATPA contributes to economic development in the beneficiary countries through increased domestic production, exports, and employment.

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<sup>9</sup> The Commission relied extensively on data and factual information provided by other government and nongovernmental organizations in preparing this assessment because a USITC fact-finding field trip to the Andean region was not undertaken.

<sup>10</sup> USTR, *2003 Trade Policy Agenda and 2002 Annual Report of the President of the United States on the Trade Agreements Program*, April 2003 (Washington D.C.: GPO, 2003), p. 146.

<sup>11</sup> *Ibid.*



Along with ATPA trade benefits, the United States also assists the Andean countries in reducing illicit coca production through eradication operations and alternative development programs. The U.S. Department of State's Agency for International Development (USAID) and the Department's Bureau for International Narcotics and Law Enforcement Affairs, in conjunction with other foreign bilateral and multilateral aid donors, provide economic and technical assistance for alternative development programs in the four countries. Through alternative development programs, coca farmers are encouraged to cultivate licit agricultural products or engage in licit economic activities to create alternative income and employment. Alternative development programs include research to determine viable legitimate substitute crops or economic activities, training, technical and marketing assistance, and infrastructure development, such as providing education and health services, supplying agricultural credit, and constructing roads.<sup>12</sup>

## Regional Cultivation and Eradication Trends During 2002

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Net coca cultivation increased in the Andean region during 2000 and 2001, but intense eradication efforts reduced net coca cultivation in 2002, with net cultivation in Colombia declining for the first time in 2002. Eradication efforts in the region hit a record high in 2002, driven by the largest- ever eradication efforts in Colombia. However, despite aggressive eradication programs, cultivation rose in Bolivia and more modestly in Peru in 2002.<sup>13</sup> In Peru, prices for coca leaf and coca base have reportedly increased steadily over the past several years.<sup>14</sup> In Bolivia, government programs aimed at coca control have become enmeshed in political, economic, and cultural battles where coca growers' movements have adapted historical tradition to coca cultivation as a pretext to resist central government policies under a banner of indigenous rights.<sup>15</sup>

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<sup>12</sup> United Nations Office on Drugs and Crime (UNODC), *Alternative Development: What Is Alternative Development?* found at Internet address [http://www.unodc.org/unodc/en/alternative\\_development.html](http://www.unodc.org/unodc/en/alternative_development.html), retrieved June 18, 2003.

<sup>13</sup> *INCSR 2003*, p. II-4.

<sup>14</sup> U.S. Department of State telegram, "Coca Economics in Peru," message reference No. 2696, prepared by U.S. Embassy, Lima, June 2, 2003, par. 7, and table 2, "Prices of Coca Leaf and Derivatives."

<sup>15</sup> *INCSR 2003*, p. II-4. Bolivian law No. 1008 of July 19, 1988 (*Ley del Regimen de la Coca y Sustancias Controladas*, Regime of Coca and Controlled Substances) authorizes up to 12,000 hectares of coca cultivation within a defined "traditional" coca growing area located largely in a mountainous region northeast of the city of La Paz known as the Yungas. The licit coca cultivation of the Yungas contrasts with the illicit coca cultivation in the tropical lowland region of the Chapare, where the government's forced coca eradication program has been successful in recent years, but has led to the protests in 2002 and 2003 described in the country section on Bolivia. *INCSR 2003*, p. IV-7; and United Nations, Office on Drugs and Crime, *Bolivia-Coca Survey in the Yungas of La Paz in 2002*, March 2003, p. 5.

Since 1991, the year ATPA entered into effect, total net coca cultivation in the Andean countries of Bolivia, Colombia, Ecuador, and Peru has fluctuated around 200,000 hectares—between approximately 180,000 and 220,000 hectares. Net coca cultivation in the Andean region decreased from a period high in 1995 of 214,800 hectares to a low of 183,000 hectares in 1999. Net cultivation then increased, reaching 223,700 hectares in 2001.<sup>16</sup> In 2002, however, net coca cultivation decreased to around 205,450 hectares, stemming from intensive eradication efforts that began in 2001 and accelerated in 2002 and early 2003, which led to the first decrease in a decade in net coca cultivation in Colombia—the region’s largest coca leaf producer. Table 4-1 shows coca cultivation and eradication in the Andean region.

The overall trend masks substantial differences in net cultivation in the individual countries. For example, Bolivia achieved a dramatic decrease in net coca cultivation between 1995 and 2000, although net cultivation has since increased. Similarly, Peru reduced its net coca cultivation substantially between 1995 and 2001, although cultivation rose modestly in Peru in 2002. These major decreases in these two countries have been offset since 1992 by steady increases in Colombia where net coca cultivation in 1992 was 37,100 hectares and rose steadily to 169,800 hectares in 2001. In 2002, intense aerial spraying of illicit coca crops combined with government military action against rebel insurgent groups controlling the coca-growing areas of southern and western Colombia resulted in a decline in net coca cultivation in the country to around 144,450 hectares. Figure 4-1 shows net coca cultivation in Bolivia, Colombia, and Peru.

The difficulty in attributing any precise impact of ATPA on counternarcotics efforts is highlighted by the possibility of pro-coca forces shifting location away from the concentrated eradication efforts and military attacks mounted on crop sites in Colombia back to Bolivia and Peru, where past eradication efforts were successful but where recent net cultivation has increased. For example, in 2002, Peruvian military forces have reported gunfights with Colombian rebel guerrillas in the jungle border region between the two countries.<sup>17</sup>

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

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<sup>16</sup> Ecuador successfully eradicated its illicit coca cultivation by 1992, although it is still considered a transit country for coca paste, cocaine base, and cocaine. Consequently, the cultivation figures represent only Bolivia, Colombia, and Peru.

<sup>17</sup> *INCSR 2003*, p. IV-40.

**Table 4-1**  
**Coca cultivation and eradication in the ATPA countries, in hectares, 1991-2002**

Year	Bolivia <sup>1</sup>	Colombia <sup>2</sup>	Ecuador <sup>3</sup>	Peru	Total
<i>Cultivation</i>					
1991 .....	53,388	38,472	120	120,800	212,780
1992 .....	48,652	38,059	0	129,100	215,811
1993 .....	49,597	40,493	0	108,800	198,890
1994 .....	49,158	49,610	0	108,600	207,368
1995 .....	54,093	59,650	0	115,300	229,043
1996 .....	55,612	72,800	0	95,659	224,071
1997 .....	52,826	98,500	0	72,262	223,588
1998 .....	49,621	NA	0	58,825	NA
1999 .....	38,799	NA	0	52,500	NA
2000 .....	22,253	183,200	NA	40,200	245,653
2001 .....	19,900	NA	NA	37,900	NA
2002 .....	NA	NA	NA	42,000	NA
<i>Eradication</i>					
1991 .....	5,488	972	80	0	6,540
1992 .....	3,152	959	0	0	4,111
1993 .....	2,397	793	0	0	3,190
1994 .....	1,058	4,910	0	0	5,968
1995 .....	5,493	8,750	0	0	14,243
1996 .....	7,512	5,600	0	1,259	14,371
1997 .....	7,026	19,000	0	3,462	29,488
1998 .....	11,621	NA	0	7,825	NA
1999 .....	16,999	43,246	0	13,800	74,045
2000 .....	7,653	47,371	NA	6,200	61,224
2001 .....	NA	84,250	NA	3,900	NA
2002 .....	11,839	122,965	NA	7,000	141,804
<i>Net Cultivation</i>					
1991 .....	47,900	37,500	40	120,800	206,240
1992 .....	45,500	37,100	0	129,100	211,700
1993 .....	47,200	39,700	0	108,800	195,700
1994 .....	48,100	45,000	0	108,600	201,700
1995 .....	48,600	50,900	0	115,300	214,800
1996 .....	48,100	67,200	0	94,400	209,700
1997 .....	45,800	79,500	0	68,800	194,100
1998 .....	38,000	101,800	0	51,000	190,800
1999 .....	21,800	122,500	0	38,700	183,000
2000 .....	14,600	136,200	NA	34,200	185,000
2001 .....	19,900	169,800	NA	34,000	223,700
2002 .....	24,400	144,450	NA	36,600	205,450

<sup>1</sup> Beginning in 2001, U.S. Government surveys of Bolivian coca (cultivation, net cultivation, and eradication) take place as a calendar year estimate based on data gathered as of June 1, 2001.

<sup>2</sup> For Colombia, data for "cultivation" and "net cultivation" are entitled "estimated cultivation" and "potential harvest," respectively, in the INCSR report.

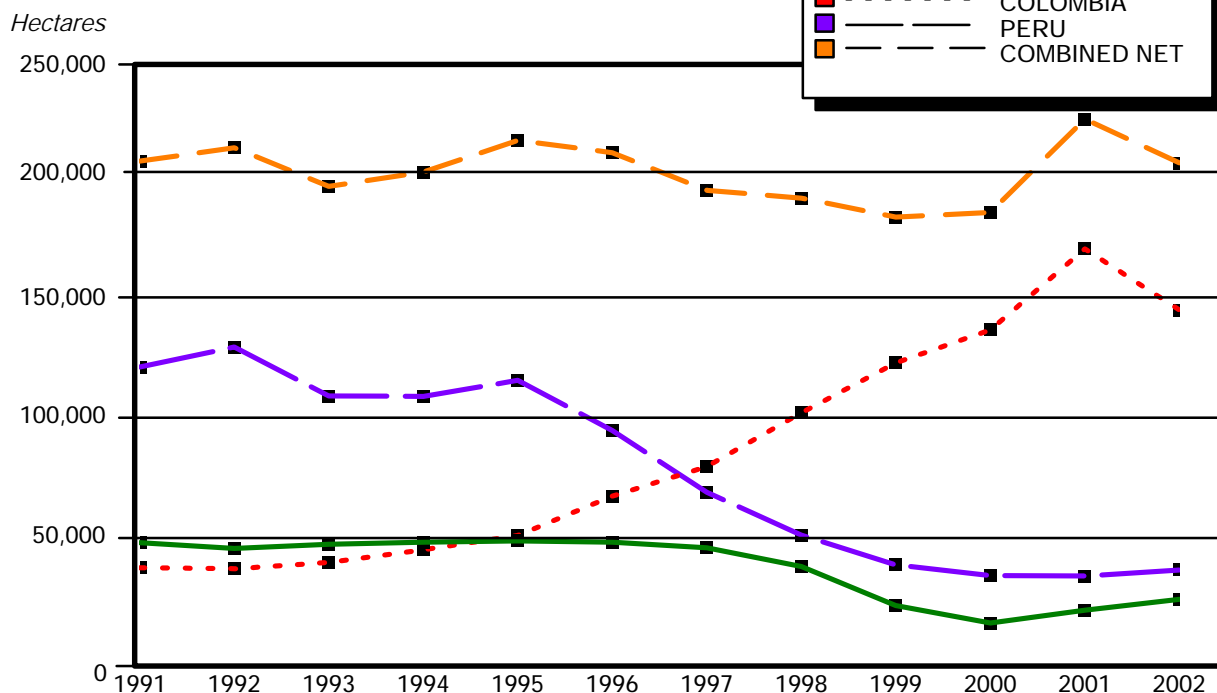
<sup>3</sup> Ecuador cultivates negligible amounts of coca, remaining primarily a transit country for cocaine.

Note.—All data from INCSR 2003 report or earlier reports. The "total" column is a simple summation of the figures listed for the four countries shown. For Ecuador, recent "NA" assumed to continue at zero.

NA=Not available.

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

**Figure 4-1**  
**Net coca cultivation: Bolivia, Colombia, and Peru, 1991-2002**



Source: Data derived from *International Narcotics Control Strategy Report*, 2003, 2002 reports.

## Country Profiles on Eradication and Alternative Development During 2002

### *Bolivia*

Bolivia is the world's third largest supplier of coca base and cocaine, although in 2002 it ranked far behind Colombia and Peru.<sup>18</sup> Net coca cultivation in Bolivia fell dramatically from a peak of 48,600 hectares in 1995 to a low of 14,600 hectares in 2000. Since then, it has risen to 19,900 hectares in 2001 and to 24,400 hectares in 2002.

In April 2003, Bolivian representatives presented a new national drug control plan for 2003 to 2008 at the 46th ministerial session of the United Nations Commission on Narcotic Drugs in Vienna, Austria.<sup>19</sup> The new plan focuses on reduction of coca production, integrated with drug-use prevention and treatment. The previous

<sup>18</sup> *INCSR 2003*, p. IV-7.

<sup>19</sup> U.S. Department of State telegram, "UN Commission on Narcotic Drugs 46th Session and Ministerial-Level Segment, April 8-17 in Vienna," message reference No. 467, prepared by the U.S. Mission to the United Nations, Vienna, May 7, 2003.

government plan for 1998 to 2002—"Plan Dignity"—set a goal to eliminate all illicit coca cultivation by the end of 2001 which, although not wholly successful, did succeed in roughly halving coca cultivation through voluntary and forced eradication.<sup>20</sup> Despite the transition from the caretaker Quiroga administration to the Sanchez de Lozada administration, 2002 eradication statistics proved to be the second-highest recorded, at 11,839 hectares.<sup>21</sup> The Sanchez de Lozada administration has continued the strong eradication effort in the Chapare region of Bolivia, begun under the Quiroga administration, despite the call by the pro-coca forces (so-called *cocaleros*) for a "pause" in eradication efforts that led to and threatens further protests using violence and disruption through roadblocks in the region.<sup>22</sup> Nonetheless, despite reductions in Bolivian coca cultivation, the country is reportedly becoming more important as a transit country for Peruvian cocaine base destined largely for Brazil, according to the U.S. State Department.<sup>23</sup>

### Alternative Development

Alternative development in the Chapare region of Bolivia continued to expand in 2002 and provide important alternatives to illicit coca production.<sup>24</sup> However, in the first weeks of 2003, road blockades, protests, and threats of violence directed at project staff working on the alternative development projects became increasingly frequent.<sup>25</sup> By April 2003, these attacks on alternative development sites by the *cocaleros* had destroyed irrigation systems for nurseries, as well as seedlings to grow forest and rubber trees, and coffee and black pepper bushes; set fire to offices, vehicles, computers, and documents belonging to alternative development projects; and stolen agricultural chemicals and tools.<sup>26</sup> Death threats were made against leaders, business people, and farmers involved in alternative development projects, and producers were pressured by *cocalero* forces to revert to coca production. In April 2003, the central government sent 300 police officers and 100 soldiers to accompany lawyers and investigators to bring legal proceedings against the instigators of this violence and intimidation, although quick results are not widely expected.

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<sup>20</sup> Organization of American States, *Bolivia: Evaluación del progreso de control de drogas, 1999-2000*, found at Internet address [http://www.cicad.oas.org/InformesMEM/Esp/Bolivia\\_spa.rev2.pdf](http://www.cicad.oas.org/InformesMEM/Esp/Bolivia_spa.rev2.pdf), retrieved July 3, 2002; and UNODC, *Bolivia: Country Profile*.

<sup>21</sup> U.S. Department of State telegram, "Bolivian USITC Investment and Drug Crop Survey," message reference No. 2754, prepared by U.S. Embassy, La Paz, July 25, 2003.

<sup>22</sup> *Ibid.*

<sup>23</sup> *INCSR 2003*, p. IV-7.

<sup>24</sup> *Ibid.*, p. IV-8.

<sup>25</sup> U.S. Department of State telegram, "Recent Attacks and Damage to Alternative Development Sites in the Cochabamba Tropics," message reference No. 1339, prepared by U.S. Embassy, La Paz, Apr. 10, 2003.

<sup>26</sup> Some stolen goods from these attacks, such as motorcycles, were subsequently found in municipalities controlled by the *Movimiento al Sindicalismo* (MAS) political party, whose leader Evo Morales was a close runner-up in the June 2002 national elections with a platform that advocates coca cultivation in Bolivia.

By the end of 2002, USAID reported that area under cultivation for such alternative development projects in the Chapare had increased from 40,613 hectares in 1986 to 127,000 hectares in 2002, raising annual family income for producers of alternative development crops to \$2,138 in 2002.<sup>27</sup> According to one Cochabamba producer, ATPA has been very beneficial for marketing canned palm hearts to the United States, a product also marketed to the United States by Ecuador under the program.<sup>28</sup> Dried tropical fruits are also products that U.S. Embassy observers expect to be exported from the Chapare to the U.S. market under ATPA in the near future.<sup>29</sup> However, observers caution that future progress on alternative development projects aimed at substituting for illicit coca production is likely to be seriously compromised until security is resumed following the protests in early 2003.<sup>30</sup>

More positively, the 20th annual Cochabamba—the main city of the Chapare region—Fair was held in June 2003, dedicated publicly to producers, investors, and businesses involved in growing and processing alternative development products.<sup>31</sup> The fair hosted over 450 national and international companies that displayed their goods and services to over 200,000 visitors; the alternative development stand—supported by USAID—featured over 30 products displayed by 27 exhibitors.<sup>32</sup> Although negative in past coverage, the local press emphasized in its 2003 coverage the impressive results achieved by the alternative development program despite the road blockades, conflicts, threats of violence, and other obstacles witnessed in the Chapare since the beginning of the year. However, the recession in Bolivia and Argentina, as well as the social and political disturbances in the Chapare, had reduced exports of licit products leaving the Chapare from \$36 million in 2001 to nearly \$28 million in 2002.<sup>33</sup>

In June 2003, the Bolivian President and the U.S. Ambassador traveled to the Yungas—another major coca-growing region of Bolivia—to help inaugurate two major alternative development projects in the Alto Beni area.<sup>34</sup> One was a rural electrification project that will ultimately benefit over 12,000 families, while the other

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<sup>27</sup> USTR, *First Report to the Congress on the Operation of the Andean Trade Preference Act As Amended*, Apr. 30, 2003, pp. 24-25.

<sup>28</sup> U.S. Department of State telegram, "Bolivian USITC Investment and Drug Crop Survey," message reference No. 2754, prepared by U.S. Embassy, La Paz, July 25, 2003.

<sup>29</sup> *Ibid.*

<sup>30</sup> U.S. Department of State telegram, "Recent Attacks and Damage to Alternative Development Sites in the Cochabamba Tropics," message reference No. 1339, prepared by U.S. Embassy, La Paz, Apr. 10, 2003.

<sup>31</sup> U.S. Department of State telegram, "Chapare Alternative Development Takes Successful Show on the Road," message reference No. 2211, prepared by U.S. Embassy, La Paz, June 13, 2003.

<sup>32</sup> In addition to the "Big Five" alternative development products (plantain, corn, rice, coffee, and cacao), other featured products included "camu camu" pulp (a tropical fruit with 30 to 60 percent more vitamin C than oranges), handicrafts, cold processed meats, marmalades, teas, spices, tropical flowers, honey, and ecologically friendly charcoal.

<sup>33</sup> USTR, *First Report to the Congress on the Operation of the Andean Trade Preference Act As Amended*, Apr. 30, 2003, pp. 24-25.

<sup>34</sup> U.S. Department of State telegram, "Yungas Alternative Development Makes Successful Inaugurations in Alto Beni," message reference No. 2358, prepared by U.S. Embassy, La Paz, June 26, 2003.

was the initial 50-kilometer length of a road improvement project. Both officials pronounced that the roads will make it possible both to bring legal agricultural products grown in the region to market as well as open the region to government services such as education and medical help, which will help avoid the illicit cultivation of coca and the violence that it typically involves.

## *Colombia*

Colombia continues to be the world's leading producer and distributor of cocaine, as well as a significant supplier of heroin.<sup>35</sup> The installation of a new government under President Alvaro Uribe Velez, following national elections in August 2002, has seen a crackdown on both the illegal drug trade as well as the armed rebel groups that use the drug trade as a major source of funding for their insurgency. The country is the third-largest recipient of U.S. foreign aid, receiving \$2.3 billion by the end of fiscal 2003<sup>36</sup> in support of counternarcotics and counterterrorism efforts by the Colombian Government.

In 2002, aerial spraying in Colombia was extended at a record pace,<sup>37</sup> following a government assessment of the environmental and health impact of aerial fumigation.<sup>38</sup> This effort resulted in the first decline in net coca cultivation in Colombia since 1992. The United States estimates net coca cultivation to have fallen approximately 15 percent, from 169,800 hectares in 2001 to around 144,450 hectares in 2002; the United Nations calculates this reduction to be even higher, around 30 percent.<sup>39</sup> Supported by U.S. efforts, the program carried out by the Anti-Narcotics Directorate of the Colombian National Police surpassed its 2001 coverage of around 84,500 hectares, spraying 122,695 hectares of illicit coca in 2002.<sup>40</sup> Aerial spraying in 2003 surpassed even the record pace set in 2002, reaching 47,442 hectares of coca by April 2003. This accelerated pace continued into May 2003 until a Colombian court ordered the government in late June 2003 to suspend aerial spraying until its environmental effects are better known.<sup>41</sup> In May

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<sup>35</sup> *INCSR 2003*, p. IV-19.

<sup>36</sup> USTR, *First Report to the Congress on the Operation of the Andean Trade Preference Act As Amended*, Apr. 30, 2003, p. 32.

<sup>37</sup> *INCSR 2003*, p. IV-19.

<sup>38</sup> United Nations Economic and Social Council, International Narcotics Control Board (INCB), *Report of the International Narcotics Control Board for 2002*, E/INCB/2002/1, Feb. 26, 2003 (Vienna: INCB, 2003), found at Internet address <http://www.incb.org/e/index.htm>, retrieved on June 23, 2003.

<sup>39</sup> U.S. Department of State telegram, "ATPA/ATPDEA Investment Activity during 2002," message reference No. 7412, prepared by U.S. Embassy, Bogota, Aug. 8, 2003.

<sup>40</sup> *INCSR 2003*, p. IV-19. For the first time in many years, total area under illicit coca cultivation decreased according to the Integrated System for Illicit Crop Monitoring (SIMCI) of Colombia. However, reductions in one area are often paired with increases in bordering countries, notably Bolivia and Peru, in addition to which small-scale coca cultivation has been detected in Ecuador and Venezuela. See *INCB*, 2002, p. 49, par. 336.

<sup>41</sup> Vanessa Arrington, "Colombian Drug Spraying Flights Suspended," *Associated Press*, June 26, 2003, found at Intranet address <http://www.newsedge.com>, retrieved on July 1, 2003.

2003, the U.S. and Colombian governments reached agreement on the resumption of the Air Bridge Denial operation that interrupts illicit trafficking of drugs by small civilian aircraft, although actual flights had not resumed as of early August 2003.<sup>42</sup>

### Alternative Development

The Colombian government's "Plan Colombia" is the single most significant effort at reducing the illicit supply of drugs in South America.<sup>43</sup> Supported by the United States, Plan Colombia has been coordinated with other countries in the region, bringing assistance in kind such as training and equipment as well as financial aid. Although alternative economic development measures and drug abuse prevention and treatment are important, United Nations observers consider that the emphasis in 2002 in Colombia (as well as more generally in all the Andean countries involved) appears to have moved more toward law enforcement and suppression in which military forces have come to play a key role.<sup>44</sup>

In Colombia, the effect of ATPA on drug crop substitution has been indirect.<sup>45</sup> Much of the investment related to ATPA has flowed to regions where there is no illicit coca cultivation.<sup>46</sup> Nonetheless, ATPA benefits assist the counternarcotics efforts in the country by providing alternative employment opportunities to Colombians who might otherwise engage in the drug trade.<sup>47</sup>

The flower industry in Colombia has been cited as a dramatic example of job creation supported by ATPA that the government seeks to consolidate and maintain.<sup>48</sup> The greatest beneficiary in Colombia of such ATPA trade preferences, flowers are the fourth most important Colombian export product after oil, coal, and coffee. The flower industry generates roughly 75,000 direct and 50,000 indirect jobs.<sup>49</sup> Moreover, ATPA preferences contribute to social development in the case of flowers, where 60 percent of the jobs generated by the industry employ single head-of-household women. In many cases, people fleeing or displaced by the violence in coca-growing regions are actively recruited to work on flower plantations.<sup>50</sup> The current concern of

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<sup>42</sup> Ken Guggenheim, "U.S., Colombia Agree on Anti-Drug Flights," *Washington Post*, May 1, 2003, found at Internet address <http://www.washingtonpost.com>, retrieved on June 1, 2003; George Gedda, "Powell OKs Colombia Anti-Drug Flights," *Associated Press newswire*, Aug. 5, 2003.

<sup>43</sup> *INCB 2002*, p. 46, par. 318.

<sup>44</sup> *INCB 2002*, p. 46, par. 317.

<sup>45</sup> USTR, *First Report to the Congress on the Operation of the Andean Trade Preference Act As Amended*, Apr. 30, 2003, p. 32.

<sup>46</sup> U.S. Department of State telegram, "ATPA/ATPDEA Investment Activity during 2002," message reference No. 7412, prepared by U.S. Embassy, Bogota, Aug. 8, 2003.

<sup>47</sup> USTR, *First Report to the Congress on the Operation of the Andean Trade Preference Act As Amended*, Apr. 30, 2003, p. 32.

<sup>48</sup> U.S. Department of State, "Secretary Snow's Meeting with Colombian Business Leaders," message reference No. 3741, prepared by U.S. Embassy, Bogota, Apr. 28, 2003.

<sup>49</sup> U.S. Department of State telegram, "ATPA/ATPDEA Investment Activity during 2002," message reference No. 7412, prepared by U.S. Embassy, Bogota, Aug. 8, 2003.

<sup>50</sup> *Ibid.*



the Colombian flower industry is how to lock in the benefits of the success generated by ATPA when it expires in 2006. Consequently, the flower industry would support replacing ATPA with a bilateral free trade agreement.

## *Ecuador*

Ecuador is a major transit country for drugs and precursor chemicals, although there is no evidence that illicit crops are cultivated to any significant degree within the country or that there is substantial processing of raw materials into market-ready drugs.<sup>51</sup> Nonetheless, coca paste and cocaine base enter Ecuador from Colombia east of the Andes and exit to Colombia west of the Andes for refining operations. The armed violence on the Colombian side of Ecuador's northern border makes providing security in general and drug interdiction in particular a difficult task, particularly for the border provinces of Carchi, Esmeraldas, and Sucumbios—the latter where most of the country's petroleum resources are located. Most drugs are believed to exit Ecuador in commercial maritime containers through port cities, where heroin seizures rose sharply in 2002.

## **Alternative Development**

The Ecuadorian Agency for Northern Border Development was established in 2000 to coordinate economic and social development programs in the vulnerable provinces along the northern border.<sup>52</sup> The government's \$465 million, 4-year development plan aims not at "alternative" development projects—since illicit crop cultivation is not significant in Ecuador—but rather at "preventive" development in view of the severe coca cultivation and intense aerial eradication efforts immediately adjacent in Putumayo province, Colombia.

The rise of the cut flower industry in Ecuador is the most directly attributable result attesting to the benefits provided by ATPA.<sup>53</sup> Cut flowers are Ecuador's largest exports under ATPA and totaled approximately \$178 million in 2001. The president of Expoflores estimates that the expiration of ATPA—leading to the reimposition of U.S. tariffs of 6.8 percent ad valorem on roses and 6.4 percent on other flower exports—cost the Ecuadorian flower growers \$32,000 per day. Cultivation of fresh fruits, vegetables, and cereals in the country's highlands are also providing legitimate, alternative industries for producers to deter them from starting to cultivate illicit crops, such as coca or opium poppy.<sup>54</sup>

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<sup>51</sup> *INCSR 2003*, p. IV-31.

<sup>52</sup> *INCSR 2003*, p. IV-34.

<sup>53</sup> U.S. Department of State, "Ecuador's Report to the USITC Annual Andean Investment and Drug Crop Survey," message reference No. 2513, prepared by U.S. Embassy, Quito, July 25, 2003; U.S. Department of State, "Flower Exporters Squeezed Since ATPA Expired," message reference No. 196, prepared by U.S. Embassy, Quito, Jan. 17, 2002.

<sup>54</sup> USTR, *First Report to the Congress on the Operation of the Andean Trade Preference Act As Amended*, Apr. 30, 2003, p. 39.

## *Peru*

Peru is the second-largest cocaine producer in the world, and is a major exporter of high-purity cocaine and cocaine base to South America, Mexico, the United States, and Europe.<sup>55</sup> Nevertheless, net coca cultivation has fallen dramatically from its peak of 129,100 hectares in 1992 to a low of about 34,000 hectares in 2000 and 2001. In 2002, however, net cultivation rose to around 36,600 hectares, an increase of roughly 8 percent. Although eradication efforts were stalled for most of 2002 because of social unrest from coca farmers similar to that in Bolivia,<sup>56</sup> the pace of eradication picked up in the final quarter of 2002 spurred on by an interest in qualifying for ATPDEA trade benefits as well as a new bilateral agreement reached between the U.S. and Peruvian governments about a new pilot coca eradication program and its concomitant alternative development projects.<sup>57</sup>

In February 2002, the Government of Peru and USAID agreed to carry out a tropical forest management program designed, in addition to increasing household incomes in the region, to discourage the massive deforestation that results from clearing forest land to plant illicit coca and to protect the bio-diversity found in these protected forests.<sup>58</sup>

In September 2002, the two parties signed a 5-year cooperative agreement aimed at linking alternative development more directly to illicit coca eradication.<sup>59</sup> The program aims for a community to sign an agreement that commits it to the voluntary eradication of illicit coca plantings and to remaining coca-free permanently as a condition for participating in the alternative development program.<sup>60</sup> This new strategy of "auto-eradication" has already been reported to have eradicated over 900 hectares of coca in the pilot region of Aguaytia. The Peruvian Government is to forcibly eradicate illicit coca, and withhold alternative development benefits, if the coca is not destroyed voluntarily.<sup>61</sup>

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<sup>55</sup> *INCSR 2003*, p. IV-40.

<sup>56</sup> The Peruvian coca growers movement staged a number of large protests during 2002 that led the Peruvian Government to temporarily halt coca eradication in certain regions (*INCSR 2003*, p. II-4). Like Bolivia, Peru has a "traditional" coca-growing area east of the city of Cuzco that produces 21 percent of the country's coca cultivation (*INCSR 2003*, p. IV-40). Peru legally produces coca leaf and cocaine base for medical and commercial consumption in the United States and Europe (*INCSR 2003*, p. IV-40). Under Peruvian law, it is illegal to sell coca leaf to anyone other than ENACO (*Empresa Nacional de Coca*, the National Coca Firm), the national government monopoly for commercialization of coca leaves (United Nations, Office on Drugs and Crime, *Peru-Coca Survey for 2002*, March 2003, p. 6).

<sup>57</sup> U.S. Department of State telegram, "Peru Scen setter for Secretary of Commerce Evans' December 2-4 Visit," message reference No. 6272, prepared by U.S. Embassy, Lima, Nov. 26, 2002; USTR, *First Report to the Congress on the Operation of the Andean Trade Preference Act As Amended*, Apr. 30, 2003, p. 49.

<sup>58</sup> *INCSR 2003*, p. IV-44.

<sup>59</sup> *Ibid.*

<sup>60</sup> *Ibid.*

<sup>61</sup> *Ibid.*

The most effective drug interdiction program—the Air Bridge Denial (ABD)—remained suspended during 2002. The ABD operation was suspended in April 2001 following the shooting down by the Peruvian Air Force of an airplane carrying U.S. missionaries, an incident that killed two American citizens.<sup>62</sup> Although the United States and Colombia reached agreement to resume these drug surveillance flights in May 2003, no similar agreement has yet been reached with Peru as of mid-2003.<sup>63</sup> Nonetheless, the United States is working with Peru to improve training and equipment with a view to resuming the operation by the end of 2003, in the hope that a resumption of the program could help stem drug trafficking in the region and reverse the recent increases in net coca cultivation in Peru.

### **Alternative Development**

Net coca cultivation fell markedly in Peru during the 1990s as economic conditions improved, with production shifting largely to Colombia.<sup>64</sup> In 2002, however, net coca cultivation expanded in Peru for the first time since 1995.<sup>65</sup> The majority of this renewed cultivation occurred in major growing areas such as the Upper Huallaga-Tocache and Apurimac valleys. Lack of a government presence in these areas prevents the government from either providing physical security or delivering government services or infrastructure—essentials such as potable water, electricity, and roads. This situation severely limits the ability of isolated farmers to earn a living from alternative crops or through other legal economic means. Moreover, the low market price of legal alternative crops relative to illicit coca cultivation<sup>66</sup> makes farmers yet more vulnerable to a combination of enticement and pressure from pro-coca groups and narcotraffickers. This pressure to grow coca can range from providing farmers with inputs such as seeds, fertilizer, and herbicide to threats of violence.

Following national elections in 2001 that brought President Alejandro Toledo's administration to power, U.S. economic assistance to Peru reached \$254 million in fiscal year 2002—of which \$142 million was focused on reducing coca cultivation, promoting legal alternative economic opportunities, as well as narcotics interdiction policies. Although the United States has sought more aggressive coca eradication, the Peruvian Government has adopted a more cautious approach based on incentives for voluntary cooperation, out of concern that a more aggressive approach would stimulate violent resistance by coca growers.<sup>67</sup>

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<sup>62</sup> *INCSR 2002*, p. IV-39.

<sup>63</sup> Ken Guggenheim, "U.S., Colombia Agree on Anti-Drug Flights," *Washington Post*, May 1, 2003, found at Internet address <http://www.washingtonpost.com>, retrieved on June 1, 2003.

<sup>64</sup> U.S. Department of State telegram, "Coca Economics in Peru," message reference No. 2696, prepared by U.S. Embassy, Lima, June 2, 2003.

<sup>65</sup> The United Nations' INCB notes that government eradication of illicit coca cultivation in Bolivia and Peru was highly successful until 2000, with only mixed results since then (*INCB 2002*, p. 48, par. 335).

<sup>66</sup> Cultivation of licit crops such as plantain, corn, rice, or even coffee and cacao currently return between roughly \$200 and \$600 per hectare compared to \$2,200 per hectare for coca leaf (U.S. Department of State telegram, "Coca Economics in Peru," message reference No. 2696, prepared by U.S. Embassy, Lima, June 2, 2003).

<sup>67</sup> U.S. Department of State telegram, "Peru Scen setter for Secretary of Commerce Evans' December 2-4 Visit," message reference No. 6272, prepared by U.S. Embassy, Lima, Nov. 26, 2002.

Asparagus production for export has been the most significant alternative development project in Peru over the first 10 years of ATPA, and is estimated to have provided over 50,000 jobs.<sup>68</sup> Mango crops have also been developed as an alternative to coca cultivation; other products traditionally benefitting from ATPA have been copper, zinc, and jewelry.<sup>69</sup> Under ATPDEA, the textile and apparel industries, including cotton cultivation, are thought to have similar or better potential than asparagus.<sup>70</sup> The inclusion of regional fabrics as inputs in apparel assembly under ATPDEA is expected to create significant job opportunities.<sup>71</sup>

In June 2003, a pilot project to convert sugar cane into ethanol and other products in the Huallaga Valley—a major coca-growing region—was deemed a success following its initial year of operation that included planned shipments of ethanol to Iquitos. The project could provide employment for over 1,000 farmers to cultivate sugar cane, as well as construction jobs from subsequent investment estimated at \$185 million to build an ethanol pipeline over the Andes to the Pacific coast.<sup>72</sup> It should be noted that ATPA countries are not granted preferential access for ethanol for fuel use (HTS 2207.10.60 and 2207.20.00). ATPA countries are subject to an additional excise tax, which effectively prohibits exports from countries other than CBERA countries.

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<sup>68</sup> U.S. Department of State telegram, "ITC Annual ATPA/ATPDEA Report Input," message reference No. 3383, prepared by U.S. Embassy, Lima, July 3, 2003.

<sup>69</sup> USTR, *First Report to the Congress on the Operation of the Andean Trade Preference Act As Amended*, Apr. 30, 2003, p. 41.

<sup>70</sup> U.S. Department of State telegram, "ITC Annual ATPA/ATPDEA Report Input," message reference No. 3383, prepared by U.S. Embassy, Lima, July 3, 2003.

<sup>71</sup> For further information, see the "Probable Future Effects" section of chapter 3.

<sup>72</sup> U.S. Department of State, "Peru Economic Notes, June 18, 2003," message reference No. 3111, prepared by U.S. Embassy, Lima, June 20, 2003.

APPENDIX A  
*Federal Register* Notice

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Coastal Marine Institute, University of Alaska Fairbanks. Other presentations and discussions will focus on the draft recommendations of the U.S.

Commission on Ocean Policy, a report from the OCS Policy Committee, and updates on the OCS Scientific Committee's Mercury Subcommittee and Sand and Gravel Subcommittee. The remainder of the day will focus on presentations by the MMS OCS Regional Offices on their research priorities and information needs in the context of regional decisionmaking.

On Wednesday, April 23, the Committee will meet in discipline breakout sessions (*i.e.*, physical oceanography, biology, and socioeconomics) to review the specific research plans of the regional offices for Fiscal Years 2004 and 2005.

On Thursday, April 24, the Committee will meet in plenary session for presentations from the Alaska OCS Region's Information Transfer Meeting held March 10–12, 2003, and for reports of the discipline breakout sessions of the previous day. In the afternoon, the plenary session will continue with Committee Business.

The meetings are open to the public. Approximately 30 visitors can be accommodated on a first-come-first-served basis at the plenary session.

**Authority:** Federal Advisory Committee Act, Pub. L. 92–463, 5 U.S.C., Appendix I, and the Office of Management and Budget's Circular A–83, Revised.

Dated: March 20, 2003.

**Thomas A. Readinger,**  
Associate Director for Offshore Minerals Management.

[FR Doc. 03–7125 Filed 3–25–03; 8:45 am]

BILLING CODE 4043–MR–P

## DEPARTMENT OF THE INTERIOR

### Bureau of Reclamation

#### Glen Canyon Dam Adaptive Management Work Group (AMWG), Notice of Meeting

**AGENCY:** Bureau of Reclamation, Interior.

**ACTION:** Cancellation of public meeting.

**SUMMARY:** The Bureau of Reclamation is canceling the Adaptive Management Work Group Meeting scheduled for March 28, 2003, in Flagstaff, Arizona. At the AMWG meeting held on January 28, 2003, the Humpback Chub Ad Hoc Group (HBC AHG) was formed to consider actions to implement a comprehensive research and management program for the humpback chub in the Colorado River. As such, the

HBC AHG requires additional time to complete various assignments in preparation for presentation to the AMWG.

**FOR FURTHER INFORMATION CONTACT:** Dennis Kubly, telephone (801) 524–3715; faxogram (801) 524–3858; or via e-mail at [dkubly@uc.usbr.gov](mailto:dkubly@uc.usbr.gov).

Dated: March 14, 2003.

**Dennis Kubly,**  
Chief, Adaptive Management Group,  
Environmental Resources Division, Upper Colorado Regional Office.

[FR Doc. 03–7184 Filed 3–25–03; 8:45 am]

BILLING CODE 4310–MN–P

## INTERNATIONAL TRADE COMMISSION

[Investigation No. 332–352]

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

**AGENCY:** United States International Trade Commission.

**ACTION:** Notice of opportunity to submit comments in connection with the 2002 ATPA report.

**EFFECTIVE DATE:** March 19, 2003.

**FOR FURTHER INFORMATION CONTACT:** Joanne Guth (202–205–3264), Country and Regional Analysis Division, Office of Economics, U.S. International Trade Commission, Washington, DC 20436.

**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 ninth report, covering calendar year 2002, is to be submitted by September 30, 2003.

**Written Submissions:** The Commission does not plan to hold a public hearing in connection with the preparation of this ninth report. However, interested persons are invited to submit written statements concerning the matters to be addressed in the report. Commercial or financial information that a party desires the Commission to treat as confidential must be submitted on separate sheets of paper, each clearly marked "Confidential Business Information" at the top. All submissions requesting confidential treatment must conform with the requirements of section 201.6 of the Commission's *Rules of Practice and Procedure* (19 CFR 201.6). 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. 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 13, 2003. All submissions should be addressed to the Secretary, United States International Trade Commission, 500 E Street SW, Washington, DC 20436. 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, as amended, 67 FR 68036 (Nov. 8 2002).

Hearing-impaired persons can obtain information on this matter by contacting the Commission's TDD terminal on 202–205–1810. Persons with mobility impairments who will need special assistance in gaining access to the Commission should contact the Office of the Secretary at 202–205–2000. General information concerning the Commission may 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>.

Issued: March 21, 2003.

By order of the Commission.

**Marilyn R. Abbott,**

Secretary to the Commission.

[FR Doc. 03–7250 Filed 3–25–03; 8:45 am]

BILLING CODE 7020–02–P





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

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# Submissions for the Record Investigation No. 332-352

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## International Intellectual Property Alliance<sup>1</sup>

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The International Intellectual Property Alliance (IIPA) is a private-sector coalition that represents the U.S. copyright-based industries in bilateral and multilateral efforts to improve international protection of copyrighted materials. The IIPA believes "that the four ATPDEA beneficiary countries have failed to comply fully with their ATPDEA obligations to provide 'adequate and effective protection' to U.S. copyright owners, as required under the program's eligibility criteria." The IIPA estimates that U.S. companies suffered trade losses owing to piracy in the four ATPA countries of at least \$263 million in 2002. The IIPA acknowledges that the Andean countries engaged in copyright law reform efforts in the 1990s, but asserts that most laws are inadequate. Moreover, the IIPA notes that reform alone, without adequate and effective enforcement, does not satisfy ATPDEA's eligibility requirements. The IIPA included in its submission country reports detailing the status of copyright law reforms, piracy, and enforcement in each of the ATPA countries.

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<sup>1</sup> Submission to the Commission by Maria Strong, Vice President and General Counsel of the International Intellectual Property Alliance, received May 21, 2003.



# APPENDIX C

## Technical Notes to Chapter 3

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# Technical Notes to Chapter 3: Partial Equilibrium Analysis

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This section presents the methodology used to estimate the impact of ATPA on the U.S. economy in 2002. The economic effects of ATPA duty reductions<sup>1</sup> were evaluated with a comparative static analysis. Since ATPA tariff preferences were already in effect in 2002, the impact of the program was measured by comparing the market conditions currently present (duty-free entry, or 20 percent reduced-duty 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 2002. 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 reimposition of duties.<sup>2</sup> 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.<sup>3</sup> 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.<sup>4</sup> 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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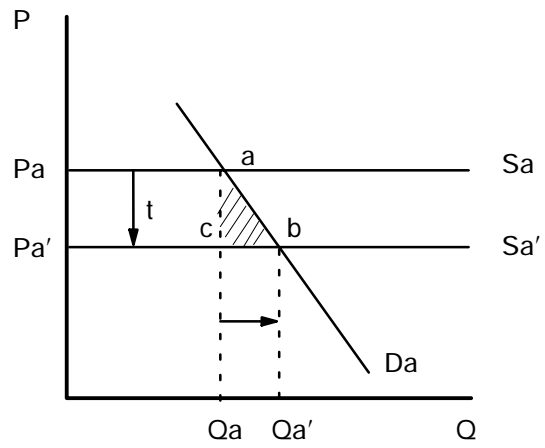
<sup>1</sup> Although the term *duty reduction* is used, the methodology employed in the analysis for this report applies equally to a duty elimination (which is a duty reduction in the full amount of the duty).

<sup>2</sup> 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.

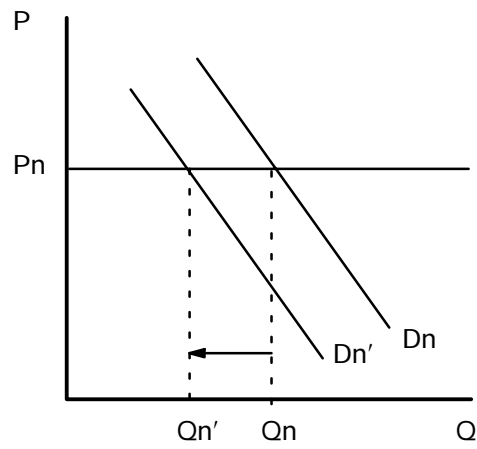
<sup>3</sup> This is technically true only if income effects are negligible. Given the small U.S. expenditure on goods from ATPA countries, income effects are likely to be negligible for the products under consideration. See R. Willig, “Consumer’s Surplus Without Apology,” *American Economic Review*, 66 (1976), pp. 589-597.

<sup>4</sup> The subscripts a, n, and d refer to ATPA imports, non-ATPA imports, and U.S. domestic output, respectively.

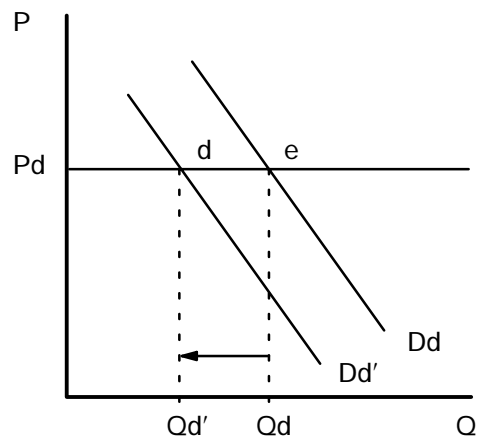
**Figure C-1**  
 Partial equilibrium analysis of the effects of ATPA duty provisions on U.S. imports



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.<sup>5</sup>

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  $P_{a'ac}P_a'$  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  $P_{a'ac}P_a'$  in panel a, that is, triangle  $abc$ .<sup>6</sup> 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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<sup>5</sup> 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.

<sup>6</sup> Welfare effects typically include a measure of the change in producer surplus. There is no change in producer surplus for ATPA producers because of the assumption of perfectly elastic supply curves.

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:

$$\begin{aligned} (1) \quad & (Q_a / Q_a') = (P_a / P_a')^{\varepsilon_{aa}} \\ (2) \quad & (Q_n / Q_n') = (P_a / P_a')^{\varepsilon_{na}} \\ (3) \quad & (Q_d / Q_d') = (P_a / P_a')^{\varepsilon_{da}} \end{aligned}$$

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

$$\begin{aligned} (1)' \quad & (Q_a / Q_a') = (1+t)^{\varepsilon_{aa}} \\ (2)' \quad & (Q_n / Q_n') = (1+t)^{\varepsilon_{na}} \\ (3)' \quad & (Q_d / Q_d') = (1+t)^{\varepsilon_{da}} \end{aligned}$$

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

$$\begin{aligned} (4) \quad & \varepsilon_{aa} = V_a \eta - V_n \sigma_{an} - V_d \sigma_{ad} \\ (5) \quad & \varepsilon_{na} = V_a (\sigma_{na} + \eta) \\ (6) \quad & \varepsilon_{da} = V_a (\sigma_{da} + \eta) \end{aligned}$$

where the  $V_i$ 's are market shares for ATPA imports, non-ATPA imports, and domestic output, respectively,  $\eta$  is the aggregate demand elasticity, and the  $\sigma_{ij}$ 's are the elasticities of substitution between the  $i$ th and  $j$ th products.<sup>7</sup> Estimates of the aggregate demand elasticities were taken from the literature.<sup>8</sup> 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.<sup>9</sup>

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<sup>7</sup> Equations (4) through (6) are derived from P.R.G. Layard and A.A. Walters, *Microeconomic Theory* (New York: McGraw-Hill, 1978).

<sup>8</sup> 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.

<sup>9</sup> 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 M. Galloway, C. McDaniel, and S. Rivera, "Long-Run Industry-Level Estimates of U.S. Armington Elasticities," USITC Working Paper 2000-09A, Sept. 2000.

Given equations (1)' through (4)', 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)***

area of  
trapezoid  $P_aabP_a'$

$$= \int_{P_a'}^{P_a} kP_a^{\epsilon_{aa}} dP_a$$

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

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

***Tariff revenue from U.S. imports from ATPA partners***

area of  
rectangle  $P_aacP_a'$

$$= (P_a - P_a') Q_a$$

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

$$= t P_a' Q_a' (1+t)^{\epsilon_{aa}} \text{ given } Q_a = Q_a' (1+t)^{\epsilon_{aa}}$$

***Domestic output***

area of  
rectangle  $Q_d'deQ_d$

$$= P_d(Q_d - Q_d')$$

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



# APPENDIX D

## List of Frequently Used Abbreviations and Acronyms

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# List of Frequently Used Abbreviations and Acronyms

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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
EU	European Union
FDI	foreign direct investment
FTAA	Free-Trade Area of the Americas
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	<i>International Narcotics Control Strategy Report</i>
IPR	intellectual property rights
MFN	most-favored-nation
NAFTA	North American Free-Trade Agreement
NTR	normal trade relations
TROs	Tariff-rate quotas
UNODC	United Nations Office on Drugs and Crime
USAID	United States Agency for International Development
USITC	U.S. International Trade Commission
USTR	United States Trade Representative
WTO	World Trade Organization