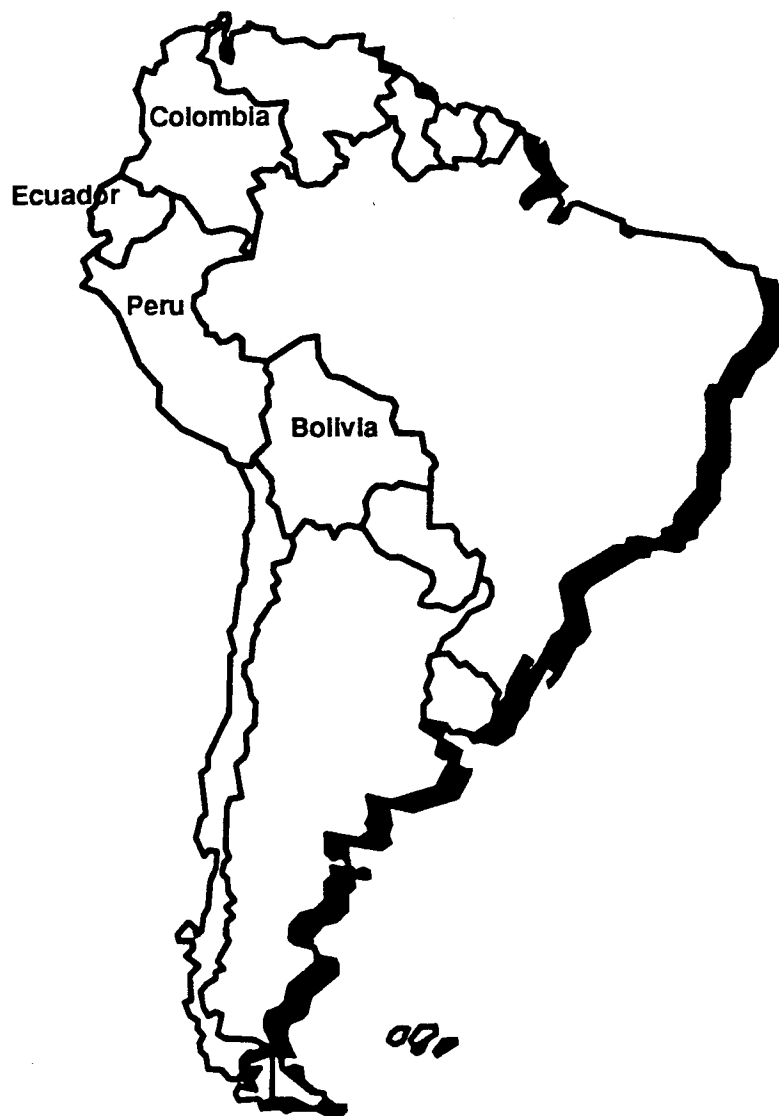


# ANNUAL REPORT ON THE IMPACT OF THE ANDEAN TRADE PREFERENCE ACT ON U.S. INDUSTRIES AND CONSUMERS AND ON DRUG CROP ERADICATION AND CROP SUBSTITUTION

**First Report 1993**

Investigation No. 332-352



USITC PUBLICATION 2814  
SEPTEMBER 1994



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

Washington, DC 20436

## **Annual Report on the Impact of the Andean Trade Preference Act**

### **First Report 1993**

**Investigation No. 332-352**



**Publication 2814**

**September 1994**

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# PREFACE

The Andean Trade Preference Act (ATPA), enacted on December 4, 1991 (Public Law 102-182, title II, 105 Stat. 1236, 19 U.S.C. 3201 et seq.), authorized the President to proclaim preferential duty treatment for eligible articles from Bolivia, Colombia, Ecuador, and Peru. The President proclaimed preferential duty treatment for Bolivia and Colombia on July 2, 1992, for Ecuador on April 13, 1993, and for Peru on August 11, 1993. ATPA preferential duty treatment is scheduled to terminate on December 4, 2001.

ATPA section 206 (19 U.S.C. 3204) requires the U.S. International Trade Commission (Commission) to report to the President and the Congress on the economic impact of the act "on United States 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." The Commission is to submit its reports by September 30 of each year beginning in 1994, and annually for each calendar year until ATPA benefits expire in the year 2001. In response to this statutory requirement, the Commission instituted investigation No. 332-352 on February 17, 1994. The present study, the Commission's first report in this series, fulfills the requirement for calendar years 1992 and 1993.

Copies of the notice of this investigation were posted in the Office of the Secretary, U.S. International Trade Commission, Washington, DC 20436, and the notice was published in the *Federal Register* (59 F.R. 11308) on March 10, 1994. Appendix A contains a copy of the *Federal Register* notice. Interested parties were invited to submit written statements concerning the investigation. The submissions received also are listed in appendix A.

The U.S. International Trade Commission is an independent, factfinding agency. Statements made in this report do not necessarily reflect the views of executive branch agencies and, unless cited as such, should not be taken as official statements of U.S. trade policy. Because this report was completed independently of any other work conducted by the Commission, nothing in it should be construed to indicate what the Commission's determination would be should an investigation be conducted under another statutory authority.



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# EXECUTIVE SUMMARY

Most of the world's cocaine is produced from coca plants cultivated in the Andean mountain region of South America, which includes the countries of Bolivia, Colombia, Ecuador, and Peru. Evidence of coca cultivation in the region dates from 2100 B.C., and coca production for "traditional" uses (such as leaf chewing and brewing into tea) remains legal in Bolivia and Peru. In response to increased worldwide consumption of cocaine, a cocaine industry developed in the Andean countries in the 1980s that eventually grew to become the most lucrative economic activity in the region.

The Andean Trade Preference Act (ATPA) was signed into law in December 1991 as part of the United States' "war on drugs." ATPA culminated a 2-year effort by the Bush administration to identify ways the United States can encourage the Andean countries to reduce drug crop cultivation and production. ATPA goals are to promote broad-based economic development, stimulate investment in nontraditional industries, and diversify the Andean countries' export base. To this effect, ATPA establishes a preferential tariff regime for certain Andean products to improve access to the U.S. market. President Bush designated Colombia and Bolivia as eligible for ATPA benefits in July 1992. President Clinton designated Ecuador eligible in April 1993, and Peru eligible in August 1993.

The United States is the single largest trading partner of Bolivia, Colombia, Ecuador, and Peru. The United States recorded a \$77 million trade surplus with the Andean countries in 1993, with exports valued at nearly \$5.4 billion and imports of approximately \$5.3 billion. The leading U.S. exports to the four Andean countries increasingly include such capital goods as nonelectrical machinery, chemicals, transportation equipment, and electrical and electronic equipment, although cereals such as wheat and corn also are important U.S. exports. The leading U.S. imports are petroleum, agricultural products and livestock, and textiles and apparel.

Section 206 of ATPA requires the U.S. International Trade Commission (the Commission) to report to Congress on the operation of the program. The present report is the first in a series of annual reports assessing the effects of ATPA on the U.S. economy as well as its effectiveness in promoting drug-related crop eradication and substitution efforts in the Andean countries. The present report reviews the first 2 years of program operation, calendar years 1992 and 1993, and gives background on the Andean countries' economic performance and trade with the United States.

Following are highlights of the Commission's first report on ATPA:

## *Summary of findings:*

- During the time frame covered by this investigation, ATPA was operative for less than 2 years—18 months for Bolivia and Colombia, 8 months for Ecuador, and 4 months for Peru. This is not enough time to fully assess the effects of ATPA on the U.S. economy or on drug crop reduction and substitution. ATPA benefits are relatively unknown in most Andean countries. However, all four ATPA countries have stepped up campaigns to promote greater awareness of potential ATPA benefits.

- ATPA shares several similarities with the U.S. Generalized System of Preferences (GSP) program. Many Andean products may be entered duty-free under either program. However, over 6,000 products are eligible for ATPA preferential tariff treatment, versus only about 4,000 products eligible under GSP. Moreover, ATPA has more liberal “rules of origin” that make it easier for Andean products to qualify for preferential duty treatment. In addition, ATPA has no statutory “competitive need” limits to restrict Andean imports based on their level of U.S. market penetration. Indeed, many Andean products that once were entered under GSP now enter under ATPA to avoid GSP competitive need limits (for example, chrysanthemums from Colombia) or to take advantage of ATPA’s more liberal rules of origin (for example, certain gold jewelry from Bolivia).
- ATPA imports reached \$401 million in 1993. Current trends indicate that ATPA imports soon will exceed Andean GSP imports as trade flows increase and as more products are switched from entering under GSP to entering under ATPA. Colombia, the largest country in the region, dominates ATPA and supplied 80 percent of all ATPA imports in 1993. Over 71 percent of these imports from Colombia were fresh cut flowers, including chrysanthemums (as well as standard carnations, anthuriums, and orchids), roses, flowers and flower buds for bouquets, and miniature spray carnations. Fresh cut flowers were the single largest ATPA import category, accounting for 60 percent of total imports under the act.
- Despite the strong growth of imports, ATPA has had little overall impact on the U.S. economy. ATPA imports of \$401 million in 1993 represented less than 0.1 percent of total U.S. imports. (Indeed, total imports from the four ATPA countries accounted for less than 1.0 percent of total U.S. imports in 1993.) ATPA does not provide preferential tariffs for most import-sensitive items like textiles. The six items most affected by ATPA in 1993 were chrysanthemums, standard carnations, anthuriums, and orchids; roses; asparagus; leather luggage; tuna; and stranded steel wire.
- The Commission used a partial-equilibrium analysis to determine the effect of the ATPA on the U.S. economy overall, on U.S. consumers, and on competing U.S. industries. In 1993, the gains to consumers resulting from ATPA duty reduction were greater than the corresponding loss in tariff revenues to the U.S. Treasury. The six items with the highest net welfare gains were chrysanthemums standard carnations, anthuriums, and orchids; roses; asparagus; glazed ceramic tiles and cubes; glazed ceramic flags and paving; and stemmed tobacco. At most, less than 1 percent of U.S. output of each product was displaced by ATPA imports. In terms of domestic shipments, the largest displacement effects occurred for the two categories of fresh cut flowers—9.2 percent in the case of roses valued at \$14.9 million, and 17.9 percent in the case of chrysanthemums valued at \$8.8 million.
- The probable future effects of ATPA on the U.S. economy could be more significant. Public and private sector officials in the Andean countries have identified a variety of nontraditional products as potential exports to the U.S. market. Among them are beef and seafood, fresh horticultural products (such as hearts of palm, pineapple, tomatoes, broccoli, asparagus, tropical fruits, melons, strawberries, figs, pomegranates, spices, nuts, cut flowers, and ornamental plants) and processed foods (including tomato paste and catsup, frozen broccoli, canned pineapple, and fruit juices, purees, and concentrates). Manufactured items identified included gold jewelry and wood products. However, several factors could frustrate the Andean countries’ efforts to attract investment and increase nontraditional exports. U.S. phytosanitary regulations and antidumping and countervailing duty measures may impede more widespread use of ATPA benefits. In the Andean countries, inadequate transportation and cargo-handling facilities, limited export financing, poor product quality, and continued concerns about personal safety and private property protection also may restrain new export-oriented investment.

- A number of U.S. agencies are involved in antidrug efforts in the Andean region. The United Nations also has a variety of programs with similar aims. The European Union has a preferential tariff scheme for Andean products similar to ATPA. Evidence on the performance of crop eradication and substitution programs in the region suggests that they have had, at best, mixed success so far. Eradication has been taking place, but achievements have been less than stated objectives. Such efforts appear to garner limited support by the Andean governments and enforcement authorities. Bolivia has no forcible eradication policy, and Peru has not had any eradication since 1989. Crop substitution and diversification are occurring, but on a relatively small scale. Few products can viably replace coca because few offer the secure promise of similar economic return, ease of marketability, and supportive infrastructure already present in the Andean cocaine industry.
- Given the newness of the program, no precise estimate of the impact of ATPA on drug-related crop eradication and crop substitution is possible at this time. To the extent ATPA is effective in fostering economic growth and diversification in the years ahead, it should create new jobs and alternative sources of income—which, it is generally agreed, are important ways to counter the growth of the regional cocaine industry.



# CHAPTER 1

## The Andean Trade Preference Act

### Introduction

In the 1980s, economic conditions deteriorated throughout Latin America. Economic growth slowed sharply in the Andean mountain countries of Bolivia, Colombia, Ecuador, and Peru. These four countries, measured by their combined gross domestic product (GDP), grew on average by only 1.0 percent during the 1980s, as compared with 5.4 percent growth during the 1970s (figure 1-1). Large fiscal deficits and the inability to service foreign debt obligations—the “foreign debt crisis”—exhausted countries’ financial resources. World market prices declined for many of Andean region’s most important export commodities—cocoa, coffee, beef, fish meal, tin, and

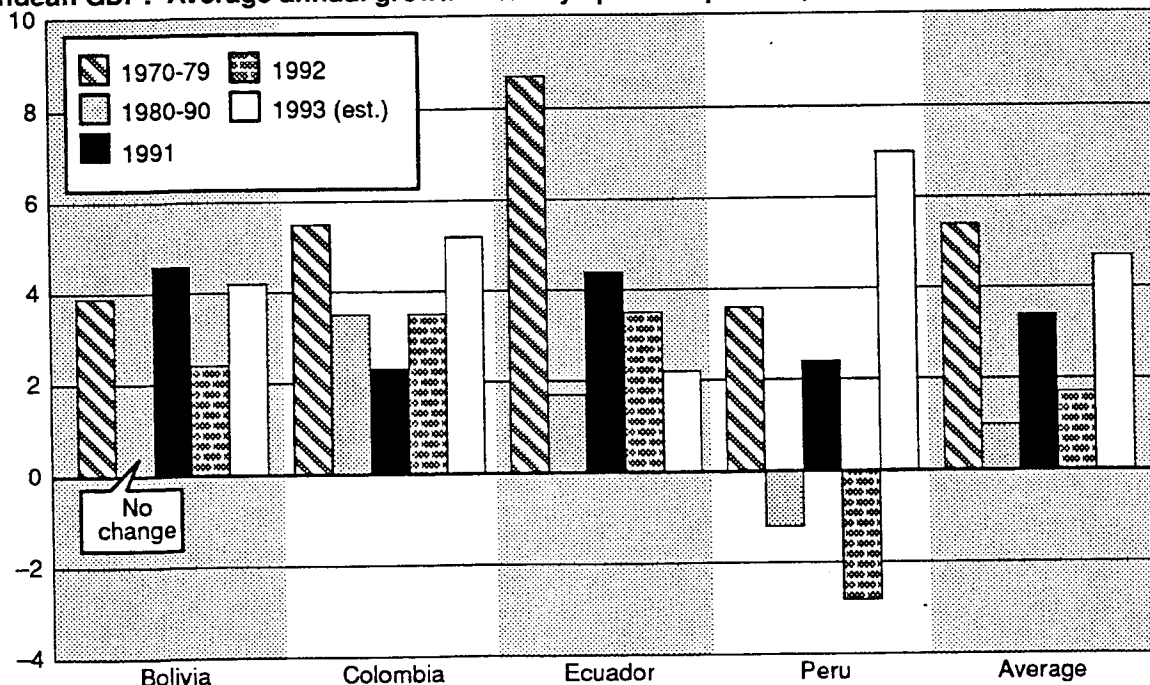
petroleum.<sup>1</sup> Moreover, Bolivia, Colombia, and Ecuador experienced a cumulative worsening in their respective terms of trade<sup>2</sup> (figure 1-2).<sup>3</sup>

<sup>1</sup> For more detailed information on commodity price trends affecting Latin America, see United Nations Economic Commission for Latin America and the Caribbean (ECLAC), *Preliminary Overview of the Economy of Latin America and the Caribbean, 1993* (Santiago, Chile: United Nations, Dec. 1993), table 13, p. 41.

<sup>2</sup> The goods, or commodity, terms of trade is the ratio of a country’s average export price to its average import price. A country’s terms of trade are said to “worsen” when this ratio decreases, i.e., when import prices rise at a relatively faster rate than export prices.

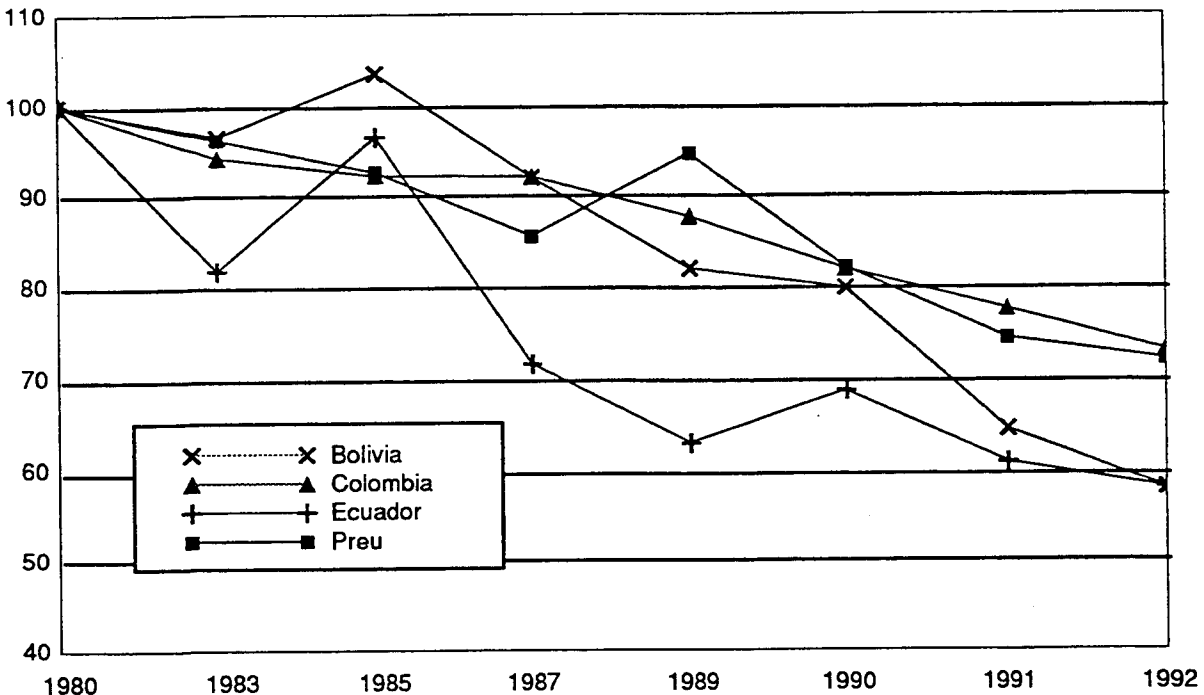
<sup>3</sup> ECLAC, *Preliminary Overview*, table 12, p. 40. Base year for terms of trade data was 1980; cumulative variation calculated for period 1981-1990.

**Figure 1-1**  
**Andean GDP: Average annual growth rates by specified periods, 1970-93**



Source: Inter-American Development Bank (IDB), *Economic and Social Progress in Latin America, 1993 Report* (Washington, DC: The Johns Hopkins University Press, 1993), table B-1, p. 263.

**Figure 1-2**  
**Terms of trade: Bolivia, Colombia, Ecuador, and Peru, 1980-92**  
**1980 = 100**



Source: IDB, 1993 Report, pp. 47, 65, 83, and 153.

The Andean region's economic decline of the 1980s was accompanied by a significant expansion of the informal, or "underground," economy. In contrast to the legal activities in the formal economy, the informal economy encompasses a wide range of quasi-legal activities such as street vending as well as illegal activities, including contraband trade and the production and trafficking of illegal narcotics.<sup>4</sup>

Coca, the raw material of cocaine, is a traditional Andean crop. Chewing coca leaves has been practiced for thousands of years in the Andean region and coca consumption is still pervasive. During the 1980s, increased global consumption of cocaine and the relative decline in prices for traditional Andean exports helped transform coca into one of the most important regional cash crops. Widespread unemployment and depressed wages in the formal economy helped provide the labor force for the

<sup>4</sup> A case study of the growth of the informal economy in Peru is documented in Hernando de Soto, *The Other Path: The Invisible Revolution in the Third World* (New York: Harper & Row, 1989).

cocaine industry to expand. Violence by terrorist groups in Colombia and Peru as well as drug-related violence forced Andean governments to spread their law enforcement resources thin, further contributing to the expansion of the Andean cocaine economy.<sup>5</sup>

Although relatively smaller amounts of cannabis (marijuana) and opium (heroin) also are produced in the Andean region, cocaine remains by far the primary illegal narcotic produced in the Andean countries. The Andean cocaine industry entails primarily the production, processing, and transportation of cocaine in Bolivia, Peru, and Colombia, with some transshipments of the drug and associated processing chemicals through Ecuador.<sup>6</sup>

<sup>5</sup> U.S. Congress, Office of Technology Assessment (OTA), *Alternative Coca Reduction Strategies in the Andean Region*, OTA-F-556 (Washington, DC: U.S. Government Printing Office, July 1993), pp. 2 and 5.

<sup>6</sup> U.S. Department of State, Bureau of International Narcotics Matters, *International Narcotics Control Strategy Report*, April 1994, publication No. 10145 (Mar. 1994), pp. 30-50.



Standard economic data do not provide reliable measures of the value of production in the informal economy. Nevertheless, according to most estimates cocaine production became the most lucrative economic activity in the Andean region by the late 1980s.

By providing income and employment opportunities, "the cocaine industry has cushioned the blow of poverty for many in the Andes."<sup>7</sup> However, the cocaine industry has many negative consequences. It creates few "linkages" to promote broad-based economic growth while often discouraging the development of legal industries. It forces governments to devote scarce resources to police, courts, and the military, while imposing high security costs on businesses. The social costs, including increased drug abuse in the producing countries, and the environmental costs of deforestation and toxic chemical dumping, also are significant.<sup>8</sup>

On December 4, 1991, President Bush signed into law the Andean Trade Preference Act (ATPA).<sup>9</sup> ATPA was referred to as the trade component to President Bush's "war on drugs."<sup>10</sup> The act offers broader access to the U.S. market to products of Bolivia, Colombia, Ecuador, and Peru. The purpose of the act is "to expand economic alternatives for these four Andean countries that have been fighting to eliminate the production, processing, and shipment of illegal drugs."<sup>11</sup> ATPA shares certain similarities with the U.S. Generalized System of Preferences (GSP) program,<sup>12</sup> although ATPA is unique in its role as a component of U.S. antinarcotics policy for the Andean region.

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<sup>7</sup> Ibid., p. 69.

<sup>8</sup> For further elaboration, see U.S. Agency for International Development, *Andean Counter-Drug Initiative, Objective IV: Sustainable Development and the Counter-Narcotics Strategy: Transition to New Realities, Semi-Annual Report (October 1992-March 1993)*, Oct. 1993, p. 3.

<sup>9</sup> Public Law 102-182, title II, 105 Stat. 1236, 19 U.S.C. 3201 et seq.

<sup>10</sup> President, "Statement on Andean Region Trade Initiatives," *Weekly Compilation of Presidential Documents: Administration of George Bush*, vol. 25, No. 44 (Nov. 1, 1989), p. 1659.

<sup>11</sup> House Report No. 102-337, as reprinted in 1991 *U.S. Code, Congressional and Administrative News*, p. 820.

<sup>12</sup> GSP is discussed in more detail below.

## Purpose and Scope of Report

Section 206 of ATPA requires the U.S. International Trade Commission (Commission) to prepare and submit to Congress, beginning in September 1994 and annually through September 2002, a report on the act.<sup>13</sup> This first report covers the first 2 years of the act, calendar years 1992 and 1993.

The contents of Commission reports are described in section 206(b). Each report must include, but not be limited to, an assessment by the Commission regarding—

- the actual economic effect of ATPA on the U.S. economy generally as well as on specific domestic industries that produce articles that are like, or directly competitive with, imports under ATPA;
- the probable future effect of ATPA on the U.S. economy generally and on specific domestic industries; and
- the estimated effect of ATPA on drug-related crop eradication and drug crop substitution efforts of beneficiary countries.<sup>14</sup>

The Commission is further directed, to the extent practicable, to analyze the production, trade, and consumption of U.S. products affected by ATPA and to describe the nature and extent of any significant changes in employment, profits, and use of productive facilities in the United States attributable to ATPA.<sup>15</sup>

## Organization of Report

This report contains four chapters and three appendixes. In addition to the present introductory information, chapter 1 provides background information in the form of a summary of ATPA benefits, brief economic profiles of the four ATPA beneficiaries, and an overview of recent trends in U.S. trade with the four ATPA countries. Chapter 2 analyzes in detail U.S. imports entered under ATPA in 1992 and 1993, and uses a partial-equilibrium analysis to estimate the effects of these imports on the

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<sup>13</sup> See specifically subsections (a)-(c) of section 206 (19 U.S.C. 3204(a)-(c)).

<sup>14</sup> These requirements are enumerated in sec. 206(b)(1)(A)-(C) (19 U.S.C. 3204(b)(1)(A)-(C)).

<sup>15</sup> Sec. 206(b)(2)(A)-(B) (19 U.S.C. 3204(b)(2)(A)-(B)).

economy, industries, and consumers of the United States. Chapter 3 explores the probable future effects of ATPA through discussions of investment in the region. Chapter 4 examines the impact of ATPA on drug-related crop eradication and crop substitution. The appendixes include (1) a copy of the *Federal Register* notice for this investigation and a list of the respondents to that notice; (2) trade data on Bolivia, Colombia, Ecuador, and Peru; and (3) technical notes to the partial-equilibrium analysis used in chapter 2.

## Data Sources

Trade data used in this report were compiled from official statistics of the U.S. Department of Commerce and other sources as indicated. General economic data were obtained from the Inter-American Development Bank and the United Nations Economic Commission for Latin America and the Caribbean. The relative newness of ATPA limited the available information on ATPA-related investment. Investment-related information used in this report generally was obtained through interviews conducted by Commission staff during factfinding travel to Bolivia, Colombia, Ecuador, and Peru in May 1994. Information on drug crop eradication and crop substitution was obtained during factfinding travel and compiled from publications and Commission staff interviews with officials from U.S. Government agencies.

# Andean Trade Preference Act

## Background

On September 5, 1989, the Bush Administration submitted to the Congress a report proposing a new national drug control strategy.<sup>16</sup> The report highlighted the importance of both political and economic factors in the Andean region and called for, among other things, a drug control summit meeting with the heads of state of the Andean countries. Following a September 29, 1989 meeting with the President of Colombia on international drug trafficking, President Bush launched a trade initiative with that country. To that end, he directed the United States Trade Representative (USTR) to lead an interagency effort to develop an appropriate package

<sup>16</sup> See Office of National Drug Control Policy, *National Drug Control Strategy* (Washington, DC, Sept. 1989). This report was required by sec. 1005 of the Anti-Drug Abuse Act of 1988 (21 U.S.C. 1504).

of trade provisions.<sup>17</sup> Based on that USTR effort, President Bush announced a U.S. program of "Andean Regional Trade Initiatives" for Colombia as well as for Bolivia, Ecuador, and Peru on November 1, 1989.

To encourage broad-based economic expansion in the Andean region, the Bush administration introduced a number of initiatives to create opportunities for expanded trade and investment, encourage and support market-oriented economic reform, and contribute to the creation of economic alternatives to drug trafficking due to the "regional nature" of the Andean drug problem.<sup>18</sup> In announcing these initiatives, the United States pledged (1) to review the GSP program with the goal of considering the addition of new products to the program; (2) to undertake technical assistance to help the Andean countries increase and diversify their exports, and (3) to explore possibilities of expanding textiles trade consistent with current U.S. Government policies and programs.<sup>19</sup>

On December 13, 1989, President Bush signed the International Narcotics Control Act of 1989 (P.L. 101-231). Section 2 of the act outlined an "Andean Drug Initiative" and underscored the need for an international antidrug effort that funds crop substitution programs and alternative employment opportunities in the Andean countries. This section called on the United States and other major aid donors to provide increased economic assistance to the Andean countries. It also called for the United States to consider "[i]nitiatives to improve and expand antidrug efforts in the Andean region, including through the use of United States international economic, commercial, and other policies." The Bush administration submitted a new report on the national drug control strategy in January 1990<sup>20</sup> which,

<sup>17</sup> "Statement by Press Secretary Fitzwater on the Meeting With President Virgilio Barco Vargas of Colombia," *Weekly Compilation of Presidential Documents: Administration of George Bush*, vol. 25, No. 39 (Sept. 28, 1989), pp. 1467-1468.

<sup>18</sup> President, "Statement on Andean Region Trade Initiatives," *Weekly Compilation of Presidential Documents: Administration of George Bush*, vol. 25, No. 44 (Nov. 1, 1989), pp. 1659-1660.

<sup>19</sup> "White House Fact Sheet on Andean Region Trade Initiatives," *Weekly Compilation of Presidential Documents: Administration of George Bush*, vol. 25, No. 44 (Nov. 1, 1989), p. 1660.

<sup>20</sup> Office of National Drug Control Policy, *National Drug Control Strategy* (Washington, DC, Jan. 1990).

according to the Congressional Budget Office (CBO), "placed an even greater emphasis on economic and political conditions" in the Andean countries than had been the case in the past.<sup>21</sup>

President Bush attended a summit meeting in Cartagena, Colombia with the Presidents of Colombia, Bolivia, and Peru on February 15, 1990. In the "Declaration of Cartagena," jointly issued by the four Presidents at the conclusion of the summit, the United States further committed to support efforts "to counteract the short- and long-term socio-economic impact of an effective fight against illicit drugs" by improving access of Andean products to U.S. markets.<sup>22</sup>

On July 23, 1990, President Bush announced his intention to implement a package of trade measures for the Andean countries.<sup>23</sup> This package had two main components: (1) expanded U.S. agricultural development assistance to the Andean countries and (2) a preferential tariff regime for certain products of Bolivia, Colombia, Ecuador, and Peru. To promote greater U.S. agricultural development assistance to the Andean countries, an interagency team was tasked with identifying the main impediments facing Andean agricultural production and exports to the United States.<sup>24</sup> The preferential tariff regime expanded upon the Bush administration's broader Enterprise for the Americas Initiative (EAI), also announced in 1990.<sup>25</sup>

<sup>21</sup> CBO, *The Andean Initiative: Objectives and Support* (Washington, DC: CBO, Mar. 1994), p. 8.

<sup>22</sup> President, "Declaration of Cartagena," *Weekly Compilation of Presidential Documents: Administration of George Bush*, vol. 26, No. 7 (Feb. 15, 1990), pp. 248-254.

<sup>23</sup> President, "Remarks Following Discussions With President Rodrigo Borja Cevallos of Ecuador," *Weekly Compilation of Presidential Documents: Administration of George Bush*, vol. 26, No. 30 (July 23, 1990), pp. 1140-1143. Additional comments were made in President, "Statement on Signing the Customs and Trade Act of 1990," *Weekly Compilation of Presidential Documents: Administration of George Bush*, vol. 26, No. 34 (Aug. 20, 1990), pp. 1266-1267.

<sup>24</sup> Ambassador Carla A. Hills, "Statement Before the Subcommittee on Trade, Committee on Ways and Means, United States House of Representatives," July 25, 1991. The interagency team, headed by Ambassador Edwin G. Corr, visited Bolivia, Colombia, Ecuador, and Peru in September and December 1990 and reported its findings to Ambassador Hills in January 1991. USTR, "Fact Sheet: The Andean Agricultural Task Force," 91-33, July 23, 1991.

<sup>25</sup> The three major components of EAI were—trade expansion, investment promotion, and debt relief for Latin American countries. "Remarks Announcing the Enterprise

President Bush transmitted to Congress legislation to establish the ATPA on October 5, 1990.<sup>26</sup> However, ATPA legislation did not reach committee discussion before the 101st Congress adjourned. The legislation was reintroduced in the 102d Congress in January 1991, passed by Congress (H.R. 1724) on November 26, 1991, and signed into law by President Bush on December 4, 1991. To apply ATPA tariff preferences in accordance with obligations under the General Agreement on Tariffs and Trade (GATT), the United States requested a waiver from article I of the GATT in February 1992.<sup>27</sup> The waiver was granted in March 1992 with the understanding that a GATT working party would examine the trade impact at a later date.<sup>28</sup> ATPA became operative July 2, 1992, when President Bush formally designated Bolivia and Colombia as ATPA beneficiaries.

*25—Continued*

for the Americas Initiative," June 27, 1990, *Weekly Compilation of Presidential Documents: Administration of George Bush*, vol. 26, No. 26, July 2, 1990, p. 1011. For a more detailed discussion of EAI, see USITC, *U.S. Market Access in Latin America: Recent Liberalization Measures and Remaining Barriers*, Investigation No. 332-318, USITC publication 2521, June 1992.

<sup>26</sup> President, "Remarks on Transmitting the Andean Trade Preference Act of 1990," *Weekly Compilation of Presidential Documents: Administration of George Bush*, vol. 26, No. 40 (Oct. 5, 1990), pp. 1529-1530, and "Message to the Congress Transmitting the Andean Trade Preference Act of 1990," *Weekly Compilation of Presidential Documents: Administration of George Bush*, vol. 26, No. 40 (Oct. 5, 1990), pp. 1530-1531.

<sup>27</sup> Article I requires that most-favored-nation (MFN) tariffs be applied to all GATT members, although certain exceptions are permitted. Developed countries are permitted to apply preferential rates of duty below the MFN rates to products of less-developed countries. A waiver was necessary, however, because ATPA affords preferential rates of duty only to the four Andean countries. For further background, see U.S. Department of State, "GATT Waiver for ATPA: Request for Assistance," telegram, message reference No. 004246, prepared by U.S. Department of State, Washington, DC, Jan. 7, 1992 and U.S. Department of State, "Agenda for February Meeting of GATT Council," telegram, message reference No. 01176, prepared by U.S. Embassy, Geneva, Feb. 11, 1992.

<sup>28</sup> U.S. Department of State, "GATT Working Party for Andean Trade Act," telegram, message reference No. 013968, prepared by U.S. Department of State, Washington, DC, Jan. 15, 1993. The GATT Working Party supported the antidrug objective of ATPA, but expressed concern over some of the non trade criteria used in determining the designation of eligible countries. GATT, "U.S. Andean Trade Preference Act," *GATT Focus*, No. 98, Apr. 1993, p. 6.

ATPA is one element of the U.S. Andean strategy to stimulate broad-based economic growth in the Andean countries through increased trade. Other components of this strategy include U.S. support for economic liberalization, judicial reforms, and increased law enforcement throughout the region to complement efforts of drug crop eradication. ATPA also is an important element of the Clinton administration's international counternarcotics strategy that focuses on the drug producing "source countries" and the "political, economic, and social consequences of drug trafficking" in those countries.<sup>29</sup>

## Key ATPA Provisions

ATPA is a unilateral special tariff regime that reduces or eliminates duties on eligible Andean products imported into the customs territory of the United States. This tariff regime was modeled after the U.S. Caribbean Basin Economic Recovery Act (CBERA) and shares many features with the U.S. GSP program (both CBERA and GSP are discussed in more detail below). ATPA preferential tariffs are scheduled to expire after 10 years, on December 4, 2001.

## Beneficiaries

Colombia, Bolivia, Peru, and Ecuador are the only countries eligible to be designated for ATPA benefits.<sup>30</sup> The President has the authority to designate countries as ATPA beneficiaries and to terminate such designations. As noted above, Bolivia and Colombia were designated on July 2, 1992.<sup>31</sup> Ecuador was designated April 13, 1993,<sup>32</sup> and Peru was designated August 11, 1993.<sup>33</sup>

<sup>29</sup> For more detailed information, see President, *National Drug Control Strategy: Reclaiming Our Communities from Drugs and Violence* (Washington, DC: The White House, Feb. 1994).

<sup>30</sup> 19 U.S.C. 3202(b).

<sup>31</sup> Presidential Proclamation 6455 of July 2, 1992, "To Implement the Andean Trade Preference Act and To Designate Colombia as a Beneficiary Country and for Other Purposes," published in *Federal Register*, vol. 57, No. 130, July 7, 1992, pp. 30069-30070, and Proclamation 6456 of July 2, 1992, "To Designate Bolivia as a Beneficiary Country for Purposes of the Andean Trade Preference Act," published in *Federal Register*, vol. 57, No. 130, July 7, 1992, p. 30097.

<sup>32</sup> President, "Proclamation 6544: To Modify Duty-Free Treatment Under the Andean Trade Preference Act, To Modify the Generalized System of Preferences, and for Other Purposes," *Weekly Compilation of*

Section 203 of ATPA lists 12 factors that the President is to take into account in determining whether to designate a country as eligible for ATPA benefits. The factors include economic conditions in the country, assurances to the United States of access to the country's markets, the degree to which the country follows accepted rules of international trade, the extent to which the country protects intellectual property rights, and whether the country has met the narcotics cooperation certification criteria for eligibility for U.S. assistance.<sup>34</sup>

The President may not designate a country (except in certain circumstances when in the U.S. national economic or security interest) if the country is a Communist country, if the country has nationalized property of U.S. citizens, if the country has failed to protect or has violated certain intellectual property rights (IPR) of U.S. citizens, or if the country has not or is not taking steps to protect internationally recognized worker rights.<sup>35</sup> After designation, the President may withdraw, suspend, or limit application of duty to an article from a country as a result of "changed circumstances";<sup>36</sup> may suspend duty-free treatment for the article;<sup>37</sup> or must withdraw such duty-free treatment when the article is a perishable agricultural article that is the subject of an emergency relief recommendation by the Secretary of Agriculture.<sup>38</sup>

Since ATPA beneficiaries also are GSP beneficiaries, a country's ATPA benefits may be affected by the outcome of the annual U.S. review of GSP eligibility, to the extent that such reviews focus on the protection of IPR and worker rights.<sup>39</sup> In

<sup>32</sup>—Continued

*Presidential Documents: Administration of William J. Clinton*, vol. 29, No. 15 (Apr. 13, 1993), p. 583.

<sup>33</sup> President, "Proclamation 6585: To Designate Peru as a Beneficiary Country for Purposes of the Andean Trade Preference Act," *Weekly Compilation of Presidential Documents: Administration of William J. Clinton*, vol. 29, No. 32 (Aug. 11, 1993), pp. 1608-1609.

<sup>34</sup> 19 U.S.C. 3202(d). Narcotics cooperation certification criteria are set forth in 22 U.S.C. 2291j. Narcotics certification is discussed in further detail in chapter 4.

<sup>35</sup> 19 U.S.C. 3202(c).

<sup>36</sup> 19 U.S.C. 3202(e)(1).

<sup>37</sup> Such a proclamation may occur when the article is the subject of a safeguard action under section 203 of the Trade Act of 1974 (19 U.S.C. 2253). 19 U.S.C. 3203(d).

<sup>38</sup> 19 U.S.C. 3203(e).

<sup>39</sup> Pursuant to 15 C.F.R. 2007.0(b), an interagency committee annually conducts a review of the GSP program and advises the President on country and product eligibility. The committee receives and considers petitions filed by interested parties in the private sector to add or

1993, the United States rejected a petition filed by the International Labor Rights Education and Research Fund to review worker rights practices in Colombia.<sup>40</sup> The United States accepted a petition filed by the AFL-CIO in 1993 to review worker rights practices in Peru. The United States terminated the review of Peru on July 1, 1994 based on the finding that Peru was "taking steps" to improve worker rights practices sufficient to merit the continuation of GSP benefits.<sup>41</sup>

## Trade benefits

Section 204(a) (19 U.S.C. 3203(a)) of ATPA provides, subject to certain exceptions, for duty-free treatment for all articles imported into the United States that are the growth, product or manufacture of an ATPA country. Subsection (b) of section 204 sets forth a list of seven categories of articles not eligible for duty-free treatment. The categories are (1) textile and apparel articles that are subject to textile agreements;<sup>42</sup> (2) certain footwear;<sup>43</sup> (3) prepared or preserved tuna in airtight containers; (4) certain petroleum and petroleum products; (5) certain watches and watch parts; (6) articles to which reduced rates of duty apply (listed in section 204(c)); (7) sugars, syrups, and molasses;<sup>44</sup> and (8) rum and tafia.

Approximately 6,000 Andean products are eligible for ATPA duty reduction, unless otherwise excluded, as long as they are—<sup>45</sup>

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### <sup>39</sup>—Continued

remove products from the GSP program and to review various "country practices" of beneficiaries, such as those concerning worker rights and IPR. As a result of the annual GSP review, countries may be suspended as GSP beneficiaries.

<sup>40</sup> USTR, "Kantor Announces Acceptance of 1993 GSP Petitions," press release 93-61 (Oct. 5, 1993).

<sup>41</sup> Office of the U.S. Trade Representative, Trade Policy Staff Committee, "Generalized System of Preferences: Notice of Results of the 1993 Annual Review," *Federal Register*, vol. 59, no. 134, July 14, 1994, p. 35970.

<sup>42</sup> This includes products subject to the Arrangement Regarding International Trade in Textiles (so-called Multifiber Arrangement), which has controlled much of world trade in textiles and apparel since 1974.

<sup>43</sup> Applies to footwear in tariff categories that were not eligible for GSP duty-free entry as of December 31, 1991.

<sup>44</sup> Subheadings 1701.11.03, 1701.12.02, 1701.99.02, 1702.90.32, 1806.10.42, and 2106.90.12 of the Harmonized Tariff Schedule (HTS).

<sup>45</sup> For a more detailed explanation, see U.S. Department of Commerce, International Trade Administration and U.S. Agency for International

- imported directly into the customs territory of the United States from any Andean beneficiary, and
- wholly grown, produced, or manufactured in an ATPA country or are "new" and "different" (having undergone "substantial transformation") from any foreign materials or components used in their manufacture.

To be an "Andean" product, the direct cost of local (i.e., Andean) materials and processing generally must total at least 35 percent of the customs value of the product. Materials may originate or processing may be done in any one or more of the ATPA beneficiaries or any of the CBERA beneficiaries,<sup>46</sup> as well as in Puerto Rico and the U.S. Virgin Islands. In addition, the cost or value of inputs produced in the United States (other than Puerto Rico) may account for as much as 15 percent of the 35 percent local content requirement.<sup>47</sup> So-called "double substantial transformation" also may be used to meet the 35 percent local content requirement.<sup>48</sup>

While not eligible for duty-free entry, certain handbags, luggage, flat goods, work gloves, and leather wearing apparel from ATPA countries may be entered at reduced rates of duty. Beginning in 1992,

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### <sup>45</sup>—Continued

Development, *Guidebook to the Andean Trade Preference Act* (Washington DC, July 1992), p. 7.

<sup>46</sup> CBERA beneficiaries are: Antigua and Barbuda, 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-Nevis, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago.

<sup>47</sup> 19 U.S.C. 3203(a).

<sup>48</sup> "Double substantial transformation" involves transforming material into a new and different product which, in turn, becomes the constituent material used to produce a second new and different article. Thus, ATPA countries may import inputs from non-ATPA and non-CBERA countries, transform the inputs into intermediate material, and transform the intermediate materials into ATPA-eligible articles. The cost or value of the constituent intermediate material may be counted toward the 35 percent Andean content requirement. Rulings on the eligibility of products for duty-free entry may be obtained in advance from the Special Classification Branch, Commercial Rulings Division, U.S. Customs Service. For additional information, see U.S. Department of Commerce, *Guidebook to the Andean Trade Preference Act*, p. 5.

duties on these items are being reduced by a total of 20 percent in five equal annual installments.<sup>49</sup>

## *ATPA Compared with GSP*

As noted above, the four ATPA beneficiaries also are GSP beneficiaries.<sup>50</sup> ATPA and GSP share many similarities. Both programs share the goal of offering increased access to the U.S. market. Many products may enter the United States duty-free under either program. Like ATPA, GSP requires that eligible imports—(1) be imported directly from beneficiaries into the customs territory of the United States; (2) meet the substantial transformation requirement for any foreign parts or components; and (3) contain a minimum of 35 percent local value-added.<sup>51</sup>

The two programs differ in several important ways. ATPA was enacted as part of U.S. antinarcotics policies. ATPA applies only with respect to eligible articles from Bolivia, Colombia, Ecuador, and Peru, whereas GSP applies to eligible articles from all designated beneficiary developing countries, including the Andean countries. Under ATPA, all articles, except certain designated articles, are eligible for duty-free treatment by statute, whereas under GSP eligible

articles are designated by the President with the advice of the U.S. International Trade Commission.<sup>52</sup> ATPA covers over 6,000 products, whereas GSP applies to only about 4,300 products. GSP benefits on any goods may be restricted or terminated during the annual GSP review. Beneficiaries may lose GSP duty-free entry privileges for products that achieve a specified market penetration in the United States (the “competitive need” limit), or may lose all GSP privileges if their national income grows to exceed a specified amount.<sup>53</sup> ATPA has none of these restrictions or provisions to terminate benefits. Moreover, products of Bolivia, Colombia, Ecuador, and Peru suspended from GSP eligibility on the basis of U.S. market penetration (i.e., that exceed the competitive need limit) may continue to enter free of duty under ATPA.<sup>54</sup>

ATPA also has more liberal rules of origin than GSP. GSP requires that 35 percent of the value of the product be added in a single beneficiary or in a specified association of eligible countries (such as the Andean Pact, discussed in more detail below).<sup>55</sup> In contrast, under ATPA the 35 percent local value added can include materials and processing from any one or more ATPA or CBERA beneficiaries, Puerto Rico, or the U.S. Virgin Islands. ATPA also requires as little as 20 percent local value added from ATPA or CBERA beneficiaries, Puerto Rico, or the U.S. Virgin Islands when at least 15 percent of the value includes inputs from the United States.<sup>56</sup>

## *ATPA Compared with CBERA*

As noted above, ATPA was modeled after CBERA and the two programs share many similarities.<sup>57</sup> Both

<sup>49</sup> 19 U.S.C. 3203(c).

<sup>50</sup> The U.S. GSP program was originally enacted 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). The GSP program formally expired at midnight July 4, 1993 but was extended until Sept. 30, 1994 as part of the Omnibus Budget Reconciliation Act of 1993 (H.R. 2264) on Aug. 4, 1993. As of this writing, Congress is considering legislation to further extend the GSP program.

<sup>51</sup> The documentation requirements necessary to claim either ATPA or GSP duty-free entry are identical. A Certificate of Origin Form A is to be presented at the time the qualifying products enter the United States. The ATPA countries are responsible for printing and supplying the Form A. When claiming ATPA duty-free entry, the exporter is to cross out the words “Generalized System of Preferences” on the Form A and substitute the words “Andean Trade Preference Act.” Although the U.S. Customs Service normally allows an eligible product to enter duty-free whether or not the Form A is presented at the time of entry, the Form A must be produced by the importer if requested to do so by U.S. Customs. In addition, the U.S. Customs district director at the port of entry may require more detailed information to support the statements made on the Form A. For a more detailed discussion of ATPA documentation requirements, see U.S. Department of Commerce, *Guidebook to the Andean Trade Preference Act*, pp. 5-6.

<sup>52</sup> 19 U.S.C. 2463(a).

<sup>53</sup> 19 U.S.C. 2464(c)-(f).

<sup>54</sup> U.S. Department of Commerce, *Guidebook to the Andean Trade Preference Act*, p. 7. For example, in 1993 imports of chrysanthemums, standard carnations, anthuriums, and orchids from Colombia (HTS subheading 0603.10.70) exceeded the competitive need limit and were not eligible for GSP duty-free entry. However, these imports were eligible for duty-free entry under ATPA. Duty-free imports under ATPA are discussed in greater detail in chapter 2.

<sup>55</sup> 19 U.S.C. 2463(b)(1)(B).

<sup>56</sup> 19 U.S.C. 3203(b).

<sup>57</sup> CBERA, which has been operative since 1984, affords permanent nonreciprocal duty-free and reduced-duty entry to eligible imports from 24 Caribbean Basin countries. CBERA was enacted pursuant to title II of Public Law 98-67, Stat. 384, 19 U.S.C. 2701 et seq. Relatively minor amendments were made to CBERA by Public Laws 98-573, 99-514, 99-570, and 100-418. The Commission has reported annually on the CBERA since

programs started as 10-year preferential tariff regimes with the goals of promoting export diversification and stimulating the production of nontraditional exports in respective beneficiaries.<sup>58</sup> The range of products offered duty-free and reduced-duty entry into the United States is largely identical.

Key differences include the different geographic focus of each program and ATPA's enactment as part of U.S. antinarcotics policies. Moreover, in its annual reports on CBERA, the Commission is not required to assess the effectiveness of that program on drug-related crop eradication and crop substitution efforts of the beneficiaries.

There are a few minor differences in the tariff schemes of the two programs. For example, ATPA products may count CBERA-country inputs towards the 35 percent content requirement (i.e., CBERA inputs need not be "substantially transformed"), whereas CBERA products may not include ATPA-country inputs to meet their respective 35 percent requirement unless the inputs are "substantially transformed" before exported to the United States.<sup>59</sup> ATPA excludes from duty-free entry several products that are allowed under CBERA, namely rum and certain types of sugars, syrups, and molasses.<sup>60</sup> However, ATPA beneficiaries need not submit a "Stable Food Production Plan" to export beef and allowable sugar, as is required from CBERA countries, to ensure that food production and the nutritional level of the population will not be adversely affected by export production.<sup>61</sup> In addition, ATPA countries are not subject to restrictions on exports of ethyl alcohol from nonlocal feedstock.<sup>62</sup>

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57—Continued

1986, most recently in *Impact of the Caribbean Basin Economic Recovery Act on U.S. Industries and Consumers, Ninth Annual Report, 1993*, USITC publication 2813, Sept. 1994.

<sup>58</sup> The term nontraditional exports includes the broad range of products a country has the potential, in terms of endowments and resources, to produce but does not currently produce and export, does not produce and export in great quantity, or only recently has begun to produce and export.

<sup>59</sup> 19 U.S.C. 3203(a)(1) and 19 U.S.C. 2703(a)(1).

<sup>60</sup> 19 U.S.C. 3203(b) and 19 U.S.C. 2703(b).

<sup>61</sup> 19 U.S.C. 2703(c).

<sup>62</sup> Certain quantitative restrictions apply to ethyl alcohol exports from CBERA countries produced from non-CBERA agricultural feedstock. 19 U.S.C. 2703(a)(1) and note. These restrictions are described in greater detail in USITC, *CBERA, Eighth Annual Report, 1992*, p. 1-4.

Finally, ATPA does not include the nontariff provisions associated with CBERA such as provisions for access to section 936 financing<sup>63</sup> or separate cumulation for antidumping and countervailing duty investigations.<sup>64</sup>

## *ATPA Compared with EU Andean Trade Preferences*

Since 1971, the European Union (EU) has granted preferential duties to most industrial and certain processed agricultural products of developing countries under the EU's GSP program. Products of Bolivia, Colombia, Ecuador, and Peru are eligible for this program. Products of these four countries also may take advantage of "regional cumulation" rules of origin that allow two or more countries in a defined geographic region to contribute toward processing the product before shipment to the EU and still qualify for duty-free entry into the EU.<sup>65</sup> In October 1990, the EU made available to Bolivia, Colombia, Ecuador, and Peru supplemental GSP benefits to further assist in the diversification of the Andean economies away from cocaine production and trafficking. These supplemental benefits provide even broader product coverage than is available under the EU's standard GSP provisions by allowing the main exports of each of the four Andean countries, including textiles and

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<sup>63</sup> Section 936 of the U.S. Internal Revenue Code (26 U.S.C. 936) grants certain tax incentives to encourage investment in U.S. overseas possessions such as Puerto Rico. In 1986, U.S. and Puerto Rican tax laws were modified to allow investors to borrow section 936 funds from Puerto Rican financial institutions to finance projects in eligible Caribbean Basin countries. The section 936 loan program is described in greater detail in USITC, *CBERA, Eighth Annual Report, 1992*, pp. 1-6 to 1-8 and 4-5.

<sup>64</sup> When imports from a CBERA country are under investigation pursuant to U.S. antidumping or countervailing duty laws, the imports from that country are not aggregated with imports from non-CBERA countries under investigation. This measure reduces the likelihood that imports from the CBERA country will be viewed as causing, or threatening to cause, material injury in cases where the imports from CBERA countries have only a small share of the U.S. market. Sec. 771(7)(C)(iv) of the Tariff Act of 1930 as amended (19 U.S.C. 1677(7)(C)(iv)).

<sup>65</sup> EU Commission, "The Community's Generalized Scheme of Preferences (GSP)," MEMO/93/21. These provisions are similar to provisions in the U.S. GSP program.

**Table 1-1**  
**Selected Latin American countries: economic indicators, 1992**

	GDP <sup>1</sup>	GDP capita <sup>2</sup>	Population <sup>3</sup>	Land area <sup>4</sup>	Foreign debt <sup>5</sup>
ATPA countries:					
Bolivia .....	6,670	886	7.5	1,098	4.3
Colombia .....	49,795	1,490	33.4	1,138	16.3
Ecuador .....	14,344	1,298	11.0	270	12.8
Peru .....	29,086	1,295	22.4	1,280	21.0
Other Latin American countries:					
Brazil .....	331,534	2,151	154.1	8,456	121.0
Mexico .....	196,434	2,317	84.8	1,967	101.1
Venezuela .....	78,564	3,892	20.2	912	35.6

<sup>1</sup> GDP in millions of 1988 dollars.

<sup>2</sup> GDP per capita in 1988 dollars.

<sup>3</sup> Population in millions of individuals.

<sup>4</sup> Land area in thousands of square kilometers.

<sup>5</sup> Foreign debt in billions of dollars.

Source: IDB, 1993 Report.

apparel (subject to quantitative limits) to enter the EU market free of duty until November 1994.<sup>66</sup>

## Country Profiles

Table 1-1 summarizes recent economic indicators of the four Andean countries and compares these data with other Latin American countries. As mentioned above, economic growth slowed significantly in the four Andean economies during the 1980s. Combined per capita GDP of these four Andean mountain countries contracted by 1.3 percent during the 1980s compared to a 2.7 percent expansion during the 1970s. Open urban unemployment and underemployment<sup>67</sup> increased in all four Andean countries and peaked by mid-decade for most. In Bolivia, Ecuador, and Peru these and other factors caused real wages to fall off sharply between 1980 and 1989, while rising only marginally in Colombia.<sup>68</sup> The composition of GDP in each of the Andean countries in 1983 and in 1992, the most recent year

<sup>66</sup> "Conference Woos European Investors to New Andean Market," *European Report*, No. 1905 (Nov. 27, 1993), External Relations, p. 8.

<sup>67</sup> Open unemployment refers to people who would like to work but for whom no suitable jobs are available. Underemployment generally is defined as referring to people who work less than they could or would like to work. Michael P. Todaro, *Economic Development in the Third World* (New York: Longman Group, 1977), p. 441.

<sup>68</sup> Economic data compiled from Inter-American Development Bank (IDB), *Economic and Social Progress in Latin America, 1990 Report* (Washington, DC: The Johns Hopkins University Press, 1990), tables 10 and 11, p. 28.

for which such detailed data are available, is shown in figures 1-3 and 1-4.

The following section contains brief economic profiles of Bolivia, Colombia, Ecuador, and Peru. A brief description of the Andean Pact, a regional trade association, also is included. The role of the cocaine industry in the Andean economies is discussed in chapter 4.

### Bolivia

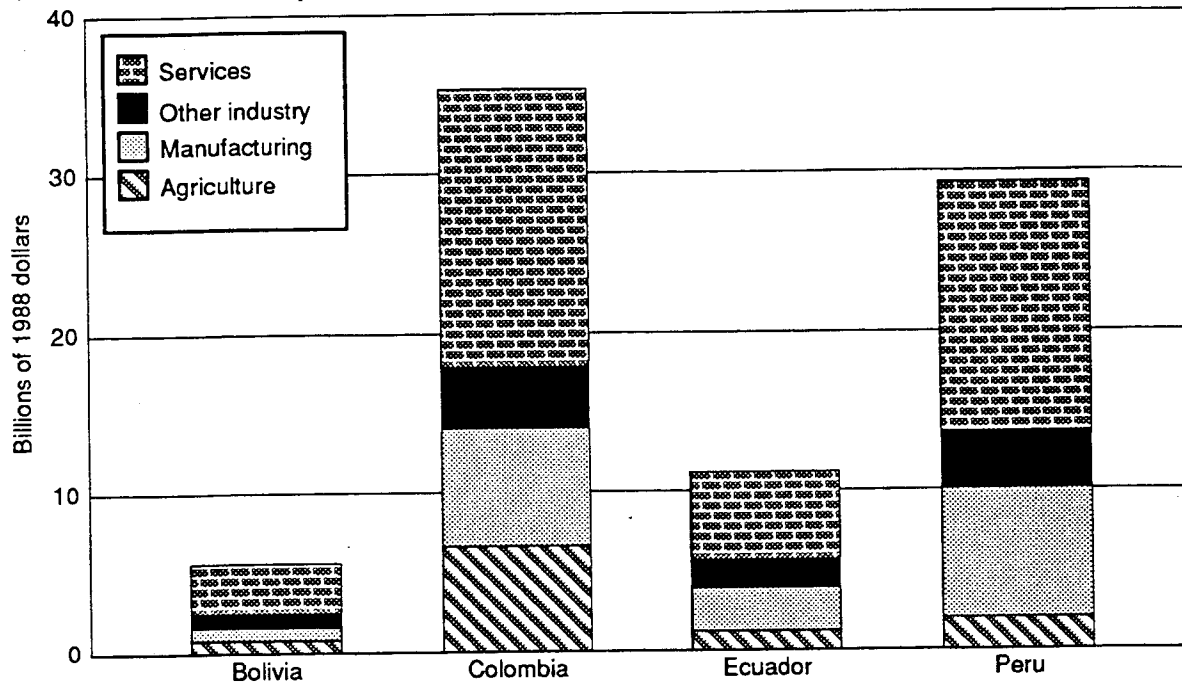
By many standards Bolivia is the least favorably positioned ATPA country. With a GDP of only \$6.6 billion in 1992, the Bolivian economy is about one-seventh the size of that of Colombia, the largest ATPA economy. Bolivian per capita GDP of \$886 in 1992 also has ranked as the region's lowest since the 1980s (figure 1-5). Bolivia is the southernmost country in the region and, of the four ATPA countries, its main ports of entry are the furthest away from U.S. ports of entry in California, Texas, and Florida. Bolivia is a landlocked country that relies on either air transport or on ground transport to neighboring Chile and Peru. Moreover, the high elevation of much of the country (the capital, La Paz, is situated 12,000 feet (3,600 meters) above sea level) and rugged terrain make internal movement of goods difficult.

The Bolivian economy suffered a sharp economic growth slowdown during most of the 1980s as global prices for tin, the country's leading traditional export, fell by more than 50 percent.<sup>69</sup> Thousands of

<sup>69</sup> ECLAC, *Preliminary Overview, 1993*, table 13, p. 41.

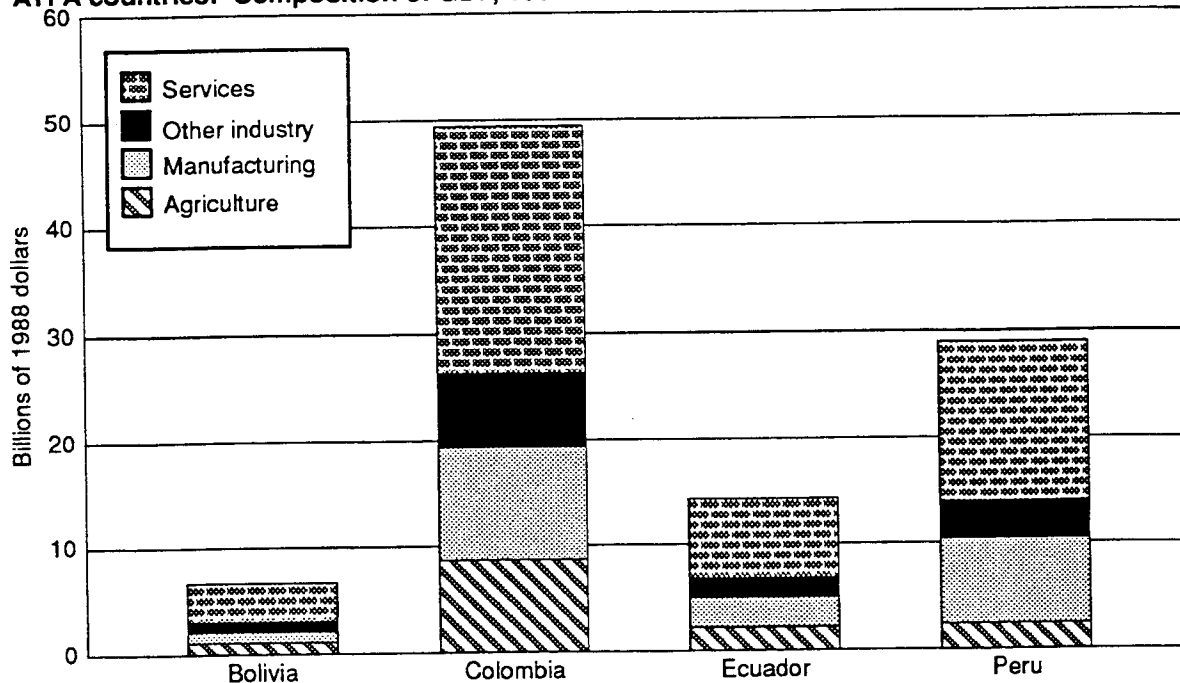


**Figure 1-3**  
**ATPA countries: Composition of GDP, 1983**



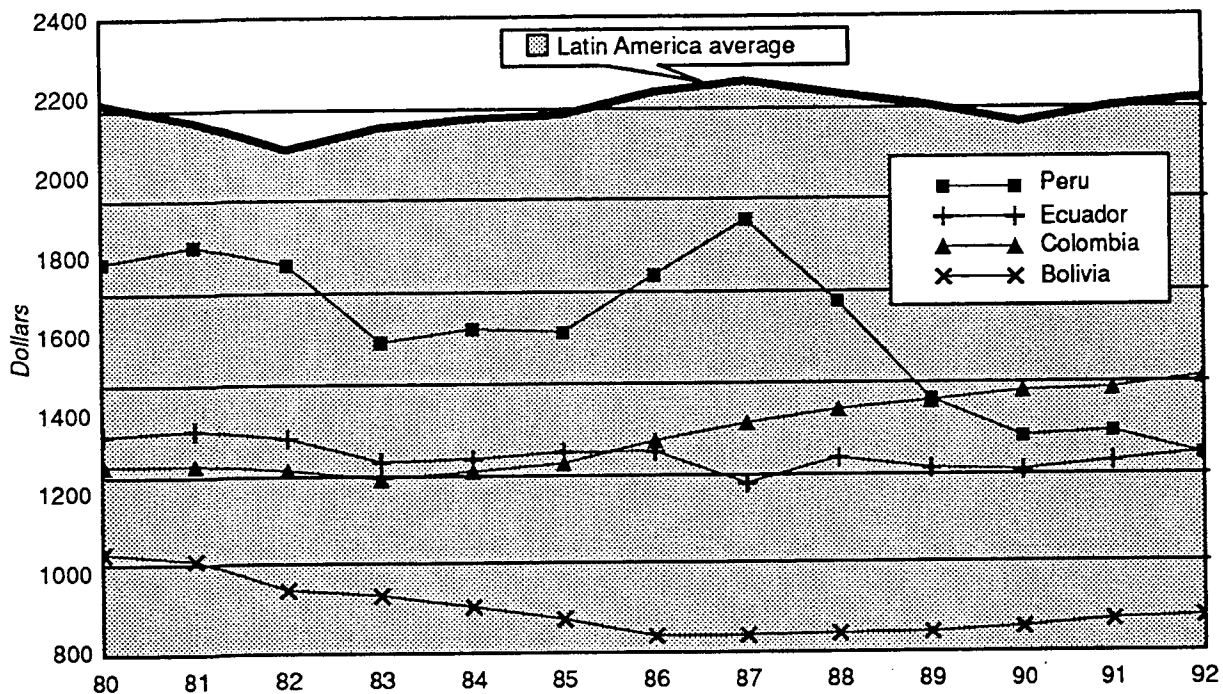
Source: Inter-American Development Bank (IDB), 1993 Report, pp. 263 and 267-272.

**Figure 1-4**  
**ATPA countries: Composition of GDP, 1992**



Source: IDB, 1993 Report, pp. 263 and 267-272.

**Figure 1-5**  
**Latin American and ATPA countries: Per capita GDP, 1980-92 (1988 dollars)**



Source: Inter-American Development Bank (IDB), *1993 Report*, table B-2, p. 263 and *1992 Report*, table B-2, p. 265.

unemployed tin miners and their families were part of a large-scale migration into the Chapare region, once a center for logging,<sup>70</sup> where they learned how to cultivate coca as a cash crop for the Andean cocaine industry. The failure to control monetary growth led to hyperinflation, which peaked in 1985 when consumer prices increased by an annual average of over 11,000 percent. By the mid-1980s, Bolivia also found it difficult to continue to service its foreign debt. As Bolivia's formal economy deteriorated during the 1980s, the informal economy not reflected in official statistics took on greater importance. Although recent economic growth has begun to diminish the relative size of the informal economy, current estimates suggest that informal economic activities continue to account for over 10 percent of GDP and employ about 60 percent of the urban working population.<sup>71</sup>

<sup>70</sup> OTA, *Alternative Coca Reduction Strategies*, p. 19.

<sup>71</sup> The Economist Intelligence Unit (EIU), *Country Profile: Bolivia, 1992-93*, (London: EIU, 1994), p. 6.

In 1985, a newly elected Bolivian administration initiated a series of economic reforms monitored by the International Monetary Fund (IMF) and backed by IMF loans to stimulate economic growth, halt hyperinflation, and implement market-oriented economic reforms. Interest rates and the foreign exchange rate were deregulated, investment permit requirements were eliminated, and the government began working with creditors to reduce its foreign debts. An inflow of money from sales generated by an expanding cocaine industry also may have helped stabilize the currency.<sup>72</sup>

Subsequent Bolivian administrations advanced market-oriented reforms by reducing tariffs and liberalizing the foreign investment regime. Bolivia

<sup>72</sup> "Moreover, the Central Bank's 'no questions asked' policy when purchasing dollars means that the inflow of 'coca dollars' has helped stabilize the currency." EIU, *Country Profile: Bolivia, 1992-93*, p. 13. The Bolivian cocaine industry is described in more detail in chapter 4.

acceded to the GATT in August 1990. The current administration of President Gonzalo Sánchez de Lozada, which took office in August 1993, is continuing efforts to further deregulate the economy largely by means of a program to privatize (dubbed "capitalize") government-owned enterprises.<sup>73</sup> These changes have enabled Bolivia to achieve economic growth rates averaging in excess of 3.5 percent annually during the 1990s with one of the lowest inflation rates in Latin America.

The overall structure of the Bolivian economy has not changed significantly since 1983 (figures 1-3 and 1-4). Services accounted for about one-half of 1992 GDP, as was the case in 1983. Financial services have led recent growth in Bolivia's services sector. The industrial sector makes up about one-third of the Bolivian economy. Manufacturing is the largest industrial sector and includes brewing, soft drink bottling, jewelry manufacture, refining of edible oil, and food processing. Mining is the second-largest industrial sector and includes tin, zinc, gold, and silver extraction. The agricultural sector makes up less than one-fifth of the Bolivian economy. The principal agricultural products are potatoes, corn, onions, and cotton. Coca also is produced for legal uses such as chewing and brewing in tea.<sup>74</sup>

Zinc is Bolivia's principal export, accounting for 28 percent of the value of recorded exports in 1992 due to increased private investment in more efficient modern milling procedures, exploitation of newly discovered reserves, and increased volumes of shipments. Other important exports are natural gas, tin, gold, and silver.<sup>75</sup> In recent years, nontraditional (i.e., nonmineral) exports have increased, although earnings remain far smaller than those from mineral sales. Nontraditional products currently exported or being developed for export include soybeans, nuts, gold jewelry, spices, wood doors, and hand-loomed sweaters.<sup>76</sup> The United States is the largest consumer

<sup>73</sup> EIU, *Country Report: Peru, Bolivia*, 2d quarter 1994, p. 24.

<sup>74</sup> Data compiled from IDB, *Economic and Social Progress in Latin America, 1993 Report* (Washington, DC: The Johns Hopkins University Press, 1993), tables B1 and B8-B19, pp. 263 and 267-272. Financial services information from EIU, *Country Report: Peru, Bolivia*, 4th quarter 1993, p. 29.

<sup>75</sup> Based on 1992 data. EIU, *Country Report: Peru, Bolivia*, 2d quarter 1994, p. 6.

<sup>76</sup> Information based on USITC staff interviews in La Paz, Bolivia with representatives from American Chamber of Commerce, Apr. 19, 1994; Ministry for Foreign Relations, Apr. 19, 1994; Bolinvest (Bolivian Investment Agency) and Ministry of Finance and Economic Development, Apr. 20, 1994.

of Bolivian exports with 26 percent of the total, followed by the United Kingdom (19 percent), Argentina (15 percent), and Peru (10 percent).<sup>77</sup>

Bolivia has one of the lowest tariff structures in Latin America. In 1990, tariffs were reduced from 16 to 5 percent ad valorem for all capital goods and 10 percent for all other imports.<sup>78</sup> Bolivia's imports have increased during the 1990s in pace with continued economic expansion.<sup>79</sup> Raw materials such as wheat and semimanufactured goods such as textile and mineral products comprise almost one-half of the country's principal imports. Capital goods and consumer goods also are important imports. The increase in imports created a trade deficit of \$632 million in 1993. Brazil supplied one-third of Bolivia's imports in 1993. Other leading sources of imports were the United States (16 percent), Chile (12 percent), and Argentina (8 percent).<sup>80</sup>

## Colombia

Colombia is the northernmost ATPA country with borders both on the Atlantic (Caribbean) and Pacific Oceans. It is the most populous ATPA country and has the largest economy in the region in terms of both GDP and per capita GDP. Colombia's GDP is 70 percent larger than that of Peru, more than three times larger than that of Ecuador, and nearly eight times larger than that of Bolivia. Per capita GDP increased steadily during the 1980s to become the largest in the region after 1990 (figure 1-5). Colombia is the most industrialized ATPA country with manufacturing output alone, valued at \$10.7 billion in 1992, larger than the total Bolivian GDP (figure 1-4). Nevertheless, the Colombian economy is small compared with other Latin American economies, such as Venezuela, Brazil, and Mexico (table 1-1).

Colombia's economic growth rate slowed from an annual average of 5.5 percent during the 1970s to 3.5 percent during the 1980s. By the mid-1980s, Colombia faced large fiscal deficits and an overvalued

<sup>77</sup> IMF, *Direction of Trade Statistics, June 1994* (Washington, DC: IMF, 1994), pp. 37-38.

<sup>78</sup> U.S. Department of State, "Trade Act Report on Bolivia," telegram, message reference No. 15884, prepared by U.S. Embassy La Paz, Bolivia, Nov. 22, 1993.

<sup>79</sup> Case studies of U.S. firms that have successfully increased exports to Bolivia are provided in U.S. Department of State, "U.S. Exports to Bolivia: Success Stories," telegram, message reference No. 12392, prepared by U.S. Embassy, La Paz, Bolivia, Sept. 13, 1993.

<sup>80</sup> IMF, *Direction of Trade Statistics, June 1994*, pp. 37-38.

currency. Problems in stabilizing the exchange rate may have been due to large inflows of money associated with the Colombian cocaine industry. Throughout the decade, Colombia was plagued by both narcotics-related violence as well as violence from insurgent groups, which periodically bombed oil pipelines. Despite these problems, the Colombian economy experienced moderate growth during the 1980s and did not undergo the sharp growth downturn experienced by other Latin American countries. In 1985 the Colombian Government voluntarily implemented IMF-backed economic austerity measures in exchange for new multilateral and commercial bank lending. Unlike many other Latin American countries, Colombia has not at any point stopped servicing its foreign debts or been forced to reschedule them. Relative economic stability encouraged foreign investment and helped diversify the Colombian economy and the country's export industries.<sup>81</sup>

In August 1990 the administration of César Gaviria unveiled a plan of sweeping reforms to stimulate economic growth and investment. Known as *apertura* (opening), the plan was designed to open the economy to encourage foreign investment and the development of globally-competitive industries. Key points of the plan were liberalization of trade and investment regimes, deregulation of the exchange rate, privatization of government enterprises, and reform of labor and tax laws.<sup>82</sup>

Until the 1980s the Colombian economy was based largely on exports of a few traditional primary commodities such as petroleum, coffee, and coal. During the past decade a more diversified economy has evolved that includes a growing number of services industries and a large manufacturing sector that produces a wide variety of goods both for domestic consumption as well as for export (figures 1-3 and 1-4). Major services activities include wholesale and retail trade and financial services. Industrial output accounts for over one-third of GDP, most of which comes from manufacturing. Colombia's manufacturing sector includes industries producing food and beverages, textiles and apparel, paper and paper products, chemicals and petrochemicals, plastics, and electrical machinery. The mining sector includes the production of gold, platinum, emeralds, iron, nickel, coal, and petroleum extraction. The agricultural sector includes the production of export

<sup>81</sup> EIU, *Country Profile: Colombia*, 1992-93, p. 9.

<sup>82</sup> Department of State, "The Apertura Program: Colombia's Economic Liberalization," telegram, message reference No. 09938, prepared by U.S. Embassy Bogotá, Colombia, Sept. 14, 1993.

crops such as coffee, bananas, cocoa, sugar, African palm, cotton, rice, and corn.<sup>83</sup>

Colombia recorded a \$1.7 billion trade deficit in 1993 in contrast to a \$366 million surplus in 1992. Petroleum and petroleum products are Colombia's leading exports and accounted for 18 percent of export revenue in 1993. Earnings from petroleum and petroleum products surpassed coffee earnings in 1990 and have remained in the lead despite a decline in world oil prices and periodic terrorist bombings of oil installations. Coffee accounted for 15 percent of 1993 export revenue. Other leading exports include coal (7 percent), gold (4 percent), and ferronickel (1 percent).<sup>84</sup> The United States was the main destination of Colombian exports in 1993, accounting for 41 percent of the total, followed by Germany (9 percent), and Venezuela (7 percent).<sup>85</sup>

Colombia's imports have risen significantly in recent years, reflecting both liberalization of the trade regime and the country's 1993 economic upturn. Imports rose from \$6 billion in 1992 to over \$9 billion in 1993. The United States is the leading supplier of Colombia's imports and supplied 39 percent of the total in 1993, followed by Japan (11 percent), and Venezuela (7 percent). Nonfuel intermediate goods comprise nearly one-half of the country's imports. Almost one-third of the imports are capital goods, with the remainder of imports made up of consumer goods and fuel.<sup>86</sup> Colombian import tariffs are 0 or 5 percent ad valorem for raw materials, intermediate goods, and capital goods not produced domestically; 10 or 15 percent for such products produced domestically; and 20 percent for most other items including consumer goods. The average tariff rate in late 1993 was 10 percent ad valorem, versus 35.5 percent in December 1990. Exceptions to the tariff levels include automobiles (35-40 percent) and agricultural products subject to tariffs that vary according to fluctuations in price of the product (a so-called "price band" tariff system). Colombia recently signed an agreement to create a free-trade zone with Venezuela and Mexico (the so-called "Group of Three"). Colombia and Chile also have

<sup>83</sup> Data compiled from IDB, *1993 Report*, tables B1 and B8-B19, pp. 263 and 267-272 and EIU, *Country Report: Colombia*, 2d quarter 1994.

<sup>84</sup> EIU, *Country Report: Colombia*, 3d quarter 1994, p. 3.

<sup>85</sup> IMF, *Direction of Trade Statistics, June 1994*, p. 53.

<sup>86</sup> *Ibid.*

signed an agreement to lower tariffs on their bilateral trade.<sup>87</sup>

## Ecuador

The Ecuadorian economy has long been dominated by petroleum extraction and, to a lesser extent, petroleum refining. Although not a founding member of the Organization of Petroleum Exporting Countries (OPEC), Ecuador joined in 1961 as Latin America's second OPEC member (Venezuela was an OPEC founding member); Ecuador quit OPEC in December 1992 to pursue an independent oil production policy. Bordered to the north by Colombia and to the south by Peru, Ecuador is the smallest Andean country in terms of land area. Ecuador's GDP of \$14.3 billion in 1992 is less than one-half that of Colombia. Per capita GDP in Ecuador of \$1,298 is comparable to that of Peru (table 1-1).

With an average annual economic growth rate of 8.7 percent during the 1970s, Ecuador had one of Latin America's fastest growing economies. This rapid economic expansion was due almost entirely to increased petroleum export earnings from sharply rising global oil prices. During the oil boom years, the Ecuadorian Government borrowed heavily from abroad, increased subsidies to consumers and producers, and expanded the government's role in the economy. The economic expansion ended in the 1980s, however, as declining oil prices caused Ecuador's oil export earnings to plummet. The average annual economic growth rate slowed to only 1.7 percent. Ecuador stopped paying debt service to foreign commercial banks in 1987.

Ecuador implemented an IMF-backed macroeconomic stabilization program beginning in 1988 and, by 1989, resumed partial interest payments on its foreign debt. Also during this period the Ecuadorian Government launched a trade liberalization program. Stabilization and liberalization efforts have been further advanced under President Sixto Durán Ballén, who took office in August 1992. The Durán administration introduced its own economic stabilization program to reduce the large public sector budget deficit, and took steps to correct an overvalued currency and declining international

reserves.<sup>88</sup> The administration also has reduced most import duties to a range of 5-20 percent ad valorem, in line with the Andean Pact common tariff.<sup>89</sup>

The services sector accounts for one-half of Ecuador's GDP and is responsible for much of Ecuador's growth during the past decade (figures 1-3 and 1-4). Wholesale and retail services, transport and communications, and financial services are key components of this sector. Tourism, especially to the Galápagos Islands, is an important source of foreign exchange. The industrial sector, including manufacturing and mining industries, makes up one-third of Ecuador's GDP. The agricultural sector makes up about 15 percent of GDP and includes a large fishing industry of shrimp and tuna.<sup>90</sup>

Ecuador's principal exports are the traditional products of shrimp and fish, petroleum, and bananas. These products accounted for three-quarters of Ecuador's 1993 export earnings. Coffee and cocoa, two once-important traditional exports, now account for less than 4 percent of annual export revenue. Ecuador recorded a trade surplus of \$136 million in 1993. Export revenue from two mainstays of the economy, shrimp and bananas, declined in 1993. Shrimp production declined because of a maritime disease<sup>91</sup> and banana exports to Europe fell because of the new European Union (EU) restrictions on banana imports.<sup>92</sup> An increase in the volume of

<sup>88</sup> U.S. Department of State, "Trade Act Report: Ecuador," telegram, message reference No. 08437, prepared by U.S. Embassy, Quito, Ecuador, Nov. 3, 1993.

<sup>89</sup> Ibid. The Andean Pact is discussed below.

<sup>90</sup> Data compiled from IDB, *1993 Report*, tables B1 and B8-B19, pp. 263 and 267-272.

<sup>91</sup> U.S. Department of State, "Fishing Industry Annual: Ecuador," telegram, message reference No. 07448, prepared by U.S. Embassy, Quito, Ecuador, Sept. 22, 1993.

<sup>92</sup> Bananas from Latin American producers such as Ecuador and Colombia had long been subject to duties and quotas upon export to France, Greece, Italy, Portugal, Spain, and the United Kingdom, but were permitted duty- and often quota-free entry into other EU countries. Effective July 1, 1993, the EU implemented a new tariff-rate quota system governing banana imports and covering all EU members' imports. The new EU banana regime subjects Latin American bananas to a tariff-rate quota, based on historical export levels, throughout the EU. For further details, see USITC, *Implementing the European Community Single Market: Sixth Followup Report*, Investigation No. 332-267, USITC publication 2723, Jan. 1994, p. 3-25 and James Stamps, "Banana Deal Splits EU and Widens Rift with Latin America," *International Economic Review* (Washington, DC: U.S. International Trade Commission, June 1994), p. 16.

<sup>87</sup> U.S. Department of State, "1994 Trade Act Report: Colombia," telegram, message reference No. 17614, prepared by U.S. Embassy, Bogotá, Colombia, Nov. 17, 1993.

petroleum exports offset lower international crude oil prices. Despite lower export earnings from traditional exports, nontraditional exports have expanded in recent years. Foreign sales of lumber, minerals including gold and silver, manufactured products such as automobiles and automotive parts, and fresh cut flowers increased their contribution to export earnings from 14 percent in 1991 and 1992 to nearly 22 percent in 1993.<sup>93</sup> The United States was the main destination of Ecuador's exports and accounted for 42 percent of the total. Other leading export markets include Germany (5 percent), Peru (4 percent), and Chile (3.5 percent). The leading suppliers of imports are the United States (38 percent), Brazil (6 percent), and Germany (6 percent).<sup>94</sup>

## Peru

Situated on the Pacific Coast, Peru is the largest ATPA country in land mass and the second-largest, behind Colombia, in population. With a GDP of \$29 billion, the Peruvian economy is somewhat less than two-thirds the size of that of Colombia.

During the 1970s Peru experienced moderate economic expansion with a GDP growth rate averaging 3.6 percent annually. This economic trend was reversed in the 1980s as economic mismanagement and the Peruvian Government's failure to undertake corrective measures led the economy to contract on average by 1.2 percent annually. GDP declined by 25 percent between 1988 and 1990 alone. Per capita GDP peaked at \$1,890 in 1987, but declined through 1990 (figure 1-5). By the end of the decade, Peru's cash reserves were depleted and the country was deeply in arrears on its \$19 billion foreign debt. A 7,480 percent rise in consumer prices in 1990 gave Peru its worst year ever for inflation.<sup>95</sup> Peru also suffered many economic dislocations during the 1980s caused by antigovernment and antibusiness terrorist actions by the Maoist-inspired *Sendero Luminoso* (Shining Path) and other guerrilla groups. These groups bombed key parts of the economic infrastructure such as railroads and electric power stations, causing damage to the

<sup>93</sup> U.S. Department of State, "Non-Traditional Exports Buoy Ecuadorian Economy," telegram, message reference No. 03948, prepared by U.S. Embassy, Quito, Ecuador, May 26, 1994.

<sup>94</sup> IMF, *Direction of Trade Statistics, June 1994*, p. 66.

<sup>95</sup> For a additional information on Peru's economic problems and policy responses during the 1980s, see EIU, *Country Profile, 1992-93: Peru*, pp. 8-9.

economic infrastructure cumulatively valued during the 1980s at \$18 billion, and extorted payments of "protection money" from local entrepreneurs.<sup>96</sup> Such actions discouraged foreign investment and further delayed Peru's economic recovery.<sup>97</sup>

President Alberto Fujimori has overseen a significant transformation of the Peruvian economy since taking office in 1990. The Fujimori administration implemented an economic stabilization program that significantly liberalized the country's trade, investment, and foreign exchange regimes. The administration reduced or eliminated price controls and subsidies. The Peruvian administration also has reduced the size of the public sector through a privatization program, and plans to privatize all government-owned enterprises by the end of President Fujimori's term in 1995.<sup>98</sup>

President Fujimori suspended constitutional rule between April and December 1992 as part of an offensive against the Shining Path. Many countries, including the United States, temporarily suspended economic assistance during that period.<sup>99</sup> Peru returned to a democratic government under President Fujimori following a popular referendum in October 1993 that approved a new constitution that took effect on January 1, 1994. Although Shining Path combatants remain at large, terrorist attacks have declined significantly since the 1992 capture of the group's leader.<sup>100</sup> The United States resumed

<sup>96</sup> *Ibid.*, p. 5 and U.S. Department of State, "Floriculture Export Industry in Peru," telegram, message reference No. 05438, prepared by U.S. Embassy, Lima, Peru, May 12, 1993.

<sup>97</sup> The impact of terrorist attacks on foreign investment is discussed in greater detail in the section on Peru in chapter 3.

<sup>98</sup> U.S. Department of State, "Investment Climate Statement for Peru," telegram, message reference No. 06412, prepared by U.S. Embassy, Lima, Peru, July 15, 1994.

<sup>99</sup> U.S. Department of State, "1993 Trade Act Report: Peru," telegram, message reference No. 14504, prepared by U.S. Embassy, Lima, Peru, Nov. 7, 1992, and U.S. Department of Commerce, International Trade Administration, *Latin America/Caribbean Business Bulletin*, December 1992, p. 6. However, the United States and other countries continued discussions with the Fujimori administration on the subject of rescheduling Peru's foreign debt. U.S. Department of State, "Discussions with GOP on Bilateral Debt Rescheduling Agreement," telegram, message reference No. 165165, prepared by U.S. Department of State, May 22, 1992.

<sup>100</sup> EIU, *Country Report: Peru and Bolivia*, 4th quarter 1993, p. 11.

economic assistance to Peru in March 1993 by providing, along with the Japanese Government, a short-term loan that enabled Peru to clear arrears of \$1.8 billion owed to the IMF and the World Bank and secure new IMF financing. Peru also reached an agreement with major creditors in May 1993 to reschedule the country's foreign debt.<sup>101</sup>

Peru's GDP grew by 7 percent in 1993, while an annual inflation rate of 25 percent was at an 18-year low. A recovery in wholesale and retail trade increased growth in the large services sector, although the overall structure of the Peruvian economy has not changed significantly since 1983 (figures 1-3 and 1-4). Output in the somewhat smaller industrial sector remains below the peak level attained in 1987, although industrial output increased significantly in 1993. Industrial manufacturing includes the processing of fishmeal and other seafood as well as industries such as rubber and plastics, metal goods, and chemicals. Mining activities include the extraction of copper, lead, zinc, silver, gold, iron, and petroleum.<sup>102</sup>

Peru's main agricultural products include wheat, corn, sugar, cotton, coffee, and livestock. Fishing also is an important activity. Although agricultural output has consistently declined since reaching a peak level in 1985, the trend was reversed and output expanded somewhat in 1993. One result of the severe decline in production that began in the mid-1980s is that the Peruvian agricultural sector currently accounts for barely 8 percent of GDP, or about one-half the comparable share of GDP in the other Andean countries. The decline in agricultural output forced Peru to increase food imports to meet domestic demand. Peruvian agricultural and fishing output is often adversely affected by the periodic return of the El Niño weather phenomenon that displaces the Pacific Ocean Humboldt current and alters regional weather patterns.<sup>103</sup>

Peru was a net oil exporter until 1986. However, the country has had to import most of its petroleum since then because of lower domestic production and investment in this primarily government-controlled sector. Since 1992, improved domestic security as well as recent economic reforms have encouraged new

<sup>101</sup> U.S. Department of State, "Foreign Economic Trends: Peru," prepared by U.S. Embassy Lima, Peru (Economic Section), Dec. 20, 1993.

<sup>102</sup> Data compiled from IDB, *1993 Report*, tables B1 and B8-B19, pp. 263 and 267-272; and EIU, *Country Report: Peru, Bolivia*, 2d quarter 1994, pp. 4 and 15-21.

<sup>103</sup> EIU, *Country Report: Peru, Bolivia*, 4th quarter 1993.

foreign investment and contributed to an increase in petroleum production.<sup>104</sup>

Peruvian exports began to increase during the 1990s in step with the country's improving economic performance. Exports rose from \$3.2 billion in 1990 to \$3.5 billion in 1993. Copper, Peru's single largest export, accounted for 23 percent of export revenue. Other leading traditional exports include: fishmeal (12.6 percent), zinc (9.6 percent), gold (6.1 percent), petroleum and petroleum products (5.6 percent), and lead (4.6 percent). Nontraditional products, which as a group accounted for nearly one-third of export revenue, include textiles, apparel, and metallic minerals. The United States is Peru's leading export market and accounted for over 21 percent of all Peruvian exports, followed by Japan (10 percent), and the United Kingdom (9 percent).<sup>105</sup>

Peru's imports also have increased significantly in recent years from \$2.8 billion in 1990 to \$4 billion in 1993, in pace with the upturn in economic activity. Peru's trade balance has moved from a surplus of \$340 million in 1990 to a deficit of \$544 million in 1993. Almost one-half of all imports are intermediate goods. Capital goods and consumer goods account for almost equal shares of the balance of imports. The United States is Peru's leading supplier and provided 30 percent of the total in 1993, followed by Japan (7 percent), Brazil (6 percent), and Colombia (5 percent).<sup>106</sup> The Fujimori administration has reduced tariff rates for 87 percent of Peru's tariff line items to 15 percent ad valorem, with the remaining items facing 25 percent ad valorem duties. The average tariff rate has fallen from 80 percent to 17 percent ad valorem since the Fujimori administration assumed office, and the administration has announced its intention to implement a flat 15-percent ad valorem tariff rate for all products.<sup>107</sup>

## *Andean Pact*

The four ATPA beneficiaries are linked through a regional trade arrangement known as the Andean Pact. The Andean Pact was established in 1969 when Bolivia, Colombia, Ecuador, and Peru signed the

<sup>104</sup> U.S. Department of State, "1992 Annual Petroleum and Natural Gas Questionnaire," telegram, message reference No. 10309, prepared by U.S. Embassy, Lima, Peru, Sept. 17, 1993.

<sup>105</sup> IMF, *Direction of Trade Statistics, June 1994*, p. 154.

<sup>106</sup> *Ibid.*

<sup>107</sup> U.S. Department of State, "1994 Trade Act Report: Peru," telegram, message reference No. 11925, prepared by U.S. Embassy, Lima, Peru, Nov. 4, 1993.

Cartagena Agreement. (Chile was an original member but exited in 1976 to pursue an independent economic program. Venezuela joined in 1973.) The original goal of the Cartagena Agreement was to promote economic self-sufficiency within the region through joint industrial development programs reinforced by barriers to competitive products from outside the region. Members were never able to fully implement the Cartagena Agreement and virtually abandoned multilateral discussions as Latin America's economic conditions worsened during the 1980s. At a December 1989 summit meeting of Andean heads of state, members agreed to revive the Cartagena Agreement by refocusing their energies to work towards free-market goals. Broadly, the Andean Pact of the 1990s is to encourage the growth of internationally competitive industries and to promote increased integration of the Andean region with the global economy.<sup>108</sup>

The immediate goal Andean Pact members set for the 1990s is the establishment of a customs union linking members with a system of low common regional tariffs. Colombia and Venezuela launched the process in March 1992 when they agreed to a bilateral free-trade accord that implemented common external tariffs of 5, 10, and 20 percent ad valorem on goods from third countries. Ecuador joined this arrangement in September 1992, and Bolivia acceded to the accord in October 1992 but was allowed to retain its even lower external tariff structure of 5 and 10 percent ad valorem.<sup>109</sup> Under a separate agreement governing trade in automobiles, Colombia, Ecuador, and Venezuela plan to introduce a common tariff of 35 percent ad valorem for automobiles and light trucks.<sup>110</sup> By lowering regional tariffs, the restructured Andean Pact has promoted an increase in intraregional trade, which rose from \$1.8 billion in 1991 to \$2.1 billion in 1992. Some of the increase in intraregional trade may reflect trade shifting from contraband to legitimate channels, reflecting the lower

regional trade barriers.<sup>111</sup> Nevertheless, intraregional trade remains a very small (less than 10 percent) component of total Andean Pact exports.<sup>112</sup>

## Two-way Trade

The United States is the single largest trading partner of Bolivia, Colombia, Ecuador, and Peru. The U.S. trade balance with the four ATPA countries moved from a deficit of \$1.9 billion in 1990 to a surplus of nearly \$260 million in 1992 and \$77 million in 1993 (figure 1-6). The shift from deficit to surplus mirrored the post-1990 economic upturn in the Andean countries and consequent increase in demand for U.S. goods. While the annual level of U.S. imports from the Andean countries has varied by less than \$500 million since 1990, the value of U.S. exports to these countries has increased by 52 percent, rising from \$3.5 billion in 1990 to over \$5.3 billion in both 1992 and 1993 (table 1-2). Colombia, by far the largest ATPA trading partner of the United States, accounted for 58 percent of all U.S. exports to the region and 57 percent of all imports in 1993. U.S. bilateral trade with Colombia exceeds combined trade with the other ATPA countries (table 1-2). The following sections summarize recent trends in two-way trade between the United States and the Andean countries.

### U.S. Exports

U.S. exports to the four ATPA countries of over \$5.3 billion accounted for 1.2 percent of total U.S. exports worldwide in 1993. Colombia is the largest ATPA market for U.S. exports. Since ATPA has been operative, Colombia's share of total U.S. exports to the region further expanded. Colombia accounted for 49 percent of U.S. exports to the region in 1991 and 58 percent of the total in 1993. Ecuador and Peru each accounted for about 19 percent of all U.S. exports to the region in 1993, down from 25 percent and 21 percent in 1991, respectively. Bolivia's share of U.S. exports declined from 4.7 percent in 1991 to 3.6 percent in 1993 (figure 1-7).

Table 1-3 lists the leading U.S. exports to the Andean countries during 1991-93 by category of the Standard Industrial Classification (SIC). Since ATPA has been operative, the composition of U.S. exports to

<sup>108</sup> U.S. Department of State, "Andean Pact Presidents' Declaration of Barahona," telegram, message reference No. 18891, prepared by U.S. Embassy, Bogotá, Colombia, Dec. 10, 1991.

<sup>109</sup> U.S. Department of State, "Andean Pact Members Agree on Common External Tariff," telegram, message reference No. 04508, prepared by U.S. Embassy, Bogotá, Colombia, Mar. 23, 1993.

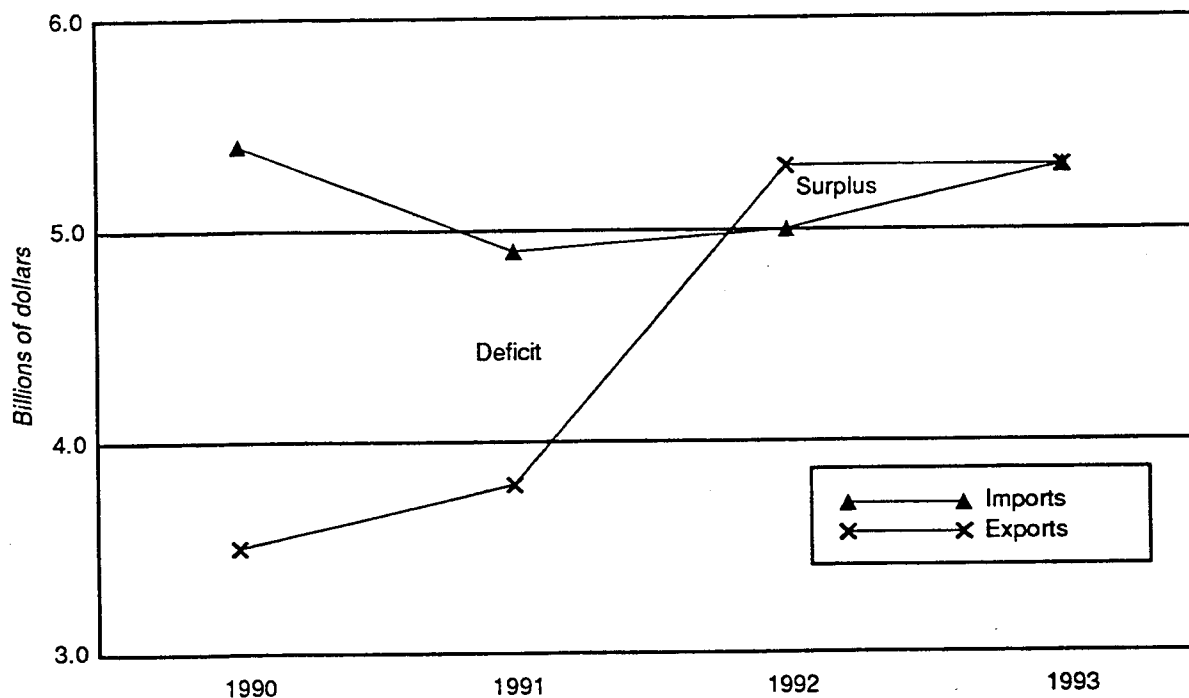
<sup>110</sup> U.S. Department of State, "Trade Act Report: Ecuador," telegram, message reference No. 08437, prepared by U.S. Embassy, Quito, Ecuador, Nov. 3, 1993.

<sup>111</sup> U.S. Department of State, "Non-Traditional Exports Buoy Ecuadorian Economy," telegram, message reference No. 03948, prepared by U.S. Embassy, Quito, Ecuador, May 26, 1994.

<sup>112</sup> EIU, *Country Profile: Colombia, 1993-94*, p. 43.



**Figure 1-6**  
U.S. trade with ATPA countries, 1990-93



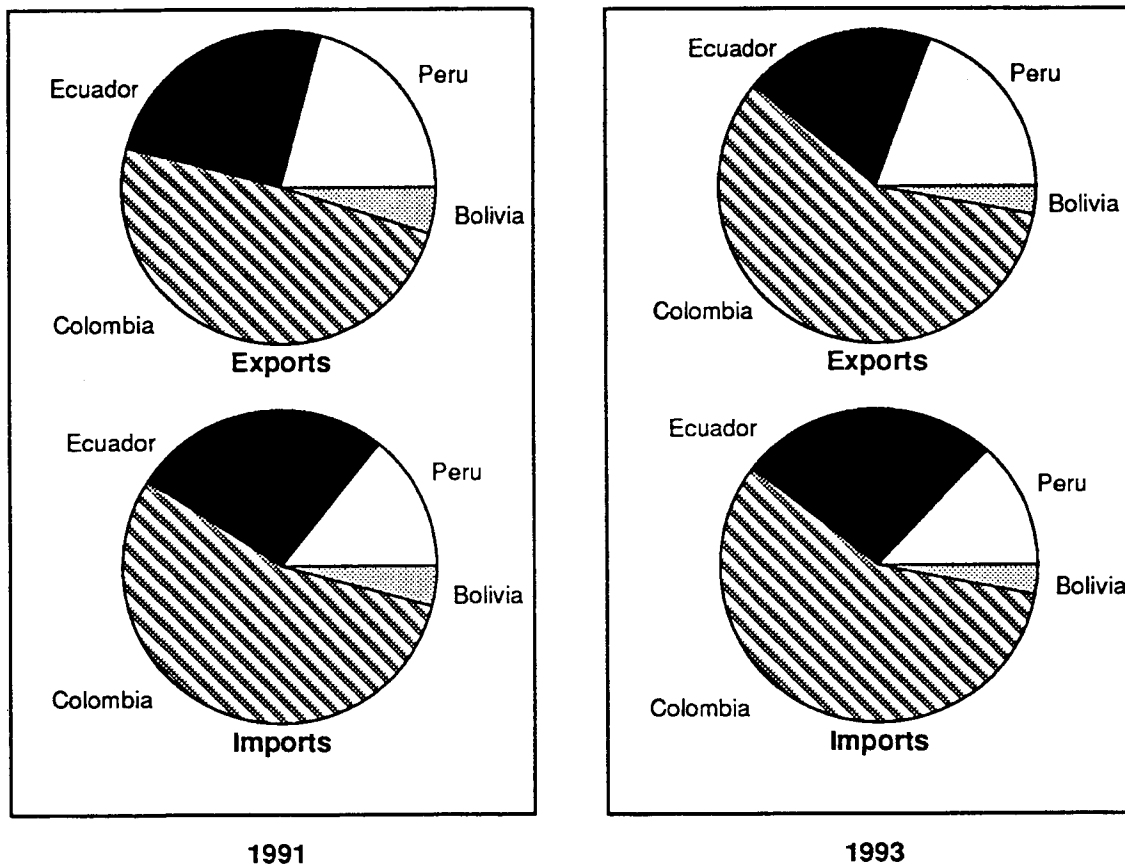
Source: Compiled from official statistics of the U.S. Department of Commerce.

**Table 1-2**  
U.S. trade with Bolivia, Colombia, Ecuador, and Peru, 1990-93  
(Million dollars)

Year	Bolivia	Colombia	Ecuador	Peru	Total
<b>Exports:</b>					
1990	134.9	1,985.3	659.3	754.6	3,534.2
1991	182.9	1,900.1	908.0	807.1	3,789.2
1992	205.9	3,200.5	948.0	965.4	5,319.7
1993	192.4	3,092.2	1,043.0	1,031.5	5,359.1
<b>Imports:</b>					
1990	199.3	3,154.1	1,358.3	726.8	5,438.6
1991	204.6	2,723.7	1,317.6	723.7	4,969.5
1992	161.6	2,888.0	1,323.0	686.0	5,058.7
1993	185.0	3,009.8	1,389.3	698.1	5,282.3

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

**Figure 1-7**  
**U.S. trade with Andean countries, 1991 and 1993**



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

**Table 1-3**  
**Leading U.S. exports to Bolivia, Colombia, Ecuador, and Peru, by SIC category, 1991-93**  
*(1,000 dollars, f.a.s. basis)*

Description	1991	1992	1993
Nonelectrical machinery .....	862,146	1,181,939	1,439,213
Chemical products .....	861,985	889,134	920,881
Transport equipment .....	433,500	387,385	593,881
Electrical and electronic machinery .....	210,321	386,612	387,967
Agricultural products .....	219,027	233,085	286,044
Food products .....	196,211	253,586	239,668
Textiles and apparel .....	125,991	183,699	203,934
Scientific and professional instruments .....	124,411	168,063	178,528

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

**Table 1-4**  
**Leading U.S. exports to Bolivia, Colombia, Ecuador, and Peru, 1991-93**  
*(1,000 dollars, f.a.s. basis)*

Schedule B Item	Description	1991	1992	1993
8431.39	Parts for lifting, handling, loading/unloading machinery .....	51,418	92,900	154,155
9880.00	Low-value shipments .....	106,489	147,754	153,947
8431.43	Parts for boring or sinking machinery .....	111,162	156,419	153,799
1001.90	Wheat (other than durum wheat) and meslin .....	138,895	88,042	124,987
8701.20	Road tractors for semi-trailers .....	11,645	54,683	88,675
4804.11	Kraftliner .....	104,422	87,056	81,391
8471.91	Digital processing units .....	33,170	50,355	79,602
2710.00	Refined petroleum products .....	59,273	101,571	75,515
8473.30	Parts and accessories for ADP machines and units .....	39,821	51,546	69,208
1005.90	Corn (maize) .....	35,137	75,208	67,339

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

the Andean countries has shifted overwhelmingly towards exports of capital goods. While exports increased in all categories, exports of nonelectrical machinery rose most dramatically—nearly doubling in value to reach \$1.4 billion in 1993, or 27 percent of all U.S. exports to the Andean countries. Also indicative of a shift in the composition of U.S. exports to the Andean countries are trends in agricultural exports. Despite an increase from \$219 million in 1991 to \$286 million in 1993, agricultural exports as a percent of nonelectrical machinery exports declined in relative value from one-fourth to one-fifth.

Table 1-4 lists the leading U.S. exports to the Andean countries during 1991-93 by Schedule B subheading. Trade patterns evident from this table also indicate a shift in the composition of U.S. exports to the region. Of the items listed in the table, wheat was the leading U.S. export to the region in 1991, although wheat exports declined through 1993. In 1993, U.S. exports of the top three products or groups of products were valued at approximately \$154 million each. Parts for lifting, handling, and loading and unloading machinery (Schedule B subheading 8431.39) ranked as the leading U.S. export, with total sales valued at over \$154 million. Combined sales of low-valued articles (Schedule B commodity number 9880.00) totaled just under \$154 million,<sup>113</sup> followed closely by parts for boring or sinking machinery (Schedule B subheading 8431.43). The composition of U.S. exports by country is shown in tables B-1 through B-4.

<sup>113</sup> Exports under Schedule B 9880.00 are estimates of low-value shipments for which commodity details are not available. The maximum value for inclusion in this item has increased over time, and currently is \$2,500.

## U.S. Imports

Total U.S. imports from Bolivia, Colombia, Ecuador, and Peru were valued at \$5.3 billion in 1993 (table 1-2). Although the value of imports has increased each year since 1991, when imports totaled just under \$5.0 billion, imports remain below the \$5.4 billion level attained in 1990.

Imports from Colombia valued at \$3.0 billion in 1993 and \$2.9 billion in 1992 accounted for almost 57 percent of U.S. imports from all four ATPA countries, a slight increase from 54 percent of imports in 1991. Imports from Ecuador have remained constant at 26 percent. The share of total U.S. imports from Peru and Bolivia declined between 1991 and 1993. From 1991 to 1993, imports from Peru contracted from 14 percent to 13 percent of the total, while imports from Bolivia retreated from 4 percent to 3 percent of the total (figure 1-7).

Table 1-5 shows the value of the leading U.S. imports from Bolivia, Colombia, Ecuador, and Peru by SIC category. Among the fastest-growing categories were crude petroleum and natural gas, up from \$1.2 billion to \$1.4 billion, textile and apparel products, up from \$352 million to \$471 million, and scientific and professional instruments, up from \$197 million to \$305 million. Table 1-6 lists the leading U.S. imports from the four Andean countries during 1991-93 by HTS subheading. Colombia is the leading supplier of four of the leading imports from the region—petroleum, bananas, distillate and residual fuel oils, and coffee.

Table 1-7 shows that, despite the increase in total imports from the four Andean countries from nearly \$5.0 billion in 1991 to \$5.2 billion in 1993, the value

**Table 1-5**  
**Leading U.S. imports from Bolivia, Colombia, Ecuador, and Peru, by SIC category, 1991-93**  
*(1,000 dollars, f.a.s. basis)*

Description	1991	1992	1993
Crude petroleum and natural gas .....	1,275,766	1,353,214	1,456,114
Agricultural and livestock products .....	1,119,682	1,205,269	1,070,696
Textile and apparel products .....	352,265	428,277	471,277
Petroleum refining and related products .....	369,933	293,129	333,489
Scientific and professional instruments .....	197,523	251,514	35,054
Food products .....	210,527	178,456	283,864

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

**Table 1-6**  
**Leading U.S. imports from Bolivia, Colombia, Ecuador, and Peru, by HTS subheading, 1991-93**  
*(1,000 dollars, customs value)*

HTS Item	Description	1991	1992	1993
2709.00.20	Petroleum oils and oils from bituminous minerals ...	1,270,085	1,266,400	1,451,089
0306.13.00	Shrimps and prawns, cooked in shell or uncooked ..	402,466	412,755	397,780
0803.00.20	Bananas, fresh or dried .....	433,500	387,385	373,655
2710.00.05	Distillate and residual fuel oils .....	358,216	269,284	308,550
0901.11.00	Coffee, not roasted, not decaffeinated .....	414,791	445,012	288,570

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

**Table 1-7**  
**U.S. imports for consumption from Bolivia, Colombia, Ecuador, and Peru, 1991-93**

Description	1991	1992	1993
Total imports <i>(1,000 dollars, customs value)</i> .....	4,969,473	5,058,669	5,282,292
Dutiable value <i>(1,000 dollars, customs value)</i> <sup>1</sup> .....	2,266,581	2,196,580	2,204,078
Dutiable as a percent of total imports .....	45.6	43.4	41.7
Calculated duties <i>(1,000 dollars)</i> <sup>2</sup> .....	92,381	87,445	77,013
Average duty <i>(percent)</i> <sup>3</sup> .....	4.08	3.98	3.49

<sup>1</sup> Dutiable value and calculated duty exclude the U.S. content entering under HTS heading 9802.00.80, subheading 9802.00.60, and misreported imports. Data based on product eligibility corresponding to each year.

<sup>2</sup> Calculated duties based on reported dutiable imports.

<sup>3</sup> Average duty = (calculated duty/dutiable value) x 100.

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

of dutiable imports remained virtually unchanged at approximately \$2.2 billion. The increase in imports from the region since ATPA has been operative is due mostly to increased imports of duty-free products, as discussed in chapter 2 of this report. Furthermore, the adjusted calculated duties on Andean imports have declined—from \$92 million in 1991 to \$77 million in 1993. The average rate of duty on Andean imports declined from 4.1 percent in 1991, the year before ATPA was implemented, to under 3.5 percent by 1993. These trends reflect the general shift in the composition of dutiable U.S. imports from the region towards increased imports of low-duty items such as petroleum products.

The leading U.S. imports by country are shown in tables B-5 through B-8. Unwrought tin (HTS subheading 8001.10.00) and unwrought tin alloys (HTS subheading 8001.20.00) were the leading imports from Bolivia in 1993 with combined 1993 imports valued at \$51 million. Tin entered unconditionally free of duty. Precious metal jewelry represented the single largest combined category of imports, and total shipments were valued at \$58 million in 1993. This category includes ropes and chains (HTS subheading 7113.19.10), other jewelry and jewelry parts (HTS subheading 7113.19.50), and gold necklaces (HTS subheading 7113.19.29). These items are eligible for either GSP or ATPA duty-free

entry. Gold (HTS subheading 7108.12.10), mahogany and balsa tropical woods (HTS subheading 4407.23.00), antimony oxides (HTS subheading 2825.80.00), Brazil nuts (HTS subheading 0801.20.00), and tungsten ores and concentrates (HTS subheading 2611.00.00) completed the list of the top 10 imports from Bolivia. Gold, mahogany, Brazil nuts, and antimony entered free of duty under the general rate, while tungsten was eligible either for GSP or for ATPA duty-free entry.

Crude petroleum (HTS subheading 2709.00.20), a dutiable product, was the leading import from Colombia in 1993. Combined imports of crude petroleum and refined distillates and residual fuel oils (HTS subheading 2710.00.05) were valued at over \$1.1 billion in 1993, or more than one-third of all U.S. imports from that country. The top 10 imports from Colombia also included several MFN duty-free traditional products, namely coffee (HTS subheading 0901.11.00), bananas (HTS subheading 0803.00.20), gemstones including rubies, sapphires, and emeralds (HTS subheading 7103.91.00) and coal (HTS subheading 2701.12.00). Chrysanthemums, standard carnations, anthuriums, and orchids (HTS subheading 0603.10.70) and roses (HTS subheading 0606.10.60) also ranked among the leading imports from Colombia. Although imports of chrysanthemums, standard carnations, anthuriums, and orchids from Colombia are barred from entering the United States free of duty under GSP, these flowers are afforded duty-free entry under ATPA. Roses, otherwise dutiable upon entry into the United States, also are afforded duty-free entry under ATPA.

Crude petroleum imports valued at \$472 million in 1993 accounted for more than one-third of all U.S. imports from Ecuador. Several MFN duty-free products ranked among the top 10 U.S. imports from Ecuador, including shrimps and prawns (HTS subheadings 0306.13.00 and 0306.23.00), bananas (HTS subheading 0803.00.20), unroasted coffee (HTS subheading 0901.11.00), cocoa beans (HTS subheading 1801.00.00), and unwrought gold (HTS subheading 7108.12.10). Fresh or chilled fish (HTS subheading 0302.69.40) was the only leading import eligible for either GSP or ATPA duty-free entry. Two leading imports from Ecuador, tuna and skipjack not in cans (HTS subheading 1604.14.40) and roses (HTS subheading 0603.10.60) were eligible for duty-free entry only under ATPA. Tuna imports increased sharply from \$3.4 million in 1992 to \$13.9 million in 1993. Ecuadorian yellowfin tuna was placed under an

embargo briefly in early 1992 for lack of compliance with the U.S. Marine Mammal Protection Act.<sup>114</sup>

Fishmeal (HTS subheading 2301.20.00) was the leading import from Peru in 1993, with imports valued at \$83 million or 12 percent of all imports from that country. Imports of petroleum distillates and residual fuel oils (HTS subheading 2710.00.05) ranked second and were valued at \$75 million, or 11 percent of imports. Petroleum distillate imports were dutiable as were imports of knitted sweaters and pullovers (HTS subheading 6110.20.20). In addition to fishmeal, other leading imports from Peru entering unconditionally free of duty included unwrought silver (HTS subheading 7106.91.10) and unwrought gold (HTS subheading 7108.12.10). Several leading imports were eligible for either GSP or ATPA duty-free entry, including precious metal ropes and chains (HTS subheading 7113.19.10), precious metal jewelry (HTS subheading 7113.19.50), unwrought zinc (HTS subheading 7901.11.00), gold rope necklaces and neck chains (HTS subheading 7113.19.21), and unrefined copper (HTS subheading 7402.00.00).

## *U.S. Actions Against Unfair Trade Practices*

Several Andean products are subject to restrictions under U.S. laws against unfair trade practices. U.S. antidumping law provides relief in the form of special additional duties that are intended to offset margins of dumping.<sup>115</sup> As of December 31, 1993 there were

<sup>114</sup> Under the Marine Mammal Protection Act, the United States may embargo tuna from countries that do not comply with U.S. standards to minimize the dolphin kill rate when harvesting tuna. The embargo was lifted later in 1992 after Ecuador strengthened its laws against harming dolphins by vessels legally harvesting tuna in Ecuadorian waters. Department of State, "Fishing Industry Annual: Ecuador," telegram, message reference No. 07448, prepared by U.S. Embassy Quito, Ecuador, Sept. 22, 1993. Tuna imports also are discussed in greater detail in chapter 2.

<sup>115</sup> Antidumping duties are imposed when—(1) the U.S. Department of Commerce (the administering authority) has determined that imports are being, or are likely to be, sold at less than fair value in the United States, and (2) the U.S. International Trade Commission has determined that a U.S. industry is materially injured or threatened with material injury, or that the establishment of an industry in the United States is materially retarded, by reason of such imports. For a more detailed description of antidumping and countervailing duty investigations, see USITC, *The Year In Trade, 1993: Operation of the Trade Agreements Program, 45th Report*, USITC publication 2769, June 1994, pp. 128-129.

outstanding antidumping orders and actions against fresh cut flowers from Colombia and Ecuador (both effective since March 18, 1987).<sup>116</sup>

The countervailing-duty law provides for the levying of special additional duties to offset most foreign subsidies on products imported into the United States.<sup>117</sup> As of December 31, 1993, there was a countervailing-duty order and action in effect for fresh cut flowers from Ecuador (effective since January 13, 1987). Peru faced countervailing-duty orders and actions for pompon chrysanthemums (effective since April 23, 1987), rebars (effective since November 27, 1985), and cotton sheeting and sateen (effective since March 3, 1983), cotton yarn (effective since February 1, 1983), and textiles and textile products (effective since March 12, 1985, revoked August 13, 1990, and reinstated October 22, 1993). The following suspension agreements<sup>118</sup> were in effect as of

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<sup>116</sup> On Feb. 14, 1994, the Commission instituted a preliminary antidumping investigation (no. 731-TA-684-685 (Preliminary)) concerning imports of fresh cut roses from Colombia and Ecuador. U.S. International Trade Commission, "Fresh Cut Roses from Colombia and Ecuador," published in *Federal Register*, vol. 59, No. 37, Feb. 24, 1994, p. 9000.

<sup>117</sup> U.S. countervailing-duty law is set forth in sec. 303 and title VII of the Tariff Act of 1930 (19 U.S.C. 1303 and 1671 and following). In general, procedures for such investigations are similar to those under the antidumping law. Before a countervailing-duty order can be issued, Commerce must find a countervailable subsidy, and, in most cases, the Commission must make an affirmative determination of material injury, threat of material injury, or material retardation by reason of the subsidized imports.

<sup>118</sup> A countervailing duty investigation may be suspended through an agreement prior to a final determination by Commerce if—(1) the subsidizing country, or exporters accounting for substantially all of the imports of the merchandise under investigation, agree to eliminate the subsidy, to completely offset the net subsidy,

December 31, 1993: shop towels from Peru (original action effective September 12, 1984) and, from Colombia, miniature carnations (original action effective January 13, 1987), cut flowers (original action effective January 9, 1986), and textiles (original action effective March 12, 1985).

Section 337 of the Tariff Act of 1930 declares unlawful the importation, sale for importation, or sale after importation of articles that infringe a valid and enforceable U.S. patent, registered trademark, registered copyright, or registered mask work, for which a domestic industry exists or is in the process of being established.<sup>119</sup> If a violation is determined to exist, the subject imports can be excluded from entry into the United States. There was one outstanding section 337 (nonpatent) exclusion order as of December 31, 1993, for certain soft drinks and their containers from Colombia.

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<sup>118</sup>—*Continued*

or to cease exports of the merchandise to the United States within 6 months; or (2) extraordinary circumstances are present and the government or exporters described above agree to completely eliminate the injurious effect of the imports of the merchandise under investigation. A suspended investigation is reinstated if subsidization recurs. See 19 U.S.C. 1671(c).

<sup>119</sup> Section 337 of the Tariff Act of 1930, as amended (19 U.S.C. 1337), authorizes the Commission to conduct investigations with respect to certain practices in import trade, including patent and copyright infringement, unfair methods of competition, or other unfair acts including misappropriation of trade secrets, common law trademark infringement, false advertising, and false designation of origin. Also unlawful under section 337 are other unfair methods of competition or unfair acts in the importation of articles into the United States, the threat or effect of which is to destroy or substantially injure a domestic industry, to prevent the establishment of an industry, or to restrain or monopolize trade and commerce in the United States. For a more detailed discussion of section 337 investigations, see USITC, *The Year in Trade 1993: Operation of the Trade Agreements Program, 45th report*, USITC publication 2769, June 1994, pp. 129-130.

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# CHAPTER 2

## Imports Under ATPA and Their Impact on the United States in 1992-93

This chapter has two main sections. Part 1 discusses ATPA duty-free and reduced-duty imports in 1992 and 1993, based on an analysis of trends in trade data. Part 2 uses a partial-equilibrium analysis to provide a quantitative assessment of the impact of ATPA imports on U.S. industries and consumers.

### Summary of Findings

In 1993, ATPA imports totaled \$401 million and accounted for 7.6 percent of all imports from the four ATPA countries. In terms of the value of imports, the Andean fresh cut flower sector has benefited most from ATPA. More than 60 percent of ATPA imports in 1993 were four categories of cut flowers—chrysanthemums, standard carnations, anthuriums, and orchids; roses; flowers for bouquets; and miniature carnations. Colombia, the largest U.S. trading partner in the region, supplied over 95 percent of these flowers. Over 8 percent of ATPA imports were jewelry articles made of precious metal. For certain products eligible for duty-free entry under either GSP or ATPA, exporters apparently prefer ATPA for several reasons—to avoid GSP competitive need restrictions, to use ATPA's more liberal rules of origin, or to avoid any risk of losing duty-free access to the U.S. market should GSP not be renewed.

In 1993, imports that would not have benefited from duty reductions without ATPA totaled \$249 million—equivalent to 4.7 percent of total U.S. imports from ATPA countries, or less than 0.05 percent of U.S. imports from the world. The overall effect of ATPA on the U.S. economy during these first 2 years of the program was minimal. The largest net welfare gains to U.S. consumers occurred for chrysanthemums, standard carnations, anthuriums, and orchids and for roses. The displacement of competing U.S. products by ATPA imports was small, and for most items did not exceed 1 percent of shipments. The largest effects were for roses, which displaced U.S. shipments valued at \$14.9 million (9.2 percent of

U.S. shipments) and chrysanthemums, standard carnations, anthuriums, and orchids, which displaced shipments valued at \$8.8 million (17.9 percent of shipments).

### ATPA Duty-Free Imports in 1992 and 1993

#### *Duty Treatment*

Table 2-1 breaks down U.S. imports from ATPA countries between 1991 and 1993, into their dutiable and duty-free portions. In 1991, the year before ATPA became operative, about 54 percent of all U.S. imports from Bolivia, Colombia, Ecuador, and Peru entered free of duty. As mentioned in chapter 1, Colombia accounts for most of the trade between the United States and the four ATPA countries. Because of the relatively large value of bilateral U.S.-Colombian trade, shifts in trade patterns with Colombia significantly influence aggregate patterns of U.S. trade with the four ATPA countries.

Since ATPA has been operative, the percentage of all duty-free imports to total imports has risen from 54.4 percent to 58 percent in 1993, an increase of over \$358 million since 1991. In 1993, duty-free imports totaled \$3 billion, of which \$384 million entered under ATPA. Figure 2-1 shows the percentage of total imports from each of the four ATPA countries entered free of duty into the United States in 1991 and 1993. Duty-free imports from Colombia increased from 40 percent of total imports from that country in 1991 to 52 percent in 1993, or by \$456 million. This increase in duty-free imports from Colombia was the single largest factor driving the overall increase in duty-free imports from the four ATPA countries. Nearly all imports from Bolivia enter duty-free. The share of duty-free imports from Bolivia increased from 93 percent of total imports from that country in

**Table 2-1**  
**U.S. imports for consumption from Bolivia, Colombia, Ecuador, and Peru, by duty treatment, 1991-93**  
*(1,000 dollars, customs value)*

Description	Bolivia	Colombia	Ecuador	Peru	Total	Percent of Total
<b>1991:</b>						
Total imports	204,561	2,723,653	1,317,588	723,671	4,969,473	100.0
Dutiable value <sup>1</sup>	14,087	1,622,540	422,267	207,987	2,266,881	45.6
Duty-free value <sup>2</sup>	190,474	1,101,113	895,321	515,684	2,702,592	54.4
MFN <sup>3</sup>	147,137	764,637	823,492	293,001	2,028,267	40.8
GSP <sup>4</sup>	18,764	182,987	67,878	222,096	491,725	9.9
Production sharing <sup>5</sup>	20,073	82,674	240	571	103,558	2.1
Other duty free <sup>6</sup>	4,500	70,815	3,711	16	79,042	1.6
<b>1992:</b>						
Total imports	161,586	2,888,009	1,323,031	686,043	5,058,669	100.0
Dutiable value <sup>1</sup>	2,594	1,510,459	485,913	201,845	2,200,811	43.5
ATPA reduced duty	182	4,049	0	0	4,231	0.1
Duty-free value <sup>2</sup>	158,992	1,377,550	837,118	484,198	2,857,858	56.5
MFN <sup>3</sup>	111,171	900,462	772,650	235,997	2,020,280	39.9
GSP <sup>4</sup>	29,222	207,434	62,774	247,653	547,083	10.8
ATPA <sup>7</sup>	1,911	90,975	0	0	92,886	1.8
Production sharing <sup>5</sup>	12,943	109,104	198	37	122,282	2.4
Other duty free <sup>6</sup>	3,745	69,575	1,496	511	75,327	1.5
<b>1993:</b>						
Total imports	185,022	3,009,831	1,389,324	698,115	5,282,292	100.0
Dutiable value <sup>1</sup>	5,981	1,452,104	555,524	207,865	2,221,474	42.0
ATPA reduced duty	836	16,443	110	7	17,396	0.3
Duty-free value <sup>2</sup>	179,041	1,557,727	833,800	490,250	3,060,818	58.0
MFN <sup>3</sup>	109,971	902,394	740,345	254,130	2,006,840	38.0
GSP <sup>4</sup>	29,420	137,398	58,626	223,007	448,451	8.5
ATPA <sup>7</sup>	31,288	306,926	34,225	11,587	384,026	7.3
Production sharing <sup>5</sup>	4,482	115,669	277	1,428	121,856	2.3
Other duty free <sup>6</sup>	3,880	95,340	327	98	99,645	1.9

<sup>1</sup> Reduced by the duty-free value of imports entering under HTS provisions 9802.00.60 and 9802.00.80 and increased by the value of ineligible items that were reported as entering under ATPA and GSP.

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

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

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

<sup>5</sup> HTS items 9802.00.60 and 9802.00.80. Refers to the value of nondutiable exported and returned U.S.-origin products or components.

<sup>6</sup> Calculated as a remainder, and represents imports entering free of duty under special rate provisions.

<sup>7</sup> Reduced by the value of MFN duty-free imports and ineligible items that were misreported as entering under ATPA.

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

1991 to almost 97 percent in 1993. The share of duty-free imports from Ecuador and Peru declined. Duty-free imports from Ecuador declined from 68 percent of total imports in 1991 to 60 percent in 1993 largely because of the increase in (dutiable) petroleum imports. The share of duty-free imports from Peru declined marginally from 71 percent of the total to 70 percent.

Less than 1 percent of imports from the Andean countries entered under ATPA reduced duties in both 1992 and 1993. Products eligible for these reduced

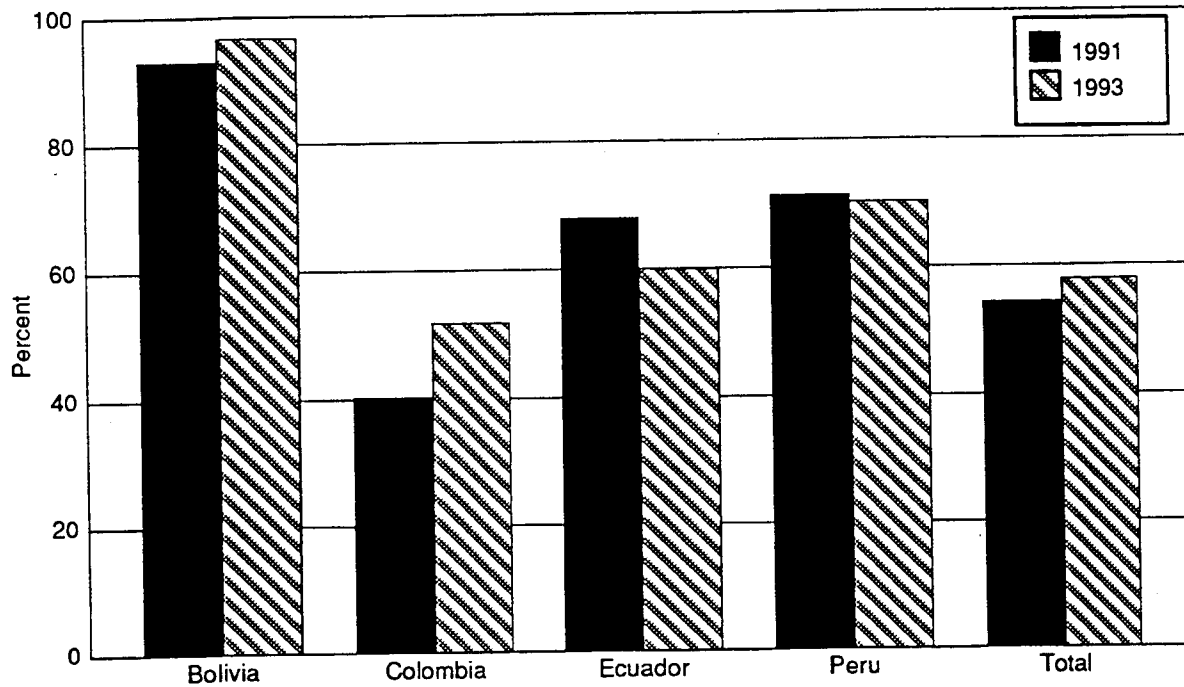
duties are limited to luggage, handbags, work gloves, and leather wearing apparel.<sup>120</sup>

Of products admitted duty-free in 1991, 75.0 percent received Most Favored Nation (MFN) treatment and 18.2 percent entered under GSP. Figure 2-2 shows GSP, production-sharing, and ATPA

<sup>120</sup> Duties on these articles are being reduced by a maximum of 20 percent beginning January 1, 1992, in five equal annual installments. This provision is discussed in greater detail in chapter 1.

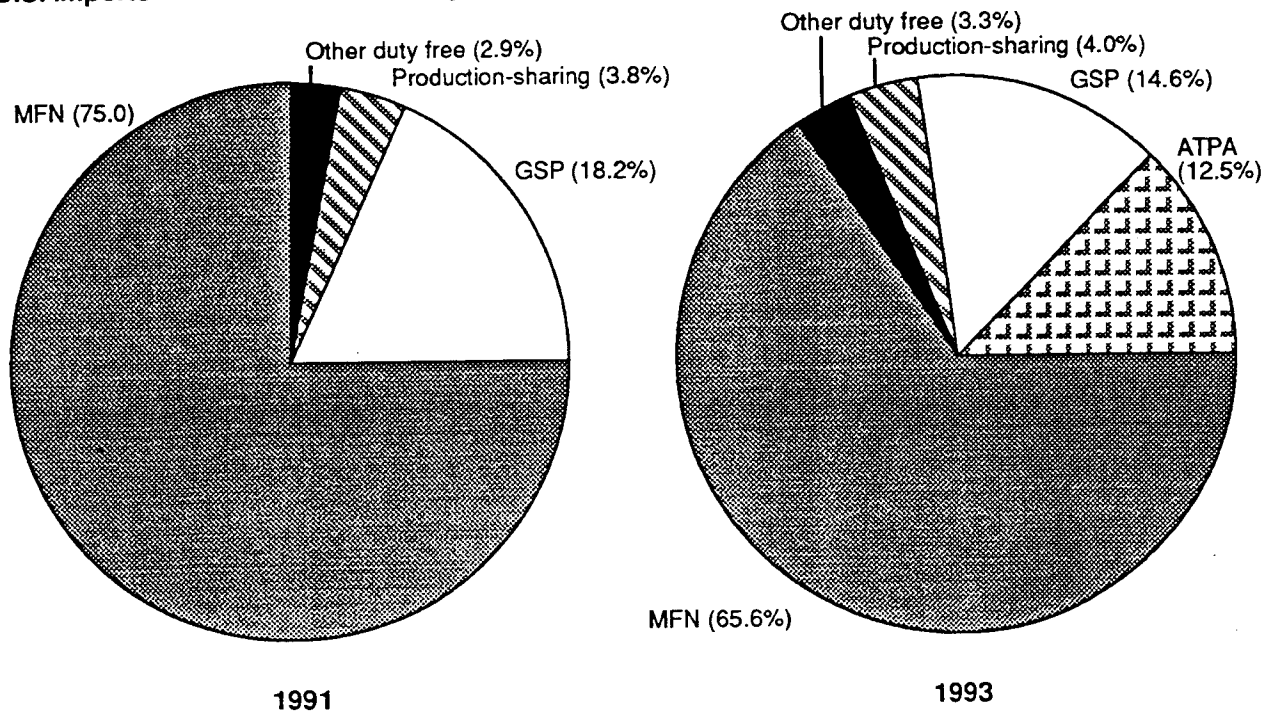


**Figure 2-1**  
**ATPA countries: Duty-free imports as a percent of total imports, 1991 and 1993**



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

**Figure 2-2**  
**U.S. imports from ATPA countries by category of duty-free import, 1991 and 1993**



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

**Table 2-2**  
**U.S. imports for consumption from Bolivia, Colombia, Ecuador, and Peru of goods excluded under ATPA, 1991-93**

(1,000 dollars, customs value)

Product category	1991	1992	1993	Leading 1993 suppliers (and percent supplied)
Petroleum <sup>1</sup> .....	1,644,284	1,646,326	1,786,968	Colombia (66%) Ecuador (29%)
Textiles and apparel .....	338,539	407,969	447,801	Colombia (74%)
Footwear .....	31,169	22,287	21,844	Colombia (97%)
Rum .....	105	195	106	Colombia (100%)
Sugar .....	0	0	0	
Canned tuna .....	0	0	0	
Total .....	2,014,097	2,076,777	2,256,719	

<sup>1</sup> Definition of "petroleum" in this table is broader than that used in table 1-6.

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

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

imports from Bolivia, Colombia, Ecuador, and Peru in 1991 and 1993. GSP imports declined to 14.7 percent in 1993. The decline in GSP imports largely was driven by lower GSP imports from Colombia as many GSP-eligible items entered under ATPA in 1993. Reasons for this shift are explained in more detail below.

About 4 percent of duty-free imports in 1993, valued at \$122 million, entered under U.S. production-sharing tariff provisions (table 2-1). Approximately 95 percent of these imports were articles of apparel. Production-sharing tariff provisions establish reduced duties for certain U.S. products processed or assembled outside of the United States and subsequently returned.<sup>121</sup>

### **ATPA Imports**

ATPA imports totaled \$97 million in 1992. Reduced duty imports were \$4 million and duty-free imports were \$93 million. Colombia and Bolivia were the only countries designated for benefits during 1992. Colombia supplied almost 98 percent of the duty-free imports.

<sup>121</sup> HTS subheading 9802.00.60 applies to imported products containing metal of U.S. origin processed abroad and returned for further processing. Heading 9802.00.80 applies to imported assembled products such as apparel containing U.S. components. These HTS provisions formerly were Tariff Schedules of the United States (TSUS) items 806.30 and 807.00, respectively. U.S. customs duties for such articles are assessed only on the value added to the U.S. products (or on the labor costs involved) as a result of processing or assembly in the foreign location. Duty is not assessed on the value of the identifiable exported and re-imported U.S. content.

ATPA imports totaled \$401 million in 1993. Reduced duty imports were \$17 million and duty-free imports were \$384 million. Ecuador and Peru were added as designated beneficiaries in 1993. Colombian products continued to dominate the program. Imports from Colombia accounted for 80 percent of all ATPA duty-free imports in 1993, almost 9 times more than imports from Ecuador, the second-leading source of imports. Although Ecuador has been eligible for ATPA benefits only since April 13, 1993, imports from that country under ATPA exceeded those from Bolivia (eligible during the entire year) by more than \$2 million. Peru, the last country to receive ATPA designation, accounted for less than 3 percent of ATPA imports during 1993.

Table 2-2 lists the categories of U.S. imports from the Andean region that were not eligible for ATPA. Such imports increased from \$2.0 billion in 1991 to over \$2.2 billion in 1993. Petroleum, including petroleum products, was the leading category with imports valued at nearly \$1.8 billion in 1993. Textiles and apparel were the second leading category of goods not eligible for ATPA benefits with 1993 imports valued at \$448 million. Colombia was the leading supplier of these products, accounting for 66 percent of petroleum imports, 74 percent of textiles and apparel imports, 97 percent of footwear imports, and all rum imports.

### **ATPA Utilization Ratio**

The ATPA utilization ratio provides a quantitative benchmark to assess the extent to which ATPA

**Table 2-3**  
**U.S. imports for consumption: ATPA eligibility and utilization, 1993**

	1993 (Bolivia and Colombia)	1993 (Bolivia, Colombia, and Ecuador) <sup>1</sup>
ATPA:		
Eligible duty-free under ATPA (1,000 dollars) <sup>2</sup> .....	641,643	763,495
Actual duty-free under ATPA (1,000 dollars) .....	338,214	372,439
ATPA utilization ratio (percent) <sup>3</sup> .....	52.71	48.78

<sup>1</sup> Peru excluded because it was not designated until August 1993.

<sup>2</sup> Calculated as: total imports minus imports not eligible for ATPA duty-free entry minus MFN duty-free imports.

<sup>3</sup> Utilization ratio = (entered duty-free/eligible) \* 100.

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

provisions actually have been used (table 2-3).<sup>122</sup> This ratio is calculated as the percentage of eligible ATPA imports that actually entered free of duty under the act. For 1993, the first year for which a meaningful ratio can be calculated,<sup>123</sup> the ATPA utilization ratio for Bolivia and Colombia was 52.7 percent. The 1993 utilization ratio is 48.8 percent with Ecuador included.<sup>124</sup> The 1993 ratio will be an important benchmark against which to assess future utilization of ATPA.<sup>125</sup>

### *Composition of ATPA Imports*

Figure 2-3 shows the composition of ATPA imports in 1993. Fresh cut flowers were the single largest import category, accounting for more than 60 percent of the total. More than 8 percent of imports

<sup>122</sup> A significant number of 1992 and 1993 ATPA imports are products that were eligible for duty-free entry under either ATPA or GSP. Reasons why products may have entered under ATPA rather than GSP are explored in more detail below. As calculated, the ATPA utilization ratio also includes these items that switched from GSP to ATPA and do not necessarily represent increased duty-free access to the U.S. market.

<sup>123</sup> A 1992 utilization ratio would not provide meaningful results because Bolivia and Colombia were not designated for ATPA benefits until July of that year.

<sup>124</sup> A utilization ratio including Ecuador was calculated because, although it was designated for only part of 1993, Ecuador was a significant source of imports.

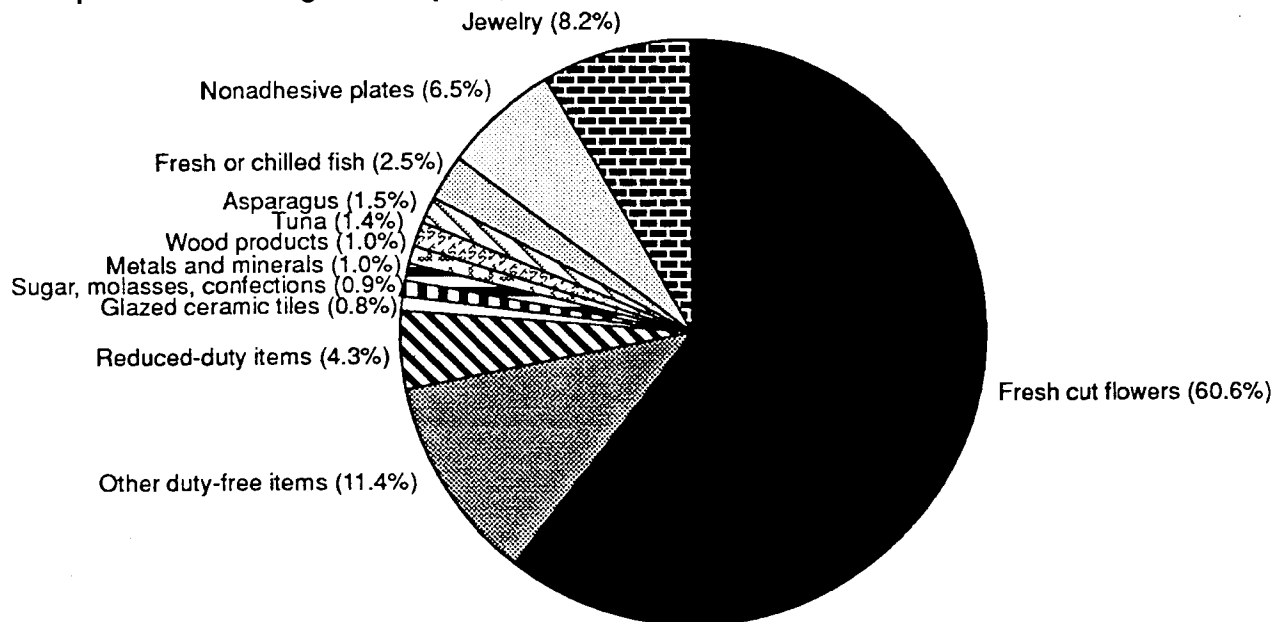
<sup>125</sup> This ratio may not equal 100 percent because some ATPA-eligible products continue to enter under GSP or because some products, even though technically eligible under ATPA, may be subject to U.S. antidumping and countervailing duties.

were jewelry, and over 6 percent were nonadhesive plates. Less than 5 percent were reduced duty items.

Table 2-4 lists the leading 30 items afforded duty-free entry under ATPA in 1993. All but seven were eligible for duty-free entry only under ATPA. Those seven products were: (1) fresh cut roses (HTS subheading 0603.10.60), subject to a duty of 8 percent ad valorem if not entered under ATPA; (2) tuna and skipjack not in airtight containers (HTS subheading 1604.14.40), subject to a duty of 1.1 cent per kilogram; (3) fresh or chilled asparagus entered between November 16 and September 14 (HTS subheading 0709.20.90), subject to a duty of 25 percent ad valorem; (4) stranded iron or steel wire (HTS subheading 7312.10.30), subject to a duty of 4.9 percent ad valorem; (5) glazed ceramic tiles and (6) ceramic flags (HTS subheadings 6908.10.50 and 6908.90.00), subject to a duty of 19 percent ad valorem; and (7) stemmed tobacco (HTS subheading 2401.20.80), subject to a duty of 44.1 cents per kilogram. In addition to these articles, chrysanthemums, standard carnations, anthuriums, and orchids (HTS subheading 0603.10.70) from Colombia were subject to GSP competitive-need limits and therefore would have been subject to a duty of 8 percent ad valorem. Colombia supplied virtually all (99 percent) of ATPA imports of chrysanthemums and nearly all (over 92 percent) of ATPA imports of roses.

The other products listed in table 2-4 were eligible for duty free entry under either GSP or ATPA. Several products of Colombia shifted from entering under GSP to entering under ATPA. For example, of imports of fresh cut flowers and flower buds suitable for bouquets (HTS subheading 0603.10.80), valued at \$26.3 million in 1992, barely 12 percent (\$3.1 million) entered under ATPA. Despite a small

**Figure 2-3**  
**Composition of leading ATPA imports, 1993**



Note.—Total duty-free and reduced-duty ATPA imports equal \$401 million. Itemized products add to \$356 million. Unitemized products (listed as "Other") add to \$45 million.

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

increase in total imports to \$27.8 million, almost two-thirds (\$17.4 million) entered under ATPA in 1993. Similarly, of imports of nonadhesive plates (HTS subheading 3921.12.11) valued at \$25.7 million, less than one-third (\$7.0 million) entered under ATPA in 1992. While overall imports increased only marginally to \$26.2 million, nearly all (\$26.1 million) entered under ATPA in 1993 (tables B-6 and B-10).

Several reasons may explain the shift from GSP to ATPA. As mentioned above in the case of chrysanthemums from Colombia, ATPA affords duty-free entry for products otherwise subject to competitive-need limits. Exporters may view this as a particularly strong incentive to use ATPA—even for products not currently subject to GSP competitive-need limits. In addition, Andean exporters may have shifted from GSP to ATPA based on their concerns about the status of renewal of the U.S. GSP program.<sup>126</sup> Finally, some exporters may prefer ATPA's more liberal rules of origin for products otherwise unable to qualify for GSP duty-free entry.<sup>127</sup>

<sup>126</sup> The GSP program and its renewal are discussed in chapter 1.

<sup>127</sup> ATPA and GSP rules of origin are compared in chapter 1.

### *ATPA Imports by Source*

Tables B-9 to B-12 show the leading ATPA imports from each of the four Andean countries. Colombia was the leading supplier of 19 of the top 30 ATPA duty-free imports listed in table 2-4. These 19 items accounted for over 90 percent of duty-free imports from Colombia under ATPA.

Ecuador was the leading supplier of four of the leading imports—fresh or chilled fish (HTS subheading 0302.69.40), tuna, articles of wood (HTS subheading 4421.90.95), and melons entered between December 1 and May 31 (HTS subheading 0807.10.70). These products accounted for nearly one-half of Ecuador's duty-free shipments. Other important Ecuadorian imports were roses and cut flowers for bouquets (table B-11), which have been on the increase since the late 1980s.<sup>128</sup>

Bolivia supplied three of the leading imports, including precious metal jewelry (HTS subheading 7113.19.50), gold necklaces (HTS subheading

<sup>128</sup> For additional information on cut flower imports from Ecuador, see U.S. Department of State, "Ecuador's Cut Flower Industry," telegram, message reference No. 04959, prepared by U.S. Embassy, Quito, Ecuador, Apr. 29, 1993. Roses also are discussed in greater detail below.

**Table 2-4**  
**Leading U.S. imports for consumption entered free of duty under ATPA, by customs value of imports, 1993**

(In thousands of dollars, customs value)

HTS Subheading	Description	1993
0603.10.70	Chrysanthemums, standard carnations, anthuriums and orchids .....	122,488
0603.10.60	Roses, fresh cut .....	86,468
3921.12.11	Nonadhesive plates, sheets, film, foil, strip, cellular, over 70 percent by wt. of plastic .....	26,077
0603.10.80	Cut flowers and flower buds suitable for bouquets or ornamental purposes, fresh ...	21,597
7113.19.50	Articles of jewelry and parts thereof of precious metal .....	19,942
0603.10.30	Miniature (spray) carnations, fresh cut .....	12,617
0302.69.40	Fish, n.e.s.i., excluding fillets, livers and roes, fresh or chilled .....	9,912
7113.19.29	Necklaces and neck chains of gold, n.e.s.i. ....	8,812
1604.14.40	Tunas and skipjack, not in airtight containers, in bulk, not in oil .....	5,467
0709.20.90	Asparagus, n.e.s.i., fresh or chilled .....	4,589
7113.19.10	Rope, curb, etc in continuous lengths, of precious metal .....	4,021
7801.10.00	Refined lead, unwrought .....	2,549
3808.20.20	Fungicides, n.e.s.i., which contain thioamide, thiocarbamate, etc .....	2,451
4421.90.95	Articles of wood n.e.s.i. ....	2,149
7312.10.30	Stranded wire of iron or steel, except stainless steel .....	2,067
4412.29.50	Veneer panels and similar laminated wood, n.e.s.i. ....	2,046
6908.10.50	Glazed ceramic tiles, cubes, and similar articles, n.e.s.i., whether or not on a backing .....	1,870
1704.90.20	Confections or sweetmeats ready for consumption .....	1,693
7901.11.00	Unwrought zinc, not alloyed, containing by weight 99.99 percent or more of zinc ...	1,542
2401.20.80	Tobacco, partly or wholly stemmed (stripped), threshed or similarly processed, not from cigar leaf .....	1,523
0709.20.10	Asparagus, fresh or chilled, not reduced in size, if entered between 9/15 and 11/15 and transported by air .....	1,375
6908.90.00	Glazed ceramic flags and paving, hearth or wall tile, n.e.s.i. ....	1,307
3903.11.00	Polystyrene, expandable, in primary forms .....	1,258
2009.80.60	Juice of any other single fruit, n.e.s.i., unfermented and not containing added spirit .	1,227
0807.10.70	Melons n.e.s.i., fresh, if entered during the period 12/1-5/31 .....	1,207
0810.10.40	Strawberries, fresh, if entered during the period 9/16-6/14 .....	1,161
1703.90.50	Molasses, n.e.s.i. ....	951
1701.99.01	Cane or beet sugar, and chemically pure sucrose in solid form, n.e.s.i. ....	933
3503.00.55	Gelatin sheets, n.e.s.i. ....	807
2005.90.55	Fruits of the genus <i>Capsicum</i> (peppers) or <i>Pimenta</i> ( e.g., allspice), excluding pimientos .....	779
	Total of items shown .....	350,886
	Total other .....	33,140
	Total all commodities .....	384,026

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

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

7113.19.29), and precious metal ropes and chains (HTS subheading 7113.19.10). These products accounted for over 95 percent of duty-free imports from Bolivia under ATPA (table B-10). Some Bolivian jewelry manufacturers reportedly switched from GSP to ATPA to take advantage of the more liberal rules of origin and due to concerns about future GSP competitive need limits.<sup>129</sup>

Peru supplied four of the leading imports, fresh or chilled asparagus entered between November 16 and September 14, unwrought refined lead (HTS subheading 7801.10.00), unwrought zinc (HTS

subheading 7901.11.00), and fresh or chilled asparagus entered between September 15 and November 15 (HTS subheading 0709.20.10). These products accounted for 83 percent of duty-free imports from Peru under ATPA (table B-12).

## Impact of ATPA in 1992 and 1993

This section estimates the economic effects of ATPA on the U.S. economy. The analysis focuses specifically on those sectors in which ATPA imports would not have been eligible for duty-free entry under any other trade program, such as GSP. First, the six

<sup>129</sup> USITC staff interview with representatives of gold jewelry manufacturer, El Alto, Bolivia, Apr. 21, 1994.

leading ATPA imports and highlights of the relevant industries are presented. Second, the analytical approach used to measure the net welfare effects of ATPA is discussed. Third, quantitative estimates of ATPA's impact are presented in terms of net welfare and domestic output, leading to the conclusion that the economic impact of ATPA imports on those sectors of the U.S. economy most affected, in general, was minimal during 1992 and 1993.

## ***Products Most Affected by ATPA***

Imports most affected by ATPA are those products that were not excluded by ATPA,<sup>130</sup> or that otherwise would not have entered the United States duty-free, such as those under GSP.<sup>131</sup> Thus, several items listed in table 2-4 are excluded from this analysis because they could have entered free of duty under GSP. However, this analysis includes imports that exceeded the GSP competitive-need limits and lost their GSP eligibility. Only one product category, chrysanthemums, standard carnations, anthuriums, and orchids (HTS subheading 0603.10.70) from Colombia, met this criterion.

In 1992 and 1993, the value of imports that would not have benefited from duty reductions without ATPA equaled \$80 million and \$249 million, respectively. Thus in both 1992 and 1993, the majority of total ATPA imports, which were valued at \$97 million and \$401 million, respectively, otherwise would not have entered the United States at reduced rates of duty. The same trend is observed in considering solely duty-free imports (i.e., excluding reduced-duty imports). Of total duty-free imports from Andean countries valued at \$93 million in 1992 and \$384 million in 1993, the majority—\$73 million and \$231 million, respectively—would not have entered the United States duty free without ATPA (table 2-5).

In the case of Colombia, the leading source of ATPA imports, duty-free ATPA imports from that country in 1992 and 1993 were valued at \$91 million and \$307 million, respectively. In 1992, \$72 million of these imports from Colombia, or 80 percent of the total, entered duty-free only because of ATPA (i.e., were not GSP eligible). In 1993, \$209 million, or 68 percent of the total, entered duty-free only because of

<sup>130</sup> See chapter 1 for more detailed information on items excluded from duty-free entry under ATPA.

<sup>131</sup> GSP provisions are discussed in greater detail in chapter 1.

ATPA. Two categories of fresh cut flowers, chrysanthemums (including standard carnations, anthuriums, and orchids) and roses, made up the bulk of these imports from Colombia. Imports of chrysanthemums from Colombia were subject to GSP competitive need limits and entered duty-free only under ATPA.

Table 2-6 presents the leading 20 imports most affected by ATPA duty reduction in 1993.<sup>132</sup> The six leading imports were: (1) chrysanthemums, standard carnations, anthuriums, and orchids, (2) roses, (3) asparagus, (4) leather luggage, (5) tuna and skipjack, and (6) stranded steel wire. The following section presents a more detailed discussion of industry highlights for these items.

## **Chrysanthemums, standard carnations, anthuriums, and orchids**

U.S. imports of fresh cut chrysanthemums, standard carnations, anthuriums, and orchids (HTS subheading 0603.10.70) from ATPA countries increased by 2.8 percent in quantity and 4.7 percent in value from 1992 to 1993. Total imports from ATPA countries increased from 981 million stems in 1992 to 1,006 million stems in 1993, valued at \$143 million and \$149 million, respectively. Colombia supplied almost all the imports from ATPA countries in both 1992 and 1993. In addition, Colombia is the largest supplier of these flowers by far, accounting for about 90 percent of the total value of imports from all countries in 1993.<sup>133</sup>

The rising value of U.S. imports of chrysanthemums, standard carnations, anthuriums, and orchids reflects both higher average prices and increased volumes. The average unit value of U.S. imports from ATPA countries increased by 2 percent from 1992 to 1993, to 14.8 cents per stem. Standard

<sup>132</sup> The 20 leading imports in 1992 are listed in table B-13. The c.i.f. values reported in tables 2-7 through 2-9 reflects only that portion of each ATPA-eligible subheading that entered free of duty or at a reduced duty. Total imports under each subheading may have been somewhat higher. Even though all of these items were eligible for ATPA duty-free or reduced-duty entry, a certain portion of each HTS subheading paid full duties for a variety of reasons. For example, imports that did not meet the ATPA rules of origin or that were not accompanied with sufficient documentation may have been subject to full duties.

<sup>133</sup> U.S. trade data referred to in this section were compiled from official statistics of the U.S. Department of Commerce, unless otherwise noted.

**Table 2-5**  
**Customs value of products that benefited from ATPA duty elimination and reduced duties, 1992-93**

Description	1992 <sup>1</sup>		1993 <sup>2</sup>	
	Millions of dollars	Percent	Millions of dollars	Percent
Total imports from ATPA countries .....	5,059	100.0	5,282	100.0
ATPA duty free and reduced duty <sup>3</sup> .....	97	1.9	401	7.6
of which, duty free products only .....	93	1.8	384	7.3
Duty free and reduced duty only because of ATPA <sup>4</sup> .....	80	1.6	249	4.7
of which, duty free products only .....	73	1.4	231	4.4

<sup>1</sup> Only Bolivia and Colombia were designated beneficiaries.

<sup>2</sup> Bolivia, Colombia, Ecuador, and Peru were designated beneficiaries.

<sup>3</sup> ATPA duty-free and reduced duty imports less MFN duty-free imports and ineligible items.

<sup>4</sup> ATPA duty-free and reduced-duty imports, excluding items that are MFN free of duty and eligible for GSP duty-free treatment (except imports that exceeded GSP competitive-need limits and were eligible for duty-free entry under ATPA).

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

**Table 2-6**  
**C.i.f. value of leading imports that benefited from ATPA reduced-duty or duty free entry, 1993**  
*(1,000 dollars)*

HTS subheading	Description	Imports
0603.10.70 <sup>1</sup>	Chrysanthemums, standard carnations, anthuriums, and orchids .....	147,981
0603.10.60	Roses, fresh cut .....	102,297
0709.20.90	Asparagus, n.e.s.i., fresh or chilled .....	7,543
4202.11.00	Leather trunks, suitcases, vanity cases, etc. ....	7,081
1604.14.40	Tuna and skipjack .....	5,967
4202.91.00	Leather cases, bags and containers, n.e.s.i. ....	5,485
7312.10.30	Stranded wire and cable of carbon steel .....	2,252
6908.10.50	Glazed ceramic nonmosaic tiles .....	2,144
4202.21.90	Leather handbags valued over \$20 each .....	2,118
4202.21.60	Leather handbags valued not over \$20 .....	1,837
2401.20.80	Tobacco, partly or wholly stemmed .....	1,654
6908.90.00	Glazed ceramic flags and paving and other nonmosaic tiles .....	1,594
4202.31.60	Small leather accessories .....	916
4015.90.00	Rubber apparel other than gloves .....	737
0807.10.80	Melons, other than cantaloupes and watermelons n.e.s.i., fresh, entered June 1 - Nov. 30 .....	379
7108.13.50	Gold, semimanufactured, other than gold leaf .....	375
6907.10.00	Unglazed ceramic mosaic tiles .....	359
4203.29.30	Men's gloves of leather, other than horsehide or cowhide leather .....	338
0805.30.40	Limes, fresh or dried .....	310
7317.00.55	Carbon steel nails, tacks, and staples made from round wire .....	310

<sup>1</sup> The c.i.f. value reported for this item reflects imports entered from Colombia only between Jan. 1 and Dec. 31, 1993. HTS subheading 0603.10.70 from Colombia was not GSP-eligible during all of 1993.

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

carnations made up 50 percent of ATPA imports in 1993, pompon chrysanthemums 39 percent, and other chrysanthemums nearly all of the remaining 11 percent.

Colombia, the largest Andean producer of chrysanthemums, standard carnations, anthuriums, and orchids, benefits from ATPA duty-free entry for these flowers. Although these flowers are eligible for GSP duty-free entry, imports from Colombia have exceeded the GSP competitive need limits for many years and therefore have been ineligible for the preferential duty treatment. (Imports of chrysanthemums, standard carnations, anthuriums, and orchids from Bolivia, Ecuador, and Peru were eligible for GSP duty-free entry in 1992 and 1993.) ATPA will help improve Colombia's competitiveness in the U.S. market relative to other foreign suppliers whose imports already were eligible for duty-free entry under GSP, CBERA, or reduced rates of duty under the North American Free Trade Agreement.

Apparent U.S. consumption of fresh cut chrysanthemums, standard carnations, anthuriums, and orchids totaled an estimated \$218 million in 1993.<sup>134</sup> The ATPA countries supplied 69 percent of apparent domestic consumption in 1993. The import penetration levels for individual flower types diverge significantly. In 1993, the import penetration level for anthuriums from ATPA countries was less than 1 percent while that for pompon chrysanthemums was 75 percent.

A submission received from the Floral Trade Council (FTC) addressed the issue of the economic impact of imports of fresh cut flowers from ATPA countries on the U.S. fresh cut flower industry.<sup>135</sup> The FTC submission stated that "the U.S. fresh cut flower industry is and will probably be adversely affected by continued duty-free treatment of all fresh cut flowers from Colombia, Bolivia, Ecuador, and Peru." The FTC also described certain "unfair" competitive advantages available to ATPA flower producers that are not available to U.S. producers, including lower worker health and safety standards, access to pesticides prohibited in the United States, and inadequate protection of U.S. patents.

<sup>134</sup> Compiled from official statistics of the U.S. Department of Agriculture and the U.S. Department of Commerce.

<sup>135</sup> Terence P. Stewart, James R. Cannon, Jr., and Amy S. Dwyer, submission to the U.S. International Trade Commission, May 2, 1994, on behalf of the Floral Trade Council. The FTC is a trade association of producers or wholesalers of fresh cut flowers in the United States.

A submission from the Colombian Association of Flower Exporters (Asocolflores) discussed the beneficial effects on the U.S. economy of imports of Colombian fresh cut flowers. The primary effect described occurred through the creation of an estimated 5,400 jobs in the United States directly and indirectly related to wholesale and retail flower sales. Asocolflores also reported that imports from Colombia supplement, rather than compete with, U.S. production because "U.S. flower growers simply lack the capacity to supply the entire U.S. market."<sup>136</sup>

## Roses

U.S. imports of fresh cut roses (HTS subheading 0603.10.60) from ATPA countries increased by 21 percent in value and by 22 percent in quantity from 1992 to 1993. Total imports increased from \$75.7 million to \$91.5 million, and from 441 million blooms to 536 million blooms.

Colombia and Ecuador together accounted for almost all the imported fresh cut roses from ATPA countries and 85 percent of the total value of fresh cut rose imports from the world. Imports from Colombia increased by 20 percent, from \$66.9 million in 1992 to \$80.3 million in 1993. Imports from Ecuador grew by 30 percent during the period, from \$8.4 million to \$10.9 million. Colombia and Ecuador have excellent conditions in which to produce quality low-cost roses, including ideal climates, high light levels, and abundant labor and land.

Apparent U.S. consumption of fresh cut roses increased by less than 1 percent from \$267 million in 1992 to \$269 million in 1993. ATPA countries increased their share of apparent U.S. consumption from 28 percent in 1992 to 34 percent in 1993. ATPA duty-free entry will increase the competitiveness of Andean roses in the U.S. market. ATPA affords Andean fresh cut roses a competitive price advantage over dutiable imports from Mexico, the principal non-Andean U.S. supplier.<sup>137</sup>

In its submission to the Commission, the FTC said that "[a]s a major market for fresh cut flowers, it is likely that the trend of increased imports from ATPA countries will continue due to duty-free entry, the proximity of the U.S. market, and the lack of major

<sup>136</sup> Michael T. Shor, Counsel to Asocolflores, submission to the USITC, June 23, 1994.

<sup>137</sup> Guatemala also is an important supplier of fresh cut roses to the U.S. market. Imports from Guatemala are eligible for duty-free entry under CBERA.



alternative markets.”<sup>138</sup> In comparing its data with another study<sup>139</sup> that predicted rose prices in the United States would decline by about 1 percent (or by about 0.4 cent per stem) following ATPA implementation, the FTC found that “the very large increase in supply from 1991 to 1993 has flooded the U.S. market and depressed prices more than the one percent predicted.”

## Fresh or chilled asparagus

U.S. imports of fresh or chilled asparagus (HTS subheadings 0709.20.10 and 0709.20.90)<sup>140</sup> from ATPA countries increased by 48 percent in quantity and by 78 percent in value from 1992 to 1993. Total imports from ATPA countries rose from 3,911 metric tons (mt) in 1992 to 5,800 mt in 1993, valued at \$4.1 million and \$7.2 million, respectively.

The growth in these imports reflected a strong increase in shipments from Peru, the leading ATPA supplier. The average unit value of imported fresh or chilled asparagus rose by 20 percent from \$1.04 per kilogram in 1992 to \$1.25 in 1993, largely reflecting the higher prices of imports from Peru (which was designated for ATPA benefits in August 1993) during September-December 1993. The ATPA countries' share of total U.S. asparagus imports increased from 15 percent in 1992 to 18 percent in 1993. ATPA countries supplied about 6 percent and 9 percent of U.S. domestic consumption of fresh asparagus in 1992 and 1993, respectively.<sup>141</sup>

<sup>138</sup> The submission from the FTC also is discussed in the section on chrysanthemums, standard carnations, anthuriums, and orchids, above. Terence P. Stewart, James R. Cannon, Jr., and Amy S. Dwyer, submission to the USITC, May 2, 1994.

<sup>139</sup> B.M. Buxton and D.C. Johnson, *Andean Trade Initiative Puts Pressure on U.S. Cut Flower Markets*, FloraCulture International (Sept.-Oct. 1992), pp. 30-32.

<sup>140</sup> HTS subheading 0709.20.10 includes asparagus, fresh or chilled, 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. Imports under this subheading are eligible for duty-free entry under either ATPA or GSP. HTS subheading 0709.20.90 includes other fresh or chilled asparagus, imports of which are not GSP-eligible. The two subheadings are considered together as fresh asparagus for this section of the report. Imports under HTS subheadings 0709.20.10 and 0709.20.90 accounted for 26 percent and 74 percent, respectively, of total fresh or chilled asparagus imports from ATPA countries in 1993.

<sup>141</sup> Compiled from official statistics of the U.S. Department of Commerce and USDA, National Agricultural Statistics Service.

California and Washington are the leading U.S. producers of fresh asparagus. U.S. domestic asparagus production declined by 9 percent, from 62,414 mt in 1992 to 56,835 mt in 1993, reflecting declines in both the yield and area harvested in California and Washington. However, the value of U.S. production fell by only 2 percent, from \$117.5 million in 1992 to \$115.2 million in 1993, because of higher grower prices.<sup>142</sup> Approximately 97 percent of imports of fresh asparagus from ATPA countries enter the United States between August and January. Less than 5 percent of U.S. production occurs during this period, with most domestic production occurring between February and June.<sup>143</sup> The Imperial Valley area in Southern California has the most significant overlap of shipping periods with ATPA imports.

## Leather luggage

U.S. leather luggage imports (HTS subheadings 4202.11.00 and 4202.91.00) from ATPA countries decreased slightly from \$18.4 million in 1992 to \$18.1 million in 1993, or from 713,000 units to 702,000 units. U.S. imports of leather luggage entering at reduced rates of duty under ATPA<sup>144</sup> totaled 207,000 units valued at \$4.8 million in 1992 and 452,000 units valued at \$12.1 million in 1993. ATPA imports accounted for two-thirds of the value and slightly less than two-thirds of the quantity of total U.S. imports of leather luggage from ATPA countries. Colombia supplied virtually all of these ATPA imports.

U.S. imports of leather luggage from all countries increased by 15 percent in value and by 29 percent in volume from 1992 to 1993. Total imports rose from \$178 million to \$206 million, and from 14 million units to 18 million units, respectively. Such imports accounted for an estimated three-fifths of the value of U.S. apparent consumption. China was the principal source in 1993, accounting for 41 percent of the total value of imports.

## Tuna and skipjack

Total U.S. imports of uncanned tuna loins<sup>145</sup> (HTS subheading 1604.14.40) from ATPA countries

<sup>142</sup> Compiled from official statistics of the USDA, National Agricultural Statistics Service.

<sup>143</sup> Based on data from USDA, Agricultural Marketing Service, *Fresh Fruit and Vegetable Shipments, By Commodities, States, and Months*, FVAS-4, Washington, DC, 1991 and 1992.

<sup>144</sup> Duties on these articles are being reduced in five equal annual installments, as discussed in chapter 1.

<sup>145</sup> This product category comprises the cooked and cleaned meat of tuna referred to in the trade as loins.

rose from 1,909 mt, valued at \$3.4 million in 1992 to 7,531 mt, valued at \$13.9 million in 1993. This represented an increase of 294 percent in quantity and 309 percent in value. U.S. imports of tuna loins that benefited from ATPA duty-free entry totaled about \$5.5 million in 1993. There were no ATPA imports in 1992. All 1993 ATPA imports were from Ecuador, which was designated in that year.

The substantial rise in imports mainly reflected the increased use of loins by U.S. canneries in Puerto Rico to compensate for traditional whole tuna supplies from the Eastern Tropical Pacific that have been restricted due to environmental concerns. U.S. imports of raw tuna have been restricted in recent years by a combination of a private sector "dolphin-safe" policy maintained by the U.S. tuna canning industry and embargoes imposed by the U.S. Government under the Marine Mammal Protection Act.<sup>146</sup>

There is no U.S. production of tuna loins as a primary product. Tuna loins generally are produced in foreign tuna processing plants and exported to U.S. tuna canneries where they are further processed into canned tuna. Such trade generally results in significant cost savings with respect to labor and transportation.

## Stranded steel wire

U.S. imports of carbon steel wire strand (HTS subheading 7312.10.30) under ATPA totaled 551 mt valued at \$580,000 in 1992 and 1,835 mt valued at \$2.1 million in 1993, increasing by 233 percent in quantity and 262 percent in value. ATPA duty-free imports accounted for nearly 98 percent of total strand imports from the Andean countries in 1993. All of these came from Colombia, which accounted for roughly 1 percent of total strand imports and 0.3 percent of U.S. apparent domestic consumption in 1993.<sup>147</sup>

### <sup>145</sup>—Continued

Loins represent an intermediate production stage that occurs during the production of canned tuna. Imports of canned tuna are not eligible for duty-free treatment under ATPA.

<sup>146</sup> The Marine Mammal Protection Act is directed against countries that exceed the U.S. dolphin kill rate by more than 25 percent. As a result, the sources of raw tuna have shifted dramatically, and the use of tuna loins has increased. Under the "dolphin-safe" policy, U.S. tuna canners will not accept any tuna that has been harvested by encircling dolphins.

<sup>147</sup> Calculated by USITC staff.

Carbon steel wire strand is typically used in overhead transmission, distribution, and communication lines as guy wire, as messenger wire, and as the overhead ground wire.<sup>148</sup> According to the principal importer,<sup>149</sup> the product from Colombia is a technically sophisticated integrated messenger strand used to support overhead telephone lines and fiber-optic cables in the United States; the strand is galvanized (zinc-coated) and coated with a thermoplastic resin as a protection against rust. Galvanized steel wire strand (HTS statistical reporting number 7312.10.3074) accounted for over 90 percent of total imports of strand from Colombia by value and quantity, and imports from Colombia accounted for 17 percent of total imports under this category, by value, in 1993.<sup>150</sup>

Total U.S. imports of stranded steel wire increased by approximately 7 percent in value and 10 percent in quantity between 1992 and 1993. Imports of strand from Colombia increased much faster between 1992 and 1993 than did total strand imports or imports of galvanized strand from other countries. The growth in overall imports reflected increased U.S. consumption of wire products, a stronger U.S. market relative to most third country markets, and rising U.S. domestic prices among other factors.<sup>151</sup>

Strand production began in Colombia relatively recently, with exports to the United States starting in 1990. The Colombian manufacturer increased market share as it gained experience producing strand, became qualified by more U.S. cable manufacturers, and improved quality through reinvestment and

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<sup>148</sup> Guy wires or guy strand are used to hold a vertical structure (such as a pole, antenna, tower, or smokestack) in position. Messenger wire or strand is used to support overhead electrical supply and communication cables. Overhead ground wire shields the line conductors in overhead power conductors by intercepting a direct lightning strike and conveying the electrical energy into the ground.

<sup>149</sup> Telephone conversation with USITC staff, May 3, 1994.

<sup>150</sup> The HTS subheading for strand has nine 10-digit statistical reporting numbers, including products such as tire cord, prestressed concrete strand, strand used for making wire rope, and core strand for reinforcing aluminum conductor cable. The strand subheading also includes several residual or "basket" categories of strand, such as galvanized strand and strand comprised of uncoated wires. The majority of imports from Colombia comprised strand in these two general categories.

<sup>151</sup> For a description of U.S. market conditions for rod (the input for wiremaking and strand) and wire products, see USITC, *Certain Steel Wire Rod from Brazil and Japan* (investigations Nos. 731-TA-646 and 648), USITC publication 2761, Mar. 1994.

quality control programs. According to the U.S. importer, Colombian strand has increased its U.S. market share at the expense of imports from Korea, Japan, the United Kingdom, Canada, and other producers in 1993. Imports from these other countries traditionally have possessed competitive advantages in terms of an established customer base and distribution channels. After beginning exports to the United States, the Colombian manufacturer became qualified for sales to cable manufacturers in Mexico, Costa Rica, Australia, Germany, and Austria. Industry sources stated that ATPA will provide an incentive for Colombia to increase sales in the U.S. market.

## *Measuring the Net Welfare Effects of ATPA in 1993*

### **Analytical approach**

The following discussion briefly describes the approach used to analyze the net welfare effects of duty-free and reduced-duty status under ATPA in 1993 on the U.S. sectors whose goods compete with ATPA imports.<sup>152</sup> Specifically, a computable partial equilibrium model was used to estimate the net welfare effects of ATPA. A more detailed explanation is found in the "Technical Notes" in appendix C.

The estimation of the net welfare effects of ATPA duty reduction<sup>153</sup> for 1993 is made using a standard economic methodology for measuring the welfare impact of a change in the prices of one or more goods. Without the duty reduction, full tariffs would have been in place in 1993 for ATPA imports. Since ATPA has been in effect, consumers have benefited from lower prices and higher consumption, competing U.S. producers have had lower prices and sales, and tariff revenues to the U.S. Treasury have been lower.

Typically, the net welfare effect, for a U.S. sector, of a duty reduction is measured by adding three components: (1) the gain in U.S. consumer surplus,<sup>154</sup>

<sup>152</sup> Even though 1992 was ATPA's first year of operation, only Bolivia and Colombia were designated beneficiaries during that year. To include the total effect of all four ATPA beneficiaries, 1993 was selected for the focus of this analysis.

<sup>153</sup> For simplicity, the remainder of this discussion focuses solely on the net welfare effects of reduced duties under ATPA. However, the same analysis applies to both duty-free and reduced-duty treatment under ATPA.

<sup>154</sup> Consumer surplus is a dollar measure of the total net gain to U.S. consumers from lower prices.

(2) the decrease in U.S. producer surplus<sup>155</sup> and (3) the decrease in tariff revenues to the U.S. Treasury resulting from the duty reduction. Because the model used in this analysis assumes that the supply curve of U.S. domestic production is perfectly elastic, or horizontal, U.S. domestic price does not fall in response to ATPA.<sup>156</sup> Therefore, the net welfare effect resulting to a sector from ATPA duty reduction is measured by adding the gain in consumer surplus and the decrease in tariff revenues to the U.S. Treasury.<sup>157</sup>

### **Quantitative results**

This section presents dollar estimates of the net welfare effects of duty reductions for the leading 20 products that actually benefited from ATPA (i.e., that would not have experienced duty reductions without ATPA) in 1993. In addition, estimates of the tariff revenue forgone, the consumer surplus generated, and the domestic shipments displaced in 1993 are presented.

### *Items analyzed*

The effects of ATPA were calculated for the 20 items listed in table 2-6. These items accounted for 99 percent of the c.i.f. value of imports that actually benefited from ATPA duty reduction in 1993. The ratio of the value of these imports to competing U.S. domestic shipments varied in magnitude (table 2-7).

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#### *154—Continued*

Conceptually, 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." See Walter Nicholson, *Microeconomic Theory: Basic Principles and Extensions* (New York: The Dryden Press, 1989), for further discussion on consumer surplus.

<sup>155</sup> Producer surplus is a dollar measure of the total net loss to competing U.S. producers from increased competition with ATPA imports. Conceptually, it is defined as the returns to entrepreneurs and owners of capital over and above what they would have earned in their next-best opportunities. See Nicholson, *Microeconomic Theory*, for further discussion on producer surplus.

<sup>156</sup> The effects of ATPA duty reductions on most U.S. sectors will be small. The assumption that supply curves are horizontal (i.e., perfectly elastic) provides the maximum, or upper bound, estimates both of U.S. production that might be displaced and of U.S. net welfare gains. See appendix C for further discussion of this assumption.

<sup>157</sup> The net welfare effects do not include short run adjustment costs to the economy from reallocating resources between different industries.

**Table 2-7**  
**C.i.f. value of imports that benefited from ATPA and U.S. domestic production that competes with these imports, 1993**

HTS subheading	Description	ATPA imports	U.S. domestic shipments <sup>1</sup>	Ratio of ATPA imports to competing U.S. shipments
		1,000 dollars	1,000 dollars	Percent
0603.10.70	Chrysanthemums, standard carnations, anthuriums, and orchids	147,981	49,203	300.76
0603.10.60	Roses, fresh cut	102,297	162,200	63.07
0709.20.90	Asparagus, n.e.s.i., fresh or chilled	7,543	95,541	7.90
4202.11.00	Leather trunks, suitcases, vanity cases, etc.	7,081	110,300	6.42
1604.14.40	Tuna and skipjack	5,967	(2)	(2)
4202.91.00	Leather cases, bags and containers, n.e.s.i.	5,485	51,300	10.69
7312.10.30	Stranded wire and cable of carbon steel	2,252	610,201	0.37
6908.10.50 <sup>3</sup>	Glazed ceramic nonmosaic tiles	2,144	445,913	0.48
4202.21.90	Leather handbags valued over \$20 each	2,118	182,000	1.16
4202.21.60	Leather handbags valued not over \$20	1,837	22,000	8.35
2401.20.80	Tobacco, partly or wholly stemmed	1,654	1,420,433	0.12
6908.90.00 <sup>3</sup>	Glazed ceramic flags and paving	1,594	445,913	0.36
4202.31.60	Small leather accessories	916	180,000	0.51
4015.90.00	Rubber apparel other than gloves	737	(2)	(2)
0807.10.80	Melons, other than cantaloupes and watermelons, n.e.s.i., fresh, entered June 1-Nov. 30	379	34,334	1.10
7108.13.50	Gold, semimanufactured, other than gold leaf	375	702,155	0.05
6907.10.00	Unglazed ceramic mosaic tiles	359	69,387	0.52
4203.29.30	Men's gloves of leather, other than horsehide or cowhide leather	338	9,000	3.76
0805.30.40	Limes, fresh or dried	310	4,040	7.67
7317.00.55	Carbon steel nails, tacks, and staples made from round wire	310	533,898	0.06

<sup>1</sup> U.S. producers' domestic shipments are defined as total U.S. production less exports.

<sup>2</sup> Value of U.S. domestic shipments not available.

<sup>3</sup> Domestic production of goods of HTS subheadings 6908.10.50 and 6908.90.00 were aggregated into one category.

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

For instance, in 1993, the c.i.f. value of U.S. imports of semimanufactured gold from ATPA countries was 0.05 percent of the value of domestic shipments. Conversely, the c.i.f. value of ATPA imports of chrysanthemums, standard carnations, anthuriums, and orchids was 301 percent of the value of U.S. domestic shipments.

The economic effects of ATPA duty reductions for these leading 20 items are summarized in tables 2-8 and 2-9.<sup>158</sup> Table 2-8 presents dollar estimates of the

<sup>158</sup> As indicated in tables 2-8 and 2-9, no U.S. production data were available for tuna and skipjack (HTS subheading 1604.14.40) or rubber apparel other than gloves (HTS subheading 4015.90.00). As discussed in the section on tuna above, there is no U.S. production of tuna loins as a primary product. Data on U.S. producers' shipments of rubber apparel are not separately provided for; however, in 1991, the value of U.S. producers' shipments for rubber coated fabric and rubber apparel together totaled \$414.6 million.

consumer surplus that was generated and tariff revenue from ATPA imports that was forgone. Table 2-9 presents dollar estimates of U.S. shipments displaced by ATPA imports.<sup>159</sup>

### *U.S. sectors most affected in 1993: Net welfare costs and the displacement of domestic output*

In 1993, the gain in consumer surplus was greater than the corresponding decline in tariff revenue for all of the items analyzed. In general, the net welfare gains were small, with none of the gains for the indicated items exceeding \$1 million. The largest net welfare gains resulting from ATPA duty reductions occurred in chrysanthemums, standard carnations,

<sup>159</sup> See "Technical Notes" in appendix C for a more complete discussion of the data used to estimate the effects shown in tables 2-8 and 2-9.

**Table 2-8**  
**Estimated U.S. net-welfare effects of ATPA, by leading imports, 1993**

(1,000 dollars)

HTS subheading	Description	Gain in consumer surplus	Loss in tariff revenue from ATPA countries	Net-welfare effect
		(A)	(B)	(A-B)
0603.10.70	Chrysanthemums, standard carnations, anthuriums, and orchids	9,042	8,369	673
0603.10.60	Roses, fresh cut	6,173	5,467	706
0709.20.90	Asparagus, n.e.s.i., fresh or chilled	827	584	243
4202.11.00	Leather trunks, suitcases, vanity cases, etc.	21	21	(1)
1604.14.40	Tuna and skipjack	(2)	(2)	(2)
4202.91.00	Leather cases, bags and containers, n.e.s.i.	16	16	(1)
7312.10.30	Stranded wire and cable of carbon steel	91	81	10
6908.10.50	Glazed ceramic nonmosaic tiles	246	165	81
4202.21.90	Leather handbags valued over \$20 each	6	6	(1)
4202.21.60	Leather handbags valued not over \$20	7	7	(1)
2401.20.80	Tobacco, partly or wholly stemmed	162	118	44
6908.90.00	Glazed ceramic flags and paving	175	121	54
4202.31.60	Small leather accessories	3	3	(1)
4015.90.00	Rubber apparel other than gloves	(2)	(2)	(2)
0807.10.80	Melons, other than cantaloupes and watermelons n.e.s.i., entered June 1- Nov. 30	52	31	21
7108.13.50	Gold, semimanufactured, other than gold leaf	25	21	4
6907.10.00	Unglazed ceramic tiles	41	28	13
4203.29.30	Men's leather gloves	34	25	9
0805.30.40	Limes, fresh or dried	11	10	1
7317.00.55	Carbon steel nails, tacks, and staples made from round wire	1	1	(1)

<sup>1</sup> Less than \$500.

<sup>2</sup> Not available.

Note.—All data rounded to the nearest thousand.

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

anthuriums, and orchids and in roses. They were followed by asparagus, glazed ceramic tiles and cubes, glazed ceramic flags and paving, and stemmed tobacco.

The displacement of domestic output for individual sectors also was small. For most items, domestic output displaced did not exceed 1 percent of shipments.<sup>160</sup> The six products with the largest displacement effects, in value terms, were the same six items with the largest net welfare gains, as

<sup>160</sup> One of the factors that affects the displacement of U.S. domestic shipments is the U.S. market share of ATPA imports. In general, the larger the ATPA market share, the larger will be the displacement of domestic shipments. The market shares for chrysanthemums, standard carnations, anthuriums, and orchids and for roses (68 percent and 35 percent, respectively) were substantially larger than the market shares of the other imports in table 2-9. Consequently, the displacement effects for these two items were substantially larger as well.

discussed above. In both value and percentage terms, the largest displacement effects occurred in the two categories of fresh cut flowers. The displacement of domestic shipments of roses was \$14.9 million, or 9.2 percent of the total value of domestic shipments. The displacement of domestic shipments of chrysanthemums, standard carnations, anthuriums, and orchids was \$8.8 million or 17.9 percent of the total value of domestic shipments.<sup>161</sup>

<sup>161</sup> On Mar. 28, 1994, the Commission determined in preliminary investigations (investigations Nos. 731-TA-684 and 685) that the U.S. domestic rose industry was materially injured by sales of less than fair value (LTFV) imports of roses (HTS subheading 0603.10.60) from Colombia and Ecuador. For further discussion of these investigations, see USITC, *Fresh Cut Roses from Colombia and Ecuador*, USITC publication 2766, Mar. 1994. The estimates reported above and in table 2-9 solely reflect U.S. domestic shipments displaced because of ATPA duty reductions, and do not reflect domestic shipments displaced by the alleged LTFV sales investigated in the preliminary dumping investigations.

**Table 2-9**  
**Estimated displacement effects of ATPA duty reduction on U.S. domestic shipments by ATPA imports, by HTS subheadings, 1993**

HTS subheading	Description	Value	Share of value
		<i>1,000 dollars</i>	<i>Percent</i>
0603.10.70	Chrysanthemums, standard carnations, anthuriums, and orchids .....	8,834	17.95
0603.10.60	Roses, fresh cut .....	14,917	9.20
0709.20.90	Asparagus, n.e.s.i., fresh or chilled .....	3,218	3.37
4202.11.00	Leather trunks, suitcases, vanity cases, etc. ....	30	0.03
1604.14.40	Tuna and skipjack .....	(1)	(1)
4202.91.00	Leather cases, bags and containers, n.e.s.i. ....	19	0.04
7312.10.30	Stranded wire and cable of carbon steel .....	313	0.05
6908.10.50	Glazed ceramic nonmosaic tiles .....	893	0.20
4202.21.90	Leather handbags valued over \$20 each .....	9	0.01
4202.21.60	Leather handbags valued not over \$20 .....	2	0.01
2401.20.80	Tobacco, partly or wholly stemmed .....	593	0.04
6908.90.00	Glazed ceramic flags and paving .....	474	0.11
4202.31.60	Small leather accessories .....	5	(2)
4015.90.00	Rubber apparel other than gloves .....	(1)	(1)
0807.10.80	Melons, other than cantaloupes and watermelons n.e.s.i., fresh, entered June 1-Nov. 30 .....	290	0.84
7108.13.50	Gold, semimanufactured, other than gold leaf .....	99	0.01
6907.10.00	Unglazed ceramic mosaic tiles .....	201	0.29
4203.29.30	Men's gloves of leather, other than horsehide or cowhide leather .....	31	0.34
0805.30.40	Limes, fresh or dried .....	5	0.13
7317.00.55	Carbon steel nails, tacks, and staples made from round wire .....	4	(2)

<sup>1</sup> Not available.

<sup>2</sup> Less than 0.005 percent.

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

## CHAPTER 3

# Probable Future Effects of ATPA

As discussed in the net-welfare effects analysis of chapter 2, the bulk of the economic effect of ATPA on U.S. industries and consumers occurred through the one-time elimination of duties on imports. Future effects of ATPA on the U.S. economy can be expected to occur through export-oriented investment in the Andean region in response to lowered tariff levels for eligible ATPA products.<sup>162</sup> A summary of investment trends and activities in the ATPA countries during 1992 and 1993 follows. Detailed descriptions of the investment climate and ATPA-related investment in each of the Andean countries are then presented.

### Regional Investment Trends

Annual inflows of worldwide private direct investment into Bolivia, Colombia, Ecuador, and Peru totaled just over \$1.0 billion in 1992, nearly double the amount of new investment in 1991. Most of this global investment surge was directed toward Colombia, which accounted for about 70 percent of the total. A large share of investment in Colombia is

<sup>162</sup> The methodology of using investment to estimate 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 that methodology, see USITC, *CBERA, First Report 1984-1985*, USITC publication 1897, Sept. 1986, p. 4-1.

in the country's coal mining and petroleum extraction sectors. Global investment also rose in Peru during 1992, versus a net investment outflow from that country in 1991. This significant reversal in global investment trends in Peru reflects the improved economic outlook and investment climate in that country following implementation of economic reforms by the Fujimori administration, as discussed in chapter 1. Investment in Bolivia nearly doubled, mirroring continued economic growth in that country, while investment in Ecuador rose more moderately (table 3-1).

Largely mirroring the 1992 global investment trend, U.S. direct investment in Colombia and Ecuador also increased, but decreased in both Bolivia and Peru. The decline in investment in Peru may have reflected U.S. investors' concerns during Fujimori administration's April-December 1992 suspension of constitutional rule. The overall accumulated stock of U.S. direct investment in the four Andean countries rose from \$2.6 billion in 1990 to over \$3.0 billion in 1992 (valued on a historical cost basis). The accumulated stock of U.S. investment in Colombia, valued at nearly \$2.1 billion in 1992, is more than double the combined U.S. investment held in the other three ATPA countries. The U.S. investment position has barely changed in Bolivia and Ecuador from the 1989 level, but has contracted by almost 50 percent in Peru during the same period (table 3-2).

**Table 3-1**  
Worldwide private direct investment in Bolivia, Colombia, Ecuador, and Peru, 1989-92  
(Million dollars)

Year	Bolivia	Colombia	Ecuador	Peru	Total
1989 .....	-25	547	80	59	661
1990 .....	26	484	82	41	633
1991 .....	50	433	85	-7	561
1992 .....	91	723	95	127	1,036

Source: IDB, *1993 Report*, table D-14, p. 293.

**Table 3-2**  
**U.S. direct investment (on a historical-cost basis)<sup>1</sup> in Bolivia, Colombia, Ecuador, and Peru, 1989-92**  
*(Million dollars)*

Year	Bolivia	Colombia	Ecuador	Peru	Total
1989 .....	184	1,660	301	813	2,958
1990 .....	195	1,547	278	594	2,614
1991 .....	240	1,627	296	522	2,685
1992 .....	189	2,077	310	466	3,042

<sup>1</sup> The "historical-cost" basis is the foreign-currency book value converted to U.S. dollars. It changes from year to year for a number of reasons—such as changes in equity, changes in intra-company debt, retention of earnings, changes in exchange rates, and capital gains or losses on the sale of foreign holdings.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, July 1993, table 17, p. 121.

## ATPA-Related Investment

As discussed in chapter 1, one of the goals the United States has set for ATPA is to stimulate investment in nontraditional sectors and diversify the export base of the Andean countries. This section discusses the overall investment climate in each of the ATPA countries. In addition, specific steps each country has taken to promote investment in the production of nontraditional exports,<sup>163</sup> especially of exports eligible for ATPA, also are described.

There is generally limited statistical data available on investment in Andean industries. As part of the liberalization of their foreign investment regimes, Bolivia, Colombia, Ecuador, and Peru largely have abandoned foreign investment registration requirements and stringent investment oversight and control. Consequently, they no longer collect detailed investment data. The Commission staff obtained the best available information during visits to Bolivia, Colombia, Ecuador, and Peru in April 1994. Staff met with U.S. embassy officials, foreign government officials involved in trade policy and export promotion activities, representatives of the European Union and the Andean Pact, and individuals in the private sector involved in a variety of investment projects.

Individuals contacted were asked their views on a variety of topics related to the awareness and use of ATPA benefits. Topics included: the local business community's familiarity with ATPA; their knowledge of new ATPA-related investment; problems that may impede use of ATPA including any problems in exporting to the United States; and their views on

<sup>163</sup> As defined in chapter 1, the term nontraditional exports includes the broad range of products a country has the endowments and resources to produce but does not currently produce and export, does not produce and export in great quantity, or only recently has begun to produce and export.

probable success of ATPA in stimulating the development of nontraditional industries.

Most of the individuals interviewed expressed the view that it is too soon to observe any significant increase in investment directly related to ATPA. They described a general unfamiliarity with the ATPA program within the region's business communities. They also reported that potential foreign investors generally are not aware of investment possibilities in the region and the improved access to the U.S. market created by ATPA compared with GSP<sup>164</sup>. Some individuals were more familiar with the European Union's Andean trade preferences than with ATPA.<sup>165</sup> Almost all spoke of the physical and economic infrastructure problems present throughout the Andean region due to inadequate surface transportation and port facilities (including cargo handling and refrigeration facilities) and limited export financing. Many spoke of inadequate export promotion by their own governments. These individuals often expressed concern with a new U.S. Agency for International Development (USAID) policy that focuses more on "sustainable development" and basic needs than on promoting exports as a means to foster development.<sup>166</sup> A number of individuals claimed that the exclusion of textiles and apparel from duty free

<sup>164</sup> ATPA and GSP benefits are compared in chapter 1.

<sup>165</sup> The EU preferential trade regime for Andean products is discussed in chapter 1.

<sup>166</sup> For additional background information on the U.S. policy change, see Deputy Secretary Clifton R. Wharton, "USAID and Foreign Aid Reform," Statement before the Subcommittee on International Economic Policy, Trade, Oceans and Environment of the Senate Foreign Relations Committee, Washington, DC, July 14, 1993; *U.S. Department of State Dispatch*, Jul. 26, 1993, p. 530; and J. Brian Atwood, "USAID Administrator Confirmation Hearing," Statement before the Senate Foreign Relations Committee, Washington, DC, Apr. 29, 1993, *U.S. Department of State Dispatch*, May 10, 1993, p. 337.



entry and the 10-year statutory limit for ATPA benefits acted as deterrents to investors. Finally, several individuals stated that certain U.S. provisions such as phytosanitary regulations and U.S. antidumping and countervailing duty measures impede more widespread use of ATPA benefits.<sup>167</sup> A summary of the investment climate and investment activities in each of the ATPA countries follows.

## Bolivia

According to sources interviewed, the Bolivian Government is actively seeking foreign investment to provide infusions of capital, management expertise, and modern technology for Bolivian industries. Bolivia's liberal foreign investment regime dates to 1985, when it permitted 100 percent foreign ownership and lifted measures requiring foreign investment registration. Nondiscriminatory treatment for foreign investors was established in 1990.<sup>168</sup> The Bolivian Government does not collect or publish data on the stock of foreign direct investment.<sup>169</sup>

Bolivia has bilateral investment agreements with many countries, but not with the United States. The United States has not signed a bilateral investment treaty (BIT) with Bolivia, reportedly because Bolivia has refused to allow for international arbitration of investor disputes in the hydrocarbons sector (the Bolivian Government reportedly is considering draft legislation to provide for such arbitration). A BIT requires signatories to provide nondiscriminatory treatment to U.S. investors, unrestricted remittances and transfers, prompt, adequate, and effective compensation for expropriation, and international arbitration of disputes. Bolivia has been eligible for loans from the U.S. Overseas Private Investment Corporation (OPIC) since 1986. OPIC offers U.S. businesses loans, loan guarantees, insurance (including insurance against political risk, currency inconvertibility, and expropriation), and investor services to support investment in 140 developing countries and emerging economies worldwide. The U.S. Export-Import Bank (Eximbank) finances U.S. exports to developing countries and emerging markets through direct loans, loan guarantees, and insurance programs. In 1993, Eximbank increased its

<sup>167</sup> U.S. antidumping and countervailing duty measures are discussed in greater detail in chapter. 1.

<sup>168</sup> U.S. Department of State, "Revised 1994 Investment Climate Statement for Bolivia," telegram, message reference No. 08418, prepared by U.S. Embassy, La Paz, Bolivia, July 8, 1994.

<sup>169</sup> Ibid.

exposure in Bolivia by providing three \$10 million credit guarantee facilities in that country.<sup>170</sup>

USAID has provided export promotion assistance to Bolivia since 1989 and foreign investment promotion assistance since 1991. USAID also provides funding for Bolinvest, Bolivia's export promotion agency. The objective of these programs is "[t]o increase the dollar value of nontraditional exports and related employment by Bolivian and foreign companies to transform the Bolivian economy out of coca activities."<sup>171</sup> During 1990-93, the USAID program in Bolivia reportedly helped develop more than \$40 million in primarily nontraditional exports and promoted more than \$17 million in foreign investment in such areas as wood products and processing, jewelry, hydrocarbons, apparel, mining, footwear, light industry, and agroindustry.<sup>172</sup> USAID recently reported that one manufacturer announced plans to process bananas, pineapples, passion fruit, heart of palm, and black pepper in the Chapare (the main coca-producing) region beginning in 1994.<sup>173</sup>

ATPA has received a moderate amount of publicity and promotion in Bolivia. Besides visits by U.S. officials, the Bolivian Government has sponsored seminars on the program.<sup>174</sup> Several individuals and agencies in Bolivia are studying the country's production and export patterns to identify products that might benefit from ATPA.<sup>175</sup> Among the products Bolivian investment officials considered to offer the most potential as exports to the United States are: fresh cut flowers, gold jewelry, spices, textiles and apparel (especially of alpaca, although not eligible under ATPA), Brazil nuts, wood products such as furniture and doors, and quinona (a cereal grain marketed to health food stores).<sup>176</sup> However, U.S. and Bolivian Government officials estimated that

<sup>170</sup> Ibid.

<sup>171</sup> USAID, *Andean Counter-Drug Initiative, Objective IV: Alternative Development*, Quarterly Report (Jan.-Mar. 1992), May 1992, p. 10.

<sup>172</sup> Charles Bell and Sandra Dunlap, "A Midterm Evaluation of the U.S. A.I.D./Bolivia Investment and Export Promotion Program," Project/Contract No. 511-0585-C-00-0019-0, Jan. 10, 1994, p. 1 and table 2, p. 13.

<sup>173</sup> Ibid.

<sup>174</sup> USITC staff interview with U.S. Embassy officials, La Paz, Bolivia, Apr. 19, 1994.

<sup>175</sup> USITC staff interview with official of Bolivian National Chamber of Commerce, Apr. 20, 1994.

<sup>176</sup> USITC staff interview with representative from Bolinvest, La Paz, Bolivia, Apr. 20, 1994.

significant ATPA-oriented investment will not occur for another 2 years.<sup>177</sup>

Officials interviewed cited many reasons for the relative lack of interest in ATPA in Bolivia. Much of the Bolivian business community is reportedly neither aware of nor currently poised to take advantage of ATPA. Internal and structural problems, including the country's small export production capacity and poorly developed export industries, mean that Bolivia can not significantly increase its exports to take advantage of ATPA. Moreover, several individuals stated that many Bolivian manufactured products, such as leather goods, do not meet U.S. quality standards.<sup>178</sup>

Most interviewees noted that Bolivia's remote, landlocked location makes transportation difficult and expensive. Bulk agricultural exports to the United States are particularly expensive because of long overland transportation to ports in Peru or Chile or expensive air freight from Bolivia to the United States. One Bolivian investment promotion official stated that the combination of low value-added in Bolivia and high transportation costs effectively limit the viability of successfully competing in the U.S. market for many Bolivian products. For this reason, the official stated, export-oriented investment in Bolivia tends to favor product lines geared for the Latin American market.<sup>179</sup>

Uncertainty about the future also appears to be causing some investors to hold back. The business community is currently awaiting the issuance of the Bolivian administration's new economic policies. Interviewees suggested that many investors may not pursue new investment opportunities until the new policies are announced. Even then, the 10-year limit for ATPA benefits may not afford sufficient time to follow through with an investment project.<sup>180</sup>

## Colombia

Colombia has significantly liberalized its foreign investment regime since 1991. New regulations provide nondiscriminatory treatment for foreign investors and permit 100 percent foreign ownership in

nearly all sectors of the economy. Colombia maintained its track record of solid economic growth even during the 1980s, a decade when other Latin American countries suffered sharp recessions stemming from the region's debt crisis. The most significant deterrents to foreign investment in Colombia during the 1980s were the threat of violence and Colombia's worldwide reputation as a center for the cocaine industry. Insurgent groups, Armed Forces of Colombia (FARC) and the National Liberation Army (ELN) bombed oil pipelines and facilities and kidnapped business executives. Narcotics-related violence also increased significantly during the 1980s. The Colombian Government's antiguerrilla campaign, launched in 1991, has significantly reduced insurgent violence. The December 2, 1993 death of Medellín drug cartel kingpin Pablo Escobar has significantly reduced narcotics-related violence and terrorism.<sup>181</sup>

About one-half of the private direct foreign investment in Colombia is concentrated in the petroleum sector. According to Colombian statistics, the United States accounts for 63 percent of the stock of nonpetroleum private direct foreign investment in Colombia, which was valued at \$2.7 billion in 1993. The United States does not have a BIT with Colombia, but the Colombian Government reportedly is interested in such an agreement. OPIC political risk insurance has been available to U.S. businesses investing in Colombia since 1985.<sup>182</sup>

Several organizations and agencies extensively promote ATPA in Colombia, and increasing the utilization of both ATPA and EU trade preferences has been a major objective.<sup>183</sup> The Colombian Government and private sector are involved in promoting ATPA. Proexport, a public sector institution, has promoted ATPA through its regional ministries.<sup>184</sup> ATPA promotion in Colombia includes—seminars and training sessions on ATPA in the Colombian cities of Bogotá, Barranquilla, and Pereira; a toll-free telephone information line for exporters seeking information on ATPA; numerous brochures; informational newspaper advertisements; and wide distribution of "ATPA briefcases"

<sup>177</sup> USITC staff interview with official of American Chamber of Commerce, La Paz, Bolivia, Apr. 19, 1994.

<sup>178</sup> Information compiled based on USITC staff interviews with representatives from Ministry for Foreign Relations, Bolinvest, and Ministry of Finance and Economic Development, La Paz, Bolivia, Apr. 19-20, 1994.

<sup>179</sup> Ibid.

<sup>180</sup> Ibid.

<sup>181</sup> U.S. Department of State, "Colombia: Investment Climate Statement," telegram, message reference No. 09461, prepared by U.S. Embassy, Bogotá, Colombia, June 23, 1994.

<sup>182</sup> Ibid.

<sup>183</sup> "Colombia aún no aprovecha ventajas del ATPA, (Colombia Still Not Using ATPA Benefits)", *La República* (Bogotá), Mar. 28, 1994, p. 3A.

<sup>184</sup> USITC staff interview with representatives of Proexport, Bogotá, Colombia, Apr. 13, 1994.

containing brochures and information packets in Spanish about ATPA. According to one estimate, the Colombian business community now knows more about ATPA than it does about GSP.<sup>185</sup>

Coinvertir, the Colombian investment promotion corporation, has completed a report that highlights the advantages of producing in Colombia for the U.S. market and exporting under ATPA.<sup>186</sup> The report is written for potential foreign investors and exporters in Brazil, Hong Kong, Japan, China, Korea, Taiwan, the United Kingdom, Germany, and Spain. Using the top 100 ATPA-eligible items produced in Colombia, the report details possible duty savings each targeted country could gain switching their production to Colombia.

The Colombian Ministry for Economic Development and the Institute for Industrial Development (Instituto de Fomento Industrial, IFI) sponsored the development of a software program, called ATPACOL. ATPACOL identifies ATPA-eligible items produced in Colombia by tariff item in nine manufacturing sectors—automotive parts; ceramics and glass; electronics; jewelry; toys and sporting goods; metal products; furniture; plastics, and chemicals.<sup>187</sup> The ATPACOL software has been distributed free of charge to the Colombian business community to promote the benefits of using ATPA. A follow-on analysis to ATPACOL, called ATPACOST, analyzes Colombia's comparative advantage in production costs for eligible products.<sup>188</sup> Among Colombia's fastest-growing nontraditional exports to the United States are: certain tropical fruits, fruit juices and concentrates, seafood, winter vegetables, and ornamental horticulture.<sup>189</sup>

<sup>185</sup> USITC staff interview with official from Ministry of Foreign Trade, Bogotá, Colombia, Apr. 13, 1994.

<sup>186</sup> Coinvertir, *The Advantages of Producing in Colombia for the United States Market with the Andean Trade Preference Act: A Guide for International Investors and Exporters* (Bogotá: Nov. 1993).

<sup>187</sup> Araujo Ibarra & Asociados Ltda., "ATPACOL," unpublished document prepared for the Ministry for Economic Development and IFI, Sept. 1993. Araujo Ibarra & Asociados, Ltda. is the Colombian consulting firm that developed ATPACOL.

<sup>188</sup> U.S. Department of State, "ATPACOST: Computer Program that Compares Cost of Doing Business in 10 Countries," telegram, message reference No. 12023, prepared by U.S. Embassy Bogotá, Colombia, Aug. 16, 1994.

<sup>189</sup> U.S. Department of Commerce, International Trade Administration, "Agribusiness Trade in Colombia Offers More than Just Coffee and Bananas," *LAC Business Bulletin*, August 1992, p. 1.

IFI, an investment bank that extends loans to support Colombia's industrial sector, created an "ATPA line" of credit in 1993. Normally, IFI loans are denominated in Colombian pesos and extended to Colombian banks, which re-lend the funds to the ultimate borrowers. ATPA lines of credit are denominated in either Colombian pesos or in U.S. dollars and are extended directly to the ultimate borrowers, which must be companies already established in Colombia (although borrowers need not be Colombian nationals). ATPA loans for working capital can be for a maximum of four years, with 18-24 month grace periods, while loans for fixed costs can be for up to 15 years with grace periods of up to 4 years. The annual budget for the ATPA credit line is \$500 million. Colombian officials reported that demand for ATPA credit lines was "atypically low" during 1993 because appreciation of the Colombian peso that year generally reduced the price competitiveness of Colombian exports, therein reducing the demand for financing by Colombian exporters.<sup>190</sup>

Despite the relatively advanced stage of research and awareness of ATPA and the availability of ATPA-specific financing, no examples of ATPA-related investment could be cited by either the U.S. or Colombian officials interviewed. Several individuals reported that, despite the decline in insurgent- and narcotics-related violence, security costs and concerns remain significant deterrents to some potential foreign investors.<sup>191</sup> Many individuals stated that U.S. antidumping measures directed at Colombian flower exports have had a "stifling effect" on production for export to the United States. Interviewees also noted that the initiation of ATPA benefits coincided with the implementation of *apertura*, and stated that investors may be reluctant to take on new commitments until the Colombian economy had fully adjusted to the market-opening initiative. Finally, several individuals stated that the small size of Colombian industries, relative to those in the United States, makes it difficult for them to attain the economies of scale that are needed to successfully penetrate the U.S. market.<sup>192</sup>

<sup>190</sup> Information compiled from USITC staff interviews with representatives of IFI and representatives of Araujo Ibarra & Asociados Ltda., Bogotá, Colombia, Apr. 13, 1994.

<sup>191</sup> USITC staff interview with representatives of the American Chamber of Commerce, Bogotá, Colombia, Apr. 12, 1994.

<sup>192</sup> Information compiled based on USITC staff interviews with representatives from the U.S. Embassy, the Ecuadorian-American Chamber of Commerce, the Ministry

## Ecuador

The Government of Ecuador significantly liberalized its foreign investment regime in January 1993, lifting the last significant restriction—the requirement that foreign investments receive official prior approval. The only sectors with limits on foreign participation are petroleum (which is still largely government-controlled) and fishing (foreign investment in domestic fishing operations is restricted to 49 percent of equity, unless officially authorized). Ecuador signed a BIT with the United States in August 1993. The Ecuadorian Congress reportedly is set to ratify the treaty later in 1994. Ecuador's investment insurance agreement with OPIC dates to 1986. According to statistics of the Government of Ecuador, the United States accounted for 11 percent of nonpetroleum private direct foreign investment in 1993, valued at about \$10 million.<sup>193</sup>

USAID has provided support to Ecuador's Federation of Exporters (Fedexpor), the NonTraditional Agricultural Export Association (Proexant), and to the Ecuador Foundation to study trade liberalization.<sup>194</sup> In addition, representatives of the Ecuadorian Government reported the creation of two new institutions to promote ATPA. The Center for Study of Economic Development (CINDES) and the Ecuadorian Commission of Capital Goods (CEPTA) are to identify U.S. market niches and sources of export financing for products including prepared foods, plywood and furniture, and toys.<sup>195</sup> The Ecuadorian-American Chamber of Commerce, Fedexpor, and the firm Deloitte & Touche sponsored Ecuador's first seminar for the business community on the ATPA in the cities of Quito and Guayaquil in April 1994.<sup>196</sup>

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<sup>192</sup>—Continued

of Foreign Trade, the Ministry for Economic Development, and Proexport, Bogotá, Colombia, Apr. 12-13, 1994.

<sup>193</sup> U.S. Department of State, "Investment Climate Statement: Ecuador 1994," telegram, message reference No. 04702, prepared by U.S. Embassy Quito, Ecuador, June 23, 1994. A more detailed analysis of Ecuador's foreign investment regime is provided by Nathan Associates, Inc., *Ecuador: Investment Climate Comparison Study* (Oct. 22, 1993).

<sup>194</sup> USITC staff interview with representative of USAID, Quito, Ecuador, Apr. 14, 1994.

<sup>195</sup> USITC staff interview with representative of the Ministry of Industries, Trade, and Integration, Quito, Ecuador, Apr. 18, 1994.

<sup>196</sup> USITC staff interview with representatives of the Ecuadorian-American Chamber of Commerce, Apr. 15, 1994, Quito, Ecuador.

All of the individuals interviewed, however, said that the Ecuadorian business community was at best only marginally aware of ATPA. Sources interviewed were unable to identify any new ATPA-related investment in Ecuador during 1993. However, several ongoing investment projects could result in the production of products eligible for ATPA. Ecuadorian investors recently opened the country's second instant quick freezing (IQF) facility to prepare broccoli for export. Swedish investors are constructing a third IQF facility in Ecuador. The U.S. Embassy in Quito reports that as recently as 3 years ago there were no IQF plants in Ecuador. Other recent investment activity cited by the U.S. Embassy includes—French investment in a project to manufacture semidry tropical fruit for use in yogurt and trail mix, Italian investment in pineapple canning and banana puree facilities, and the construction of a fourth plant for producing fruit juice concentrates, including passion fruit base for juice mixes.<sup>197</sup>

Two factors that may discourage investment in Ecuador are unresolved property rights issues, which can make title of land ownership unclear, and a labor productivity rate that ranks below that of other Latin American countries. The country's poor physical infrastructure, including inadequate cargo storage facilities at ports and airports (especially for fresh produce), often leads to delays in exports. Delays may be compounded, with the additional risk of cargo damage, due to outbound customs inspections for illegal drugs. The cost of air freight from Quito to Miami is 80 percent higher than from Bogotá to Miami, placing Ecuadorian exporters at a relative price disadvantage.<sup>198</sup> Bottlenecks at the port of Miami can further delay shipments, leading some Ecuadorian exporters to ship to New York and to Philadelphia.<sup>199</sup>

Certain Ecuadorian products fail to meet prevailing quality standards in the U.S. market. Moreover, U.S. phytosanitary and sanitary restrictions as well as U.S. product labeling requirements were viewed as deterrents to Ecuadorian exports.<sup>200</sup>

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<sup>197</sup> U.S. Department of State, "Non-Traditional Exports Buoy Ecuadorian Economy," telegram, message reference No. 03948, prepared by U.S. Embassy, Quito, Ecuador, May 26, 1994.

<sup>198</sup> These high costs were attributed to the high rates set by Ecuador's military-run civil aviation directorate to protect Ecuadorian carriers from foreign competition. USITC staff interview with representatives of the Ecuadorian-American Chamber of Commerce and Fedexpor, Quito, Ecuador, Apr. 14-15, 1994.

<sup>199</sup> Ibid.

<sup>200</sup> Compiled from information based on USITC staff interviews with representatives of the U.S. Embassy Quito,

Representatives in the fresh cut flower industry stated that the recent initiation of a new U.S. antidumping case on roses from Ecuador and Colombia<sup>201</sup> may diminish the view of other exporters of the export potential for the U.S. market.<sup>202</sup>

Ecuador exports in large quantity only a few products, namely, fresh cut flowers, melons, bananas, and artichokes. One agricultural official observed that this range of exports is especially narrow, given that Ecuador's rich soils, varied altitudes, and equatorial location mean that "almost anything can be grown any time of year."<sup>203</sup> Nontraditional agricultural products being developed for export include cantaloupe and honeydew melons, mangos, asparagus, corn, frozen broccoli, pineapples, and strawberries.<sup>204</sup> A survey by the U.S. Department of Agriculture's Animal and Plant Health Inspection Service (APHIS) of products with additional export potential included: hearts of palm, pineapples, tomatoes, organic lettuce, broccoli, asparagus, ginger, macadamia nuts, melons, mangoes, Tahiti lemons, cardamon seeds, strawberries, passion fruit, and beef products.<sup>205</sup> The official stressed that, while many such fresh fruits and vegetables are not allowed entry into the United States for phytosanitary reasons, there is "unexploited potential" in processed products such as tomato paste and catsup (tomatoes), frozen broccoli, and fruit juices. Not only do such processed products meet the U.S. phytosanitary restrictions applicable to fresh products, but they have higher value added and lower transportation costs.<sup>206</sup>

200—Continued

Ecuador, Ecuadorian-American Chamber of Commerce, and Fedexpor, Quito, Ecuador, Apr. 14-15, 1994.

<sup>201</sup> On Feb. 14, 1994, the Commission instituted a preliminary antidumping investigation (no. 731-TA-684-685 (Preliminary)) concerning imports of fresh cut roses from Colombia and Ecuador. U.S. International Trade Commission, "Fresh Cut Roses from Colombia and Ecuador," published in *Federal Register*, vol. 59, No. 37, Feb. 24, 1994, p. 9000.

<sup>202</sup> USITC staff interview with representatives of the Ecuadorian-American Chamber of Commerce, Quito, Ecuador, Apr. 14, 1994.

<sup>203</sup> USITC staff interview with APHIS official, Quito, Ecuador, Apr. 18, 1994.

<sup>204</sup> Ibid. and Corporación Proexant (Non-Traditional Agricultural Exporters Association), *Informative*, No. 26 (Feb.-Mar. 1994), pp. 16-18.

<sup>205</sup> U.S. Department of State, "Non-Traditional Exports Buoy Ecuadorian Economy," telegram, message reference No. 03948, prepared by U.S. Embassy, Quito, Ecuador, May 26, 1994.

<sup>206</sup> USITC staff interview with APHIS official, Quito, Ecuador, Apr. 18, 1994.

## Peru

All of the sources contacted during the course of this investigation reported that the investment climate in Peru has improved since President Fujimori launched broad economic reforms in 1990, with an especially significant improvement during 1993. The cornerstones of the Fujimori administration's policies have been to deepen economic reforms and to launch a counterterrorism offensive. Peru's foreign investment regime provides nondiscriminatory treatment for foreign investors, full currency convertibility, and no controls or restrictions on profit or capital repatriation. In September 1993, the governments of Peru and the United States resolved a longstanding dispute involving a claim of inadequate compensation for Peru's expropriation (under a prior administration) of a U.S. petroleum company. Peru has signed bilateral investment agreements with several European countries, and has expressed interest in negotiating a BIT with the United States. Peru signed an OPIC investment insurance agreement in 1992.<sup>207</sup>

The recent liberalization of the investment regime has enabled Peru to reverse the downward trend in investment flows, as noted in table 3-1. According to Peruvian Government statistics, worldwide private direct investment inflows into Peru increased from \$127 million in 1992 to \$571 million in 1993. The United States remains the leading holder of foreign investment in Peru, with total investment valued over \$600 million by the Peruvian Government. The leading sectors of new foreign investment are mining and manufacturing—each accounting for about one-third of the book value of 1993 direct investments.<sup>208</sup>

The Peruvian export promotion agency ADEX is leading activities promoting ATPA. ADEX and the American Chamber of Commerce in Peru have conducted seminars on ATPA.<sup>209</sup> USAID has sponsored a televised seminar on ATPA taped in Lima and broadcast in several Peruvian cities. Peruvian Government officials consider knowledge about ATPA among Peruvian exporters to be generally good,

<sup>207</sup> U.S. Department of State, "Investment Climate Statement for Peru," telegram, message reference No. 06412, prepared by U.S. Embassy Lima, Peru, July 15, 1994.

<sup>208</sup> Foreign direct investment data provided by Central Bank of Peru. Foreign investment by country and book value of direct investment by sector data provided by Peruvian National Commission for Foreign Investment and Technology.

<sup>209</sup> USITC staff interview with representatives from the American Chamber of Commerce, Lima, Peru, Apr. 25, 1994.

although few exporters understand details of the program or how ATPA differs from GSP.<sup>210</sup>

Individuals interviewed were unable to identify any ATPA-related investments in Peru. Most attributed this to the country's relatively late (August 1993) designation for ATPA benefits. Officials interviewed offered several comments about the general investment climate in Peru and factors that might adversely affect export-oriented investment in the near term. All reported that personal security is the paramount concern to prospective investors in Peru. Despite the surge in investment in 1993, most interviewees said that Peru still has an international reputation as an unsafe country. Indeed, one recent report noted that, notwithstanding the Fujimori administration's counterinsurgency offensive and significant decline in terrorist incidents, there were over 1,000 terrorist incidents and over 1,500 violence-related deaths nationwide in Peru in 1993.<sup>211</sup>

Several individuals enumerated deficiencies in Peru's economic infrastructure. Specifically mentioned were—too few paved roads, inadequate cargo handling, refrigeration, and warehousing, and high port and transportation fees. The unavailability of low-cost, long-term financing remains a problem for Peruvian entrepreneurs.<sup>212</sup> Unresolved land titling problems and overlapping land titles also are significant problems. The country's now-overvalued

<sup>210</sup> USITC staff interview with officials from the Ministry of Foreign Affairs, Lima, Peru, Apr. 22, 1994.

<sup>211</sup> U.S. Department of State, "Investment Climate Statement for Peru," telegram, message reference No. 06412, prepared by U.S. Embassy, Lima, Peru, July 15, 1994, and USITC staff interviews with officials from the U.S. Embassy Lima, Peru, Apr. 22, 1994.

<sup>212</sup> USITC staff interview with officials from the U.S. Embassy, Lima, Peru, Apr. 22, 1994 and U.S. Department of State, "Floriculture Export Industry in Peru," telegram, message reference No. 05438, prepared by U.S. Embassy, Lima, Peru, May 12, 1993.

exchange rate discourages exports, while the relatively small size of the export sector does not give it an effective lobbying voice within the Peruvian Government. There also are concerns about the government's ability to enforce commercial law and the new investment codes.<sup>213</sup>

Several individuals stated that U.S. countervailing duty measures restricted the development of a viable fresh cut flower export industry,<sup>214</sup> which had been expected to attract new investment as a result of ATPA. Flower production in Peru has declined in recent years because of terrorist violence in flower-growing areas and demands of payments of "protection money," high interest rates because of the unavailability of long-term financing, the elimination of government export subsidies, and high production costs.<sup>215</sup> Another report suggests that ATPA duty-elimination may result in new investment in asparagus production, because it will improve the viability of small and medium size producers in Peru. Other export crops that appear to be receiving new investor attention because of ATPA are figs, pomegranates, papaya, and herbs.<sup>216</sup>

<sup>213</sup> U.S. Department of State, "Investment Climate Statement for Peru," telegram, message reference No. 06412, prepared by U.S. Embassy, Lima, Peru, July 15, 1994.

<sup>214</sup> USITC staff interview with officials from the Ministry of Foreign Affairs, Lima, Peru, Apr. 22, 1994. Countervailing-duty orders and actions directed at Peru are discussed in chapter 1.

<sup>215</sup> U.S. Department of State, "Floriculture Export Industry in Peru," telegram, message reference No. 055438, prepared by U.S. Embassy, Lima, Peru, May 12, 1993.

<sup>216</sup> U.S. Department of State, "Impact of ATPA on Peru's Asparagus Industry," telegram, message reference No. 02798, prepared by U.S. Embassy, Lima, Peru, Mar. 26, 1994.

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## CHAPTER 4

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

This chapter addresses the requirement that the Commission assess “in conjunction with other agencies, the effectiveness of [ATPA] in promoting drug-related crop eradication and crop substitution efforts of the beneficiary countries.”<sup>217</sup> This chapter is divided into five parts. The first part describes the methodology used in meeting the ATPA reporting requirement on eradication and substitution. Next is a summary of the primary U.S. government agencies and programs reporting on Andean drug crop eradication and crop substitution. A brief overview of coca cultivation and cocaine production in the Andean region is then presented, followed by a survey of drug production trends in each of the four ATPA beneficiaries. The last section assesses the effectiveness of ATPA on drug-related crop eradication and crop substitution.

### Methodology and Summary of Findings

Information on drug crop eradication and crop substitution presented in this chapter was obtained principally from three sources: (1) factfinding travel by Commission staff to Bolivia, Colombia, Ecuador, and Peru; (2) periodic unclassified Embassy reporting; and (3) published reports of various government agencies and Commission staff interviews with representatives of those agencies. The factfinding travel and a request for public comments afforded representatives of U.S. embassies, the Andean governments, as well as interested parties in the U.S. and foreign private sector, to directly comment on the impact of ATPA.

Based on the information obtained during the course of this investigation, the Commission finds that no precise estimate of the impact of ATPA on drug-related crop eradication and crop substitution is

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<sup>217</sup> 19 U.S.C. 3204(b)(1)(C).

possible at this time. As further detailed in the following sections, ATPA is still a relatively new program, and it has had a limited impact on the beneficiary countries’ trade so far. While information dissemination and business assistance efforts likely will increase the program’s impact on ATPA-related production and exports, it is too soon to draw causal linkages between ATPA preferences and drug crop eradication and crop substitution. Foreign economic assistance for the Andean countries, as well as assistance for Andean drug crop eradication and crop substitution, existed long before ATPA was implemented. It is difficult to isolate the effects of ATPA from possible effects of these prior or ongoing crop eradication and crop substitution efforts, which have had only limited success. It is also difficult to isolate the effects of ATPA on crop eradication and crop substitution from the effects of the EU preferential tariff regime.<sup>218</sup> Moreover, the severely limited physical and economic infrastructure in the Andean drug crop-growing regions—which could take years to improve—could further mitigate ATPA’s impact on drug-crop reduction.

### Official Involvement in Andean Drug Crop Reduction

ATPA is a component of the larger U.S. Andean strategy of broad-based economic support and law enforcement in the Andean region. A number of U.S. Government agencies are involved in the antidrug effort. This section highlights the role of the major U.S. Government agencies and programs. It also discusses a United Nations program with a similar aim. None of these agencies, departments, or their programs, however, is specifically tasked to monitor the effects of ATPA. Other than the current

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<sup>218</sup> The EU preferential tariff regime is discussed in chapter 1.

report, the Commission has no official role in U.S. antidrug efforts.

## U.S. Agencies

The U.S. Department of State's Bureau of International Narcotics Matters (INM) has the primary responsibility for monitoring the control of illicit drugs, as well as the cooperative efforts of the U.S. Government with other countries in stemming the flow of such drugs into the United States. As discussed in more detail below, the State Department reports annually on international narcotics control efforts.

The U.S. Agency for International Development (USAID) is the leading U.S. Government agency that provides economic development assistance.<sup>219</sup> Under National Security Determination (NSD) - 18, the counternarcotics policy of the United States until December 1993, USAID was charged with working "to strengthen and diversify the legitimate economies of the Andean nations to enable them to overcome the destabilizing effects of eliminating coca, a major source of income," and to ease the transition away from coca toward economies based on legitimate income sources.<sup>220</sup> In December 1993, Presidential Decision Directive (PDD) - 14 replaced NSD-18 and refocused somewhat the USAID mission. "Sustainable development" replaced "alternative development" as the policy focal point. "Sustainable development" is a broader approach which includes local participation, democratic institution building, and social programs for the poor. This new approach recognizes ATPA as an element of the Andean Strategy.<sup>221</sup>

The Office of National Drug Control Policy (ONDCP), part of the Executive Office of the President, is responsible for establishing policies, objectives, and priorities for the administration's National Drug Control Strategy.<sup>222</sup> In February 1994, ONDCP issued the 1994 National Drug Control

<sup>219</sup> USAID coca substitution efforts in the Andean dating to 1975 are described in U.S. Congress, Office of Technology Assessment (OTA), *Alternative Coca Reduction Strategies in the Andean Region*, OTA-F-556 (Washington, DC: U.S. Government Printing Office, July 1993), pp. 45-47.

<sup>220</sup> USAID, *Andean Counter-Drug Initiative, Objective IV: Sustainable Development and the Counter-Narcotics Strategy: Transition to New Realities, Semi-Annual Report* (Oct. 1992 - Mar. 1993), Oct. 1993, pp. 3-4.

<sup>221</sup> *Ibid.*, p. 5.

<sup>222</sup> ONDCP was established by the Anti-Drug Abuse Act of 1988 (Public Law 100-690).

Strategy report<sup>223</sup> outlining the Clinton administration's international antinarcotics objectives. A key element of this strategy is to "aggressively support crop control programs for poppy and coca countries where there is a strong prospect for, or record of, success." The new strategy calls for a "controlled shift" of resources away from the interdiction of drug traffickers in the main transit zones, while giving increased emphasis to antinarcotics efforts in the coca- and poppy-growing countries themselves.<sup>224</sup>

Other U.S. Government agencies have studied various aspects of U.S. antinarcotics efforts in the region. At the request of the House Committee on Foreign Affairs, the Congressional Budget Office (CBO) examined the Andean Initiative from the perspective of future funding requirements.<sup>225</sup> The Senate Committee on the Judiciary and the House Select Committee on Narcotics Abuse and Control requested the Office of Technology Assessment (OTA) to study the potential for improving U.S. antinarcotics efforts in the Andean region through development activities and biological control methods. This Congressional request resulted in commissioned papers, a workshop on the topic, and the eventual publication of an official report.<sup>226</sup> At the request of the Chairman and Ranking Minority Member of the House Committee on Government Operations, the General Accounting Office (GAO) conducted a followup study<sup>227</sup> to determine the progress being made and the problems that U.S. and Colombian agencies were having implementing U.S. counternarcotics programs. The U.S. Departments of Commerce and Defense also have a role in the Andean region through trade promotion efforts and drug interdiction campaigns, respectively.

## Foreign Assistance Act

The Foreign Assistance Act (FAA)<sup>228</sup> requires the President to determine and certify annually to Congress that, during the previous year, each major illicit drug producing country or major drug

<sup>223</sup> The White House, *National Drug Control Strategy: Reclaiming Our Communities From Drugs and Violence* (Feb. 1994).

<sup>224</sup> *Ibid.* pp. 3-4.

<sup>225</sup> CBO, "The Andean Initiative: Objectives and Support," *CBO Papers* (Mar. 1994).

<sup>226</sup> OTA, *Alternative Coca Reduction Strategies in the Andean Region*.

<sup>227</sup> GAO, *The Drug War: Colombia Is Undertaking Antidrug Programs, but Impact Is Uncertain*, GAO/NSIAD-93-158 (Aug. 1993).

<sup>228</sup> 22 U.S.C. 2291j.



trafficking country cooperated fully with the United States, or took adequate steps on its own, to achieve full compliance with the goals and objectives established by the 1988 UN Convention Against Traffic in Narcotic Drugs and Psychotropic Substances (UN Convention).<sup>229</sup> Countries that are meeting the goals receive "full certification." Countries that do not meet the standards for "full certification" still may be certified on the grounds that vital U.S. national interests require that assistance be provided, under the so-called "certification with national interests waiver."

Section 490 of the FAA requires that 50 percent of certain U.S. bilateral economic assistance be withheld at the start of each fiscal year from the major illicit drug producing or drug trafficking countries, pending the April 1 certification. If a country is not certified (or if a Presidential certification is disapproved by joint resolution of the Congress), this foreign assistance is withheld and the United States is required to vote against multilateral development bank lending to that country until the President recertifies the country.

The FAA also requires the State Department to report annually on the major illicit drug-producing and major drug-transit countries. The eighth *International Narcotics Control Strategy Report (INCSR)* was issued on April 1, 1994.<sup>230</sup> Each report evaluates worldwide the extent to which countries are meeting the goals and objectives of the UN Convention and provides the factual basis for Presidential determinations. In 1994, based on information contained in the INCSR report covering the year 1993, the President fully certified both Colombia and Ecuador. However, for the first time, Bolivia and Peru were certified only with a national interest waiver.<sup>231</sup>

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<sup>229</sup> Nations party to the UN Convention agree to—(1) commit to eliminate or reduce illicit demand for narcotic drugs and psychotropic substances; (2) provide for extradition of major drug traffickers and mutual legal assistance between nations on drug-related investigations; (3) empower their courts to make available or to seize bank, financial, or commercial records of drug traffickers and not to invoke bank secrecy in such cases. The Convention formally entered into force on November 11, 1990. United Nations, *The United Nations and Drug Abuse Control*, pamphlet (1992), p. 75.

<sup>230</sup> U.S. Department of State, Bureau of International Narcotics Matters, *International Narcotics Control Strategy Report (INCSR): April 1994*, publication 10145 (Washington, DC: U.S. Department of State, Mar. 1994).

<sup>231</sup> Presidential Determination 94-22 of Apr. 1, 1994, as contained in *INCSR*, p. vii.

## ***United Nations Drug Control Program***

The United Nations Drug Control Program (UNDCP) was created in 1990 to coordinate all UN drug control programs.<sup>232</sup> UNDCP activities include integrated rural development, crop substitution, and legislative and institutional assistance to help governments of drug-producing countries improve their ability to enforce drug-related laws. UNDCP also offers technical assistance to control drug crop production. Rural development projects provide technical agricultural assistance, introduce substitutes for drug crops, improve the physical infrastructure of roads, irrigation, electric power, and potable water systems, and provide marketing and other assistance to promote alternative crops.<sup>233</sup> UNDCP projects emphasize voluntary and uncompensated drug crop reduction. In the Andean countries, a number of coca farmers agreed to reduce their coca plantations within a specified period and not to plant new coca under this UN program.<sup>234</sup>

## **The Andean Cocaine Industry**

The primary illegal narcotic produced in the Andean countries is cocaine, which is derived from the coca plant. Although limited, but increasing, amounts of opium (heroin) and cannabis (marijuana) also are produced in the Andean region, this report focuses primarily on coca cultivation and cocaine production.

### ***Background***

The coca plant is a perennial shrub that grows best in areas of high, but not necessarily even, precipitation and at temperatures above 59 degrees Fahrenheit, and tolerates soil pH levels from as low as 4.3 to as high as 8.0. The plant is indigenous to the Andean mountain region. Coca cultivation is concentrated on the eastern slopes of the Northern and Central Andes, particularly in the deep valleys scoring the mountains up to altitudes as high as 6,500 feet (2,000 meters) above sea level (figure 4-1).

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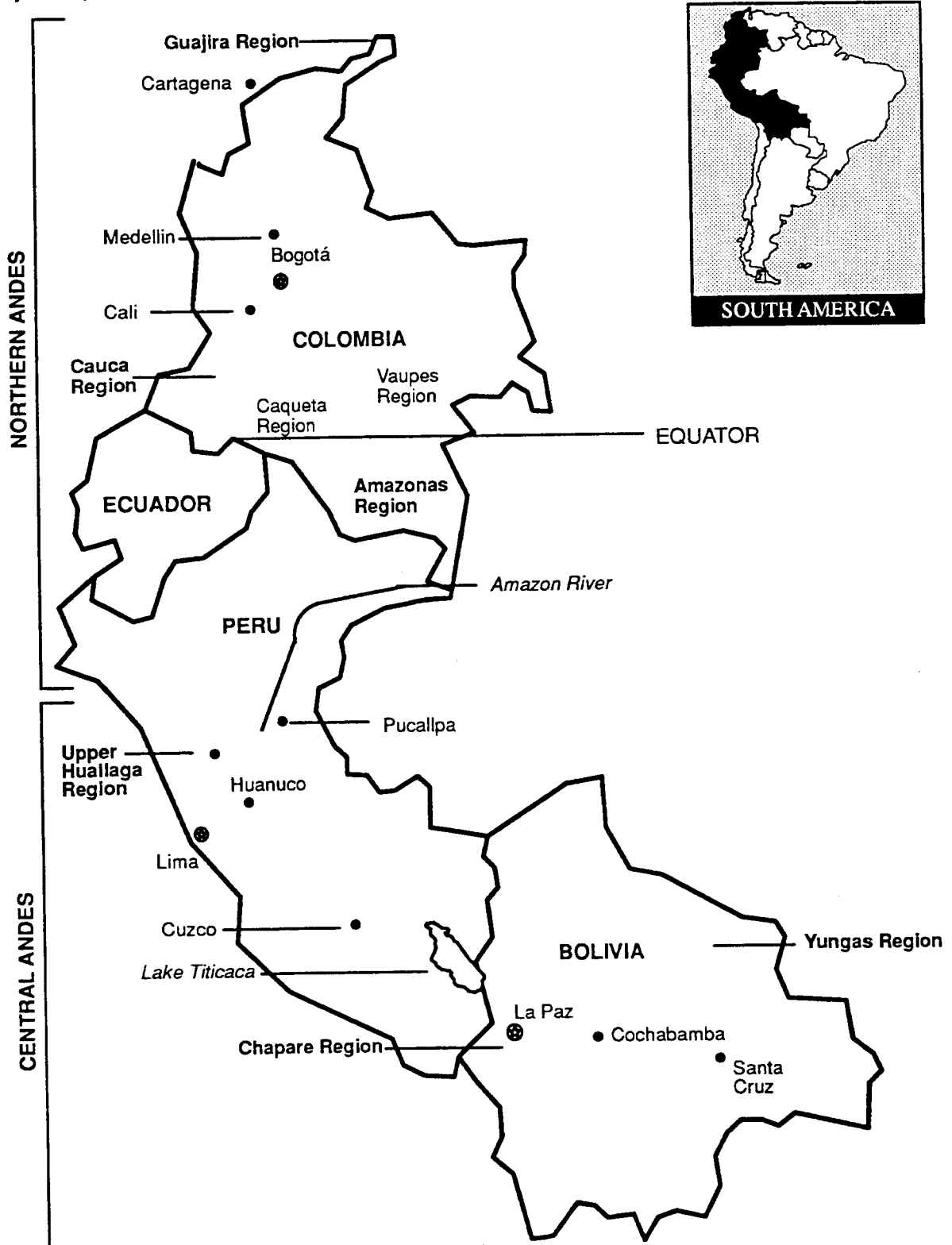
<sup>232</sup> General Assembly resolution 45/179 of Dec. 21, 1990.

<sup>233</sup> United Nations, *The United Nations International Drug Control Programme*, pamphlet, (July 1992), and *The United Nations and Drug Abuse Control*, pamphlet (1992).

<sup>234</sup> Rensselaer Lee and Patrick Clawson, ONDCP, *Crop Substitution in the Andes* (Washington, DC: ONDCP, Dec. 1993), p. 55.

**Figure 4-1  
Andean Countries**

Primary coca-producing zone



Source: Office of Technology Assessment, 1993.

Coca cultivation and use are not new to the Andean region. Evidence of the cultural and economic significance of coca dates from as early as 2100 BC. Coca was considered a sacred plant in the time of the Inca Empire, when the leaves were used as religious offerings. Coca leaves continue to be used for religious rituals by the Quechua-speaking peoples of the Peruvian Andes, the Aymara of Bolivia, and the Tukanoans of the Colombian Amazon. Coca leaves were—and continue to be—used in many daily activities such as to pay wages and to seal social contracts such as marriage contracts. Since the Inca Empire, coca leaves have played a significant role in commercial exchange between the isolated highlands and urbanized lowlands of the Andean region.<sup>235</sup>

Coca consumption became even more widespread when, as is generally believed, European colonizers encouraged its use among silver and tin miners to help them withstand harsh working conditions.<sup>236</sup> Coca leaves are chewed or brewed into a tea and used as a mild stimulant to relieve fatigue and hunger. Coca tea remains a standard folk remedy to help visitors adjust to the high altitude in some Andean cities. The leaves also act as a dietary supplement and help alleviate nutritional deficiencies of a diet poor in certain vitamins. Poultices made of coca leaves are used as a topical anesthetic and antiseptic. In Bolivia, 87 percent of inhabitants in small towns and rural communities report using coca leaves for health remedies, and similar numbers may hold true for Peru.<sup>237</sup>

Peru and Bolivia by far are the two primary coca-producing countries in the world, followed by Colombia. Coca cultivation for traditional use (such as chewing and brewing into tea) is legal in both Peru and Bolivia when registered with the appropriate agencies of the respective governments and, in the case of Bolivia, subject to certain quantitative limits. There are no provisions for legal coca cultivation in

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<sup>235</sup> For more detailed information on the history of coca leaf in Andean society, see U.S. Congress, OTA, *Alternative Coca Reduction Strategies in the Andean Region*, OTA-F-556 (Washington, DC: U.S. Government Printing Office, July 1993), pp. 45-47.

<sup>236</sup> *Ibid.*, p. 45.

<sup>237</sup> OTA, *Alternative Coca Reduction Strategies in the Andean Region*, pp. 47-49. Additional information also is provided in K.I. Healy, "The Boom Within the Crisis: Some Effects of Foreign Cocaine Markets on Bolivian Rural Society and the Economy," in D. Pacini and C. Franquemont (eds.), *Coca and Cocaine: Effects on People and Policy in Latin America*, Cultural Survival Report No.23 (Peterborough, NH: Transcript Printing Co., 1986), pp. 101-143.

Colombia and Ecuador. It is the large-scale production of coca for the cocaine industry, however, that is illegal throughout the Andean region and is the focal point of counternarcotics efforts and ATPA.

## Cocaine Production

Cocaine hydrochloride (cocaine HCl, or cocaine) is produced from the leaves of the coca plant. Of the over 200 different species of coca, only 17 can be used to produce cocaine, and only two of these species, *E. coca* var. *coca* and *E. coca* var. *ipadu*, contain more than traces of the coca alkaloids needed to produce cocaine HCl. Cultivated from seed, these coca plants reach productive maturity between 12 and 24 months and have a productive life of approximately 15 years.<sup>238</sup>

To avoid law enforcement scrutiny, illegal coca cultivation for the cocaine industry generally is in remote areas apart from traditional coca-growing regions. Cultivation occurs primarily in the Chapare region of Bolivia, the Alto Huallaga Valley (Upper Huallaga Valley, or UHV) in Peru, and in a variety of areas in the south-central area of Colombia.<sup>239</sup> These remote regions often are not well suited for the production of other crops, either because of unfavorable soil and climatic conditions (such as in jungle regions with excessive rainfall, extremely acidic soils, soils with toxic concentration of iron, aluminum, and manganese, and steep slopes which limit mechanization) or because transportation and other elements of economic and physical infrastructure are not present.<sup>240</sup>

To produce cocaine, the coca plant is stripped (by hand) of its leaves two to six times a year. Nearly one-half of the coca leaf harvesting takes place after the March rains. The leaves are then dried and packaged, usually into 100-pound *cargas* in Bolivia or 25-pound *arrobas* in Peru, and transported to an area close-by for further processing. Each phase of processing—from coca leaves to coca paste, to cocaine base, to cocaine HCl (described below)—results in a more concentrated and more compact (hence, more easily transported) form of the product.<sup>241</sup>

The first phase of coca processing involves soaking the dried leaves in a mixture of sulfuric acid

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<sup>238</sup> Drug Enforcement Agency (DEA), *Coca Cultivation and Cocaine Processing*, p. 3.

<sup>239</sup> *Ibid.*, pp. 5-7.

<sup>240</sup> ONDCP, *Crop Substitution in the Andes*, p. 46 and U.S. Department of State, *INCSR*, p. 7.

<sup>241</sup> DEA, *Coca Cultivation and Cocaine Processing*, pp. 3 and 8-10.

and water. During this process, workers may stomp the leaves to speed extraction of the alkaloids from the leaves. The steeped solution, which now contains the alkaloids, is decanted and mixed with a chemical base (such as lime or sodium carbonate) to neutralize the acid. An organic solvent such as kerosene is added, and the solution is mixed again to obtain the desired coca paste (producers often omit this step and go directly to the next step, coca base).

The processing of the paste into base requires additional equipment and skills. Processing is done in "laboratories" located away from cultivation areas, usually near transportation facilities such as rivers or airstrips, to facilitate the movement of the paste into the laboratory and the cocaine base out of the laboratory for further processing. Cocaine HCl processing, unlike paste or base processing, requires expensive chemicals such as ethyl ether and acetone that may be more difficult to obtain. It is the hydrochloric acid used in this stage of the production process that causes the cocaine to crystallize into cocaine HCl. Figure 4-2 follows the pricing of coca products through the successive stages of trafficking and shows the significant difference between the price commanded for grams of cocaine on the street in the United States and the price for coca leaves received by the original producers.

Most of the cocaine HCl in the world is produced in laboratories in Colombia that rely primarily on cocaine base produced in Bolivia and Peru. Although several hundred groups in Colombia traffic in cocaine, two "cartels"<sup>242</sup> centered in the cities of Cali and Medellín, "dominate the production and international wholesale distribution of cocaine."<sup>243</sup> Drug cartel activities also include smuggling the chemicals necessary to process cocaine and laundering drug proceeds through investments and transactions in local and foreign financial institutions.<sup>244</sup>

<sup>242</sup> The so-called "drug cartels" are not cartels in the true microeconomic sense. A viable economic cartel (i.e., a group of sellers acting together as a monopoly) must be able to control prices, production, and division of the market. The wholesale market for illicit drugs is highly competitive and does not lend itself to control by a true economic cartel. Each drug cartel comprises several distinct and separate international drug organizations that may share certain resources, such as drug processing laboratories or transportation assets, when they perceive it to be in their mutual interest. For further information, see DEA, *The Illicit Drug Situation in Colombia*, DEA-93016 (Nov. 1993), p. 11.

<sup>243</sup> DEA, *The Illicit Drug Situation in Colombia*, p. vii.

<sup>244</sup> *Ibid.*, pp. 35-37.

Coca production for the cocaine industry offers Andean farmers many advantages over the production of legal crops. Although coca farmers do not earn the large profits of the cartel kingpins (figure 4-2), "Andean farmers like coca because it produces a secure profit."<sup>245</sup> Despite a decline in coca leaf prices since a peak in 1987, the internal rate of return for coca still compares favorably to that of other crops.<sup>246</sup> Unlike many legal crops, coca bushes are harvested several times a year and generally do not need expensive inputs such as pesticides and fertilizers. Moreover, financing, transportation, and marketing of coca are taken care of by the cartels.<sup>247</sup> Thus, coca, opium, and cannabis, while not necessarily providing growers an income higher than that afforded by legal crops, have minimal input costs and relatively secure markets that make them attractive cash crops when compared with alternative crops.

## Country Profiles

### *Bolivia*

Bolivia produces nearly one-third of the world's raw coca leaf—second only to Peru. There are three main growing areas in Bolivia—the Yungas, the Chapare, and the Apolo regions (figure 4-3). In 1993, it is estimated that nearly 50,000 hectares (ha) of land in Bolivia were dedicated to the cultivation of over 84,000 metric tons (mt) of coca leaves (table 4-1). Over 200,000 kilograms (k) of cocaine could be produced from these leaves. Legally grown coca is produced mainly in the Yungas region, where coca has been cultivated for hundreds of years. Up to 12,000 ha of coca may be cultivated legally each year in Bolivia for traditional domestic uses. Bolivian law provides for the compulsory eradication of all coca in excess of this limit.<sup>248</sup>

The large-scale production of coca in Bolivia for the cocaine industry began in the 1980s. The progressive impoverishment of Bolivia's rural upland populations, dating from the Colonial period, accelerated in the 1980s. A severe drought compounded the hardships facing Bolivia's subsistence farmers, while a sharp drop in world tin prices left thousands of miners unemployed. Displaced farmers and miners migrated into the Chapare region and became the labor force for Bolivia's nascent cocaine industry.

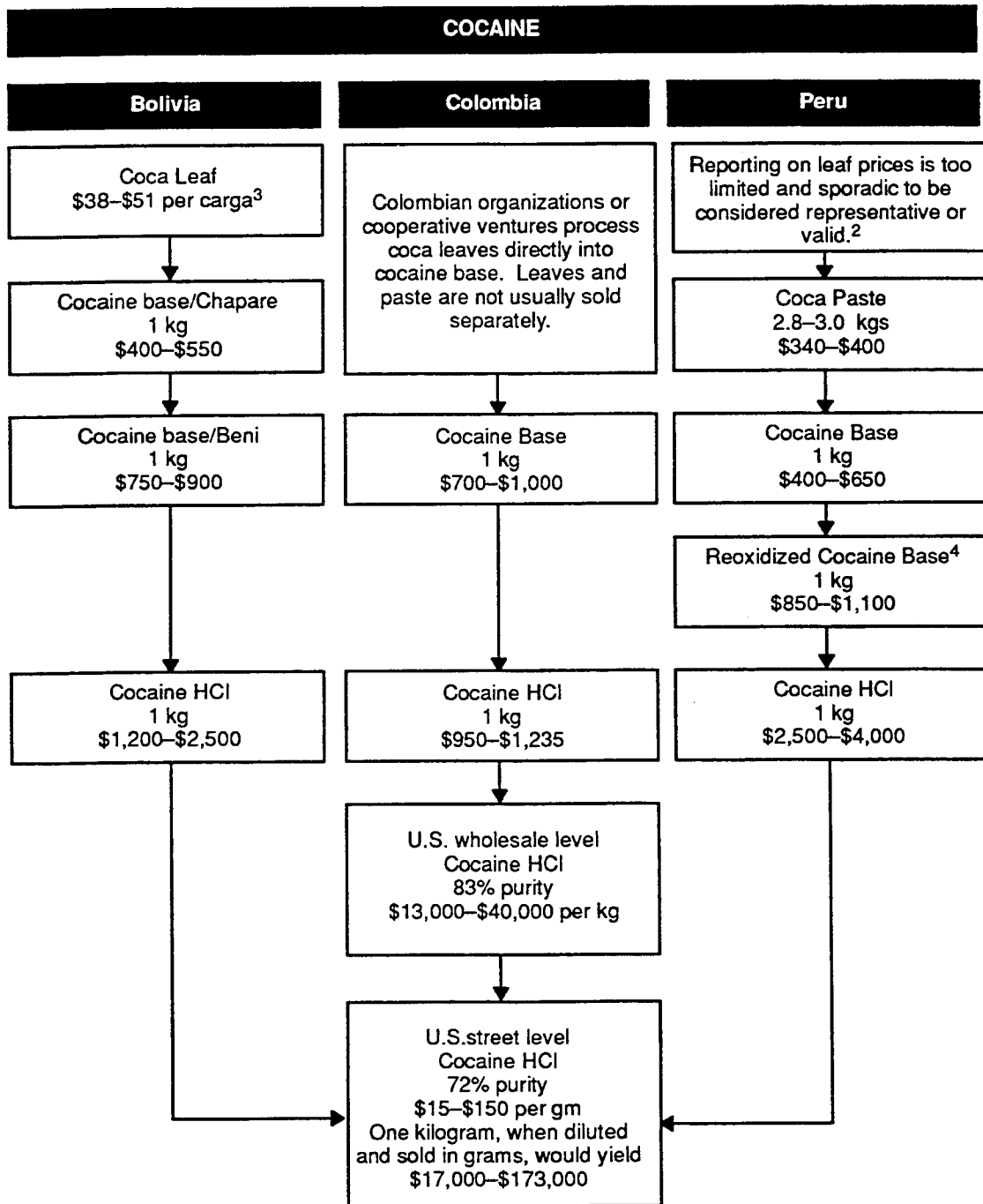
<sup>245</sup> ONDCP, *Crop Substitution in the Andes*, p. 54.

<sup>246</sup> *Ibid.*

<sup>247</sup> *Ibid.*

<sup>248</sup> U.S. Department of State, *INCSR*, pp. 94 and 102.

**Figure 4-2**  
**Selling prices for cocaine at successive stages of trafficking<sup>1</sup>**



<sup>1</sup> All source country prices are in terms of undiluted products.

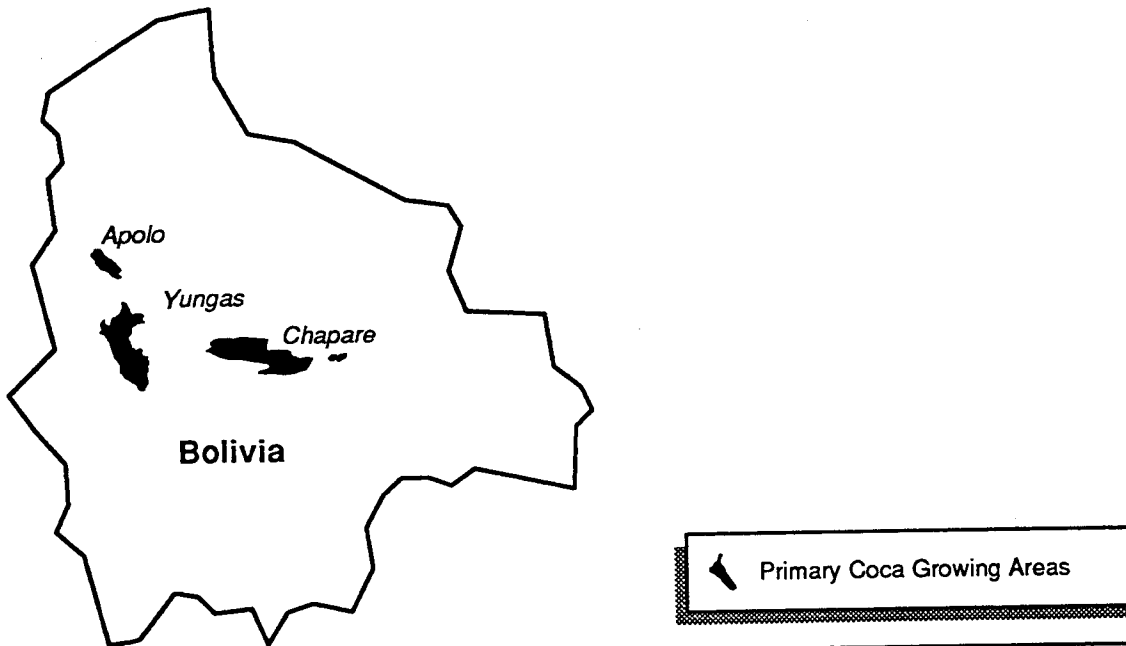
<sup>2</sup> The majority of Peruvian coca growers now process the leaves directly into paste, thereby reducing the bulk of the product transported to buyers.

<sup>3</sup> One carga equals 100 pounds.

<sup>4</sup> In Peru, cocaine base may be reoxidized to achieve higher purities and command a higher price.

Source: U.S. Department of Justice, Drug Enforcement Administration, "Source to the Street," Drug Intelligence Report, September 1993.

**Figure 4-3**  
**Bolivia's coca-producing areas**



Source: U.S. Department of Justice, Drug Enforcement Administration, Office of Intelligence.

**Table 4-1**  
**Coca production, Bolivia, 1989-93**

Item	1989	1990	1991	1992	1993
<b>Area:</b>					
<i>(in hectares)</i>					
Potentially harvestable .....	52,900	50,300	47,900	45,500	47,200
Eradication .....	2,500	8,100	5,486	5,149	2,400
Cultivation .....	55,400	58,400	53,386	50,649	49,600
<b>Leaf:</b>					
<i>(in metric tons)</i>					
Potentially harvestable <sup>1</sup> .....	78,200	77,000	78,000	80,300	84,400

<sup>1</sup> The reported leaf-to-HCl conversion ratio is estimated to be 390 kg of leaf to one kg of cocaine HCl in the Chapare region. In the Yungas region, the reported ratio is 330:1.  
 Source: U.S. Department of State, *INCSR*, p. 94.

Estimates of coca leaf production show progressive increases in production from 1963, when Bolivia produced approximately 4,800 mt, to 1975, when leaf production was estimated at 11,800 mt. By 1989, production was estimated to be 78,200 mt.<sup>249</sup> Recent surveys show that coca cultivation increased during 1993 in the three coca-growing areas.<sup>250</sup> Increased coca cultivation in 1993, coupled with the decreased eradication (described below), resulted in a 5-percent net rise in coca leaf production from 1992 to 1993. This reversed a downward trend in net cultivation over the previous 3 years.<sup>251</sup>

By the late 1980s, the Bolivian coca economy generated nearly \$600 million annually in foreign exchange, an amount as great as all other exports combined, and employed as much as 20 percent of the population.<sup>252</sup> As Bolivia's formal economy has improved, however, the cocaine industry's role has become less prominent, although it is still important. By the early 1990s, less than 7 percent of the population was directly involved in cocaine production, according to recent estimates.<sup>253</sup> Recent estimates also indicate that the Bolivian cocaine industry generated exports (of coca base and cocaine HCl) valued at \$214 million in 1992 or about 30 percent of officially recorded exports, and \$176 million in 1993, or about 25 percent of exports.<sup>254</sup>

Under the terms of the 1987 U.S.-Bolivia bilateral narcotics agreement, updated annually, Bolivia pledged to eradicate 5,000 ha of coca (and 20,000 square meters of coca seedbeds) between January 1, 1993 and March 31, 1994. The Bolivian Government offers farmers payments of \$2,000 per ha of coca plantation eradicated. However, this program has had "decidedly mixed" results.<sup>255</sup> According to one estimate, the long-term effect may lead farmers to accept the payment to eradicate older coca plants, and use the funds to plant new, more productive plants—actually leading to a net increase in coca production.<sup>256</sup>

<sup>249</sup> Ibid., pp. 53 and 93.

<sup>250</sup> Ibid., p. 90.

<sup>251</sup> Ibid.

<sup>252</sup> OTA, *Alternative Coca Reduction Strategies in the Andean Region*, p. 5.

<sup>253</sup> Ibid., pp. 5 and 70.

<sup>254</sup> U.S. Department of State, "Size of the Cocaine Industry in Bolivia," telegram, message reference No. 07183, June 9, 1994 and "The Size of the Cocaine Industry in Bolivia," telegram, message reference No. 06000, Apr. 30, 1993, prepared by U.S. Embassy, La Paz, Bolivia.

<sup>255</sup> ONDCP, *Crop Substitution in the Andes*, p. 46.

<sup>256</sup> Ibid., p. 59.

In 1993 Bolivia fell far short of the goals set out in its bilateral agreement with the United States. Bolivian farmers agreed to destroy only 2,400 ha of coca leaf, down from 5,149 ha eradicated in 1992.<sup>257</sup> This was due in part to a presidential election in Bolivia in mid-1993. Bolivia's outgoing administration curtailed forced eradication programs in 1993 before the election to stem opposition from producers. The new incoming administration was preoccupied with government reorganization in the first part of its administration.<sup>258</sup> Bolivia's failure to meet its 1993 eradication goal was one reason cited for that country's certification by national interest waiver for compliance with the UN Convention by President Clinton.<sup>259</sup>

The largest USAID crop substitution program is in Bolivia. Between 1983 and 1992, the USAID-sponsored Chapare Regional Development Project (CRDP) provided farmers technical support and agricultural extension services for the production of alternative legal crops. The successor to CRDP is the Cochabamba Regional Development Project (CORDEP), begun in 1991 and scheduled to remain in effect through 1996. Designed to correct some of the program management problems of CRDP,<sup>260</sup> CORDEP provides farmers both in the Chapare and the Cochabamba regions with agricultural technology, farm equipment, credit, and the rural infrastructure to take advantage of alternative economic opportunities.<sup>261</sup> UNDCP finances crop substitution projects in the Yungas region on a small scale (replacing coca with coffee) and in the Chapare region (development of a milk-processing facility for former coca farmers). Neither project has achieved noteworthy success.<sup>262</sup>

Bolivian researchers have found that the Chapare region is not suited for many alternate crops because of high rainfall and humidity, while inadequate economic infrastructure would make getting crops to market difficult. USAID has identified certain potential coca substitutes, including mangoes, rubber trees, bananas, pineapples, bulk tropical fruits, ginger, black pepper, red onions, counter-season strawberries

<sup>257</sup> U.S. Department of State, *INCSR*, p. 91.

<sup>258</sup> Ibid., p. 90.

<sup>259</sup> Presidential Determination 94-22 of Apr. 1, 1994, reported in U.S. Department of State, *INCSR*, p. xxxii.

<sup>260</sup> For a discussion of these problems, see OTA, *Alternative Coca Reduction Strategies in the Andean Region*, p. 89.

<sup>261</sup> USAID, *Andean Counter-Drug Initiative, Objective IV: Sustainable Development and the Counter-Narcotics Strategy: Transition to New Realities, Semi-Annual Report (Oct. 1992-Mar. 1993)*, pp. 8-9.

<sup>262</sup> ONDCP, *Crop Substitution in the Andes*, p. 46.

and raspberries, fresh cut flowers (roses, chrysanthemums, carnations, and birds of paradise), garlic, oregano, and thyme.<sup>263</sup> Research by the Bolivian Ministry for Foreign Relations also identified coffee and plants for vegetable dyes.<sup>264</sup> Not all of these products have export potential. For example, coffee already is grown in the region, but it is not of export quality.<sup>265</sup> Banana production for the domestic market may be profitable, but Bolivian bananas can not compete successfully in the U.S. market against Caribbean bananas on either a quality or price basis.<sup>266</sup>

## Colombia

Colombia is the world's leading supplier of cocaine and is the third leading coca leaf producer. Small amounts of cannabis and increasing amounts of opium poppy also are grown in Colombia. Colombian traffickers—principally the Medellín and Cali cartels—virtually control worldwide cocaine processing and international wholesale distribution.

After coca cultivation was officially banned in 1947, Colombian traffickers began to produce cocaine largely from Bolivian and Peruvian cocaine base, but expanded cultivation in Colombia in response to growth of the cocaine industry. Colombia still produces an estimated 39,700 ha of low-quality (low alkaloid content) coca annually (table 4-2).<sup>267</sup> The alkaloid content of Colombian coca is roughly one-half that of Bolivian and Peruvian coca. Coca cultivation is concentrated in the Bolívar, Caquetá, and Vaupés departments (states) and has remained relatively stable over the past 5 years (figure 4-4). Clandestine cocaine base and cocaine HCl laboratories have been discovered throughout the country.<sup>268</sup>

There is no one generally agreed-upon explanation as to why the global cocaine industry developed in Colombia. The country's central location between Bolivia, Peru, and the United States, as well as the country's Pacific and Caribbean coastlines, make

<sup>263</sup> USITC staff interview with officials from USAID, La Paz, Bolivia, Apr. 19, 1994.

<sup>264</sup> USITC staff interview with officials from Ministry for Foreign Relations, La Paz, Bolivia, Apr. 19, 1994.

<sup>265</sup> USAID, *Andean Counter-Drug Initiative, Semi-Annual Report, 1992-1993*, p. 12.

<sup>266</sup> Ibid. and USITC staff interview with USAID official, La Paz, Bolivia, Apr. 19, 1994.

<sup>267</sup> DEA, *The Illegal Drug Situation in Colombia: Drug Intelligence Report*, DEA-93016 (Nov. 1993), pp. 3-4 and U.S. Department of State, *INCSR*, p. 103.

<sup>268</sup> DEA, *The Illegal Drug Situation in Colombia*, p. 1.

Colombia a logical hub for drug trafficking. Colombia also has an extensive network of rivers, which facilitates the movement of chemicals and cocaine.<sup>269</sup>

Colombian cocaine output increased throughout the 1980s. Of the Andean cocaine economies, Colombia reaps the largest profits because of the more lucrative nature of cocaine processing and marketing, versus the low-value-added activities conducted in Bolivia and Peru. Colombia's worldwide exports of cocaine and other drugs generate sales of an estimated \$3 billion annually. Actual foreign exchange earnings repatriated to Colombia were valued at about \$1 billion in 1989, making cocaine the third-leading export earner after coffee and petroleum, Colombia's primary traditional legal export products.<sup>270</sup>

Violence in Colombia is closely linked to cocaine production. Since the 1970s, drug traffickers have made temporary "alliances of convenience" with leftist guerrillas and right-wing paramilitary groups. The FARC guerilla group holds effective control over large areas of Colombia's eastern lowlands and rain forest, which are the primary coca cultivation and cocaine-processing regions. FARC reportedly is directly involved in coca cultivation and cocaine processing.<sup>271</sup>

Colombian authorities achieved many of that country's objectives during 1993 as set out in the bilateral drug control agreement with the United States through eradication of coca and opium both manually and with herbicides. However, coca eradication in 1993 was the lowest in 5 years. Ministry of Defense forces destroyed 793 ha, down 17 percent from 1992. Eradication operations in Colombia reportedly are minimal because much of the coca is cultivated in remote areas controlled by guerrillas.<sup>272</sup> President Clinton determined that Colombia was in full compliance with the goals and objectives of the UN Convention during 1993. He found that, although Colombian efforts on seizure and interdiction decreased in 1993, the outlook for eradication efforts had brightened in view of the eradication of 10,000 ha of opium poppy in 1993, and of over 22,000 ha of poppy since February 1992.<sup>273</sup>

Recent and ongoing USAID efforts in Colombia target three areas: support for the Colombian

<sup>269</sup> Ibid.

<sup>270</sup> EIU, *Country Profile: Colombia, 1992-93*, p. 9.

<sup>271</sup> DEA, *The Illegal Drug Situation in Colombia*, pp. 39-42.

<sup>272</sup> U.S. Department of State, *INCSR*, pp. 103-105.

<sup>273</sup> Presidential Determination 94-22 of Apr. 1, 1994, reported in U.S. Department of State, *INCSR*, p. xv.



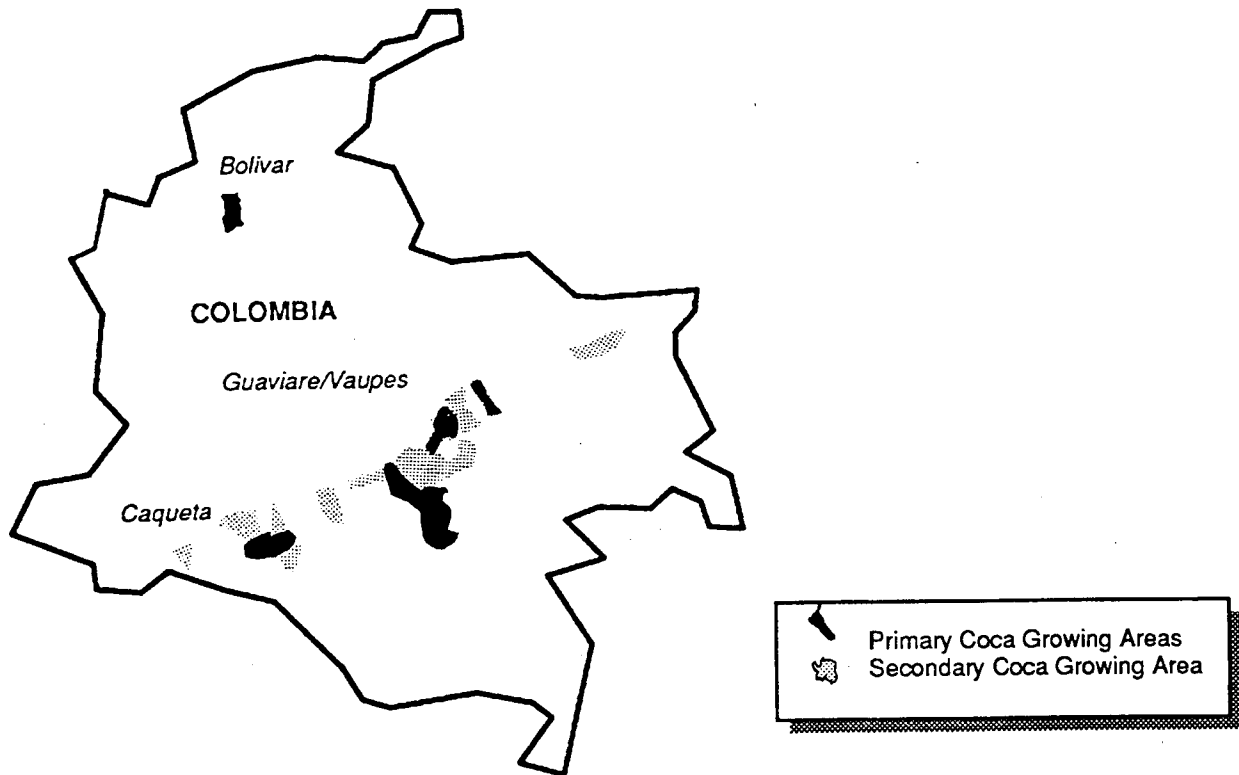
**Table 4-2**  
**Coca production, Colombia, 1989-93**

Item	1989	1990	1991	1992	1993
<b>Area<sup>1</sup>:</b>					
<i>(in hectares)</i>					
Potentially harvestable .....	42,400	40,100	37,500	37,100	39,700
Eradication .....	640	900	972	959	793
Estimated cultivation .....	43,040	41,000	38,472	38,059	40,493
<b>Leaf:</b>					
<i>(in metric tons)</i>					
Potentially harvestable .....	33,900	32,100	30,000	29,600	31,700

<sup>1</sup> The estimated leaf-to-HCl conversion ratio is 500:1.

Source: U.S. Department of State, *INCSR*, p. 108.

**Figure 4-4**  
**Colombia's coca-producing areas**



Source: U.S. Department of Justice, Drug Enforcement Administration, Office of Intelligence.

Government's efforts to stabilize the economy; help to strengthen democratic systems (including judicial sector training in such areas as criminal procedures, witness security, and financial crimes); and economic support for key cities and areas where illicit crops are cultivated, including the Cali and Medellín regions in fiscal year 1992.<sup>274</sup>

A submission to the U.S. International Trade Commission from the Colombian Government described four alternate development projects in that country's coca-growing regions.<sup>275</sup> Together, these projects, valued at \$22.6 million, involved crop substitution of 3,761 ha of coca in 1993; an additional 2,263 ha is projected for crop substitution out of coca in 1994. Among the substitute crops are—coffee, rice, sugar cane (growing and processing), corn, beans, rubber, hearts of palm, and cocoa. Fish breeding reservoirs, pig farms and reforestation were also mentioned as being included in the alternate development projects. Expansion initiatives in 1994 will include cattle breeding, bananas, and cassava.

UNDCP initiated two new projects in Caqueta and Putumayo states in 1992. These and other UN programs in Colombia have eliminated about 3,000 ha of coca in favor of agricultural products (including coffee and cocoa) and livestock.<sup>276</sup>

## Peru

Coca leaf from Peru provides nearly two-thirds of the world's cocaine supply. As with Bolivia, the cocaine base produced in Peru is usually transferred to Colombia for further refining into cocaine.<sup>277</sup>

Prior to European settlement in the 16th century, major areas of Peru produced coca for the Incan state.<sup>278</sup> Coca leaf trade further expanded in post-colonial Peru along with the growth of other industries such as gold and silver mining and rubber production. In modern Peru, coca leaf may be legally cultivated in Peru by farmers registered with the National Coca Monopoly (ENACO). ENACO buys and sells coca to retailers either for resale domestically (for chewing or herbal tea) or for

export to produce soft drink flavorings or pharmaceuticals. The 18,000 ha of land registered for legal coca cultivation are centered in the department (state) of Cuzco.<sup>279</sup>

Illicit coca production in Peru's Upper Huallaga Valley (UHV) expanded rapidly in the 1980s (figure 4-5). Increased coca production resulted from a combination of increasing demand for cocaine, rising prices for coca leaf, low prices for alternate crops, a severe economic recession lasting most of the decade, and policies of the Peruvian government encouraging migration into the UHV. The presence of Shining Path guerrillas rendered law enforcement and coca eradication efforts ineffectual.

Coca cultivation in Peru declined from 129,100 ha in 1992 to 108,800 ha in 1993, or by 16 percent (table 4-3). The decline reflected lower production in the UHV due largely to a coca fungus that devastated large areas of the crop and to the increasing number of aging, less productive coca plants, rather than to eradication efforts. Although nearly 12,000 ha of new coca have been planted in the Central Huallaga and other areas, this new cultivation is not estimated to reach productive maturity until 1995. Decreased coca leaf production in the UHV and lower coca leaf yields because of the blight resulted in a nearly 30-percent decline in harvestable coca leaf between 1992 and 1993, from 223,900 mt to 155,500 mt.<sup>280</sup>

Despite this decline in coca leaf production, the cocaine industry remains a significant factor in Peru's economy. The informal sector in Peru expanded significantly in the 1980s as the formal Peruvian economy deteriorated. Many subsistence farmers turned to coca cultivation to supplement their incomes or were coerced into coca cultivation by drug traffickers. According to Peruvian statistics, coca accounts for 78 percent of GDP in the Huallaga Valley.<sup>281</sup> The cocaine industry generates foreign exchange earnings estimated to be between \$600 million and \$800 million annually.<sup>282</sup>

Although unlicensed coca production in Peru is illegal, the Government of Peru opposes eradication of mature coca plants without viable economic

<sup>274</sup> USAID, *Andean Counter-Drug Initiative, Semi-Annual Report, 1992-1993*, pp. 15-21 and *Andean Counter-Drug Initiative, Objective IV: Alternative Development, Annual Report*, (Feb. 1993), pp. 12-17.

<sup>275</sup> Submission to the USITC dated May 2, 1994, by Gabriel Silva, Ambassador of Colombia to the United States.

<sup>276</sup> ONDCP, *Crop Substitution in the Andes*, p. 47.

<sup>277</sup> DEA, p. 5.

<sup>278</sup> OTA, *Alternative Coca Reduction Strategies in the Andean Region*, p. 48.

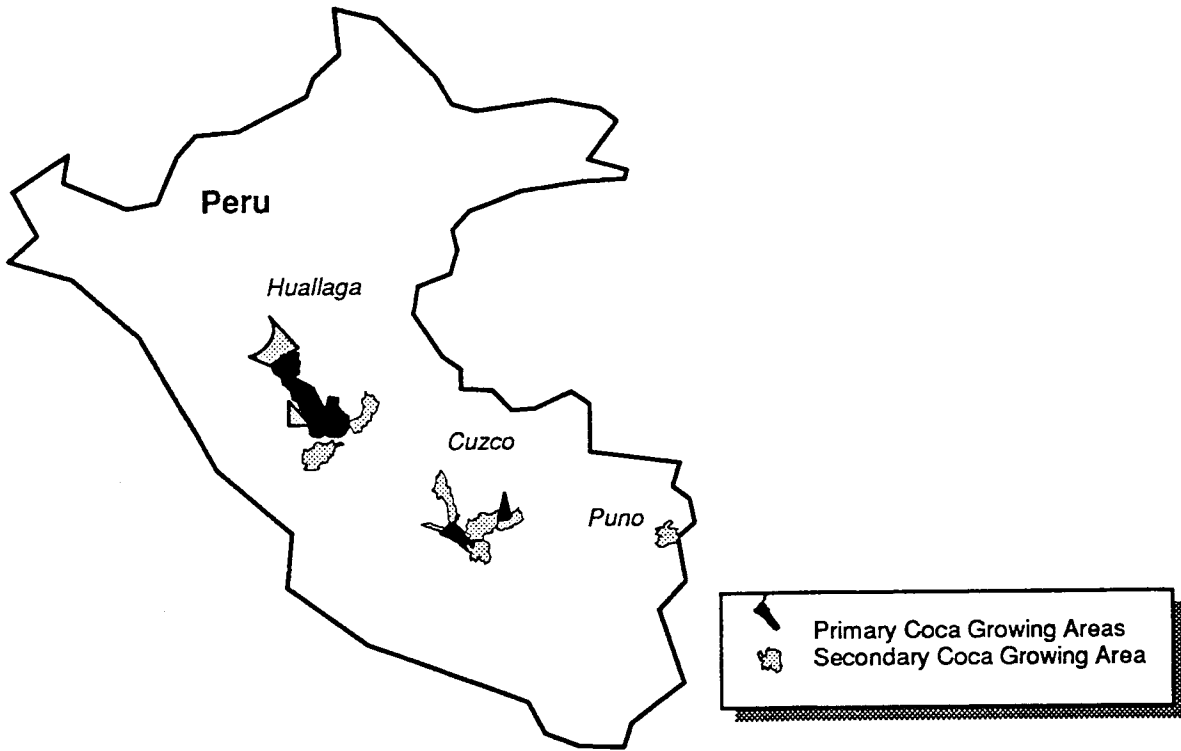
<sup>279</sup> DEA, p. 5.

<sup>280</sup> The conversion ratios for Peruvian coca leaf to cocaine range between 322:1 and 345:1. U.S. Department of State, *INCSR*, p. 123.

<sup>281</sup> Ministry of Agriculture, Office of Agrarian Information and National Development Institute, Upper Huallaga Special Project (PEAH), *Compendio Estadístico Agropecuario del Alto Huallaga, 1993 (Statistical Compendium of Agriculture and Fishing in the Upper Huallaga)*, (Lima, Peru, Jan. 1994), p. 14.

<sup>282</sup> EIU, *Country Profile: Peru, 1992-93*, p. 15.

**Figure 4-5**  
Peru's coca-producing areas



Source: U.S. Department of Justice, Drug Enforcement Administration, Office of Intelligence.

**Table 4-3**  
Coca production, Peru, 1989-93

Item	1989	1990	1991	1992	1993
<b>Area<sup>1</sup>:</b>					
<i>(in hectares)</i>					
Harvestable cultivation .....	120,400	121,300	120,800	129,100	108,800
Eradication .....	1,285	0	0	0	0
Cultivation .....	121,685	121,300	120,800	129,100	108,800
<b>Leaf:</b>					
<i>(in metric tons)</i>					
Potentially harvestable leaf ...	186,300	196,900	222,700	223,900	155,500

<sup>1</sup> Hectareage data for certain years have been corrected to more accurately reflect calendar years rather than fiscal years. Some adjustments in hectareage were also necessary to display gross rather than net cultivation.

Source: U.S. Department of State, *INCSR*, p. 123.

alternatives for producers. According to one report, “[c]oca reduction is politically sensitive and virtually non-existent in Peru and coca crops can be expected to reach maturity.”<sup>283</sup> There has been no reported eradication of mature coca in Peru since 1989. Peru’s coca reduction agency, CORAH, eradicated over 104,000 square meters of coca seedbeds, equivalent to over 6,000 ha of cultivation, in 1993. Peru’s unwillingness to eradicate illicit coca cultivations was cited as a reason why President Clinton did not grant Peru a full certification in meeting the objectives of the UN Convention. The President did certify with a national interest waiver.<sup>284</sup> However, the Peruvian Government reportedly is in the process of defining a national counternarcotics strategy that integrates enforcement measures with alternative development activities.<sup>285</sup>

Inadequate physical infrastructure is the key impediment to the development of crop substitutes for coca. The UHV remains virtually isolated from Peru’s main cities, significantly reducing market opportunities for any legitimate crops produced in the region. A new road development project funded by the Inter-American Development Bank is expected to take several years to develop.<sup>286</sup>

Despite infrastructure problems, several studies have identified possible coca substitutes. Prominent among them are: coffee, naturally-colored cotton, cocoa, palm oil, asparagus, broccoli, and brussel sprouts. None of these products is currently at a level of production, or has prices sufficiently high, to be a viable alternative to coca. Peruvian officials also are interested in developing high value-added products (like shrimp) that will sell at prices high enough to cover transportation costs to get the product out of the UHV.<sup>287</sup>

USAID has supported UHV crop substitution projects since 1981. The centerpiece of this effort is the Upper Huallaga Area Development Project. The project provides farmers technical assistance, loans, agricultural extension services, and small-scale infrastructure development.<sup>288</sup> According to one

<sup>283</sup> DEA, *Peru: Drug Intelligence Fact Sheet*, DEA-93046 (Oct. 1993), p. 3.

<sup>284</sup> Presidential Determination 94-22 of Apr. 1, 1994, reported in U.S. Department of State, *INCSR*, pp. xxxviii-xxxix.

<sup>285</sup> U.S. Department of State, *INCSR*, pp. 50 and 118.

<sup>286</sup> USITC staff interview with representatives of USAID, Lima, Peru, Apr. 25, 1994.

<sup>287</sup> *Ibid.*

<sup>288</sup> USAID, *Andean Counter-Drug Initiative, Semi-Annual Report, 1992-1993*, p. 27.

report, however, it “has had no perceptible impact on the coca situation in the Upper Huallaga” because new coca cultivation increased at an equal or faster rate than did the cultivation of alternate crops.<sup>289</sup>

## *Ecuador*

Ecuador is not a major drug-producing country. Only small amounts of coca and opium poppy are cultivated in Ecuador, although a few cocaine laboratories have been discovered in remote regions bordering Colombia and Peru. However, Ecuador occupies an important position in Andean drug production as a transit route for coca base moving from Peru to Colombia, drug-processing chemicals going to Colombia and Peru, and for cocaine and other drugs going from Colombia to the United States and Europe.<sup>290</sup>

Reflecting the general increased opium production in the region, the Government of Ecuador destroyed several hectares of opium poppy and made two seizures of opium poppy seeds in 1993. The Government of Ecuador also destroyed approximately 26,325 coca plants (table 4-4). There are no other significant drug crop eradication and crop substitution efforts in Ecuador. President Clinton determined that Ecuador was in full compliance with the UN Convention during 1993.<sup>291</sup>

## **ATPA Effectiveness**

Unlike programs directly targeted at coca-growing regions, ATPA’s primary effects are likely to be more broadly felt throughout the Andean economies. Any reduction of drug crop production is likely to occur only indirectly, such as through the creation of viable alternative industries that draw employment from the cocaine industry.

The brief existence of the ATPA preferences (18 months of operation for Colombia and Bolivia, 8 months for Ecuador and 4 months for Peru) means that the level of awareness of the ATPA in the Andean countries is still greatest among those who already were taking advantage of relatively low U.S. tariffs or the GSP program, such as flower growers in Colombia and Bolivian jewelry manufacturers. As was reported to Commission staff during factfinding travel to the ATPA countries, small producers or individuals in remote areas generally are not yet

<sup>289</sup> ONDCP, *Crop Substitution in the Andes*, p. 44.

<sup>290</sup> U.S. Department of State, *INCSR*, p. 109.

<sup>291</sup> Presidential Determination 94-22 of Apr. 1, 1994, reported in U.S. Department of State, *INCSR*, p. xvi.

**Table 4-4**  
**Coca production, Ecuador, 1989-93**

Item	1989	1990	1991	1992	1993
Area:					
<i>(in hectares)</i>					
Harvestable cultivation .....	150	120	40	-	-
Eradication .....	90	30	80	-	(1)
Cultivation .....	240	150	120	-	-
Leaf:					
<i>(in metric tons)</i>					
Potentially harvestable .....	(2)	(2)	(2)	(2)	(2)

<sup>1</sup> GOE authorities report the eradication of 26,325 coca plants in 1993. No conversion ratio to hectareage is given. Before 1992, estimates were given in hectareage.

<sup>2</sup> Not available.

Source: U.S. Department of State, *INCSR*, p. 113.

sufficiently knowledgeable about the market opportunities ATPA affords. Even when such information is available, the lack of adequate roads, port facilities, financing, and other aspects of physical infrastructure and economic infrastructure continue to plague Andean producers.

Evidence collected during the course of this investigation underscored the difficulties of isolating the direct effects of ATPA on drug crop eradication and crop substitution in the Andean countries, versus the effects of EU tariff preferences and the many other eradication and substitution programs that antedate ATPA. Past eradication and substitution efforts have met with limited success, at best. Crop substitution and eradication are "inherently slow."<sup>292</sup>

USAID has found that "economic assistance to illicit-growing areas alone is not effective" because illicit crop production can spread to other areas rapidly.<sup>293</sup> Moreover, "[a]t the heart of the drug problem lie the issues of government corruption and political will" in the Andean countries.<sup>294</sup> Eradication efforts also are limited by inadequate and ineffective law enforcement and a lack of government control in many coca-growing areas due to insurgent activity. Although eradication programs have been operative throughout the Andean region for years, achievements to date have been less than the stated objectives. As described above, coca eradication declined in Bolivia in 1993, and there has been no effective eradication program in Peru since 1989.

<sup>292</sup> OTA, *Alternative Coca Reduction Strategies in the Andean Region*, p. 96.

<sup>293</sup> USAID, *Andean Counter-Drug Initiative, Semi-Annual Report, 1992-1993*, p. 4.

<sup>294</sup> U.S. Department of State, *INCSR*, p. 3.

Few products, if any, can viably replace coca. Few alternate products offer the secure promise of the same economic return, ease of marketability, and in some cases the supportive infrastructure that already is present in the Andean cocaine industry. Crop substitution and diversification in the Andean region is taking place on a relatively small scale and is highly dependent on parallel improvements in the physical and economic infrastructure and better law enforcement. There is little evidence of drug crop substitution programs to date having any significant positive economic impact in the region.<sup>295</sup> In fact, the remoteness of most coca-growing areas, which provides cover to illicit coca growing and cocaine-producing operations, makes the marketing of alternate crops at competitive prices very difficult.

None of the individuals contacted during the course of this investigation suggested a causal relationship between ATPA trade preferences and either drug crop eradication and/or crop substitution. Future reports in this series will continue to monitor this issue. To the extent ATPA fosters economic growth and diversification, the act will help create new jobs and new legal sources of income throughout the Andean economies—not just in the coca-growing regions. Such indirect effects ultimately may prove to be the best benchmarks for determining ATPA effectiveness in future reports. All of the individuals and sources contacted during the course of this investigation agreed that providing incentives to increase legal employment and business opportunities is one important way to help counter further expansion of the Andean cocaine industry.

<sup>295</sup> "There has been little actual crop substitution [in the Andes]. . . . USAID's efforts to date have yielded only some 4,000 hectares of exportable crops in the Chapare [region of Bolivia.]" ONDCP, *Crop Substitution in the Andes*, pp. 1-3.



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**APPENDIX A**  
***Federal Register* Notice and**  
**List of Submissions**

filed by a party to the investigations must be served on all other parties to the investigations (as identified by either the public or BPI service list), and a certificate of service must be timely filed. The Secretary will not accept a document for filing without a certificate of service.

**Authority:** These investigations are being conducted under authority of the Tariff Act of 1930, title VII, as amended. This notice is published pursuant to section 207.12 of the Commission's rules.

By order of the Commission.

Issued: March 7, 1994.

Donna R. Koehnke,

Secretary.

[FR Doc. 94-5628 Filed 3-9-94; 8:45 am]

BILLING CODE 7020-02-P

[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:** Institution of investigation and request for comments.

**SUMMARY:** Pursuant to section 206 of the Andean Trade Preference Act (ATPA, 19 U.S.C. 3204) and section 332(b) of the Tariff Act of 1930 (19 U.S.C. 1332(b)), the United States International Trade Commission instituted investigation No. 332-352, Andean Trade Preference Act: Effect on the U.S. Economy and on Andean Drug Crop Eradication.

**EFFECTIVE DATE:** February 17, 1994.

**FOR FURTHER INFORMATION CONTACT:** James E. Stamps (202-205-3227), Trade Reports Division, Office of Economics, U.S. International Trade Commission, Washington, DC 20436. Hearing-impaired individuals can obtain further information by contacting the Commission's TDD terminal at 202-205-1810.

**BACKGROUND**

Section 206 of ATPA requires that the Commission submit annual reports to the Congress regarding:

- (1) The actual economic effect of ATPA on the U.S. economy generally as well as on specific industries which produce articles that are like, or directly competitive with, articles being imported under the Act;
- (2) The probable future effect of ATPA on the U.S. economy generally and on industries affected by the Act; and
- (3) The estimated effect of ATPA on drug-related crop eradication and crop substitution efforts of beneficiary countries.

Section 332(b) of the Tariff Act of 1930 provides the Commission with

general authority to conduct factfinding investigations with respect to trade and tariff matters. The Commission's first annual report on ATPA, covering calendar years 1992 and 1993, is to be submitted by September 30, 1994.

**WRITTEN SUBMISSIONS:** The Commission does not plan to hold a public hearing in connection with this investigation. 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 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 for inspection by interested persons in the Office of the Secretary of the Commission. To be assured of consideration by the Commission, written statements relating to the Commission's report should be submitted at the earliest practical date and should be received no later than May 2, 1994. Address all submissions to Office of the Secretary, U.S. International Trade Commission, 500 E St., S.W., Washington, DC 20436.

By order of the Commission.

Issued: March 4, 1994.

Donna R. Koehnke,

Secretary.

[FR Doc. 94-5630 Filed 3-9-94; 8:45 am]

BILLING CODE 7020-02-P

[Investigation No. 337-TA-355]

**Certain Vehicle Security Systems and Components Thereof; Decision Not To Review an Initial Determination Granting Joint Motion To Terminate Investigation With Respect to Respondent, Audiovox Corp., on the Basis of a License Agreement**

**AGENCY:** U.S. International Trade Commission.

**ACTION:** Notice.

**SUMMARY:** Notice is hereby given that the U.S. International Trade Commission has determined not to review an initial determination (ID) (Order No. 13) issued on January 31, 1994, by the presiding administrative law judge (ALJ) in the above-captioned investigation granting the joint motion of complainant Code-Alarm, Inc. ("Code-Alarm") and respondent

Audiovox Corp. ("Audiovox") to terminate the investigation with respect to Audiovox on the basis of a license agreement.

**FOR FURTHER INFORMATION CONTACT:**

Andrea C. Casson, Esq., Office of the General Counsel, U.S. International Trade Commission, 500 E Street, S.W., Washington, DC 20436, telephone 202-205-3105.

**SUPPLEMENTARY INFORMATION:** The

Commission instituted this investigation, which concerns allegations of violations of section 337 of the Tariff Act of 1930 in the importation, sale for importation, and sale after importation of certain vehicle security systems and components thereof, on August 25, 1993. Complainant Code-Alarm alleges infringement of claims 1-16 of U.S. Letters Patent 5,049,867 (the '867 patent).

On January 3, 1994, Code-Alarm and Audiovox filed a joint motion to terminate the investigation with respect to Audiovox on the basis of a license agreement. On January 31, 1994, the ALJ issued an ID granting the joint motion and terminating the investigation as to Audiovox. No petitions for review or agency or public comments were received.

This action is taken under the authority of section 337 of the Tariff Act of 1930, 19 U.S.C. 1337, and Commission interim rule 210.53, 19 CFR 210.53.

Copies of the nonconfidential version of the ID and all other nonconfidential documents filed in connection with this investigation are or will be available for inspection during official business hours (8:45 a.m. to 5:15 p.m.) in the Office of the Secretary, U.S. International Trade Commission, 500 E Street S.W., Washington, DC 20436, telephone 202-205-2000. Hearing-impaired persons are advised that information on this matter can be obtained by contacting the Commission's TDD terminal on 202-205-1810.

Issued: March 4, 1994.

By order of the Commission.

Donna R. Koehnke,

Secretary.

[FR Doc. 94-5631 Filed 3-9-94; 8:45 am]

BILLING CODE 7020-02-P



# SUBMISSIONS

Michael T. Shor  
on behalf of the Asociación Colombiana de Exportadores de Flores  
(Colombian Association of Flower Exporters)

Terence P. Stewart, James R. Cannon, Jr., and Amy S. Dwyer  
on behalf of the Floral Trade Council  
(2 submissions received)

Embassy of Colombia  
Ambassador Gabriel Silva

ORBOL, S.A. (Bolivian jewelry manufacturer)  
Jesús Sillerico Linares, Director



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# **APPENDIX B**

## **Statistical Tables**

Table B-1  
Leading U.S. exports to Bolivia, 1990-93

(\$1,000, f.a.s. basis)

Item	Description	1990	1991	1992	1993
1001.90	Wheat (other than durum wheat), and meslin	8,058	16,335	19,902	12,254
8471.92	Input or output units for ADP machines	862	1,173	2,758	7,458
1101.00	Wheat or meslin flour	5,179	6,752	8,929	6,379
8431.43	Parts for boring or sinking machinery, n.e.s.i.	6,829	8,057	8,245	6,043
2710.00	Oil (not crude) from petrol & bitum mineral etc	1,134	1,402	2,423	5,212
9880.00	Estimated low value shipments	3,477	4,382	4,569	4,392
2837.11	Cyanides and cyanide oxides of sodium	0	183	2,676	3,627
7113.19	Jewelry and parts thereof, of oth precious metal	12,567	20,121	14,544	3,569
8503.00	Parts of electric motors, generators & sets	60	76	363	3,030
8429.51	Mech front-end shovel loaders, self-propelled	579	488	547	2,687
8471.91	Digital process unit with storage, input output unit	1,647	1,582	1,114	2,553
8473.30	Parts & accessories for ADP machines & units	789	1,055	1,454	2,339
3100.00	Fertilizers, exports only incl other crude mat'ls	741	1,444	2,515	2,331
8532.25	Dielectric fixed capacitors of paper or plastics	0	0	0	2,236
8705.90	Special purpose vehicles, n.e.s.i.	88	0	283	2,066
7325.91	Grinding balls and similar articles for mills, n.e.s.i.	0	0	635	2,020
8525.20	Transmission appr incorporating reception apparatus	2,341	1,624	750	1,936
8708.99	Parts and accessories of motor vehicles, n.e.s.i.	1,365	1,819	2,211	1,880
8474.90	Parts of mach for sorting etc earth stone ores etc	498	1,331	739	1,842
8705.20	Mobile drilling derricks	0	822	38	1,841
9015.90	Parts and accessories for surveying etc n.e.s.i.	4,387	1,761	377	1,840
8431.39	Pts for lifting, hndng, loading/unlndng mach n.e.s.i.	2,531	6,828	2,066	1,796
8409.10	Parts for aircraft engines (sp-ign, rot or comp)	1,784	1,380	675	1,782
8414.80	Air/gas pumps, compressors and fans etc, n.e.s.i.	203	663	2,270	1,770
9809.00	Exports valued not over \$10,000, not identified	602	741	1,586	1,594
8411.11	Turbojets of a thrust not exceeding 25 kn	715	370	500	1,560
2106.90	Food preparations n.e.s.i.	2,173	2,616	2,051	1,414
6902.20	Refract bricks, n.e.s.i., over 50% al2O3 or siO2	0	29	261	1,369
8701.30	Track-laying tractors	181	1,580	474	1,366
8411.12	Turbojets of a thrust exceeding 25 kn	0	575	0	1,300
	Total of items shown	58,789	85,190	84,955	91,488
	Total all commodities	134,926	182,927	205,874	192,423

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

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

**Table B-2**  
**Leading U.S. exports to Colombia, 1990-93**

(\$1,000, f.a.s. basis)

Item	Description	1990	1991	1992	1993
9880.00	Estimated low value shipments	55,158	53,298	86,488	87,326
8701.20	Road tractors for semi-trailers	679	3,082	49,704	79,326
8431.43	Parts for boring or sinking machinery, n.e.s.i.	50,460	55,476	103,867	66,537
8471.91	Digital process unit with storage, input output unit	28,294	20,966	30,250	58,411
8502.30	Generating sets, etc, n.e.s.i.	608	1,393	30,348	58,299
8431.39	Pts for lifting, hndng, loading/unloading mach n.e.s.i.	24,710	11,076	34,656	50,017
2903.21	Vinyl chloride (chloroethylene)	54,480	32,617	42,830	45,152
1005.90	Corn (maize), other than seed corn	1,442	4,133	58,751	43,916
8473.30	Parts & accessories for ADP machines & units	20,416	23,518	31,836	43,490
8704.22	Motor veh trans gds com-ig int c p e gvw >5nov20 mtn	3,114	470	5,872	42,837
8471.92	Input or output units for ADP machines	12,742	19,199	34,388	36,864
8409.91	Spark-ignition int combustion piston eng pts n.e.s.i.	23,802	22,131	22,599	35,489
3901.10	Polyethylene having a specific gravity under 094	10,820	32,160	21,959	32,255
8708.99	Parts and accessories of motor vehicles, n.e.s.i.	27,712	18,039	26,995	32,086
2902.50	Styrene	30,938	30,821	25,399	32,030
3100.00	Fertilizers, exports only incl other crude mat'ls	39,028	36,217	31,601	31,418
8703.23	Pass veh spk-ig int com rpr p eng >1500 nov 3m cc	2,003	11,584	29,358	30,234
1001.90	Wheat (other than durum wheat), and meslin	52,231	57,942	25,370	29,955
8471.20	Digital ADP mach w central process, in-output unit	7,913	12,258	18,616	27,597
8474.90	Parts of mach for sorting etc earth stone ores etc.	4,362	2,628	22,655	27,032
8803.30	Parts of airplanes or helicopters, n.e.s.i.	32,088	24,594	36,153	26,419
2304.00	Soybean oilcake & oth solid residue, wh/not ground	0	0	13,372	23,828
4804.11	Kraftliner, uncoated unbleached in rolls or sheets	22,554	25,741	22,711	20,343
5201.00	Cotton, not carded or combed	8	10	12,426	19,233
6217.90	Parts of garments and clothing accessories, n.e.s.i.	1,361	703	13,551	19,020
2901.22	Propene (propylene)	4,240	20,038	14,267	18,765
1502.00	Fats, bovine, sheep or goat, raw or rendered	15,067	20,078	20,382	17,509
3901.20	Polyethylene having a spec gravity of 094 or more	8,976	12,071	14,244	15,298
8402.90	Super-heated water boilers & steam genrn boil pts	1,609	3,558	7,488	14,272
8450.11	Washing mach automatic w dry line cap not ov 10kg	504	629	8,342	13,386
	Total of items shown	537,320	556,432	896,481	1,078,346
	Total all commodities	1,985,325	1,900,145	3,200,485	3,092,168

Note.—Because of rounding, figures may not add to the totals shown.  
Source: Compiled from official statistics of the U.S. Department of Commerce.

**Table B-3**  
**Leading U.S. exports to Ecuador, 1990-93**

(\$1,000, f.a.s. basis)

Item	Description	1990	1991	1992	1993
8431.39	Pts for lifting, hndng, loading/unloading mach n.e.s.i.	10,995	14,366	13,803	62,639
8431.43	Parts for boring or sinking machinery, n.e.s.i.	24,150	38,747	36,545	59,972
4804.11	Kraftliner, uncoated unbleached in rolls or sheets	67,351	76,002	61,045	55,156
1001.90	Wheat (other than durum wheat), and meslin	57,464	42,290	9,194	35,638
9880.00	Estimated low value shipments	17,067	23,325	22,039	23,888
2711.13	Butanes, liquefied	0	0	23,347	20,142
8430.49	Boring or sinking mach n.e.s.i., not self-propelled	83	518	330	19,339
7207.20	Smdr iron or nonalloy steel, 25 pct or more carbon	3,700	0	11,019	19,316
3901.10	Polyethylene having a specific gravity under .094	13,394	27,177	15,429	17,147
8411.82	Gas turbines of a power exceeding 5,000 kw	0	2,163	1,275	16,947
8703.23	Pass veh spk-ig int com repr p eng >1500 nov 3m cc	2,758	4,263	37,131	16,005
2106.90	Food preparations n.e.s.i.	3,860	13,608	17,321	13,256
8708.99	Parts and accessories of motor vehicles, n.e.s.i.	5,617	6,212	6,305	9,727
5201.00	Cotton, not carded or combed	4,840	1,856	931	9,502
3100.00	Fertilizers, exports only incl other crude matls	8,970	12,004	15,201	8,998
8471.91	Digital process unit with storage, input output unit	5,365	5,621	8,625	8,732
3808.10	Insecticides, for retail sale etc	4,278	9,085	7,858	8,567
8701.20	Road tractors for semi-trailers	883	6,180	3,986	7,757
8413.91	Parts of pumps for liquids	8,515	10,071	3,369	7,202
8473.30	Parts & accessories for ADP machines & units	2,730	4,833	4,115	6,402
8409.91	Spark-ignition int combustion piston eng pts n.e.s.i.	6,386	7,799	6,410	6,263
3901.20	Polyethylene having a spec gravity of .094 or more	6,076	6,704	6,280	6,049
3904.10	Polyvinyl chloride, not mixed with other substance	5,654	10,823	4,940	5,906
2929.10	Isocyanates	3,229	3,861	3,728	5,504
5902.10	Tire cord fabric of high tenacity yarn, nylon etc	1,585	2,788	2,826	5,329
8509.40	Electromech food grinder processor mixer extractor	1,098	992	2,885	5,096
8471.92	Input or output units for ADP machines	2,239	3,449	4,875	5,012
7304.20	Casing etc for oil & gas drill, iron n.e.s.i. & steel	1,315	1,446	2,202	4,925
8411.99	Gas turbine parts n.e.s.i.	262	33	2,923	4,253
6309.00	Worn clothing and other worn textile articles	88	397	2,297	4,237
	Total of items shown	269,951	336,609	336,233	478,906
	Total all commodities	659,296	908,037	947,969	1,043,015

Note.—Because of rounding, figures may not add to the totals shown.  
 Source: Compiled from official statistics of the U.S. Department of Commerce.

Table B-4  
Leading U.S. exports to Peru, 1990-93

(\$1,000, f.a.s. basis)

Item	Description	1990	1991	1992	1993
2710.00	Oil (not crude) from petrol & bitum mineral etc	32,108	25,123	75,959	58,411
1001.90	Wheat (other than durum wheat), and meslin	25,737	22,328	33,576	47,140
8431.39	Pts for lifting, hndng, loading/unldng mach n.e.s.i.	21,693	19,148	42,375	39,703
9880.00	Estimated low value shipments	25,431	25,493	34,658	38,341
8431.43	Parts for boring or sinking machinery, n.e.s.i.	7,806	8,882	7,762	21,247
1005.90	Corn (maize), other than seed corn	46,849	29,406	16,281	20,674
8473.30	Parts & accessories for ADP machines & units	4,903	10,415	14,141	16,978
8474.90	Parts of mach for sorting etc earth stone ores etc	4,536	2,295	3,931	16,936
2106.90	Food preparations n.e.s.i.	436	3,703	13,446	15,731
1507.10	Soybean oil & fractions, crude, wheth/not degummed	0	2,290	14,008	14,999
8703.23	Pass veh spk-ig int com rpr p eng >1500 nov 3m cc	4,275	27,278	24,426	14,225
3901.10	Polyethylene having a specific gravity under 094	4,364	8,289	7,595	13,350
8431.49	Parts and attachments n.e.s.i. for derricks etc	11,807	5,962	4,428	12,560
2926.10	Acrylonitrile	14,162	14,001	12,846	12,433
8471.92	Input or output units for ADP machines	4,752	6,128	7,344	11,386
8471.91	Digital process unit with storage, input output unit	6,492	5,001	10,366	9,906
8708.99	Parts and accessories of motor vehicles, n.e.s.i.	7,311	10,145	7,688	9,857
1101.00	Wheat or meslin flour	16,519	9,984	10,939	9,382
8431.41	Buckets, shovels, grabs & grips for derricks etc	2,769	1,248	1,334	8,903
1006.30	Rice, semi- or wholly milled, polished etc or not	21,758	22,709	10,336	8,471
8803.30	Parts of airplanes or helicopters, n.e.s.i.	11,201	4,381	3,372	8,433
1507.90	Soybean oil, refined, and fractions, not modified	5,137	4,616	6,515	8,317
3901.20	Polyethylene having a spec gravity of 094 or more	4,795	14,272	8,861	8,113
2933.40	Heterocyclic comp with a quinoline etc ring-system	2,103	3,395	3,383	8,073
8704.10	Dumpers designed for off-highway use	3,988	2,260	1,854	7,545
8704.22	Motor veh trans gds com-ig int c p e gvw >5nov20 min	40	981	5,949	7,269
3100.00	Fertilizers, exports only incl other crude materials	4,932	5,637	4,675	7,192
5201.00	Cotton, not carded or combed	19	169	1,208	6,598
1701.99	Cane/beet sug chem pure sucrose reind n.e.s.i.	5,626	21,816	10,566	5,922
4804.11	Kraftliner, uncoated unbleached in rolls or sheets	301	2,679	3,300	5,874
	Total of items shown	301,851	320,032	403,121	473,968
	Total all commodities	754,613	807,081	965,388	1,031,462

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

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

**Table B-5**  
**Leading U.S. Imports for consumption from Bolivia, 1990-93**  
 (\$1,000, customs value)

Item	Description	1990	1991	1992	1993
8001.10.00	Unwrought tin, not alloyed	52,581	47,907	26,269	41,137
7108.12.10	Unwrought gold bullion and dore, nonmonetary	79,100	62,127	39,180	25,810
7113.19.10	Rope, curb, etc. in continuous lengths, of precious metals	13,972	22,643	26,317	25,273
7113.19.50	Articles of jewelry and parts thereof of precious metals	1,410	3,647	5,517	23,189
4407.23.00	Baboon, mahogany, imbuia and balsa tropical woods	17,381	22,327	12,159	15,122
8001.20.00	Unwrought tin alloys	2,541	2,273	15,306	10,293
7113.19.29	Necklaces and neck chains of gold, n.e.s.i.	243	230	3,622	9,364
0801.20.00	Brazil nuts, shelled or in shell, fresh or dried	5,275	7,132	4,587	5,533
2825.80.00	Antimony oxides	1,152	2,685	5,775	5,016
2611.00.00	Tungsten ores and concentrates	4,448	6,735	4,380	3,393
9801.00.10	U.S. goods returned without having been advanced in value	3,129	462	1,636	3,088
6110.20.20	Sweaters, pullovers and similar articles, knitted or crocheted	1,514	841	1,561	2,963
1701.11.01	Cane sugar entered in pursuant to its provisions	0	2,553	3,392	1,741
6110.10.20	Sweaters, pullovers, waistcoats (vests) and similar articles	911	1,097	1,243	1,206
6205.20.20	Men's or boys' shirts, not knitted or crocheted	269	23	198	1,000
7112.10.00	Waste and scrap of gold, including metal clad with gold	182	1,760	1,038	778
4407.10.00	Coniferous wood sawn or chipped lengthwise	272	481	26	544
4407.99.00	Nonconiferous woods, n.e.s.i., sawn/chipped lengthwise	164	205	572	512
7113.11.50	Articles of jewelry and parts thereof, of silver	0	163	653	509
6110.10.10	Sweaters, pullovers, sweatshirts, waistcoats (vests)	9	38	37	455
1211.90.80	Plants and parts of plants n.e.s.i.	1,520	1,299	594	437
7108.13.50	Gold (including gold plated with platinum)	0	0	0	374
4202.31.60	Articles of a kind normally carried in the pocket or handbag	216	97	170	347
6104.62.20	Women's or girls' trousers, breeches and shorts, knitted	108	605	610	340
6205.90.40	Men's or boys' shirts, not knitted or crocheted	0	0	0	321
8803.30.00	Parts of airplanes or helicopters, n.e.s.i.	440	300	180	310
0603.10.60	Roses, fresh cut	202	528	380	301
4202.21.90	Leather handbags valued over \$20 each	2	46	65	239
4418.20.00	Wooden doors and their frames and thresholds	27	89	252	236
6106.10.00	Women's or girls' blouses and shirts, knitted or crocheted	0	10	79	235
6104.42.00	Women's or girls' dresses, knitted or crocheted	179	465	492	235
8110.00.00	Antimony and articles thereof	191	274	156	230
6108.21.00	Women's or girls' briefs and panties, knitted or crocheted	0	0	0	215
9999.95.00	Informal entries under \$1,251	243	241	176	202
4202.21.60	Leather handbags valued not over \$20	3	32	107	197
9401.69.60	Chairs with wooden frames n.e.s.i., not upholstered	0	0	102	157
2811.29.10	Arsenic trioxide	0	12	44	154
6105.10.00	Men's or boys' shirts, knitted or crocheted, of cotton	0	14	0	149
4418.20.80	Doors and their frames n.e.s.i.	0	0	0	141
6204.51.00	Women's or girls' skirts and divided skirts	0	1	1	129
2810.00.00	Oxides of boron; boric acids	0	0	0	117
9014.20.80	Nonelectrical instruments and appliances	0	0	0	116
6403.59.60	Nonwelt footwear with outer soles and uppers of leather	200	123	150	108
9401.61.40	Upholstered chairs with wooden frames	11	10	2	93

See notes at end of table.



Table B-5--Continued  
 Leading U.S. imports for consumption from Bolivia, 1990-93  
 (\$1,000, customs value)

Item	Description	1990	1991	1992	1993
6109.10.00	T-shirts, singlets, tank tops and similar garments .....	1,055	2,655	1,139	93
0801.30.00	Cashew nuts, shelled or in shell, fresh or dried .....	236	244	454	89
4202.91.00	Leather cases, bags and containers, n.e.s.i. ....	22	26	48	87
6114.20.00	Garments n.e.s.i., knitted or crocheted, of cotton .....	0	105	71	87
8531.80.00	Electric sound or visual signaling apparatus .....	0	0	0	86
8415.83.00	Air conditioning machines not incorporating a refrigerating unit .....	0	0	0	83
	Total of items shown .....	189,210	192,505	158,741	182,835
	Total all commodities .....	199,325	204,561	161,586	185,022

<sup>1</sup> HTS subheading 1701.11.01 was created on Oct. 1, 1990.

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

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

**Table B-6**  
**Leading U.S. imports for consumption from Colombia, 1990-93**  
*(\$1,000, customs value)*

Item	Description	1990	1991	1992	1993
2709.00.20	Petroleum oils and oils from bituminous minerals	1,243,781	936,999	838,113	979,111
0901.11.00	Coffee, not roasted, not decaffeinated	271,563	310,328	378,764	235,065
2710.00.05	Distillate and residual fuel oils (including blends)	350,347	224,188	158,748	196,525
0803.00.20	Bananas, fresh or dried	105,217	136,268	127,458	166,254
0603.10.70	Chrysanthemums, standard carnations, anthuriums, and orchids	97,199	96,437	116,557	122,190
7103.91.00	Rubies, sapphires and emeralds, worked or graded	58,323	51,549	92,549	119,619
2701.12.00	Bituminous coal, whether or not pulverized	52,650	61,451	56,168	109,078
9999.95.00	Informal entries under \$1,251	83,007	70,113	79,559	82,710
0603.10.60	Roses, fresh cut	62,960	67,543	66,855	80,312
6204.62.40	Women's or girls' trousers, breeches and shorts	27,978	40,211	56,507	55,281
9801.00.10	U.S. goods returned without having been advanced in value	26,170	13,863	29,246	46,025
0901.12.00	Coffee, not roasted, decaffeinated	37,358	28,110	28,352	33,634
0803.00.30	Plantains, fresh	24,026	30,672	28,350	30,449
0603.10.80	Cut flowers and flower buds suitable for bouquets	21,811	18,615	26,287	27,809
3921.12.11	Nonadhesive plates, sheets, film, foil, strip	19,113	21,881	25,726	26,233
0306.13.00	Shrimp and prawns, cooked in shell or uncooked	31,199	36,627	24,582	25,500
6203.42.40	Men's or boys' trousers, breeches and shorts, not knitted	8,662	15,323	21,997	21,981
0603.10.30	Miniature (spray) carnations, fresh cut	13,801	20,213	21,644	21,475
7110.11.00	Platinum, unwrought or in powder form	2,277	621	24,835	19,151
1701.11.02	Other sugar to be used for the production (other than by distillation) of polyhydric alcohols	9,833	8,160	13,002	17,139
6110.20.20	Sweaters, pullovers and similar articles, knitted or crocheted	795	3,723	7,783	13,593
4901.99.00	Printed books, brochures, leaflets and similar printed matter	6,409	9,968	15,828	12,911
6205.20.20	Men's or boys' shirts, not knitted or crocheted	1,630	1,896	10,773	12,844
6115.11.00	Party hose and tights, knitted or crocheted	6,608	6,739	5,856	12,802
4202.11.00	Leather trunks, suitcases, vanity cases etc.	10,251	14,136	11,941	11,410
2523.29.00	Portland cement, other than white	19,083	24,606	10,869	11,293
6204.31.20	Women's or girls' suit-type jackets and blazers	4,066	5,356	8,494	9,156
6203.31.00	Men's or boys' suit-type jackets and blazers, not knitted	2,694	3,737	6,658	8,823
6206.40.30	Women's or girls' blouses and shirts, not knitted or crocheted	7,861	8,558	6,954	8,701
1701.11.01	Cane sugar entered in pursuant to its provisions	15,062	16,418	15,051	8,382
8402.20.00	Super-heated water boilers	4,033	0	0	8,154
0511.99.20	Parings and similar waste of raw hides or skins	0	0	3,082	7,995
6108.22.00	Women's or girls' briefs and panties, knitted or crocheted	1,391	2,728	3,128	7,467
6201.93.30	Men's or boys' anoraks, windbreakers and similar articles	797	4,079	5,001	7,407
6208.91.10	Women's or girls' bathrobes and dressing gowns	93	2,546	4,293	6,819
2523.10.00	Hydraulic cement clinkers	11,084	13,947	5,553	6,724
6204.19.20	Women's or girls' suits, not knitted or crocheted	3,183	3,324	3,604	6,604
4202.91.00	Leather cases, bags and containers, n.e.s.i.	4,394	5,210	6,181	6,520
6212.10.20	Brassieres, other than containing lace	865	3,373	4,422	6,395
7103.10.20	Precious and semiprecious stones (other than diamonds)	2,412	1,386	4,425	6,085
6403.99.90	Nonwelt footwear with outer soles of rubber or plastic	4,090	7,779	5,682	6,079
7202.60.00	Ferronickel	21,141	15,030	13,136	6,070

See note at end of table.

Table B-6—Continued  
 Leading U.S. imports for consumption from Colombia, 1990-93  
 (\$1,000, customs value)

Item	Description	1990	1991	1992	1993
6203.11.20	Men's or boys' suits of wool or fine animal hair .....	1,926	449	4,429	5,872
6403.91.30	Welt footwear with outer soles of rubber or plastics .....	161	445	952	5,793
6204.39.30	Women's or girls' suit-type jackets and blazers .....	5,433	9,149	6,018	5,520
6109.10.00	T-shirts, singlets, tank tops and similar garments .....	3,766	4,342	9,850	5,491
3503.00.55	Edible gelatin, photographic gelatin, and other, n.e.s.i. ....	2,607	4,682	4,110	5,065
1904.10.00	Prepared foods obtained by the swelling or roasting of cereals .....	3,549	3,499	4,608	4,995
1704.90.20	Confections or sweetmeats ready for consumption .....	4,164	6,558	7,013	4,965
6204.11.00	Women's or girls' suits, not knitted or crocheted .....	1,838	3,000	3,858	4,909
	Total of items shown .....	2,698,661	2,375,837	2,414,827	2,650,384
	Total all commodities .....	3,154,087	2,723,653	2,888,009	3,009,831

Note.—Because of rounding, figures may not add to the totals shown.  
 Source: Compiled from official statistics of the U.S. Department of Commerce.

**Table B-7**  
**Leading U.S. Imports for consumption from Ecuador, 1990-93**  
 (\$1,000, customs value)

Item	Description	1990	1991	1992	1993
2709.00.20	Petroleum oils and oils from bituminous minerals .....	396,689	326,200	428,286	471,978
0306.13.00	Shrimp and prawns, cooked in shell or uncooked .....	276,353	348,992	366,375	354,421
0803.00.20	Bananas, fresh or dried .....	297,857	297,232	259,927	207,401
0901.11.00	Coffee, not roasted, not decaffeinated .....	60,816	48,104	33,847	41,341
2710.00.05	Distillate and residual fuel oils (including blends) .....	88,361	67,636	25,075	36,844
7108.12.10	Unwrought gold bullion and dore, nonmonetary .....	5,485	325	9,645	24,262
1801.00.00	Cocoa beans, whole or broken, raw or roasted .....	45,903	32,720	20,793	22,334
0302.69.40	Fish, n.e.s.i., excl fillets, livers and roes, fresh or chilled .....	15,535	19,531	20,187	20,925
0306.23.00	Shrimp and prawns, live, cooked in shell, or uncooked .....	14,760	12,249	12,249	16,083
1604.14.40	Tunas and skipjack, not in airtight containers .....	5,408	6,060	3,395	13,885
0803.10.60	Roses, fresh cut .....	4,790	5,884	8,422	10,917
1804.00.00	Cocoa butter, fat and oil .....	20,649	25,525	14,316	9,466
4421.90.95	Articles of wood, n.e.s.i. ....	0	0	0	8,828
1803.10.00	Cocoa paste, not defatted .....	12,531	10,070	6,518	8,281
0803.00.30	Plantains, fresh .....	9,787	9,764	10,632	8,054
9999.95.00	Informal entries under \$1,251 .....	3,575	3,602	7,511	8,021
0603.10.80	Cut flowers and flower buds suitable for bouquets .....	3,084	4,548	5,355	7,324
9801.00.10	U.S. goods returned without having been advanced in value .....	4,536	7,058	2,563	6,754
0302.39.00	Tuna, n.e.s.i., fresh or chilled, excluding fillets .....	962	1,563	7,273	6,357
2710.00.25	Naphthas, except motor fuel or motor fuel blendings .....	0	0	0	6,056
1701.11.01	Cane sugar entered in pursuant to its provisions .....	01	5,558	0	5,404
1604.14.30	Tunas and skipjack, not in oil, in airtight containers .....	1,721	561	28	4,710
2005.40.00	Peas, prepared or preserved otherwise than by vinegar .....	336	465	2,127	4,558
5305.21.00	Abaca (manila hemp or musa textilis nee) fibers, raw .....	3,164	3,367	2,835	3,035
0304.20.60	Frozen fillets of fresh-water fish, flat fish, etc .....	5,478	2,363	2,104	2,885
6110.10.20	Sweaters, pullovers, waistcoats (vests) and similar articles .....	1,583	1,930	2,632	2,845
2101.10.20	Extracts, essences and concentrates of coffee .....	3,502	2,235	1,736	2,683
4407.23.00	Baboon, mahogany, imbuia and balsa tropical woods .....	3,060	2,691	2,155	2,346
6204.62.40	Women's or girls' trousers, breeches and shorts .....	190	379	1,377	2,208
7113.19.50	Articles of jewelry and parts thereof of precious metals .....	4	355	120	2,186
2710.00.45	Mixtures of hydrocarbons n.e.s.i. ....	0	0	0	2,146
0901.21.00	Coffee, roasted, not decaffeinated .....	340	401	269	2,117
2401.10.20	Tobacco, not stemmed (stripped) .....	939	1,786	2,616	1,946
3203.00.10	Coloring matter of annato, archil, cochineal, cudbea .....	548	1,294	866	1,944
2009.80.60	Juice of any other single fruit, n.e.s.i., unfermented .....	948	1,851	2,505	1,905
1806.20.40	Preparation consisting wholly of ground cocoa beans .....	4,853	3,798	3,691	1,902
6910.10.00	Ceramic sanitary fixtures, of porcelain or china .....	1,795	514	864	1,886
2008.99.15	Bananas, other than pulp, otherwise prepared or preserved .....	1,737	1,338	1,943	1,757
4412.11.20	Plywood of wood sheets not over 6 mm thick each .....	1,072	832	1,221	1,756
4412.29.40	Plywood containing layer(s) of particle board .....	1,196	2,094	1,753	1,736
0302.31.00	Albacore or longfinned tunas, fresh or chilled .....	1,766	2,785	3,993	1,659
2008.99.13	Banana pulp, otherwise prepared or preserved, n.e.s.i. ....	471	874	1,246	1,634
1803.20.00	Cocoa paste, wholly or partly defatted .....	3,420	1,814	961	1,622

See notes at end of table.

**Table B-7—Continued**  
**Leading U.S. Imports for consumption from Ecuador, 1990-93**  
(\$1,000, customs value)

Item	Description	1990	1991	1992	1993
6502.00.60	Hat shapes, plaited or assembled not blocked or lined .....	1,046	916	1,073	1,617
4407.99.00	Nonconiferous woods, n.e.s.i., sawn or chipped lengthwise .....	606	530	1,152	1,552
0511.99.20	Parings and similar waste of raw hides or skins .....	0	0	657	1,434
7113.19.21	Rope necklaces and neck chains of gold .....	159	31	1,321	1,379
0807.10.70	Melons n.e.s.i., fresh, if entered 12/1-5/31 .....	523	730	885	1,372
1515.30.20	Castor oil and its fractions, crude oil .....	349	580	755	1,281
2709.00.10	Petroleum oils and oils from bituminous minerals .....	0	0	0	1,270
	Total of items shown .....	1,307,886	1,270,131	1,285,254	1,356,306
	Total all commodities .....	1,358,304	1,317,588	1,323,031	1,389,324

<sup>1</sup> HTS subheading 1701.11.01 was created on Oct. 1, 1990.

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

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

**Table B-8**  
**Leading U.S. Imports for consumption from Peru, 1990-93**  
 (\$1,000, customs value)

Item	Description	1990	1991	1992	1993
2301.20.00	Flours, meals, and pellets, of fish or of crustacean	18,805	8,834	6,288	83,479
2710.00.05	Distillate and residual fuel oils (including blends)	129,285	66,392	85,461	75,181
7113.19.10	Rope, curb, etc in continuous lengths, of precious metal	54,843	33,601	38,484	56,719
7106.91.10	Unwrought silver bullion and dore	39,176	60,921	73,870	53,933
7901.11.00	Unwrought zinc, not alloyed, containing by weight 99	32,328	24,652	48,490	39,448
6110.20.20	Sweaters, pullovers and similar articles, knitted or crocheted	19,950	24,219	20,470	31,549
7108.12.10	Unwrought gold bullion and dore, nonmonetary	57,165	93,334	36,681	24,863
7113.19.21	Rope necklaces and neck chains of gold	14,638	12,449	24,350	21,728
7402.00.00	Unrefined copper	8,338	40,199	36,277	20,799
7113.19.50	Articles of jewelry and parts thereof of precious metals	19,646	19,845	18,407	20,341
1701.11.01	Cane sugar entered in pursuant to its provisions	7,699	18,445	23,300	18,019
0306.13.00	Shrimp and prawns, cooked in shell or uncooked	16,694	16,847	21,798	17,859
7403.11.00	Cathodes and sections of cathodes of refined copper	3,479	11,255	11,250	17,236
9801.00.10	U.S. goods returned without having been advanced in value	5,167	8,246	11,081	16,864
6105.10.00	Men's or boys' shirts, knitted or crocheted, of cotton	7,676	7,553	9,758	14,002
2710.00.25	Naphthalene, except motor fuel	11,755	5,287	0	13,843
0901.11.00	Coffee, not roasted, not decaffeinated	42,472	56,270	32,370	12,093
7801.10.00	Refined lead, unwrought	822	228	5,124	6,845
6106.10.00	Women's or girls' blouses and shirts, knitted or crocheted	762	2,556	5,515	6,418
5208.39.20	Dyed satin or twill weave fabrics of cotton	923	1,837	2,139	5,103
1804.00.00	Cocoa butter, fat and oil	7,377	10,635	6,847	5,102
0709.20.90	Asparagus, n.e.s.i., fresh or chilled	2,088	1,882	2,609	5,081
2608.00.00	Zinc ores and concentrates	0	6,881	12,550	4,949
6109.10.00	T-shirts, singlets, tank tops and similar garments	4,006	5,195	7,638	4,904
3301.14.00	Essential oils of lime	4,087	4,037	3,496	4,343
3203.00.10	Coloring matter of annatto, archil, cochineal, cudbear, litmus	4,174	4,854	9,382	3,897
0804.50.40	Guavas, mangoes, and mangosteens, fresh, if entered between 9/1-5/31	0	248	2,942	3,145
6104.62.20	Women's or girls' trousers, breeches and shorts, knitted	5,231	4,369	5,159	3,125
6103.42.10	Men's or boys' trousers, breeches and shorts, knitted	1,222	2,956	3,855	2,973
6204.62.40	Women's or girls' trousers, breeches and shorts, not knitted	3,947	2,521	1,474	2,625
0307.21.00	Scallops, live, fresh, or chilled	0	0	879	2,549
0307.29.00	Scallops, other	1,004	1,833	4,454	2,544
6110.10.20	Sweaters, pullovers, waistcoats (vests) and similar	2,166	1,760	2,284	2,431
7113.19.29	Necklaces and neck chains of gold, n.e.s.i.	21,718	12,454	18,211	2,416
5205.25.00	Single cotton yarn, 85% or more cotton by weight	119	1,942	2,177	2,334
1605.90.60	Molluscs other than clams and oysters	3,602	3,726	2,667	2,329
5209.19.00	Unbleached woven fabrics of cotton, n.e.s.i.	3,551	1,609	1,603	2,149
6203.42.40	Men's or boys' trousers, breeches and shorts, not knitted	3,287	4,091	939	2,070
4407.23.00	Baboon, mahogany, imbuia and balsa tropical woods	459	1,304	933	2,055
0301.10.00	Live ornamental fish	1,120	702	747	1,990
5112.19.90	Woven fabrics of combed wool or animal hair n.e.s.i.	304	2,343	1,884	1,836
0709.20.10	Asparagus, fresh or chilled, not reduced in size	452	1,115	1,246	1,655
4407.99.00	Nonconiferous woods, n.e.s.i., sawn/chipped lengthwise	1,130	1,431	1,055	1,577

See note at end of table.

**Table B-8—Continued**  
**Leading U.S. Imports for consumption from Peru, 1990-93**  
 (\$1,000, customs value)

Item	Description	1990	1991	1992	1993
7407.10.50	Bars and rods of refined copper .....	2,727	1,235	520	1,517
7403.19.00	Articles of refined copper, n.e.s.i. ....	119	0	6,645	1,496
2611.00.00	Tungsten ores and concentrates .....	3,761	5,376	3,897	1,453
8544.59.40	Insulated electric conductors n.e.s.i., not of copper .....	0	0	2,230	1,296
5107.10.00	Yarn of combed wool, containing 85 percent or more by weight of wool .....	222	446	530	1,261
2005.40.00	Peas, prepared or preserved, not frozen .....	0	0	29	1,251
4408.90.00	Deciduous veneer strips and sheets, not over 6 mm thick .....	135	164	67	1,241
	Total of items shown .....	569,631	598,081	620,063	633,917
	Total all commodities .....	726,842	723,671	686,043	698,115

Note.—Because of rounding, figures may not add to the totals shown.  
 Source: Compiled from official statistics of the U.S. Department of Commerce.

**Table B-9**  
**Leading U.S. Imports for consumption from Bolivia under ATPA provisions, by descending customs value of duty-free ATPA imports,**  
**1992-93**

HTS subheading	Description	1992		1993		Percent of all items imported under ATPA	Percent of total imports of item	ATPA Imports	Percent of all items imported under ATPA
		ATPA imports	Percent of total imports of item	ATPA Imports	Percent of total imports of item				
		1,000 dollars		1,000 dollars					
7113.19.50	Articles of jewelry and parts thereof of precious metal	1,116	20.2	17,604	75.9	53.3	17,604	54.8	
7113.19.29	Necklaces and neck chains of gold, n.e.s.i.	524	14.5	8,408	89.8	25.0	8,408	26.2	
7113.19.10	Rope, curb, etc. in continuous lengths, of precious metal	0	0.0	3,977	15.7	0.0	3,977	12.4	
7113.11.50	Articles of jewelry and parts thereof, of silver	0	0.0	430	84.5	0.0	430	1.3	
7108.13.50	Gold, in semimanufactured forms, except gold leaf	0	0.0	374	100.0	0.0	374	1.2	
4202.31.60	Articles of a kind normally carried in the pocket	106	62.4	345	99.4	5.1	345	1.1	
0603.10.60	Roses, fresh cut	101	26.6	278	92.4	4.8	278	0.9	
4202.21.90	Leather handbags, valued over \$20 each	9	13.9	238	99.6	0.4	238	0.7	
4202.21.60	Leather handbags, valued not over \$20	30	28.0	153	77.7	1.4	153	0.5	
4202.91.00	Leather cases, bags and containers, n.e.s.i.	11	22.9	75	86.2	0.5	75	0.2	
4418.20.80	Door frames, n.e.s.i.	0	0.0	65	46.1	0.0	65	0.2	
0603.10.80	Cut flowers and flower buds suitable for bouquets	0	0.0	57	71.3	0.0	57	0.2	
2203.00.00	Beer made from malt	0	0.0	28	75.7	0.0	28	0.1	
7113.19.30	Clasps and parts thereof for articles of jewelry of	0	0.0	19	100.0	0.0	19	0.06	
1008.90.00	Cereals, n.e.s.i. (including wild rice)	0	0.0	16	36.4	0.0	16	0.05	
4202.22.80	Handbags with outer surface of textile	6	13.0	16	53.3	0.3	16	0.05	
0603.10.70	Chrysanthemums, standard carnations, anthuriums and orchids	0	0.0	11	100.0	0.0	11	0.03	
4104.22.00	Bovine leather, without hair on, pretanned	28	90.3	7	9.2	1.3	7	0.02	
4303.90.00	Articles of furskin, n.e.s.i.	0	0.0	7	13.5	0.0	7	0.02	
9205.90.40	Woodwind instruments other than bagpipes	0	0.0	3	13.6	0.0	3	0.01	
	Total of items shown	1,931	1.2	32,111	17.3	92.3	32,111	99.9	
	Total all commodities	2,093	1.3	32,124	17.4	100.0	32,124	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 B-10**  
**Leading U.S. Imports for consumption from Colombia under ATPA provisions, by descending customs value of duty-free ATPA imports,**  
**1992-93**

HTS subheading	Description	1992			1993		
		ATPA imports	Percent of total imports of item	Percent of all items imported under ATPA	ATPA imports	Percent of total imports of item	Percent of all items imported under ATPA
0603.10.70	Chrysanthemums, standard carnations, anthuriums and orchids	46,107	39.6	48.5	122,133	100.0	37.8
0603.10.60	Roses, fresh cut	21,395	32.0	22.5	80,140	99.8	24.8
3921.12.11	Nonadhesive plates, sheets, film, foil, strip, cellulose	7,036	27.4	7.4	26,077	99.4	8.1
0603.10.80	Cut flowers and flower buds suitable for bouquets	3,117	11.9	3.3	17,364	62.4	5.4
0603.10.30	Miniature (spray) carnations, fresh cut	1,716	7.9	1.8	12,351	57.5	3.8
4202.11.00	Leather trunks, suitcases, vanity cases, etc.	2,228	18.7	2.3	6,781	59.4	2.1
4202.91.00	Leather cases, bags and containers n.e.s.i.	2,496	40.4	2.6	5,204	79.8	1.6
0302.69.40	Fish, n.e.s.i. ex. fillets, livers, roes, fresh/chilled	22	2.0	0.02	3,406	93.3	1.1
3808.20.20	Fungicides, n.e.s.i., which contain thioamide	0	0.0	0.0	2,451	56.0	0.8
7312.10.30	Stranded wire of iron or steel (except stainless steel)	580	56.5	0.6	2,067	97.6	0.6
4412.29.50	Veneer panels and similar laminated wood, n.e.s.i.	508	23.5	0.5	2,046	100.0	0.6
6908.10.50	Glazed ceramic tiles, cubes & similar articles	677	57.8	0.7	1,849	98.0	0.6
4202.21.90	Leather handbags, valued over \$20 each	453	18.1	0.5	1,794	73.2	0.6
1704.90.20	Confections or sweetmeats ready for consumption	10	0.1	0.01	1,682	33.9	0.5
4202.21.60	Leather handbags, valued not over \$20	580	22.2	0.6	1,588	63.6	0.5
2401.20.80	Tobacco, partly or wholly stemmed (stripped), threshed	3,165	52.6	3.3	1,523	97.0	0.5
6908.90.00	Glazed ceramic flags and paving, hearth or wall tile	797	52.2	0.8	1,284	94.0	0.4
3903.11.00	Polystyrene, expandable, in primary forms	0	0.0	0.0	1,258	63.8	0.4
0810.10.40	Strawberries, fresh, entered between 9/16-6/14	733	36.7	0.8	1,157	60.8	0.4
1703.90.50	Molasses, n.e.s.i.	0	0.0	0.0	951	27.7	0.3
	Total of items shown	92,003	3.2	96.4	300,053	9.7	90.6
	Total all commodities	95,024	3.3	100.0	323,369	10.7	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 B-11**  
**Leading U.S. imports for consumption from Ecuador under ATPA provisions, by descending customs value of duty-free ATPA imports, 1993**

		1993		
HTS subheading	Description	ATPA imports 1,000 dollars	Percent of total imports of item	Percent of all items imported under ATPA
0302.69.40	Fish, n.e.s.i. ex. fillets, livers, roes, fresh or chilled	6,410	30.6	18.7
0603.10.60	Roses, fresh cut	6,050	55.4	17.6
1604.14.40	Tuna and skipjack, not in airtight containers	5,467	39.4	15.9
0603.10.80	Cut flowers and flower buds suitable for bouquets	4,123	56.3	12.0
4421.90.95	Articles of wood n.e.s.i.	2,133	24.2	6.2
7113.19.50	Articles of jewelry and parts thereof of precious metals	1,745	79.8	5.1
0807.10.70	Melons n.e.s.i., fresh, entered between 12/1-5/31	1,207	88.0	3.5
7113.19.21	Rope necklaces and neck chains of gold	718	52.1	2.1
2009.80.60	Juice of any other single fruit, n.e.s.i., unfermented	518	27.2	1.5
2008.99.15	Bananas, other than pulp, otherwise prepared or preserved	409	23.3	1.2
0603.10.70	Chrysanthemums, standard carnations, anthuriums and orchids	344	47.5	1.0
7113.19.29	Necklaces and neck chains of gold, n.e.s.i.	343	96.9	1.0
0807.10.50	Ogen and gala melons, fresh, entered between 12/1-5/31	324	100.0	0.9
1803.20.00	Cocoa paste, wholly or partly defatted	320	19.7	0.9
4412.11.20	Plywood of wood sheets not over 6 mm thick each	310	17.7	0.9
0709.20.90	Asparagus, n.e.s.i., fresh or chilled	294	86.5	0.9
0603.10.30	Miniature (spray) carnations, fresh cut	266	45.6	0.8
4412.29.40	Plywood containing layer(s) of particle board	261	15.0	0.8
2008.99.13	Banana pulp, otherwise prepared or preserved, n.e.s.i.	243	14.9	0.7
0807.10.80	Melons, n.e.s.i., fresh, entered between 6/1-11/30	234	99.6	0.7
	Total of items shown	31,719	2.3	92.4
	Total all commodities	34,335	2.5	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 B-12**  
**Leading U.S. Imports for consumption from Peru under ATPA provisions, by descending customs value of duty-free ATPA imports, 1993**

		1993		
HTS subheading	Description	ATPA imports	Percent of total imports of item	Percent of all items imported under ATPA
		1,000 dollars		
0709.20.90	Asparagus, n.e.s.i., fresh or chilled	4,210	82.9	36.3
7801.10.00	Refined lead, unwrought	2,549	37.2	22.0
7901.11.00	Unwrought zinc, not alloyed	1,542	3.9	13.3
0709.20.10	Asparagus, fresh or chilled, entered between 9/15-11/15	1,322	79.9	11.4
7403.11.00	Cathodes and sections of cathodes of refined copper	266	1.5	2.3
2922.42.10	Monosodium glutamate	208	96.7	1.8
0804.50.40	Guavas, mangoes, and mangoes, fresh, if entered between 9/1-5/31	140	4.5	1.2
9306.29.00	Parts of shotgun cartridges; air gun pellets	124	11.5	1.1
0705.19.40	Lettuce, other than head lettuce, fresh or chilled, n.e.s.i.	117	46.1	1.0
0705.19.20	Lettuce, other than head lettuce, fresh or chilled, entered between 6/1-10/31	99	52.7	0.9
0302.69.40	Fish, n.e.s.i. ex. filets, livers, roes, fresh or chilled	96	45.5	0.8
2005.60.00	Asparagus, prepared or preserved	88	21.1	0.8
7113.19.50	Articles of jewelry and parts thereof of precious metals	69	0.3	0.6
0603.10.80	Cut flowers and flower buds suitable for bouquets	54	5.9	0.5
4010.10.10	V-belts and v-beltting, of vulcanized rubber	48	100.0	0.4
0710.80.97	Vegetables uncooked, steamed or frozen n.e.s.i.	48	19.6	0.4
0710.29.30	Pigeon peas, uncooked or cooked by steaming or boiling	47	100.0	0.4
1604.13.45	Sardines, sardinella, brisling, sprats, in tomato sauce	45	3.7	0.4
7113.19.10	Rope, curb, etc in continuous lengths, of precious metals	44	0.1	0.4
2203.00.00	Beer made from malt	37	13.7	0.3
	Total of items shown	11,153	1.6	96.2
	Total all commodities	11,594	1.7	100.0

Note.—Because of rounding, figures may not add to totals given.  
 Source: Compiled from official statistics of the U.S. Department of Commerce.

**Table B-13**  
**C.i.f. value of leading imports that benefited from ATPA reduced-duty or duty free entry, 1992**  
*(1,000 dollars)*

HTS subheading	Description	Imports
0603.10.70 <sup>1</sup>	Chrysanthemums, standard carnations, anthuriums, and orchids	56,727
0603.10.60	Roses, fresh cut	25,298
2401.20.80	Tobacco, partly or wholly stemmed	3,384
4202.91.00	Leather cases, bags, and containers, n.e.s.i.	2,598
4202.11.00	Leather trunks, suitcases, vanity cases, etc.	2,381
6908.90.00	Glazed ceramic flags and paving	961
6908.10.50	Glazed ceramic nonmosaic tiles	797
4202.21.60	Leather handbags valued not over \$20	643
7312.10.30	Stranded wire and cable of carbon steel	638
4202.21.90	Leather handbags valued over \$20 each	481
4202.31.60	Small leather accessories	443
0805.30.40	Limes, fresh or dried	129
6907.10.00	Unglazed ceramic mosaic tiles	128
4203.29.08	Gloves, of horsehide or cowhide leather	125
7317.00.55	Carbon steel nails, tacks, and staples made from round wire	105
7312.10.90	Steel ropes and cables other than stranded wire	92
9507.90.70	Artificial baits and flie	89
4202.92.30	Travel and sports bags, of textile material	70
6912.00.39	Ceramic tableware and kitchenware	68
4107.10.00	Leather of other animals (swine)	60

<sup>1</sup> The c.i.f. value reported for this item reflects imports entered from Colombia only between Jan. 1 and Dec. 31, 1992. HTS subheading 0603.10.70 from Colombia was not GSP-eligible during all of 1992.

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

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**APPENDIX C**  
**Technical Notes to Chapter 2**

The following discussion presents the methodology for estimating the net-welfare effects and the level of domestic output displaced by the duty-free and reduced-duty status granted to imports from the four ATPA countries in 1993. This comparative statics analysis measures the effects of ATPA under the current set of market conditions. Because ATPA duty changes already were in place in 1993, this analysis estimates how net-welfare and domestic output would have changed had full tariffs been in place for ATPA imports.<sup>1</sup>

The removal of ATPA duty-free and reduced-duty treatment is analyzed using a computable partial equilibrium (CPE) model.<sup>2</sup> Imports from ATPA beneficiaries, imports from non-ATPA countries, and competing domestic output are assumed to be imperfect substitutes for each other. Each of the three products is characterized by a separate market where different equilibrium prices can exist. The three markets are depicted in panels a, b, and c of figure C-1.

The ATPA and non-ATPA import demand curves,  $D_a$  and  $D_n$ , and the demand curve for domestic output,  $D_d$ , all are assumed to be downward sloping. 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 horizontal.<sup>3</sup>

Econometric estimates of supply curves in the affected sectors were not available. The assumption that U.S. import supply curves are horizontal (i.e., perfectly elastic) implies that U.S. demand does not affect the world price of Andean imports. Assuming that U.S. domestic supply curves are perfectly elastic implies constant-cost production. However, because some of the U.S. economic sectors considered in this analysis produce agricultural commodities and because some Andean exporters are heavily dependent on the U.S. market, it is likely that the supply curves in those sectors are upward sloping.

Notwithstanding, there are a number of advantages for assuming that supply curves are perfectly elastic.

<sup>1</sup> For purposes of clarity, the methodological presentation in the section entitled "Analytical Approach" in chapter 2 discusses the net welfare effects of ATPA duty provisions in terms of a duty reduction or elimination.

<sup>2</sup> For simplicity, this discussion focuses solely on the comparative statics of ATPA duty-free treatment. However, the same CPE analysis applies to both ATPA duty-free and reduced-duty treatment.

<sup>3</sup> The subscripts a, n, and d refer to ATPA imports, non-ATPA imports, and U.S. output, respectively.

Such an assumption allows the analysis to estimate the maximum displacement effects on U.S. domestic production by ATPA imports as well as the maximum net-welfare gains. Furthermore, this assumption greatly simplifies the analysis generally without significantly affecting the estimated effects of ATPA. In most sectors, these upper-bound estimates were minimal. Because ATPA imports account for a very small share of U.S. domestic consumption in most sectors, the estimates obtained from assuming upward sloping supply curves also would have been minimal.

Elimination of duty-free treatment for ATPA imports causes the import supply curve,  $S_a$ , in panel a to shift up by the amount of the ad valorem tariff change,  $t$ . Therefore, the equilibrium price in the U.S. market for ATPA imports increases from  $P_a$  to  $P_a'$  while the quantity imported decreases from  $Q_a$  to  $Q_a'$ . The relation between the tariff-ridden and tariff-free price is  $P_a' = P_a(1 + t)$ .

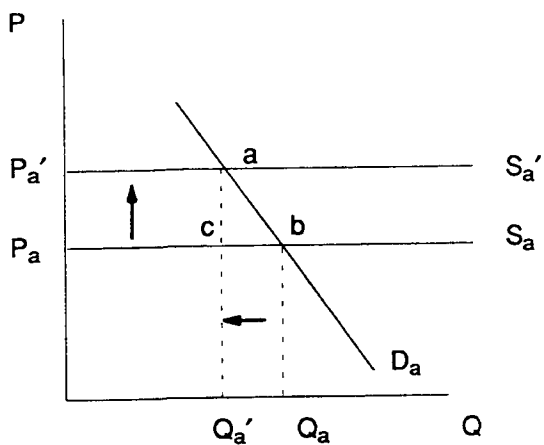
With an increase in the price of ATPA imports, the demand curves for both non-ATPA imports and domestic output,  $D_n$  and  $D_d$ , shift out to  $D_n'$  and  $D_d'$ , respectively. Since the supply curves in both these markets are perfectly elastic, the equilibrium prices do not change. The equilibrium quantity supplied in each market increases from  $Q_n$  and  $Q_d$  to  $Q_n'$  and  $Q_d'$ , respectively.

The increase in the tariff for ATPA imports causes the tariff revenue collected from ATPA imports to increase. This is measured by the area of the rectangle  $P_a'acP_a$  in panel a. In the market for ATPA imports, there is also a simultaneous decrease in consumer surplus. This is measured by the trapezoid  $P_a'abP_a$ .

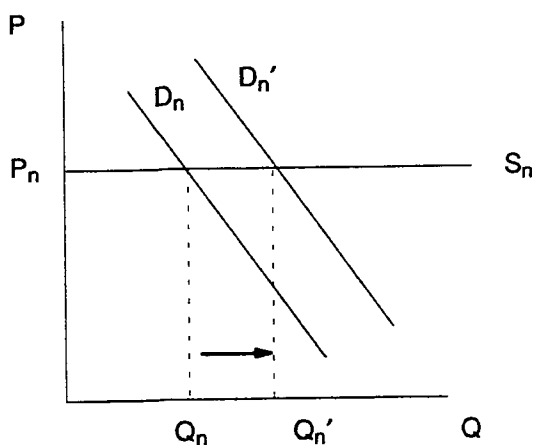
The net-welfare cost of eliminating the duty-free treatment granted ATPA imports is the increase in tariff revenue less the decrease in consumer surplus—the rectangle  $P_a'acP_a$  minus the trapezoid  $P_a'abP_a$  in panel a. That is to say, triangle  $abc$ . The dollar amount by which U.S. output displaces ATPA imports is measured by the rectangle  $Q_ddeQ_d'$  in panel c.<sup>4</sup>

<sup>4</sup> ATPA imports are also displaced by non-ATPA imports. The dollar amount by which non-ATPA imports displace ATPA imports is measured by the area beneath the supply curve,  $S_n$ , and between quantities  $Q_d$  and  $Q_d'$  in panel b. However, this effect is not presented in chapter 2.

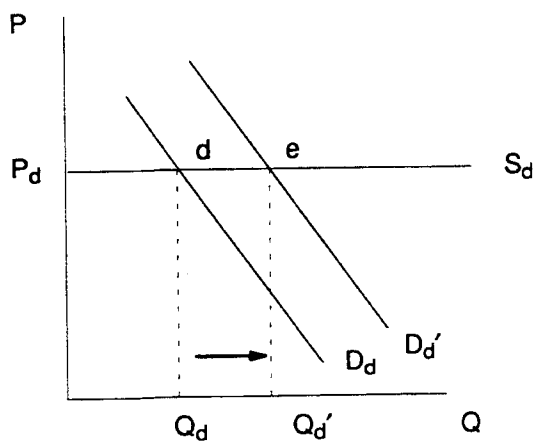
**Figure C-1**  
**Partial equilibrium analysis of the effects of ATPA duty provisions on U.S. Imports**



a. ATPA imports



b. non-ATPA imports



c. Domestic output

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

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

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

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

given  $P_a' = P_a(1+t)$ , these can be restated as

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

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

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

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

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

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

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

where the  $V_i$ 's are market shares for ATPA and non-ATPA imports and domestic output,  $\eta$  is the aggregate demand elasticity, and the  $\sigma_{ij}$ 's are the elasticities of substitution between the  $i$ th and  $j$ th products.<sup>5</sup> Estimates of the aggregate demand elasticities were taken from the literature.<sup>6</sup> To obtain the maximum displacement effects on domestic production, it is assumed that all of the elasticities of substitution are identical and high, in this case, 5.

Given equations (1') - (3'), we can derive the following equations necessary for calculating the changes in consumer surplus, tariff revenue, and domestic output:<sup>7</sup>

*Consumer surplus:* (where  $k$  is a constant)

$$\begin{aligned} \text{area of} \\ \text{trapezoid } P_c'abP_c &= \int^{P_a'} k P_a^{\epsilon_{aa}} dP_a \\ &= [1/(1 + \epsilon_{aa})][1 + t]^{(1 + \epsilon_{aa})} - 1] P_a Q_a, \text{ if } \epsilon_{aa} \neq -1, \text{ or} \\ &= k \ln(1 + t) \quad \text{if } \epsilon_{aa} = -1 \end{aligned}$$

*Tariff revenue from CBERA imports:*

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

*Domestic output:*

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

<sup>5</sup> Equations (4) - (6) are derived from P.R.G. Layard and A. A. Walters, *Microeconomic Theory* (New York: McGraw-Hill, 1978).

<sup>6</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>7</sup> Similarly, an equation for calculating the change in non-ATPA imports also can be derived; however, this effect is not presented in chapter 2.



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