

**International Trade Commission  
Public Hearing  
On**

***Commission's 2008 Report to Congress on  
the Economic Impact of the Andean Trade  
Preference Act***

**July 22, 2008**

**Statement by**

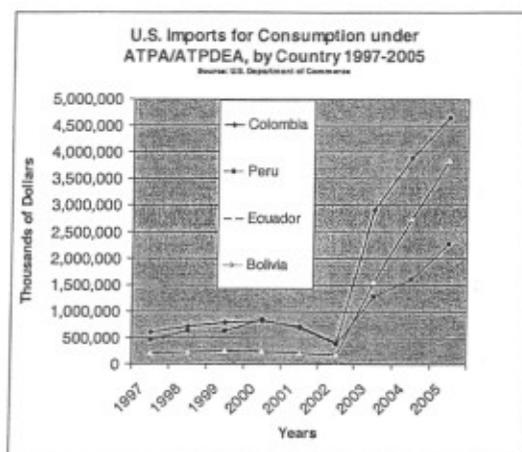
**His Excellency Jose Miguel Insulza  
Secretary General  
Organization of American States**

Last January I came before you to testify on the Caribbean Basin Initiative and expressed the support of the OAS for the renewal and extension of the CBTPA in order to lock in the continued strategic economic and political benefits countries can derive from this important preferential program. At the time, I took the opportunity to say a few words about the Andean Trade Preference Act. I appreciate very much the opportunity offered to me now to expand my comments on a very important component of the trade relationship between the United States and its neighbors in the Americas.

- *Preferential access to the US market under ATPDEA has had a positive impact in the beneficiary countries; losing it would have a devastating effect on exports and on employment, with important social and political consequences*

For the past 16 years, preferential access to the US market under the Andean Trade Preference Act (ATPA) and the Andean Trade Promotion and Drug Eradication Act (ATPDEA) has helped foster economic growth, create new job opportunities and provide alternatives to illicit drug production and trafficking. The program has worked.

Beneficiary countries have taken advantage of the opportunities offered under ATPDEA to expand their trade and promote export diversification. Between 2002 and 2005, exports under the ATP/ATPDEA program to the United States increased twenty-fold for Ecuador, ten-fold for Colombia, almost six-fold for Peru, and four-fold for Bolivia.



Imports under ATPA/ATPDEA preferences continued to grow during 2006 according to the Third Report to the Congress on the Operation of the Andean Trade Preference Act as Amended, prepared by the Office of the United States Trade Representative (April 30, 2007). The report indicates that U.S. imports under ATPA/ATPDEA preferences rose 18 percent to \$13.5 billion in 2006 from \$11.5 billion in 2005.

While US trade preferences programs represent a small share of total U.S. imports, they constitute a significant share of many beneficiary countries' exports to the United States. This is evident in the case of the ATPDEA. In fact, almost 60 percent of Bolivian exports to the US market enter under preferential programs. In 2005 non-oil exports under ATPDEA represented 34 percent of total non-oil exports from Ecuador. This is in

contrast with the weight total imports from these two countries—including preferential and non-preferential-- represented in 2006 in the total of US imports from the world: 0.02% in the case of Bolivia; 0.38% in the case of Ecuador.

As shown in Table 1, based on a recent US Government Accountability Office (GAO) report, the utilization of the program by the four Andean countries has been very high. The four Andean countries eligible for ATPA/ATPDEA had the highest utilization rate<sup>1</sup> among all the U.S. preference programs, an indication of the importance for these countries of preferential trade with their most important market.

Table 1  
Coverage and Utilization Rates by Beneficiary Country and Preference Program, 2006  
(Dollars in millions)

Beneficiary	Total imports	Total preference imports	Preference imports under ATPA/ATPDEA	Utilization rate
Bolivia	362.4	187.9	166.2	76
Colombia	9,239.8	4,972.8	4,791.2	88
Ecuador	7,011.4	5,396.4	5,325.2	92
Peru	5,896.9	3,381.2	3,201.9	93

*Source:* United States Government Accountability Office, Report to the Chairman, Committee on Finance, U.S. Senate, and the Chairman, Committee on Ways and Means, House of Representatives: "International Trade, U.S. Trade Preference Programs Provide Important Benefits, but a More Integrated Approach Would Better Ensure Programs Meet Shared Goals," March 2008.

The 10 month extension of the ATPDEA granted by Congress last February, allowed Andean countries to maintain the trade preferences which have translated into tens of thousands of jobs in Colombia, Bolivia, Ecuador and Peru during the life of the program. As the 2006 USITC Report on ATPA states, "U.S. imports under the [Program] have continued to increase and have supported job growth in areas such as the asparagus and flower industries, thereby expanding alternatives to workers who might otherwise engage in drug-crop production. In addition, the [Program's] benefits appear to have directly supported the expansion of jobs for the production of other agricultural products as well as textiles and apparel."

According to a report prepared by the Ecuadorian government with input from the private sector, exports of cut flowers under ATPDEA have generated more than 60,000 jobs (40 percent male/60 percent female); mango exports, 22,500 jobs; textiles, 16,000 jobs; broccoli exports, 11,500 jobs; and the tuna industry (fishing and industrial processing sectors), 250,000 jobs. In many cases, jobs have been created in totally new industries that were established and have flourished based on the preferential access to the US market.

In Bolivia, incentives to trade in legal products have helped coca farmers and others find sustainable alternative livelihoods. Jobs have been created in some of the most

<sup>1</sup> "Utilization rate" is defined as the ratio of actual preference imports under the program to eligible imports.

vulnerable areas. It is the case of El Alto, the populous and impoverished city in the highlands near La Paz that has been the scene of fiery manifestations of social unrest. El Alto's residents have found jobs producing value added products such as textile/apparel, leather goods, wood products, handicrafts and jewelry.

Losing the preferential access to the US market will have a devastating effect on the beneficiary countries' economy. Employment will be hard hit. The repercussions will be felt far beyond the economic sphere.

In Ecuador, estimates indicate that the loss of the ATPDEA benefits would lead to a GDP decrease of 1.8 percent and a loss of fiscal revenues for the Ecuadorian government of more than US\$40 million. Around 360,000 jobs will be in jeopardy. Many of these workers are heads of family; the affected population in Ecuador could exceed 1.5 million people.

In Bolivia, the loss of APTDEA will adversely impact preventive alternative development in that country, an approach which stresses development of areas whose population could otherwise be drawn into illegal crop production. Eradication or simple crop substitution without an effective alternative development strategy is not sufficient.

Even the mere uncertainty over the extension of the ATPDEA after the December deadline, is having an impact on investment and employment opportunities. Although no comprehensive data is yet available, anecdotal evidence suggests that investment might be moving to countries with a more permanent access to the US market. For example, expansion of investment in the gold jewelry sector in Bolivia is being reconsidered as a result of uncertainty over the extension of preferences. A single enterprise, *Exportadores Bolivianos*, employs 750 workers and a further 2,000 jobs are farmed out to persons living in El Alto. Workers in that company earn three times the Bolivian minimum wage. Encouraged by the rapid growth of exports – by 50 percent in 2005 over 2004 –, the enterprise was contemplating expansion within Bolivia. Now, recent press reports indicate that *Exportadores Bolivianos* and *Orbol*, the biggest manufacturers of gold and silver jewelry in Bolivia, are the first Bolivian companies to move to Puno in Peru to take advantage of the Peru-US Trade Promotion Agreement.

■ *Preferential access to the US market under ATPDEA has facilitated crop substitution efforts by beneficiary countries*

Taking advantage of the ATPA/ATPDEA preferences, beneficiary countries have been able to promote programs to develop alternatives to illicit crops. The Third Report to the Congress on the Operation of the Andean Trade Preference Act as Amended (USTR, April 30, 2007) makes reference to USAID figures that estimate that the cultivation of licit crops and pastures in the Cochabamba area of Bolivia has increased steadily, from 40,613 hectares in 1986 to an estimated 150,000 hectares in 2006 and that integrated alternative development projects in the Chapare and Yungas regions have proven effective. According to the report "high-value licit crop exports such as bananas,

pineapple, and canned palm hearts increased from \$7.5 million in 2001 to \$36.4 million in 2006." I am pleased to report that the OAS has been providing support to some of these projects.

The same report highlights the success in the fight against illegal crop production in other beneficiary countries by creating jobs in the formal sector based on ATPA/ATPDEA preferences. In Colombia, the flower industry, which benefits greatly from ATPA, supports 110,000 jobs directly and 94,000 jobs indirectly while the textile and apparel industry generates 135,000 direct jobs. In Ecuador the ATPA/ATPDEA has played an important role in providing trade opportunities in agricultural industries such as cut flower, fresh fruits, vegetables and cereals. In Peru the ATPA/ATPDEA has promoted jobs and higher-value non-traditional exports that present an alternative to illicit coca production. More than 300,000 of the jobs created under the ATPDEA were in the labor-intensive textile/apparel and agricultural sectors. The asparagus export boom has been the most significant agricultural alternative development benefit of the ATPA program. Peru's asparagus exports to the United States have increased tenfold since 1994 to more than \$149 million in 2006. Asparagus producers estimate that more than 60,000 people now work directly in asparagus cultivation and processing in Peru.

- *The ATPDEA will continue to be important for Colombia and Peru as a bridge while the trade promotion agreements they have signed with the US enter into force. These agreements will consolidate and expand the benefits these countries have derived from preferential access to the US market and open up markets to American goods, services and investments*

I have concentrated my remarks on Bolivia and Ecuador given that the expiration of the ATPDEA would leave them without their primary program for preferential access to the US market. Extension of the ATPDEA is also important for Colombia and Peru as a bridge while the trade promotion agreements they have signed with the US enter into force. Thanks to the leadership of the US Congress and its support in the ratification of the Peru-US Trade Promotion Agreement, Peru is now moving to undertake the implementation of its free trade agreement with the United States. Hopefully Colombia and Panama can follow similar paths soon. Before the free trade agreement with Peru enters into force in early 2009 and pending ratification of the agreement with Colombia, it will be critical for both Peru and Colombia to maintain their trade preferences under the ATPDEA.

These countries have negotiated a two-way agreement under the conditions established by Congress when it granted the Trade Promotion Authority to the President. They are prepared to take their trade relationship with the US--which has prospered under unilateral preferential programs--to another level. They wish to ensure that their preferential access to the US market becomes permanent by opening up their own markets to American goods, services and investments. One-way street trade is upgraded to a two-way street trade.

Colombia and Peru have viewed trade promotion agreements as a catalyst for their long term development strategies. Their commitment to a more open economy and the promise of a deeper and a more permanent integration to the US economy have been presented to their people as an important factor for ensuring prosperity for the years to come. Reciprocal trade agreements offer the stability, certainty and clear rules that investors --both domestic and foreign—are looking for. More investment is essential to ensure long term growth in beneficiary countries. It is difficult to achieve the same degree of commitment from investors based on unilateral preferential programs that are subject to expiration deadlines.

The lack of approval of these trade promotion agreements would be a blow to the credibility of the governments of these countries that have, in recent elections, received support for their pro-democracy and pro-market economic model. Denying this development tool would also be detrimental to the standing of the United States in a region that is facing the challenges of making democracy work for their impoverished populations.

If we want democracy to succeed, we must prove that it can deliver prosperity to all people. This is where the trade relationship with the United States can play a crucial role. Trade has been a central component of the development strategies of countries in the Americas. And trade with the largest market in the world is seen as critical for the success of those strategies. ATPDEA has provided access to the US market under preferential conditions showing beneficiary countries the benefits that can be derived from trade, investment and open markets in terms of growth and employment. It has also set the basis for a more permanent two-way trade relationship through the negotiation of trade promotion agreements with countries ready to accept that challenge.

Moreover, the ATPDEA has been a key element in the United States' anti-drug strategy in the Andean region. By offering preferential access to the United States market, it has helped encourage the diversification of exports as an economically sustainable alternative to the production and trafficking of drugs.

In light of these considerations therefore, the OAS supports the renewal of the ATPDEA in order to ensure that the beneficiary countries continue to have access to expanded economic opportunities. Extending the ATPDEA for Bolivia and Ecuador and approving the trade promotion agreements with Colombia, Panama and Peru will be a tangible expression of the commitment of the United States to promoting growth, stability and democracy in the Americas. These are goals that encapsulate the values of the OAS and reflect the organization's core mandates.

Thank you.