

**Testimony of Freddy Ehlers Zurita**  
**Secretary General of the Andean Community**

Public hearing on the Andean Trade Preference Act: Impact on the U.S. Economy  
and on Andean Drug Crop Eradication.

**Investigation No. : 332-352**

Ms. Chair and Members of the Commission:

Many thanks for inviting me to testify today at the hearing on the Andean Trade Preference Act : Impact on the U.S. Economy and on Andean Drug Crop Eradication.

By way of introduction, I am the *Secretary General* of the Andean Community in charge of managing the executive body of the Andean Community which is conformed by Bolivia, Colombia, Ecuador and Peru. Its main purposes are: furthering the regional integration process of these countries; ensuring that the Andean Community's commitments are fulfilled ,and; maintaining on-going links with the Member Countries. CAN has a common development agenda which includes topics such as trade and counternarcotics.

I am honored and pleased to join these distinguished panelists. My testimony today will address three topics. First, I will describe some facts in connection with trade between United States and ATPDEA beneficiary countries and discuss their complementary trade relationship. Second, I will mention recent Andean Community's efforts on drug-related prevention, traffic, crop eradication and crop substitution. And finally, I will present my views on the economic impact of ATPDEA on the United States as well as the Andean Community.

**1) Trade between United States and ATPDEA beneficiary countries: a complementary trade relationship**

The United States of America is the main trade partner of Andean nations which are ATPDEA beneficiary countries as well. In 2007, Andean exports to the US were USD 22,439 million and ATPDEA exports to this country reached USD 11,311 million. It means that 29% of total Andean Community (CAN) exports were destined to the US market. On the other hand, Andean imports from the US were USD 15,894 million which represents 21% of total CAN imports.

U.S. imports from ATPDEA beneficiary countries were only 1.1% of the US' total imports. Thus it may be said that their impact on the US economy continued to be negligible in 2007, and as a result, they do not threaten the productive activity the US economy.

Figure 1



Source: USITC

In general, ATPDEA duty preferences have resulted in a substantial increase of Andean exports to the US from 2003 as a result of better access conditions to the United States market. Those products that have seen the largest increases have been raw materials, in particular minerals and manufactures based on natural products such as fuels, textiles and apparel.

Regarding the ATPDEA's relevance on Andean Community economies, we have found that, in 2007, 50.4% of its exports came under this duty scheme. It shows that Andean Community has an important sensitivity to these duty preferences. For the aforementioned year, Ecuador and Peru had the highest proportion of total exports using the ATPDEA program (66% and 56%, respectively).

**Andean Exports to US and ATPDEA preferences,  
2007**

(in percentages)

Countries	US / World	ATPDEA / US
<b>Andean Community</b>	<b>29.0%</b>	<b>50.4%</b>
Bolivia	9.1%	40.6%
Colombia	34.6%	37.2%
Ecuador	43.3%	66.4%
Peru	19.5%	56.1%

Source: USITC

Even a preferential access to U.S. market can be obtained using the General System of Preferences (GSP), which is in the UNCTAD concessions framework for developing countries, this system is less employed because of product coverage is

more limited (textiles, apparel and tuna are not included), and eligibility criteria and rules of origin are stricter.

In terms of products, the main Andean exports to the American market, in 2007, were: petroleum and mining (51%); agricultural products (14%); precious metals and jewelry (6%); ferronickel, refined cooper cathodes and aluminum (5%); and textiles and confections (4%).

On the other hand, the main Andean imports from the United States are heavy manufactures (around 75%), with the following products predominating: machineries and equipment and transportation material (41%); chemical, rubber and plastic products (28%); and other manufactures (almost 6%); therefore, the main product categories are capital goods and raw materials.

These figures show us some facts that I want to share with you. Since the ATPDEA allows for cumulative rules of origin among the beneficiary countries and the United States, it makes value added industry production chains possible in the Andean Community. Therefore:

a) The ATPA has also furthered the economic integration goals of the Andean Community since inputs originating in any of the beneficiary countries qualify for duty free treatment in the U.S. This has encouraged the development of links in the production chains of a number of industries among beneficiary countries.

b) In the trade relation between the United States of America and Andean countries there is a complementary relationship in some productive chains.

Many industries with relevant exports quantities demand inputs and capital goods from U.S. Some examples of this are: fertilizer materials, machineries used to produce agricultural products and cotton, among others. The US is also an important player in the Andean apparel industry supplying approximately 90% of Ecuador's cotton, close to 50% of Peru's cotton, and providing an ever growing amount of the cotton yarns needed by companies throughout the region to continue growing.

There are some cases where U.S. industries import raw material from Andean countries to export them final good for consumption.

c) The preferences given by the United States allow economies of scale in order to trade with other markets employing U.S. raw material and capital goods.

Andean products such as shrimps, fresh roses, men's or boys' cotton shirts, and silver take advantage of the complementary relationship mentioned before and have increased their exports to other countries. Therefore, the U.S. market has been important for these industries as they have built economies of scale allowing them to position these products in other markets. Taking into account the complementary relationship above to satisfy rules of origin, U.S. industries also take advantage of this expansion to access additional markets in an indirect way.

d) In addition, the ATPDEA has promoted the diversification of Andean exports due to the fact that there are more tariff lines with external sales, as the main CAN exports are still concentrated in few products. In 2007, 20 products constituted 80% of the export values, and 50 products represent 90% of them. So, potential industries harmed by trade with the ATPDEA are practically inexistent.

e) ATPDEA qualifying goods offer advantageous alternatives to U.S. consumers in terms of quality, variety of products, and reduced prices.

## **2) Recent Andean Community's efforts on drug-related prevention, traffic, crop eradication and crop substitution**

The Andean Community is conscious that the problem of illicit drug production is getting worse due to global demand and recognizes its share of responsibility to fight against this scourge. Thus, the CAN considers that some joint efforts must be carried out and initiatives should be multiplied even at the Andean Community level because this illicit activity is costing human lives, and financial and physical resources.

The Andean countries also recognize the nature and complexity of this problem. This solution requires the development of institutional strength, solidarity, confidence, and the social responsibility of their populations.

However, Andean countries are worried about the fact that cocaine production is not declining. Some figures point out that in recent years, fertilizer products, pesticide use, and better production technology involved in illicit drug production have been increasing.

In the Andean countries, there is an ever increasing trend to confiscate cocaine and the chemical additives used to produce it. CAN Member countries have reiterated on different occasions their commitment to coordinate amongst themselves and be linked in the Andean Cooperation Plan framework for fighting

against Illicit Drugs and linked offenses considering all of the steps in the drug trade: production, trafficking, consumption, and other offenses.

The Andean countries have carried out some specific actions for alternative development.

Many projects developed by USAID in the Andean countries that support the fight against narcotrafficking are of additional benefit to Andean countries and U.S. consumers. There are examples such as: ACCESO (Opportunity to Support Cocoa Exports at Andean countries), which is a program linked to private industry, international organizations and the four Andean countries.

### **3) Economic, Social and Political Impact of the ATPDEA**

The ATPDEA has allowed the beneficiary countries to secure market access for an important amount of Andean exports to one of the world's largest markets. Here are some of the more important benefits:

a) It contributes with employment creation and with the improvement of the formal employment structure within the Andean countries.

Products that are exported through the ATPDEA, specially those coming from the agricultural sector, involve a large portion of small producers, particularly in those sectors associated with broccoli, asparagus, mangos, pineapple, banana, raw cane sugar, mixed vegetable, and fruit pulp.

b) By increasing the beneficiary countries' incomes through ATPDEA dependent export, the Gross Domestic Product (GDP) of each country increases, as well as its capacity to consume national and imported goods.

Small producers participate directly and indirectly, and are important suppliers to the processing industries. Hence the ATPA is an essential instrument that benefits, not only large exporting companies but medium and small companies as well, and productive integration.

c) It contributes to maintaining a demand for imported U.S. products in the Andean market, including raw materials and capital goods, as well as consumer goods.

d) The increase in employment opportunities and the improvement in living standards give rise to larger segments of the population being occupied and acts as a disincentive to emigrate.

e) It contributes to sustaining direct and indirect employment in the United States created by the demand for U.S. goods with lower prices of imported goods.

In the United States, thousands of jobs have been created in the distribution networks associated with ATPDEA imports such as roses, asparagus, apparel, and other goods. Similarly, the ATPDEA has allowed U.S. consumers to obtain quality products that contribute to their wellbeing at lower prices.

It should also be highlighted that the falling value of the dollar, has forced an increase of the price of the products supplied by the Andean region. This creates additional currency-related competitive pressures for exporting to the U.S. market.

e) Final political stability and economic advantages, generate better conditions to favor American investments in Andean countries.

f) Better governability.

## Conclusions

The trade preference program effects on Andean products related to prevention, traffic and crop drug eradication are part of an ongoing process. It requires to keep efforts to reach even more positive results.

Regarding that many results have been effectively achieved in terms of promoting export diversification of the Andean countries, bringing down number of hectares of drug crops, a positive contribution to growth and generating employment as Andean countries as the United States, it conducts to think about the associated cost if trade preferences programs are not available, in particular, on matters such as:

What if Andean countries do not have preferences on: crops, employment, income, poverty and governability?...

The absence of ATPDEA duty preferences could also be counterproductive for some countries from the perspective of drug eradication efforts. Such a scenario would severely undermine the ATPA dependent industries in those countries,

resulting in economic displacement and unemployment, which in turn, strengthen efforts by narco-trafficking syndicates to spread their trade.

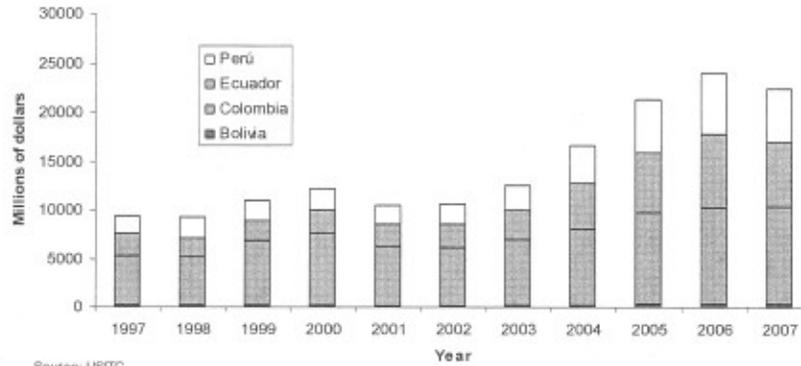
From a political perspective, the absence of the ATPDEA would also have effects on political stability and economic outcomes which would most negatively impact the private sector in each country. In many instances the largest source of foreign investment in the ATPA dependent industries is from the U.S., and therefore investors from this country would be most seriously affected.

Thank you, Ms. Chair and Members of the Commission. I will be submitting a complete report about these views during next week. That concludes my testimony.

## ANNEXES

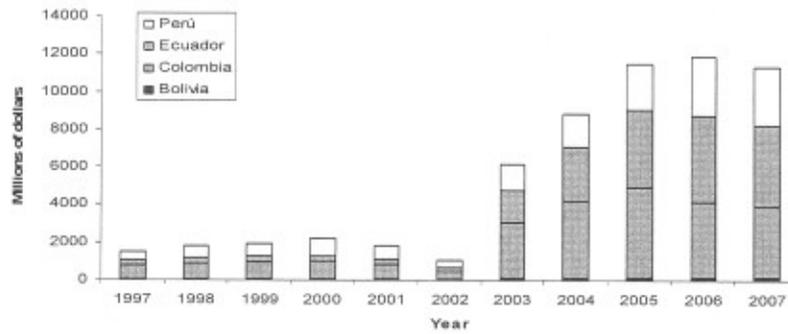
### Figure 2

#### U.S Imports from Andean Countries



### Figure 3

#### U.S Imports under ATPA and ATPDEA



### Table 1 Andean Exports to US and ATPDEA preferences, 2007

(in percentages)

Countries	US / World	ATPDEA / US
<b>Andean Community</b>	<b>29.0%</b>	<b>50.4%</b>
Bolivia	9.1%	40.6%
Colombia	34.6%	37.2%
Ecuador	43.3%	66.4%
Peru	19.5%	56.1%

Source: USITC

Table 2

## Andean Exports to US with Preferential Program

Country	Import Program	Extended Special	2005		2006		2007	
			<i>In million dollars</i>					
Bolivia	ATPA / ATPDEA		165	53.6%	152	40%	153	40.6%
		ATPA (no ATPDEA)	79	25.6%	109	29%	111	29.4%
		ATPDEA	86	27.9%	43	11%	43	11.4%
		GSP	28	9.1%	23	6%	43	11.4%
		No program claimed	114	37.0%	202	53%	180	47.7%
<b>Total Bolivia</b>			<b>308</b>	<b>100.0%</b>	<b>378</b>	<b>100%</b>	<b>377</b>	<b>100.0%</b>
Colombia	ATPA / ATPDEA		4,749	50.4%	3,969	40%	3,737	37.2%
		ATPDEA	2,613	27.7%	2,415	25%	2,286	22.8%
		ATPA (no ATPDEA)	2,136	22.7%	1,554	16%	1,451	14.5%
		GSP	204	2.2%	195	2%	253	2.5%
		No program claimed	4,471	47.4%	5,662	58%	6,043	60.2%
<b>Total Colombia</b>			<b>9,424</b>	<b>100.0%</b>	<b>9,827</b>	<b>100%</b>	<b>10,034</b>	<b>100.0%</b>
Ecuador	ATPA / ATPDEA		4,113	66.2%	4,570	60%	4,341	66.4%
		ATPDEA	2,751	44.3%	3,139	41%	3,184	48.7%
		ATPA (no ATPDEA)	1,362	21.9%	1,431	19%	1,157	17.7%
		GSP	66	1.1%	80	1%	86	1.3%
		No program claimed	2,035	32.7%	2,922	39%	2,113	32.3%
<b>Total Ecuador</b>			<b>6,215</b>	<b>100.0%</b>	<b>7,572</b>	<b>100%</b>	<b>6,540</b>	<b>100.0%</b>
Peru	ATPA / ATPDEA		2,422	44.9%	3,142	51%	3,080	56.1%
		ATPA (no ATPDEA)	1,085	20.1%	1,709	28%	1,674	30.5%
		ATPDEA	1,337	24.8%	1,433	23%	1,405	25.6%
		GSP	190	3.5%	196	3%	266	4.8%
		No program claimed	2,784	51.6%	2,818	46%	2,143	39.0%
<b>Total Peru</b>			<b>5,395</b>	<b>100.0%</b>	<b>6,155</b>	<b>100%</b>	<b>5,489</b>	<b>100.0%</b>
<b>Total</b>	ATPA / ATPDEA		11,449	53.6%	11,833	49.4%	11,311	50.4%
		ATPA (no ATPDEA)	6,528	30.6%	7,372	30.8%	7,255	32.3%
		ATPDEA	4,921	23.1%	4,461	18.6%	4,056	18.1%
		GSP	488	2.3%	494	2.1%	648	2.9%
		No program claimed	9,404	44.1%	11,604	48.5%	10,479	46.7%
<b>Total ATPA Countries</b>			<b>21,342</b>	<b>100.0%</b>	<b>23,931</b>	<b>100.0%</b>	<b>22,439</b>	<b>100.0%</b>

Sources: US International Trade Commission - and the U.S. Department of Commerce

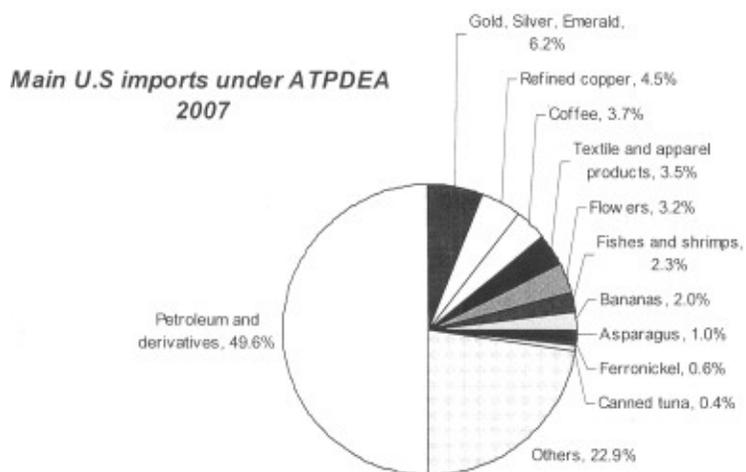
Table 3

## Main U.S Imports under ATPA/ATPDEA, 2007

	Bolivia	Colombia	Ecuador	Peru	CAN
Petroleum and derivatives	0.3%	24.2%	21.0%	4.1%	49.6%
Gold, Silver, Emerald	3.7%	0.2%	0.3%	2.0%	6.2%
Refined copper				4.5%	4.5%
Coffee		3.1%		0.6%	3.7%
Textile and apparel products	0.1%	0.4%		3.0%	3.5%
Flowers		2.4%	0.9%		3.2%
Fishes and shrimps			2.1%	0.2%	2.3%
Bananas		0.7%	1.4%		2.0%
Asparagus				1.0%	1.0%
Ferronickel		0.6%			0.6%
Tuna at airtight containers			0.4%		0.4%
Others	0.9%	11.3%	3.2%	7.5%	22.9%

Source: US ITC

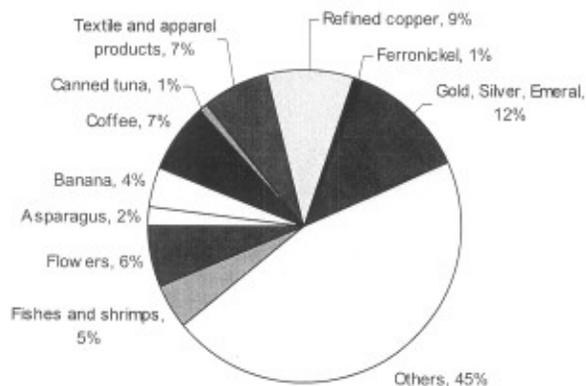
Figure 4



Source: US ITC

Figure 5

**Main Non Oil U.S Imports under ATPDEA 2007**



Source: US ITC

Table 4

Código	Subpartida Nandina	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
03061390	Camarones y demás decápodos natantia, congelados	54.9%	48.0%	42.1%	52.4%	51.8%	53.4%	55.3%	45.6%	45.0%	40.9%
06031040	Rosas frescos	76.8%	79.4%	79.3%	76.4%	76.1%	74.5%	75.2%	72.5%	69.2%	68.6%
61091000	T-shirt y camisetas interiores, de punto, de algodón	69.4%	75.6%	80.7%	75.2%	76.7%	80.3%	78.9%	77.9%	72.8%	54.6%
71059110	Plata en bruto, sin alear	39.1%	17.0%	10.2%	11.1%	19.1%	39.0%	40.4%	57.2%	52.2%	56.9%

Fuente: Sistema Estadístico de la Secretaría General de la CAN (SICEXT)

Table 5

Exportaciones CAN a EE.UU	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
N° Subpartidas con expor	2075	2238	2301	2425	2536	2596	2811	2804	2716	2756
% de comercio con EE.UU de los principales 20 productos	78.6%	81.8%	82.8%	77.0%	76.6%	76.7%	75.4%	79.2%	80.5%	80.2%
% de comercio con EE.UU de los principales 50 productos	88.9%	89.9%	90.4%	86.8%	86.9%	86.8%	85.7%	87.9%	89.3%	89.4%

Fuente: Sistema Estadístico de la Secretaría General de la CAN (SICEXT)

Figure 6

