

**ANDEAN TRADE PREFERENCE ACT:
IMPACT ON U.S. INDUSTRIES
AND CONSUMERS AND ON DRUG CROP
ERADICATION AND CROP SUBSTITUTION**

Second Report 1994

Investigation No. 332-352



U.S. International Trade Commission

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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 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 first report in this series, covering calendar years 1992 and 1993, was submitted September 30, 1994. The present report covers calendar year 1994.

The 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

The Andean Trade Preference Act (ATPA) was signed into law in December 1991. ATPA eliminates, or in some cases reduces, tariffs on eligible products of four Andean mountain countries of South America—Bolivia, Colombia, Ecuador, and Peru. The goals of ATPA are to promote broad-based economic development in the Andean countries, specifically with a focus on the development of sustainable economic alternatives to coca cultivation and cocaine production by offering Andean products broader access to the U.S. market. ATPA applies to the same 4,300 tariff categories covered by the more restrictive U.S. Generalized System of Preferences (GSP) program; ATPA benefits extend beyond those of GSP by applying to an additional 1,700 products and by establishing more liberal product qualifying rules.

Section 206 of the ATPA requires the U.S. International Trade Commission (the Commission) to report annually on the program. Highlights follow of the Commission's second annual report on ATPA, covering the year 1994:

- U.S. merchandise imports from Bolivia, Colombia, Ecuador, and Peru in 1994 totaled \$5.9 billion, or less than 1 percent of U.S. imports worldwide. Imports entered under ATPA in 1994, the first full year that all four countries were participants, totaled just under \$684 million, or 11.6 percent of total imports from the ATPA countries. ATPA duty-free imports were over \$663 million, and ATPA reduced-duty imports were over \$20 million. In comparison, GSP duty-free imports from the ATPA countries were just \$339 million in 1994.
- Colombia is by far the largest ATPA trading partner of the United States, supplying 60.2 percent of imports under ATPA in 1994. As in prior years, Colombia was the principal source of fresh cut flowers, the leading import sector under ATPA, including the top two product categories in this sector—chrysanthemums, standard carnations, anthuriums and orchids (ATPA duty-free imports valued at \$121 million) and roses (\$105 million). In all, fresh cut flowers accounted for nearly 44 percent of all ATPA imports in 1994 with a combined value of almost \$300 million. Bolivia was the main supplier of the next leading ATPA import, jewelry of precious metals (\$85 million). Combined jewelry imports from Bolivia and Peru, mostly precious metal rope, rope necklaces, and gold neck chains, accounted for nearly 20 percent of all ATPA imports for a combined value of \$134 million.
- Less than one-half of ATPA duty-free and reduced-duty imports could not have benefited from GSP, and thus benefited exclusively from ATPA. These items totaled \$288 million in 1994, or 4.9 percent of all imports from ATPA countries. The five leading items benefiting exclusively from ATPA in 1994 were chrysanthemums, standard carnations, anthuriums and orchids from Colombia (excluded by GSP “competitive need” limits); roses; tuna; asparagus; and leather luggage.
- The overall effect of ATPA-exclusive imports on the U.S. economy and consumers continued to be small in 1994, although a few industries were measurably affected. The Commission used a partial-equilibrium analysis to produce “upper bound” estimates of these effects. Imports of the 20 leading items (measured at the 8-digit subheading of the U.S. Harmonized Tariff Schedule) benefiting exclusively from ATPA in 1994 produced welfare gains for U.S. consumers. Fresh cut roses yielded the largest such net gain, valued at \$864 thousand, followed by chrysanthemums,

carnations, anthuriums, and orchids, with a net welfare gain valued at \$805 thousand. Displacement of U.S. output by ATPA imports also was measured using upper bound estimates. Industries that may have experienced displacement of more than an estimated 5 percent of the value of U.S. production were: chrysanthemums, carnations, anthuriums, and orchids (13.4 percent of domestic shipments displaced, valued at \$7.4 million); fresh cut roses (8.5 percent displacement, valued at \$12.8 million); and asparagus (6.4 percent displacement, valued at \$6.5 million).

- Based on published reports and data collected for 1994, the probable future effect of ATPA on the United States will be minimal in most economic sectors. According to Andean public and private sector representatives, ATPA has not stimulated significant new export-oriented investment. Sectors receiving possible ATPA-related investment reported during 1994 include: gold and silver jewelry in Bolivia; disposable medical devices and tableware in Colombia; and gold jewelry, copper wire, and asparagus in Peru.
- ATPA appears to have had only minimal effects on drug crop eradication and crop substitution in the Andean region during 1994. To date, neither drug crop eradication nor crop substitution efforts have shown the successes that were earlier anticipated. The newness of ATPA makes it difficult to draw a causal linkage between trade preferences and drug crop eradication and crop substitution. Moreover, the long-term nature of establishing viable alternative crops and building the necessary economic infrastructure means that a significant decline in drug crop production as a result of current crop eradication/substitution efforts in the Andean region may not be seen for some time.

CHAPTER 1

Introduction

On July 23, 1990, President Bush announced his intention to implement a package of trade measures for the South America Andean countries of Bolivia, Colombia, Ecuador, and Peru to encourage these countries to reduce drug crop cultivation and production.¹ Included in this package was a proposal for a preferential tariff regime for certain products of the four Andean countries. Legislation for such a preferential tariff regime, the Andean Trade Preference Act (ATPA), was passed by the Congress on November 26, 1991, and signed into law by President Bush on December 4, 1991.² ATPA became operative on July 2, 1992, when President Bush formally designated Bolivia and Colombia as ATPA beneficiaries.

This report fulfills a statutory mandate that the U.S. International Trade Commission (the Commission) report annually on the operation of the ATPA program and its impact on U.S. industry, consumers, and the economy in general, as well as on the estimated effect of ATPA on drug-related crop eradication and crop substitution.³ 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 the use of productive facilities in the United States attributable to ATPA.⁴

¹ 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.

² President, "Statement on Signing Legislation on Trade and Unemployment Benefits," *Weekly Compilation of Presidential Documents: Administration of George Bush*, vol. 27, No. 49 (Dec. 4, 1991), p. 1758.

³ These requirements are enumerated in section 206(b)(1)(A)–(C) (19 U.S.C. 3204(b)(1)(A)–(C)).

⁴ Sec. 206(b)(2)(A)–(B) (19 U.S.C. 3204(b)(2)(A)–(B)).

As of September 26, 1995, legislation was pending in the House of Representatives that would alter the Commission's reporting requirement.⁵ The proposed legislation would have the Commission report on ATPA biennially, rather than annually. The bill, H.R. 1887, was reported out of the Committee on Ways and Means on June 27, 1995, and sent to the House floor. Also as of September 26, 1995, no companion legislation had been introduced in the Senate.

Approach

The actual effects of ATPA on the U.S. economy and industries are assessed through analyses of (1) imports under the act and trends in U.S. consumption and (2) trends in production, employment, wages, profit levels, use of productive facilities, investment, and other economic factors in U.S. industries that produce similar or competing products. General economic, trade, and investment data come from such standard reference sources as U.S. Bureau of the Census trade files, from investment and other data developed by Federal agencies that administer and monitor the program, and from materials developed by commodity and industry analysts of the Commission. Investment information is derived from field trips to selected ATPA countries and from U.S. Embassies' telegrams. The report incorporates comments received from interested persons in response to a *Federal Register* notice.

A quantitative assessment of the effects of ATPA is made through a partial-equilibrium analysis to measure the net welfare effect. This effect has two components: the sum of the gain to consumers from lower priced imports,⁶ and the loss in tariff revenues to the U.S. Treasury.⁷ A measurement of the potential

⁵ That reporting requirement is enumerated in section 206(a) (19 U.S.C. 3204(a)).

⁶ Depending on the competitive situation and market structure of the particular industry in the United States, all or some portion of the gain will be passed onto the end users, or onto the intermediate, downstream industries.

⁷ Losses to producers are not estimated in this report. This is explained further in ch. 3.

displacement in domestic shipments as a result of ATPA imports is also included. The discussion of probable future effects of the ATPA is based on analyses of economic trends and investment patterns in ATPA beneficiaries and in competing U.S. industries. This work depended principally on fieldwork by Commission staff and on information received from U.S. embassies in ATPA countries.

The report assesses the impact of ATPA on illicit drug crop eradication and crop substitution through an evaluation of the extent of coca growing and production in the Andean region on a country-by-country basis. The primary sources for much of this information were other U.S. Government agencies, such as the Department of Justice (Drug Enforcement Agency), the Department of State, and U.S. embassies abroad. Interviews with knowledgeable public and private sector representatives served as secondary sources.

Organization

The present chapter provides an overview of the ATPA program. Chapter 2 presents tabular and descriptive material on U.S. trade with ATPA-eligible countries during 1994. Chapter 3 addresses the effects of ATPA in 1994 on the economy, industries, and consumers of the United States. Chapter 4 examines the probable future effects of ATPA through discussions of investment activity in the region and of the products most likely to be exported to the United States in the near future under the ATPA program. Chapter 5 considers the act's impact on efforts in beneficiary countries on crop eradication and crop substitution. Appendix A contains a list of the submissions received in response to the Commission's *Federal Register* notice (60 F.R. 27779 of May 25, 1995) by which public comments for this investigation were solicited. Appendix B explains the economic model used to derive the findings presented in chapter 3.

Overview of the ATPA Program

ATPA is a unilateral preferential tariff program that reduces or eliminates duties on eligible products imported into the customs territory of the United States. This tariff regime was largely modeled after the U.S. Caribbean Basin Economic Recovery Act (CBERA)⁸ but shares many features with the U.S.

⁸ CBERA, which has been operative since 1984, affords permanent nonreciprocal duty-free and reduced-duty entry to eligible imports from 24 Caribbean

Generalized System of Preferences (GSP).⁹ ATPA preferential tariffs are scheduled to expire no later than 10 years from the effective date, or on December 3, 2001.

Beneficiaries

Only Colombia, Bolivia, Peru, and Ecuador are eligible to be designated by the President for ATPA benefits;¹⁰ the President can terminate such designations or suspend or limit a country's ATPA benefits at any time. All four countries were eligible for full ATPA benefits during 1994.¹¹ ATPA beneficiaries are required, among other things, to afford internationally recognized worker rights as defined under the GSP program.¹² To date, ATPA benefits have not been withheld from any country on the basis of worker rights violations.¹³

⁸—Continued

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 1986, most recently in *Impact of the Caribbean Basin Economic Recovery Act on U.S. Industries and Consumers, Tenth Annual Report, 1994*, USITC publication 2927, Sept. 1995.

⁹ GSP is discussed in more detail below.

¹⁰ 19 U.S.C. 3202(b).

¹¹ For a more detailed analysis of country eligibility requirements under ATPA, see USITC, *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*, USITC publication 2814, Sept. 1994, p. 6.

¹² The President may waive this condition if he determines that the designation of a particular country would be in the economic or security interest of the United States, and he so reports to Congress. Sec. 203(c)(7), ATPA (19 U.S.C. 3202(c)(7)). Under the GSP program, internationally recognized worker rights include the right of association, the right to organize and bargain collectively, a prohibition on the use of forced or compulsory labor, a minimum age for the employment of children, and acceptable working conditions regarding minimum wages, hours of work, and occupational safety and health. Sec. 502(a)(4), Trade Act of 1974, title V (Public Law 93-618, 88 Stat. 2066 and following).

¹³ 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. 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.

Trade Benefits

Approximately 6,000 products (trade in services is not included) are eligible for ATPA duty reduction. Subject to certain exceptions, ATPA affords duty-free treatment for all articles imported into the United States that are the growth, product or manufacture of a designated ATPA country. 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, duties on these goods are being reduced by a total of 20 percent in five equal annual installments.¹⁴ Articles not eligible for ATPA preferential duty treatment are most textile and apparel articles;¹⁵ certain footwear;¹⁶ canned tuna; certain petroleum and petroleum products; certain watches and watch parts; certain sugars, syrups, and molasses; and rum.

Qualifying Rules

ATPA provides generally that eligible products must be wholly grown, produced, or manufactured in a designated ATPA country or be “new or different” articles from substantially transformed non-ATPA inputs used in their manufacture in order to receive duty-free entry into the United States.¹⁷ The cost or value of the local (that is, ATPA) materials and direct cost of processing in one or more ATPA countries must total at least 35 percent of the U.S. customs value of the product at the time of entry. These rule-of-preference provisions allow ATPA countries to pool their resources to meet value content requirements and also permit inputs from Puerto Rico, the U.S. Virgin Islands, and CBERA countries¹⁸ to

¹⁴ 19 U.S.C. 3203(c).

¹⁵ This includes products subject at any time to the Arrangement Regarding International Trade in Textiles (so-called Multifiber Arrangement), which controlled much of the world trade in textiles and apparel during 1974–1994.

¹⁶ Applies to footwear in tariff categories that were not eligible for GSP duty-free entry as of December 31, 1991.

¹⁷ For a more detailed explanation, see U.S. Department of Commerce, International Trade Administration and U.S. Agency for International Development, *Guidebook to the Andean Trade Preference Act* (Washington, DC: GPO, July 1992), p. 7.

¹⁸ CBERA countries 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,

count in full toward the value threshold. Also, ATPA products can meet the 35-percent minimum value content requirement if ATPA value represents 20 percent of the U.S. customs value of the product and the additional 15 percent is attributable to U.S.-made (excluding Puerto Rican) materials or components.¹⁹ So-called “double substantial transformation” also may be used to meet the 35-percent local content requirement.²⁰

ATPA and GSP

ATPA covers the same 4,300 tariff categories covered by GSP plus an additional 1,700 categories. ATPA qualifying rules are similar to those for GSP, and many Andean products may enter the United States duty free under either program. ATPA offers Andean exporters several advantages over GSP. ATPA rules of origin are more liberal than those of GSP.²¹ ATPA imports are not subject to “competitive need” and country income restrictions;²² indeed, products so restricted under GSP may continue to enter free of duty under ATPA. Moreover, ATPA benefits are set by statute to last for 10 years, or until December 2001. The last 10-year extension of GSP expired July 4, 1993; it was renewed retroactively through September 30, 1994, by the Omnibus Budget Reconciliation Act of 1993. GSP was renewed again on December 8, 1994 retroactively through July 31, 1995 by the Uruguay Round Agreements Act. As of this writing, GSP has again expired.

¹⁸—Continued

Montserrat, Netherlands Antilles, Nicaragua, Panama, St. Kitts–Nevis, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago.

¹⁹ 19 U.S.C. 3203(a).

²⁰ “Double substantial transformation” involves transforming material into a new and different product that, 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 ATPA content requirement. For additional information, see U.S. Department of Commerce, *Guidebook to the Andean Trade Preference Act*, p. 5.

²¹ 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. 19 U.S.C. 2463(b)(1)(B).

²² Under GSP, products that achieve a specified market penetration in the United States (the “competitive need” limit) may be excluded from GSP eligibility. Countries may lose all GSP privileges if their national income grows to exceed a specified amount. 19 U.S.C. 2464(c)–(f).

CHAPTER 2

U.S. Trade With ATPA Countries

This chapter analyzes U.S. trade in 1994 with the four designated ATPA beneficiaries—Bolivia, Colombia, Ecuador, and Peru (hereafter ATPA countries). Though it concentrates on U.S. imports, the analysis begins with an overview of two-way trade with these countries. Because duty-free and reduced duty entries under ATPA provisions in 1994 accounted for 11.6 percent of total U.S. imports from ATPA countries, a discussion of U.S. imports from ATPA countries entering under provisions other than ATPA is also presented in order to put this preferential portion in perspective.

Following a discussion of total U.S. imports from ATPA countries—first the dutiable and then the free-of-duty portion, the \$663 million in U.S. imports entering the United States in 1994 under ATPA provisions are analyzed as a subsection of all duty-free imports from ATPA countries.

Two-way Trade

The United States is the single largest trading partner for each ATPA country, which together accounted for 1.3 percent of U.S. merchandise exports to the world and 0.9 percent of U.S. merchandise imports from the world in 1994 (table 2-1). U.S. exports to ATPA countries totaled \$6.4 billion in 1994, rising by 20.3 percent over 1993. ATPA

countries collectively ranked 18th as an export market for the United States, which placed them ahead of such countries as Saudi Arabia and Switzerland but behind Italy and Malaysia.¹ Total U.S. imports from ATPA countries (both the ATPA preferential portion and all other imports) amounted to \$5.9 billion in 1994, an increase of 11.3 percent over their 1993 level, making these countries collectively the 22nd largest supplier of U.S. imports—ahead of the Philippines and India but behind Switzerland and the Netherlands.

The combined U.S. trade balance with the ATPA countries moved from a deficit of \$1.9 billion in 1990 to a surplus of over \$260 million in 1992 and nearly \$77 million in 1993.² In 1994, this surplus amounted to \$566 million, seven times larger than that in 1993. The shift from a U.S. deficit to a U.S. surplus mirrored, to some extent, the post-1990 economic upturn in the Andean countries and the consequent increase in their demand for U.S. goods.

¹ For information on U.S. exports to ATPA countries during 1990-93, see United States International Trade Commission (USITC), *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, 1993*, USITC publication 2814, Sept. 1994, pp. 18-21.

² For data concerning years prior to 1992, see *ibid.*, table 1-2, p. 19.

Table 2-1
U.S. trade with ATPA countries, 1992-94

Year	U.S. exports ¹	Share of U.S. exports to the world	U.S. imports ²	Share of U.S. imports from the world	U.S. trade balance
	<i>Million dollars</i>	<i>Percent</i>	<i>Million dollars</i>	<i>Percent</i>	<i>Million dollars</i>
1992	5,319.7	1.3	5,058.7	1.0	261.0
1993	5,359.1	1.2	5,282.3	0.9	76.7
1994	6,445.0	1.3	5,879.5	0.9	565.5

¹ Domestic exports, f.a.s. basis.

² Imports for consumption, customs value.

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

Total U.S. Imports

Colombia, by far the largest ATPA trading partner of the United States, accounted for 53.3 percent of all U.S. imports from the ATPA community in 1994 compared with 57.0 percent in 1993. The value of imports from that country increased moderately during the year under review from \$3.0 billion in 1993 to \$3.1 billion in 1994 (table 2-2). Imports from Ecuador, which had remained largely constant through the early 1990s, were up by 23.0 percent in 1994, with Ecuador accounting for 29.1 percent of collective U.S. imports from ATPA countries. Peru's share in the total was 13.3 percent, and Bolivia's share was 4.4 percent in 1994.

Table 2-3 shows the value of the top 30 U.S. import items from ATPA countries during 1990-94 on an 8-digit Harmonized Tariff Schedule of the United States (HTS) subheading basis, ranked by their import value in 1994.³ Colombia is the principal supplier of the chief items on this list—petroleum oils, distillate and residual fuel oils, and coffee.⁴ Petroleum products from Ecuador, Peru, and Colombia in 1994 accounted for 28.3 percent of all U.S. imports from ATPA countries.⁵ These imports dropped by value in 1994, reflecting shifts in demand and the continued decline of crude oil prices on world markets.

The largest gains in U.S. imports from ATPA countries in 1994 were in coffee, shrimp, jewelry, cane sugar, and apparel products. Coffee imports

³ Some of these are leading import items entering fully, or in part, under ATPA provisions; they will also appear in table 2-8 below and will be discussed later in this chapter.

⁴ The leading U.S. import items by country from 1991 to 1993 have been discussed in detail in USITC, *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, 1993*, USITC publication 2814, pp. 22-23.

⁵ Based on SITC 2-digit classification and compiled from official statistics of the U.S. Department of Commerce. These data are not shown in tabular form.

doubled in value even though declining in volume because of sharp increases in coffee prices. Coffee, mostly from Colombia, constituted almost 12 percent of total U.S. imports from ATPA countries.

U.S. imports of bananas from ATPA countries increased in 1994. Industry sources assert that a portion of the ATPA-country supply available for exports that might have gone to Europe was diverted to the United States in response to quotas set by the European Union on July 1, 1993, through its import regime on bananas and in subsequent "Framework Agreements" between the European Union and four nations, including Colombia.⁶

Imports of cocoa beans from Ecuador rebounded in 1994, following years of restricted supply due to poor weather conditions and resulting low yields.

Notable is the decline in the import value of rubies, sapphires and emeralds from ATPA countries during the year under review, notwithstanding a 61-percent increase in the volume of such imports. This decline in the import value reflected a change in product mix to cheaper, lower quality items. U.S. demand patterns shifting in this direction were consistent with changes in the world market for gemstones.

Some apparel items—cotton sweaters, women's or girls' trousers, men's or boy's trousers, and panty hose—also appear on the list of the leading imports from the region, and imports of certain items were up significantly in 1994. The combined imports of apparel and clothing accessories from ATPA countries increased by 18.0 percent in 1994, compared with those in 1993.⁷

⁶ On October 17, 1994, the United States Trade Representative instituted an investigation of the European Union's banana regime under section 301 of the Trade Act of 1974, followed by an investigation of the banana policies and practices of Colombia (as well as of Costa Rica) on January 9, 1995.

⁷ Based on SITC 2-digit classification and compiled from official statistics of the U.S. Department of Commerce. These data are not shown in tabular form.

Table 2-2
U.S. imports for consumption from ATPA countries, by source, 1992-94
(1,000 dollars, customs value)

Source	1992	1993	1994
Colombia	2,888,009	3,009,831	3,132,398
Ecuador	1,323,031	1,389,324	1,709,790
Peru	686,043	698,115	779,945
Bolivia	161,586	185,022	257,373
Total	5,058,669	5,282,292	5,879,505

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 2-3
Leading U.S. import items for consumption from ATPA countries, 1990-94

(1,000 dollars, customs value)

HTS item	Description	1990	1991	1992	1993	1994
2709.00.20	Petroleum oils and oils from bituminous minerals	1,640,470	1,270,085	1,266,399	1,451,090	1,402,626
0901.11.00	Coffee, not roasted, not decaffeinated	375,276	414,791	445,012	288,570	606,163
0306.13.00	Shrimp and prawns, cooked in shell or uncooked	324,246	402,466	412,756	397,779	498,915
0803.00.20	Bananas, fresh or dried	403,073	433,500	387,385	373,655	392,616
2710.00.05	Distillate and residual fuel oils (including blends)	567,993	358,216	269,284	308,550	236,156
0603.10.70	Chrysanthemums, standard carnations, anthuriums, orchids	98,204	97,247	117,457	122,926	121,054
0603.10.60	Roses, fresh cut	67,953	73,954	75,658	91,530	105,926
7113.19.50	Articles of jewelry and parts thereof of precious metal	22,080	24,644	25,146	46,886	103,080
9999.95.00	Informal entries under \$1,251	88,169	75,200	88,452	92,101	100,140
7103.91.00	Rubies, sapphires and emeralds, worked or graded	58,393	51,595	92,844	119,706	90,151
2701.12.00	Bituminous coal, whether or not pulverized	52,650	61,451	56,168	109,078	89,544
7113.19.10	Rope, curb, etc. in continuous lengths, of precious metal	70,035	58,139	64,857	82,096	83,921
0901.12.00	Coffee, not roasted, decaffeinated	37,629	28,392	28,570	34,670	69,908
7108.12.10	Unwrought gold bullion and dore, nonmonetary	142,269	155,786	85,747	75,041	67,611
7106.91.10	Unwrought silver bullion and dore	39,176	60,921	73,870	53,949	61,678
6110.20.20	Sweaters and pullovers, of cotton	22,357	28,836	29,962	48,237	59,632
1701.11.01	Cane sugar entered pursuant to its provisions	22,761	42,974	41,742	33,546	59,605
6204.62.40	Women's or girls' trousers, breeches and shorts	32,114	43,111	59,359	60,113	56,967
2301.20.00	Flours, meals, and pellets, of fish or of crustaceans	18,805	8,834	6,288	83,479	56,220
0603.10.80	Cut flowers and flower buds suitable for bouquets	27,569	25,590	33,052	36,134	45,699
7901.11.00	Unwrought zinc, not alloyed	32,328	24,652	48,490	39,448	45,260
9801.00.10	U.S. goods returned, not advanced in value	39,002	29,630	44,525	72,731	43,196
0803.00.30	Plantains, fresh	33,812	40,436	38,982	38,503	39,126
8001.10.00	Unwrought tin, not alloyed	52,581	47,907	26,269	41,137	38,605
1801.00.00	Cocoa beans, whole or broken, raw or roasted	47,743	34,425	21,692	26,326	36,748
4407.23.00	Baboen, mahogany, imbuia and balsa tropical woods	21,190	26,412	15,247	19,523	34,712
6203.42.40	Men's or boys' trousers, breeches and shorts	11,972	19,476	22,949	24,095	33,723
6115.11.00	Panty hose and tights, knitted or crocheted	6,608	6,739	5,860	12,802	32,773
7403.11.00	Cathodes and sections of cathodes of refined copper	3,479	11,255	11,250	17,236	29,491
7113.19.21	Rope necklaces and neck chains of gold	16,762	12,480	25,719	23,107	28,983
	Total of items shown	4,376,697	3,969,143	3,920,990	4,224,044	4,670,230
	Total all commodities	5,438,557	4,969,473	5,058,669	5,282,292	5,879,505

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 2-4 shows that the dutiable portion of U.S. imports from ATPA countries declined in 1994; this share was 36.2 percent, compared with 42.0 percent in 1993. Meanwhile, the calculated duties on ATPA imports rebounded from \$77.0 million in 1993 to \$85.5 million in 1994. The average rate of duty also rose from under 3.5 percent in 1993 to 4.0 percent in 1994.⁸ The increase in duty revenues and rates in 1994 reflects a shift in the composition of dutiable U.S. imports from the region away from low-duty items, such as petroleum products, toward imports of high-duty items such as apparel.

Table 2-5 lists the categories of U.S. imports from ATPA countries that are not eligible for ATPA duty-free treatment. Such imports exceeded \$2 billion annually in 1992 through 1994. Petroleum and petroleum products accounted for three-quarters of ATPA-ineligible imports in 1994, and textiles and apparel accounted for most of the remainder. The presence of petroleum products and apparel on the list of ineligible goods explains why more than two-fifths of total U.S. imports by value from ATPA countries fell into the ineligible category in 1992 and 1993, and nearly two-fifths fell into that category in 1994 (table 2-6), even though most import items from ATPA countries enter free of duty under ATPA itself or under some other provision.

Less than 1 percent (0.3 percent) of imports from the ATPA countries entered at reduced ATPA rates (table 2-7). Products entered at reduced ATPA rates

⁸ The average rate of duty was 4.1 percent in 1991, the year before ATPA was implemented.

both in 1993 and 1994 were luggage, handbags, work gloves, and leather wearing apparel.⁹

Duty-free Imports

In 1991, the year before ATPA became operative, about 54 percent of all U.S. imports from ATPA countries entered free of duty.¹⁰ Since ATPA has been in effect, the percentage of all duty-free imports in total imports has risen steadily to 63.8 percent in 1994 (table 2-7). Imports from the Andean region are eligible for duty-free treatment under ATPA or other programs. In 1994, duty-free entries fell under one of the following provisions: (1) unconditionally under most-favored-nation (MFN) or column 1-general tariff rates (41.9 percent), (2) conditionally under the GSP (5.8 percent), (3) conditionally under “production sharing”, that is subchapter II of chapter 98 of the HTS (2.6 percent), (4) conditionally under ATPA (11.3 percent), or (5) under other provisions (2.2 percent).

⁹ Duties on these articles are being reduced by a maximum of 20 percent in five equal annual installments, beginning January 1, 1992. This provision, as all other key ATPA provisions, is discussed in greater detail in USITC, *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*, 1993, USITC publication 2814, pp. 7-8.

¹⁰ “Free of duty” includes MFN duty-free, GSP, production sharing, and other entries under special rate provisions. See *ibid.*, p. 25.

Table 2-4
U.S. imports for consumption from ATPA countries: Dutiable value, calculated duties, and average duty, 1992-94

Item	1992	1993	1994
Dutiable value (1,000 dollars) ¹	2,200,811	2,221,474	2,126,059
Dutiable as a share of total imports (percent)	43.5	42.0	36.2
Calculated duties (1,000 dollars) ¹	87,445	77,013	85,467
Average duty ² (percent)	3.98	3.49	4.05

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

² Average duty = (calculated duty/dutiable value) x 100.

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

Table 2-5
U.S. imports for consumption from ATPA countries of specific goods not eligible for ATPA duty-free entry, 1992-94

(1,000 dollars, customs value)

Product category	1992	1993	1994
Petroleum and petroleum products	1,646,326	1,786,896	1,661,507
Textiles and apparel ¹	407,969	447,801	529,970
Footwear	22,287	21,844	20,073
Canned tuna	0	8,421	4,927
Rum	195	106	66
Sugar	0	0	10
Total	2,076,777	2,265,068	2,216,553

¹ The data for textiles and apparel were compiled at the 8-digit tariff rate-line level of the Harmonized Tariff Schedule of the United States.

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 2-6
U.S. imports for consumption from ATPA countries of goods not eligible for ATPA duty-free entry, 1992-94

Year	Noneligible imports	Percent of total imports
	<i>Billion dollars</i>	
1992	2.1	41.0
1993	2.3	42.8
1994	2.2	37.6

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

The increase in the duty-free portion of total imports occurred despite a decline in imports that entered duty-free under GSP (from 8.5 percent of the total in 1993 to 5.8 percent in 1994,) and the small (2.6-percent) portion of imports (mostly apparel) that were duty-free under production sharing. The increase in U.S. duty-free imports from ATPA countries is attributable mostly to ATPA itself, which, already in the second full year of the program, accounted for almost twice the percentage of imports from ATPA countries than did the GSP (figure 2-1).

Imports Under ATPA

U.S. imports afforded duty-free entry under ATPA¹¹ continued to increase in 1994, amounting to

¹¹ Data in this section on imports under ATPA provisions show the value of products entered under ATPA less MFN duty-free imports, if entered under ATPA. However, some of these imports also were eligible for

\$663.4 million or seven times their amount in 1992 and 1.7 times their amount in 1993 (table 2-7). The program accounted for an increasing share of all imports from ATPA countries: 1.8 percent in 1992, 7.3 percent in 1993, and 11.3 percent in 1994. The relative increase in 1993 partly reflected the addition of Ecuador and Peru as designated beneficiaries.

With respect to certain products eligible for duty-free entry under either GSP or ATPA, suppliers came to prefer using ATPA for several reasons: to avoid GSP competitive need restrictions,¹² to use

¹¹—Continued
duty-free entry under GSP. The data are disaggregated further in chapter 3.

¹² Competitive need restrictions limit a country's eligibility for GSP benefits on a product-specific basis. When U.S. imports of a product from one country exceed a specific annually adjusted value or exceed 50 percent of the value of total U.S. imports of the product in the preceding calendar year, GSP benefits are lost and the normal rate of duty is applied.

Table 2-7
U.S. imports for consumption from Bolivia, Colombia, Ecuador, and Peru, by duty treatment,
1992-94

Description	Bolivia	Colombia	Ecuador	Peru	ATPA total	Percent of total
<i>1,000 dollars, customs value</i>						
1992:						
Total imports	161,586	2,888,009	1,323,031	686,043	5,058,669	100.0
Dutiable value ¹	2,594	1,510,459	485,913	201,845	2,200,811	43.5
ATPA reduced duty	182	4,049	(²)	(²)	4,231	0.1
Duty-free value ³	158,992	1,377,550	837,118	484,198	2,857,858	56.5
MFN ⁴	111,171	900,462	772,650	235,997	2,020,280	39.9
GSP ⁵	29,222	207,434	62,774	247,653	547,083	10.8
ATPA ⁶	1,911	90,975	(²)	(²)	92,886	1.8
Production sharing ⁷	12,943	109,104	198	37	122,282	2.4
Other duty free ⁸	3,745	69,575	1,496	511	75,327	1.5
1993:						
Total imports	185,022	3,009,831	1,389,324	698,115	5,282,292	100.0
Dutiable value ¹	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 ³	179,041	1,557,727	833,800	490,250	3,060,818	58.0
MFN ⁴	109,971	902,394	740,345	254,130	2,006,840	38.0
GSP ⁵	29,420	137,398	58,626	223,007	448,451	8.5
ATPA ⁶	31,288	306,926	34,225	11,587	384,026	7.3
Production sharing ⁷	4,482	115,669	277	1,428	121,856	2.3
Other duty free ⁸	3,880	95,340	327	98	99,645	1.9
1994:						
Total imports	257,373	3,132,398	1,709,790	779,945	5,879,505	100.0
Dutiable value ¹	12,425	1,312,104	591,338	210,192	2,126,059	36.2
ATPA reduced duty	684	19,635	102	10	20,432	0.3
Duty-free value ³	244,948	1,820,294	1,118,452	569,753	3,753,446	63.8
MFN ⁴	115,185	1,070,386	1,007,929	270,876	2,464,376	41.9
GSP ⁵	37,418	88,754	37,267	176,012	339,451	5.8
ATPA ⁶	91,156	392,007	72,803	107,420	663,386	11.3
Production sharing ⁷	853	145,550	254	9,013	155,670	2.6
Other duty free ⁸	336	123,597	199	6,432	130,563	2.2

¹ Dutiable value excludes the U.S. content entering under HTS subheading 9802.00.80 and misreported imports.

² Not eligible during 1992.

³ Calculated as total imports less dutiable value.

⁴ Value of imports that have a col. 1-general duty rate of free.

⁵ Reduced by the value of MFN duty-free imports and ineligible items that were misreported as entering under the GSP program.

⁶ Reduced by the value of MFN duty-free imports and ineligible items that were misreported as entering under ATPA.

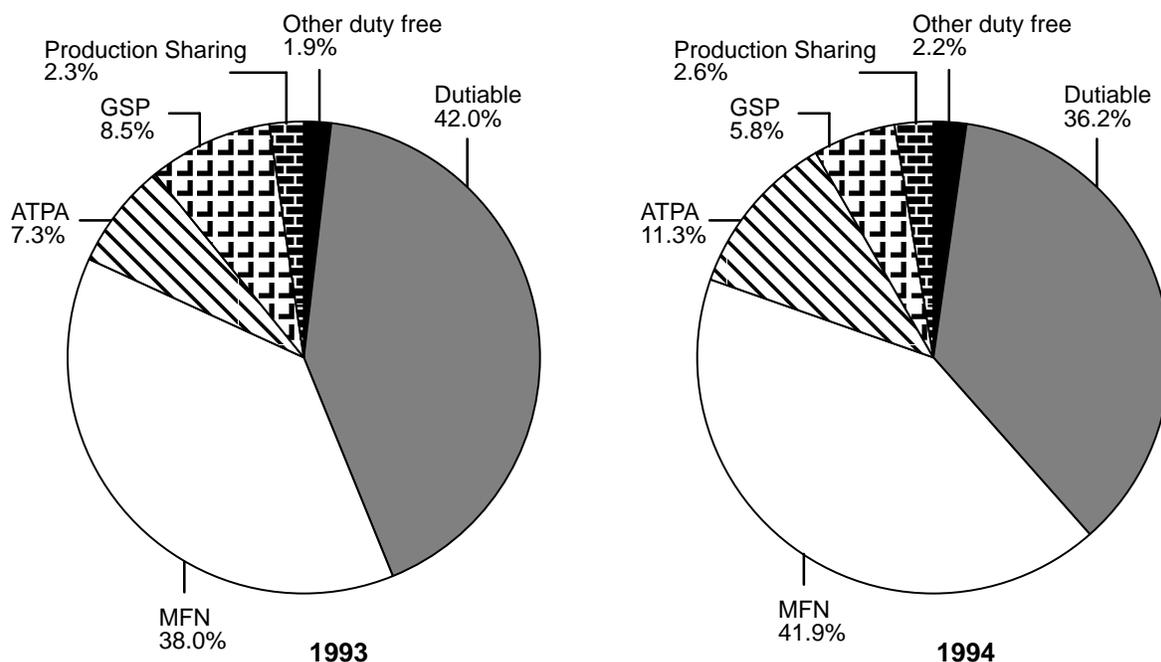
⁷ HTS items 9802.00.60 and 9802.00.80. Refers to the value of nondutiable exported and returned U.S.-origin products or components.

⁸ Calculated as a remainder, and represents imports entering free of duty under special rate provisions.

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

Figure 2-1

U.S. Imports from ATPA countries by category of duty-free import, 1993-94



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

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.¹³

Leading Items

Table 2-8 shows the leading 20 items afforded duty-free entry under ATPA provisions in 1992-94. These imports, ranked in terms of their 1994 value,¹⁴ are shown along with the principal ATPA source of each product in that year. The percentages of imports of these products under ATPA relative to the total imports from ATPA countries of each one are also shown because some portion of all but one item on table 2-8 was entered under programs other

than ATPA. The leading items that benefited exclusively from ATPA duty-free treatment in 1994 appear in table 3-2 of this report as well.

Figure 2-2 shows the composition of leading ATPA imports in 1994. The Andean fresh cut flower sector, located predominantly in Colombia, continued to be the principal beneficiary of ATPA. Nearly 44 percent of overall ATPA imports were accounted for by four categories of cut flowers, the combined imports of which amounted to \$300 million—(1) chrysanthemums, standard carnations, anthuriums, and orchids; (2) roses; (3) flowers for bouquets; and (4) miniature carnations. Nonetheless, fresh cut flowers as a portion of all imports under ATPA provisions were less significant in 1994 than they were in 1993, when such flowers constituted 60 percent of the total. One fresh-flower HTS category, encompassing chrysanthemums, standard carnations, anthuriums, and orchids, was subject to GSP competitive-need limits with respect to Colombia in 1994, and these flowers, therefore, were eligible to enter the United States free of duty exclusively under ATPA.¹⁵

¹²—Continued

The GSP and ATPA programs are compared in USITC, *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, 1993*, USITC publication 2814, p. 8.

¹³ The GSP program expired at midnight on July 31, 1995. An extension of the program is under consideration in Congress.

¹⁴ For some of these products, the values of their total imports (including imports entering outside the program) are listed in table 2-3.

¹⁵ See chapter 3 for definitions of exclusivity and for more detail about imports of this item under ATPA and its impact on the U.S. industry.

Table 2-8
Leading U.S. imports for consumption under ATPA provisions, 1992-94

HTS subheading	Description	1992		1993		1994		Leading source ²
		ATPA imports	Percent of total imports ¹	ATPA imports	Percent of total imports ¹	ATPA imports	Percent of total imports ¹	
		1,000 dollars		1,000 dollars		1,000 dollars		
0603.10.70	Chrysanthemums, standard carnations, anthuriums and orchids	46,107	39.2	122,488	99.6	121,036	99.9	Colombia
0603.10.60	Roses, fresh cut	21,496	28.4	86,468	94.4	105,475	99.5	Colombia
7113.19.50	Articles of jewelry, and parts thereof, of precious metals	1,133	4.5	19,942	42.5	85,205	82.6	Bolivia
0603.10.80	Cut flowers and flower buds suitable for bouquets	3,117	9.4	21,597	59.7	45,187	98.8	Colombia
7113.19.10	Rope, curb, etc. in continuous lengths, of precious metal	0	0.0	4,021	4.8	29,036	34.6	Peru
3921.12.11	Nonadhesive plates, sheets, film, foil, strip, cellular plastics	7,036	27.3	26,077	99.4	28,260	100.0	Colombia
0603.10.30	Miniature (spray) carnations, fresh cut	1,716	7.4	12,617	56.7	24,391	97.4	Colombia
0302.69.40	Fish, nesi, excl. fillets, livers and roes, fresh or chilled	22	0.1	9,912	39.9	17,055	79.6	Ecuador
1701.11.01	Cane sugar entered, pursuant to its provisions	0	0.0	94	0.2	16,668	27.9	Peru
1604.14.40	Tunas and skipjack, not in airtight containers	0	0.0	5,467	39.3	13,802	53.9	Ecuador
7901.11.00	Unwrought zinc, not alloyed	0	0.0	1,542	3.9	13,782	30.4	Peru
7801.10.00	Refined lead, unwrought	0	0.0	2,549	37.2	12,114	84.0	Peru
7113.19.29	Necklaces and neck chains of gold, nesi	528	2.4	8,812	71.5	10,493	89.0	Bolivia
4202.11.00 ³	Trunks, suitcases, vanity cases, occupational luggage	2,290	18.9	6,786	59.3	9,431	76.8	Colombia
7113.19.21	Rope necklaces and neck chains of gold	0	0.0	718	3.1	9,351	32.2	Peru
0709.20.90	Asparagus, nesi, fresh or chilled	39	1.4	4,589	83.3	8,760	99.9	Peru
7403.11.00	Cathodes and sections of cathodes of refined copper	0	0.0	266	1.5	8,239	27.9	Peru
4202.91.00 ³	Cases, bags and containers nesi, with outer surface of leather	2,507	39.7	5,285	79.8	6,093	73.0	Colombia
1704.90.20	Confections or sweetmeats ready for consumption	10	0.1	1,693	29.4	6,055	74.5	Colombia
0709.20.10	Asparagus, nesi, fresh or chilled, not reduced in size	12	0.9	1,375	80.1	4,780	96.3	Peru
	Total of above items	86,015	1.7	342,298	6.4	575,213	9.7	
	Total, all items entering under ATPA	97,117	1.9	401,421	7.6	683,817	11.6	

¹ Indicates ATPA duty-free imports as a share of total U.S. imports from ATPA countries. Leading U.S. imports from ATPA countries are shown in table 2-3.

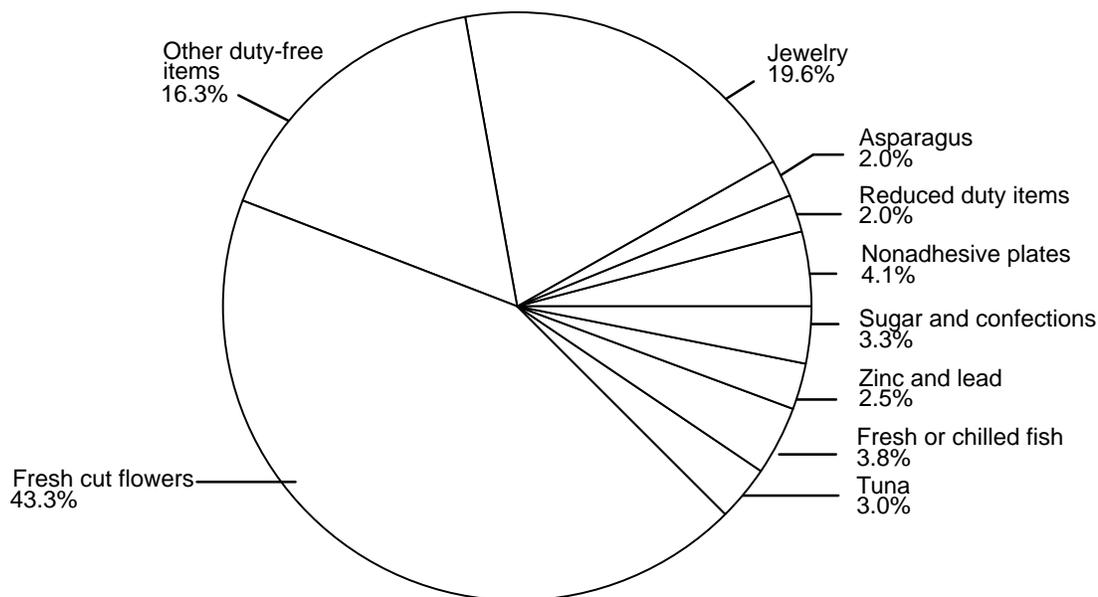
² Indicates leading ATPA source based on total U.S. imports for consumption during 1994.

³ ATPA reduced duty item.

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

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

Figure 2-2
Composition of leading ATPA imports, 1994



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

Jewelry articles of precious metal were the next major product group benefiting from ATPA provisions. Jewelry imports entered under ATPA, originating mostly in Bolivia and Peru, together amounted to \$134 million or 19.6 percent of all imports under ATPA in 1994, compared with 8.3 percent in 1993. The significant rise in these shipments may be attributable to the distinctive design of many of these Andean items and to their low cost because of the labor intensity of the production process.

Imports of nonadhesive plates, the next most significant item entering under ATPA in 1994, increased only slightly after having surged in 1993. This item, solely from Colombia, is also GSP-eligible, but all imports entered under ATPA. Notable also is the increase of asparagus (HTS subheading 0709.20.90) imports under ATPA provisions. These asparagus imports have no duty-free access to the U.S. market under any program other than ATPA; the impact of their imports on the U.S. industry is discussed in chapter 3.

ATPA Utilization Ratio

The ATPA utilization ratio is designed to provide a quantitative benchmark to assess the extent to which

ATPA has been used (table 2-9).¹⁶ This indicator is calculated as the ratio of duty-free imports entered under ATPA to the ATPA-eligible portion of total imports (that is, imports not excluded from ATPA benefits or not already eligible for MFN duty-free entry). For 1994, the ATPA utilization ratio was 55.3 percent.

ATPA Imports by Source

Colombia is the leading supplier of imports from the Andean region, both overall and under ATPA. For the other ATPA countries, however, their ranking in terms of their 1994 shipments under ATPA provisions is different from their ranking based on their overall shipments to the United States (table 2-10). Although Ecuador is the second-largest overall U.S. supplier among the Andean countries, reflecting its relatively large shipments of non-ATPA items, it is only the fourth-ranking beneficiary of ATPA. Peru, also a U.S. supplier of non-ATPA petroleum products,

¹⁶ As calculated, the ATPA utilization ratio also includes those items that switched from GSP to ATPA and do not necessarily represent increased duty-free access to the U.S. market.

Table 2-9
U.S. imports for consumption: ATPA eligibility and utilization, 1993-94

Item	1993 ¹	1994 ²
Eligible duty-free under ATPA (1,000 dollars) ³	641,643	1,198,576
Duty-free under ATPA (1,000 dollars) ⁴	338,214	663,386
ATPA utilization ratio ⁵ (percent)	52.71	55.34

¹ Data shown for Bolivia and Colombia only. Ecuador and Peru excluded because both countries were designated ATPA beneficiaries during only part of the year (Ecuador was designated in April 1993 and Peru was designated in August 1993).

² Data shown for Bolivia, Colombia, Ecuador and Peru.

³ Calculated as total imports from ATPA countries (table 2-7) minus imports not eligible for ATPA duty-free entry (table 2-5) minus MFN duty-free imports (table 2-7).

⁴ From table 2-7.

⁵ Utilization ratio = (entered duty-free entries/eligible entries) * 100.

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

Table 2-10
U.S. imports for consumption under ATPA provisions, by sources, 1992-94

(1,000 dollars)

Source	1992	1993	1994
Colombia	95,024	323,369	411,642
Peru	0	11,594	107,430
Bolivia	2,093	32,124	91,840
Ecuador	0	34,335	72,905
Total	97,117	401,421	683,817

Note.—Because of rounding, figures may not add to the totals shown. Data include both ATPA duty-free and reduced-duty eligible items.

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

apparel, shrimp and coffee, is the third-largest overall Andean exporter to the United States but the second-ranking ATPA beneficiary. Bolivia, which is the smallest supplier in terms of total U.S. imports from ATPA countries, is the third-ranking ATPA beneficiary.

Colombia was the leading or sole supplier in 1994 of 8 of the top 20 ATPA import items listed in table 2-8, including flower products and nonadhesive plates, which are major imports benefiting from ATPA. Altogether, Colombia still supplied 60.2 percent of imports under ATPA during the year, although down from its commanding 80.6 percent share of this total in 1993. Table 2-11 shows the 1994 value of each of the leading ATPA imports from beneficiary countries.

Peru supplied 15.7 percent of U.S. imports under ATPA in 1994, its first full year of eligibility under the program. Peru was the leading provider of seven top import items under APTA shown in table 2-8. Imports from Peru in 1994 were concentrated in

precious metal rope; unwrought, unalloyed zinc; and refined, unwrought lead. Peru was also the leading ATPA supplier of fresh or chilled asparagus.

Bolivia provided 13.4 percent of 1994 ATPA imports as the leading supplier under two jewelry categories (HTS subheadings 7113.19.50 and 7113.19.29). Imports of the first category more than quadrupled, and the second category also increased from 1993 to 1994. Jewelry products accounted for virtually all of duty-free imports from Bolivia under ATPA (table 2-11), as Bolivia's total shipments under ATPA almost tripled in 1994. Some Bolivian jewelry manufacturers reportedly switched from GSP to ATPA to take advantage of ATPA's more liberal rules of origin and to avoid a possible future GSP competitive need limitation duty increase.¹⁷

¹⁷ Representatives of gold jewelry manufacturer, interviews with USITC staff, El Alto, Bolivia, Apr. 21, 1994.

Table 2-11
Leading U.S. imports for consumption entering under ATPA provisions, by sources, 1994

Source	HTS No.	Description	1994	Total
			ATPA	ATPA
			imports	imports
			(1,000	Percent
			dollars)	
Bolivia	7113.19.50	Articles of jewelry, and parts thereof, of precious metals . . .	73,664	80.2
	7113.19.10	Rope, curb, etc. in continuous lengths, of precious metal . . .	8,928	9.7
	7113.19.29	Necklaces and neck chains of gold, nesi	7,290	7.9
	Total			89,882
Colombia . .	0603.10.70	Chrysanthemums, standard carnations, anthuriums and orchids	120,175	29.2
	0603.10.60	Roses, fresh cut	90,860	22.0
	0603.10.80	Cut flowers and flower buds suitable for bouquets	34,604	8.4
	3921.12.11	Nonadhesive plates, sheets, film, foil, strip, cellular plastics	28,260	6.9
	0603.10.30	Miniature (spray) carnations, fresh cut	23,809	5.8
	1701.11.01	Cane sugar entered, pursuant to its provisions	11,038	2.7
	4202.11.00 ¹	Trunks, suitcases, vanity cases, occupational luggage	9,338	2.3
Total			318,084	77.3
Ecuador . . .	0603.10.60	Roses, fresh cut	14,235	19.5
	0302.69.40	Fish, nesi, excl. fillets, livers and roes, fresh, chilled	12,573	17.2
	1604.14.40	Tunas and skipjack, not in airtight containers	10,802	14.8
	0603.10.80	Cut flowers and flower buds suitable for bouquets	9,758	13.4
	4421.90.95	Articles of wood nesi	3,850	5.3
	7113.19.29	Necklaces and neck chains of gold, nesi	1,756	2.4
	7113.19.50	Articles of jewelry, and parts thereof, of precious metals	1,529	2.1
	2005.90.95	Vegetables and mixtures of vegetables nesi	1,460	2.0
Total			55,963	76.7
Peru	7113.19.10	Rope, curb, etc. in continuous lengths, of precious metal . .	20,034	18.6
	7901.11.00	Unwrought zinc, not alloyed	13,782	12.8
	7801.10.00	Refined lead, unwrought	12,114	11.3
	7113.19.50	Articles of jewelry, and parts thereof, of precious metals	9,258	8.6
	7113.19.21	Rope necklaces and neck chains of gold	8,383	7.8
	7403.11.00	Cathodes and sections of cathodes of refined copper	8,239	7.7
	0709.20.90	Asparagus, nesi, fresh or chilled	7,893	7.3
	1701.11.01	Cane sugar entered, pursuant to its provisions	5,629	5.2
	Total			85,332

¹ Indicated articles are subject to the ATPA 20-percent duty reduction.

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

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

Ecuador accounted for 10.7 percent of imports under ATPA in 1994, its first full year of eligibility under the program. Ecuador was the leading ATPA supplier of two products that year: fresh or chilled fish, and tunas and skipjack. These fish products, along with cut flowers for bouquets and roses, collectively accounted for almost two-thirds of Ecuador's shipments under ATPA in 1994.¹⁸

¹⁸ See chapter 3 for more detail about imports of roses and cut flowers under ATPA and their impact on the U.S. industry.

ATPA Imports with Caribbean Components

The ATPA rules of origin require that the direct cost of local (that is, Andean) materials and processing must total at least 35 percent of the customs value of the product.¹⁹ However, this "Andean" content can also be satisfied by materials or processing from Puerto Rico, the U.S. Virgin

¹⁹ 19 U.S.C. 3203(a).

Islands, or from one or more countries designated under the Caribbean Basin Economic Recovery Act (CBERA).²⁰ An examination of data on U.S. exports from the U.S. Virgin Islands to the ATPA countries as a group revealed that, while the amount of such shipments more than doubled between 1992 and 1993, shipments declined precipitously in 1994, from \$3.8 million to \$0.7 million. U.S. exports from Puerto Rico to the ATPA region in 1994

²⁰ The Commission reports annually on CBERA. For more details, see USITC, *Annual Report on the Caribbean Basin Economic Recovery Act on U.S. Industries and Consumers, Tenth Report, 1994*, USITC publication 2927, Sept. 1995.

were 43 percent below their 1990 level. Such shipments hovered around \$26 million during the 1990-93 period, but declined to \$16 million in 1994. The data indicate that a number of the items exported to the Andean region could be considered intermediate goods and could therefore be used for further processing. However, the trends after only three years of ATPA's existence are inconclusive as to the extent of trade shifts resulting from the modified content requirement insofar as the U.S. Virgin Islands and Puerto Rico are concerned. IMF *Direction of Trade* data on CBERA-Andean trade during the period are incomplete and available only at the most aggregate level.

CHAPTER 3

Impact of ATPA on the United States In 1994

During the first 3 years of the ATPA program, duty-free and reduced-duty imports under ATPA increased at a rapid rate. The value of these products, \$97 million in 1992, expanded to \$401 million in 1993 and to \$684 million in 1994. Their share of total imports from the Andean countries also rose significantly, from 1.9 percent in 1992 to 11.6 percent in 1994 (table 3-1).

Despite this, the impact of ATPA on the U.S. economy at the aggregate level has been minimal. As indicated in chapter 2, imports from the four Andean countries continue to represent a small share of total U.S. imports, equaling approximately 1 percent each year during 1992-94. The United States has also experienced a trade surplus with these countries in each of the last 3 years, the largest being in 1994 of nearly \$566 million.

This chapter examines the effects of ATPA on U.S. consumers and industries. The leading import commodities that benefited from ATPA in 1994 are identified and the duty reductions are analyzed using a partial equilibrium framework.^{1,2} Many of the items eligible for duty-free access under ATPA are also

¹ For Commissioner Bragg's views on economic modelling, please see, *The Economic Effects of Antidumping and Countervailing Duty Orders and Suspension Agreements*, (investigation No. 332-344), USITC publication 2900, p. xiii, June 1995.

² Commissioner Newquist notes that in the context of this investigation, economic modelling provides only "estimates" regarding the impact of any event or series of events. In his view, economic models rely on the manipulation of a number of assumptions and variables, all of which differ according to the information sought and the judgment and prejudices of the modeler. Thus, models measuring the impact of a single event can and do produce widely divergent "results."

For purposes of this investigation, therefore, Commissioner Newquist considers economic modelling to be but one of many tools available to the Commission to analyze and assess the effects of the Andean Trade Preference Act.

eligible for preferential access under other programs, such as GSP.³ The impact of ATPA is identified separately from these other programs by excluding products eligible under both ATPA and other preferential programs from the analysis. Welfare effects of ATPA on the U.S. economy are estimated based on changes in consumer surplus and the tariff revenue collected by the government. The impact of ATPA on particular U.S. industries is determined by measuring the amount of domestic production potentially displaced by imports benefiting from ATPA.

As the analysis described below indicates, based on upper-bound estimates, the U.S. industries most likely to be affected by ATPA in 1994 were those producing the following products: chrysanthemums, standard carnations, anthuriums, and orchids (hereafter chrysanthemums et al.) (*HTS* subheading 0603.10.70), fresh cut roses (*HTS* subheading

2—Continued

For further discussion of Commissioner Newquist's views on the limitations of economic modelling, see *Impact of the Caribbean Basin Economic Recovery Act on U.S. Industries and Consumers*, (investigation No. 332-227), USITC publication 2927, Sept. 1995, pp 29-30, fn. 8; *Lamb Meat: Competitive Conditions Affecting the U.S. and Foreign Lamb Industries*, (investigation No. 332-357), USITC publication 2915, p. 5-36, fn. 73, Aug. 1995; *The Economic Effects of Antidumping and Countervailing Duty Orders and Suspension Agreements*, (investigation No. 332-344), USITC publication 2900, p. xi, ("Views of Commissioner Don Newquist"), June 1995; see also, *Potential Impact on the U.S. Economy and Industries of the GATT Uruguay Round Agreements, Volume I*, (investigation No. 332-353), USITC publication 2790, p. I-7, fn. 17, June 1994; *Potential Impact on the U.S. Economy and Selected Industries of the North American Free-Trade Agreement*, (investigation No. 332-337), USITC publication 2597, p. 1-6, fn. 9, Jan. 1993.

³ The items designated for reduced-duty access are eligible only under ATPA.

Table 3-1
Customs value of products that benefited from ATPA duty elimination and reduced duties, 1992-94

Item	1992 ¹	1993 ²	1994
Total ATPA country imports:			
Value (<i>million dollars</i>)	5,059	5,282	5,880
Items entered under ATPA:			
Value (<i>million dollars</i>)	97	401	684
Percent of total	1.9	7.6	11.6
Items benefiting exclusively from ATPA: ³			
Value (<i>million dollars</i>)	80	249	288
Percent of total	1.6	4.7	4.9

¹ Bolivia and Colombia were designated as ATPA beneficiaries in 1992.

² Ecuador and Peru were designated as ATPA beneficiaries in 1993.

³ ATPA duty-free and reduced-duty imports, excluding items that are MFN duty-free and eligible for GSP duty-free treatment, and including imports that exceed GSP competitive-need limits but are eligible for duty-free entry under ATPA.

Source: Estimated by the staff of the U.S. International Trade Commission from official statistics of the U.S. Department of Commerce.

0603.10.60),⁴ and fresh or chilled asparagus (*HTS* subheading 0709.20.90). However, the magnitude of the impact of ATPA, whether measured in terms of welfare changes or by the share of U.S. production potentially displaced, is relatively small.

Products That Benefited Exclusively From ATPA in 1994

ATPA provides approximately 6,000 Andean products with duty-free or reduced-duty access to the U.S. market. The analysis of the impact of ATPA is based on the products that benefit *exclusively* from ATPA. These are defined as those imports eligible for duty-free treatment under ATPA *and* not similarly eligible under any other U.S. preference program. This also includes products that are eligible under both ATPA and GSP but for which a country has lost

⁴ During 1994-95, fresh cut roses (*HTS* 0603.10.60) from Colombia and Ecuador sold at less than fair value (LTFV) were the subject of antidumping investigations in the United States. The LTFV rose imports considered in these investigations accounted for 30 percent of total U.S. rose imports from each of these countries (estimated by USITC staff from official statistics of the U.S. Department of Commerce). For additional information, see U.S. International Trade Commission (USITC), *Fresh Cut Roses From Colombia and Ecuador, Investigation Nos. 731-TA-684 and 685 (Final)*, USITC publication 2862, March 1995. The designation "fresh cut roses" in the present study refers to all rose imports from the Andean countries.

its GSP eligibility. Products that exceeded GSP competitive-need limits and could only enter the United States free of duty under ATPA in 1994 were chrysanthemums *et al.* (*HTS* subheading 0603.10.70) from Colombia and stranded wire of copper that is not electrically insulated (*HTS* subheading 7413.00.10) from Peru.⁵

U.S. imports that benefited exclusively from ATPA grew significantly during 1992-94. The value of these products, \$80 million in 1992, increased by 211 percent to \$249 million in 1993 and by 16 percent to \$288 million in 1994. Their share of total imports from the Andean countries also rose rapidly, from 1.6 percent in 1992 to 4.9 percent in 1994 (table 3-1). In 1994, Colombia was the leading source of imports that benefited exclusively from ATPA. Of the \$288 million ATPA-exclusive imports, \$250 million were from Colombia and imports of chrysanthemums *et al.* accounted for almost one-half of this value. In the absence of ATPA, these imports would not have benefited from duty-free or reduced-duty access to the United States in 1994.

⁵ U.S. imports of chrysanthemums *et al.* (*HTS* subheading 0603.10.70) from Colombia have been GSP ineligible for several years. See the first annual report on ATPA for additional information. There were no U.S. imports of certain stranded wire of copper (*HTS* subheading 7413.00.10) from Peru under ATPA in 1994.

Welfare and Displacement Effects of ATPA on the U.S. Economy in 1994

Analytical Approach

The effects of ATPA on the U.S. economy are estimated using a partial equilibrium framework. Three different markets, namely the markets for ATPA imports, competing imports from non-ATPA countries, and competing U.S. production, are modeled. The implementation of ATPA duty reductions leads to a decrease in the price of affected imports from ATPA countries, an increase in affected imports from these countries, and a decrease in demand for substitute products produced both in the United States and in non-ATPA countries.

The impact of ATPA on U.S. consumers and industries is measured by examining the welfare effects of a duty reduction in the market for ATPA imports and the potential displacement of production in the competing domestic market. Net welfare effects are measured by adding two components:⁶ (1) the gain in consumer surplus⁷ and (2) the decrease in tariff revenues collected by the government. The potential displacement in domestic production is determined based on the change in demand for competing domestic products.⁸

Two assumptions have been made that tend to produce “upper-bound” estimates of the welfare and

⁶ Typically, welfare effects include a measure of the change in producer surplus. Producer surplus is a measure of the total net loss (gain) to competing domestic producers from lower (higher) prices. 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 Walter Nicholson, *Microeconomic Theory: Basic Principles and Extensions* (New York: The Dryden Press, 1989), for additional information. Changes in producer surplus are not considered in this analysis because the supply of U.S. domestic production is assumed to be perfectly elastic and thus, U.S. domestic prices should not fall in response to ATPA.

⁷ Consumer surplus is a measure of the total net gain (loss) to consumers from lower (higher) prices. 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 Nicholson, *Microeconomic Theory*, for additional information.

⁸ These measures do not include short-run adjustment costs due to the reallocation of resources between different industries.

potential displacement effects. The first assumption is that the substitutability between Andean products and competing U.S. products is high. This is reflected in the use of high elasticities of substitution (that is, equal to 5) in the analysis. The second assumption is that production in each market faces no capacity constraints over the relevant range, that is, the supply curves in all of the markets are horizontal (perfectly elastic). The purpose of employing these assumptions is to ensure that the items that could be most affected by ATPA are identified. A more detailed explanation of the model and accompanying assumptions are contained under “Technical Notes” in Appendix B.

The analysis is conducted on the twenty leading items that benefited exclusively from ATPA in 1994.⁹ Using the above mentioned assumptions, estimates of welfare and potential U.S. industry displacement effects are made, and the characteristics of those U.S. industries with an estimated potential displacement effect equal to or greater than 5 percent are examined in further detail.

Items Analyzed

Although a large number of products are eligible for duty reductions under ATPA, the major share of ATPA-exclusive imports are represented by a small group of products. Table 3-2 presents the twenty leading items that benefited exclusively from ATPA in 1994 according to their c.i.f. values.¹⁰ Together, these products represented 98 percent of the \$343 million of imports that benefited exclusively from ATPA in 1994.¹¹

⁹ USITC industry analysts provided data on U.S. production and exports for the analysis.

¹⁰ The analysis uses U.S. market expenditure shares in computing estimates of welfare and domestic production displacement effects. Since U.S. expenditure on imports necessarily include freight and insurance charges, and duties, when applicable, the analysis uses c.i.f. values for products benefiting exclusively from ATPA and duty-paid values for the remaining imports. (Technically, landed, duty-paid values are equal to c.i.f. values for items entering free of duty.) Import values reported in the remaining part of the chapter are c.i.f. values, unless otherwise specified.

¹¹ The c.i.f. values reported in tables 3-2 through 3-4 reflect only that portion of each ATPA-eligible subheading that entered duty-free or at reduced-duty. 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, including for example, insufficient documentation.

Table 3-2
C.i.f. value of leading imports that benefited exclusively from ATPA duty provisions, 1994
(1,000 dollars)

HTS subheading	Description	Value
0603.10.70 ¹	Chrysanthemums, standard carnations, etc	146,443
0603.10.60	Roses, fresh cut	125,547
1604.14.40	Tunas and skipjack, not in airtight containers	14,652
0709.20.90	Asparagus, nesi, fresh or chilled	13,586
4202.11.00 ²	Leather trunks, suitcases, vanity cases, etc	9,827
4202.91.00 ²	Leather cases, bags and containers	6,306
4202.21.90 ²	Leather handbags valued over \$20 each	2,254
7312.10.30	Stranded steel wire	2,224
6908.90.00	Glazed ceramic flags and paving	2,086
6908.10.50	Glazed ceramic tiles, cubes, etc	2,020
2003.10.00	Mushrooms, prepared or preserved	1,893
6203.39.40	Other men's or boys' suit-type jackets and blazers	1,657
4202.21.60 ²	Leather handbags valued not over \$20 each	1,415
2904.10.37	Other sulfonated, nitrated or nitrosated derivatives	1,350
0810.20.10	Raspberries and loganberries, fresh (Sept.1-June 30)	1,190
2009.11.00	Orange juice, frozen, unfermented	865
4202.31.60 ²	Small leather accessories (wallets, etc.)	704
0710.80.97	Frozen vegetables, reduced in size	662
0807.10.80	Melons nesi, fresh, entered June 1 - Nov. 30	573
7228.60.80	Bars and rods of alloy steel other than tool steel	497

¹ This *HTS* subheading represents imports from Colombia that were not GSP-eligible during 1994.

² These *HTS* subheadings represent reduced duty items.

Source: Estimated by the staff of the U.S. International Trade Commission from official statistics of the U.S. Department of Commerce.

The five leading ATPA-exclusive imports in 1994 were (1) chrysanthemums *et al.*,¹² (2) fresh cut roses, (3) certain tuna and skipjack, (4) fresh or chilled asparagus, and (5) leather trunks, suitcases, vanity cases, *et al.*¹³ The c.i.f. values of these five leading products ranged from approximately \$10 million to almost \$150 million in 1994, and their total import value was \$310 million, or 92 percent of the total value of the twenty leading ATPA-exclusive items. Two of the products, chrysanthemums *et al.* and fresh cut roses, together accounted for 88 percent of the total value of these five items.

These same products occupied the five leading positions in 1993. In 1993, their c.i.f. values ranged from \$6 million to almost \$150 million, and their total import value was equal to \$270 million or 93 percent of the total value of the twenty leading ATPA-exclusive items in that year. All of these items experienced significant growth in their import values

¹² Only imports of this item from Colombia benefited exclusively from ATPA because this Colombian product was not GSP-eligible during 1994.

¹³ Among the leading twenty ATPA-exclusive items, there were five certain leather product items classified under *HTS* heading 4202. Their total value was \$20 million and they represented 6 percent of the total value of ATPA-exclusive imports in 1994.

during 1993-94 except for chrysanthemums *et al.* from Colombia which declined slightly. Imports of tuna and skipjack experienced the largest growth in import value of 146 percent, moving this item from fifth place in 1993 to third place in 1994.¹⁴

Products that were among the twenty leading items in 1993 but not in 1994 include (1) tobacco, (2) articles of rubber apparel and clothing, (3) gold, (4) unglazed ceramic tiles, and (5) men's leather gloves, mittens, *et al.* Most of these products experienced a marked decline in their import values under ATPA between 1993 and 1994. However, these items together represented only 1 percent of the total value of the twenty leading ATPA-exclusive items in 1993. Except for gold which was supplied by Bolivia, the remaining four items were supplied by Colombia under ATPA in both years. Products that became

¹⁴ U.S. imports of certain tuna and skipjack from a number of countries were restricted during this time period because of dolphin-related quotas. Of the Andean countries, the major suppliers of this product under ATPA are Ecuador and Colombia. Ecuador accounted for 78 percent of U.S. imports of this item under ATPA in 1994, while Colombia accounted for the remaining 22 percent. The increase in imports from Colombia in 1994 may have been the result of the relaxation of the U.S. embargo for a five month period during 1994.

significant in 1994 include (1) mushrooms, (2) other men's or boys' suit-type jackets and blazers, (3) other sulfonated, nitrated, or nitrosated derivatives, (4) raspberries and loganberries, and (5) orange juice. All of these items were supplied by Colombia under ATPA in both years. Despite the growth of these items, together they represented only 2 percent of the total value of the twenty leading ATPA-exclusive items in 1994.

The magnitude of these ATPA-exclusive imports relative to U.S. apparent consumption is indicated in table 3-3. ATPA-exclusive imports of chrysanthemums *et al.* and fresh cut roses accounted for 66 percent and 42 percent of U.S. apparent consumption in 1994, respectively. Imports of fresh or chilled asparagus, certain leather trunks, certain leather cases, and raspberries *et al.* had less significant but relatively notable U.S. market shares, ranging from 3 percent to 9 percent. The remaining products, while important as imports benefiting exclusively from ATPA, did not represent a sizeable share of the U.S. market.

Welfare Effects and the Displacement of Domestic Output

Table 3-4 presents the economic impact of ATPA duty reductions on the U.S. economy in 1994. The analysis is conducted on the leading imports that benefited exclusively from ATPA as described above.¹⁵ Estimates of the gains in consumer surplus and the losses in tariff revenue, as well as measures of the potential displacement of U.S. production, as provided by the model, are presented below.¹⁶

Overall, the welfare effects of ATPA were small in magnitude. The gain in consumer surplus (column A) was greater than the corresponding decline in tariff revenue (column B) for all of the products analyzed. Of the resulting net welfare gains, the largest were with respect to the following three items: chrysanthemums *et al.* from Colombia, fresh cut roses, and fresh or chilled asparagus. However, the net gains were all below \$1 million. These same products had

¹⁵ As indicated in tables 3-3 and 3-4, the item tuna and skipjack (*HTS* subheading 1604.14.40) was excluded from the analysis because of the unavailability of U.S. production data for business confidentiality reasons.

¹⁶ See the "Technical Notes" in appendix B for additional discussion of the data used to estimate the effects shown in table 3-4.

the largest net welfare gains in 1993. The values in 1994 were higher than those in 1993 by 20 percent, 22 percent and 93 percent, respectively.

The measures of potential displacements in domestic production were also small for most of the individual sectors.¹⁷ The model indicates that, while the largest potential displacement estimates were for chrysanthemums *et al.* from Colombia, fresh cut roses, and fresh or chilled asparagus, the displacement share for the majority of the products benefiting exclusively from ATPA was below 1 percent.¹⁸

Overall, chrysanthemums *et al.* from Colombia, which benefited exclusively from ATPA because of the loss of GSP eligibility, continued to have the largest potential impact. Fresh cut roses, supplied mainly by Colombia and Ecuador, ranked second in both 1993 and 1994. The potential displacement shares for both chrysanthemums *et al.* and fresh cut roses were lower in 1994 than in 1993. This displacement share for chrysanthemums *et al.* declined from 17.95 percent in 1993 to 13.38 percent in 1994, and for fresh cut roses it declined from 9.20 percent to 8.54 percent. The third largest potential displacement estimate was for imports of fresh or chilled asparagus, primarily from Peru, in both years. Although this displacement value for asparagus was smaller than those for the first two items, the displacement share increased by almost 90 percent, rising from 3.37 percent in 1993 to 6.36 percent in 1994.

Highlights of U.S. Industries Most Likely Affected by ATPA in 1994

The above analysis, based on upper-bound estimates of both welfare and potential domestic production displacement effects, was used to identify the U.S. industries most likely to be affected by ATPA-exclusive imports in 1994. A 5 percent or

¹⁷ One of the factors that affects the displacement of U.S. domestic shipments is the U.S. market share. In general, the larger the ATPA market share, the larger will be the displacement of domestic shipments. A comparison of tables 3-3 and 3-4 shows this relationship for the items with significant domestic displacement effects.

¹⁸ These values represent upper-bound estimates of displacement because of the assumptions of high elasticities of substitution and perfectly elastic supply curves. See the "Technical Notes" in appendix B for additional information about these assumptions. These upper-bound estimates do not represent measures of actual displacement in the respective industries.

Table 3-3

Leading imports that benefited exclusively from ATPA, apparent U.S. consumption, and market shares, by HTS subheadings, 1994

HTS subheading	Description	ATPA beneficiary imports (c.i.f. value)	U.S. apparent consumption	Market share
		1,000 dollars		Percent
0603.10.70	Chrysanthemums, standard carnations, etc	146,443	222,209	65.90
0603.10.60	Roses, fresh cut	125,547	298,055	42.12
1604.14.40	Tunas and skipjack, not in airtight containers	14,652	(¹)	(¹)
0709.20.90	Asparagus, nesi, fresh or chilled	13,586	147,814	9.19
4202.11.00 ²	Leather trunks, suitcases, vanity cases, etc	9,827	207,340	4.74
4202.91.00 ²	Leather cases, bags and containers	6,306	171,909	3.67
4202.21.90 ²	Leather handbags valued over \$20 each	2,254	469,253	.48
7312.10.30	Stranded steel wire	2,224	552,587	.40
6908.90.00	Glazed ceramic flags and paving	2,086	594,269	.35
6908.10.50	Glazed ceramic tiles cubes, etc	2,020	377,428	³ .54
2003.10.00	Mushrooms, prepared or preserved	1,893	298,475	.63
6203.39.40	Other men's or boys' suit-type jackets and blazers	1,657	893,162	.19
4202.21.60 ²	Leather handbags valued not over \$20 each	1,415	293,708	.48
2904.10.37	Other sulfonated, nitrated or nitrosated derivatives	1,350	410,780	.33
0810.20.10	Raspberries and loganberries, fresh (Sept.1-June 30)	1,190	36,231	3.28
2009.11.00	Orange juice frozen, unfermented	865	1,253,599	.07
4202.31.60 ²	Small leather accessories (wallets, etc.)	704	508,651	.14
0710.80.97	Frozen vegetables, reduced in size	662	623,440	.11
0807.10.80	Melons, nesi, fresh, entered June 1 - Nov. 30	573	58,644	.98
7228.60.80	Bars and rods of alloy steel other than tool steel	497	209,877	.24

¹ Data on U.S. production unavailable for business confidentiality reasons.

² These HTS subheadings represent reduced duty items.

³ Value may be underestimated because of inadequate information on the value of U.S. exports.

Source: Estimated by the staff of the U.S. International Trade Commission from official statistics of the U.S. Department of Commerce.

Table 3-4

Estimated welfare and displacement effects on the U.S. economy of leading imports that benefited exclusively from ATPA, 1994

HTS subheading	Description	Welfare effects				Displacement effects		
		Value of ATPA-beneficiary imports	Gain in consumer surplus (A)	Loss in tariff revenue (B)	Net welfare effect (A-B)	U.S. domestic shipments (C)	Reduction in domestic shipments	
							Value (D)	Share (D/C)
								<i>Percent</i>
					<i>1,000 dollars</i>			
0603.10.70	Chrysanthemums, standard carnations, etc	146,443	8,737	7,932	805	55,556	7,435	13.38
0603.10.60	Roses, fresh cut	125,547	7,480	6,616	864	149,715	12,790	8.54
1604.14.40	Tunas and skipjack, not in airtight containers	14,652	(¹)	(¹)	(¹)	(¹)	(¹)	(¹)
0709.20.90	Asparagus, nesi, fresh or chilled	13,586	1,572	1,103	468	103,005	6,553	6.36
4202.11.00	Leather trunks, suitcases, vanity cases, etc	9,827	92	90	2	61,600	85	.14
4202.91.00	Leather cases, bags and containers	6,306	48	47	1	29,200	25	.09
4202.21.90	Leather handbags valued over \$20 each	2,254	23	23	1	248,000	39	.02
7312.10.30	Stranded steel wire	2,224	90	81	10	360,000	279	.08
6908.90.00	Glazed ceramic flags and paving	2,086	236	160	76	213,424	390	.18
6908.10.50	Glazed ceramic tiles cubes, etc	2,020	235	157	78	224,000	670	.30
2003.10.00	Mushrooms, prepared or preserved	1,893	179	132	47	145,500	475	.33
6203.39.40	Other men's or boys' suit-type jackets and blazers	1,657	95	81	15	820,144	337	.04
4202.21.60	Leather handbags valued not over \$20 each	1,415	16	15	(²)	27,000	4	.02
2904.10.37	Other sulfonated, nitrated or nitrosated derivatives	1,350	154	104	50	405,000	907	.22
0810.20.10	Raspberries and loganberries, fresh (Sept. 1-June 30)	1,190	4	4	(²)	31,605	17	.05
2009.11.00	Orange juice frozen, unfermented	865	168	61	107	951,000	558	.06
4202.31.60	Small leather accessories (wallets, etc.)	704	7	6	(²)	303,000	12	(³)
0710.80.97	Frozen vegetables, reduced in size	662	70	49	20	481,000	323	.07
0807.10.80	Melons nesi, fresh, entered June 1 - Nov. 30	573	79	47	32	51,912	459	.88
7228.60.80	Bars and rods of alloy steel other than tool steel	497	29	24	4	208,052	143	.07

¹ Net welfare effects were not calculated for this item because of the unavailability of U.S. production data for business confidentiality reasons.

² Less than \$500.

³ Less than 0.005 percent.

Source: Estimated by staff of the U.S. International Trade Commission from official statistics of the U.S. Department of Commerce.

higher displacement share criterion resulted in the selection of the industries that produce the following three items for further examination: chrysanthemums, standard carnations, anthuriums, and orchids (*HTS* subheading 0603.10.70); fresh cut roses (*HTS* subheading 0603.10.60); and fresh or chilled asparagus (*HTS* subheading 0709.20.90).¹⁹ The characteristics of these industries and the influence of ATPA are discussed below.

Chrysanthemums, Standard Carnations, Anthuriums, and Orchids

U.S. imports of chrysanthemums *et al.* (*HTS* subheading 0603.10.70) from the Andean countries declined slightly, from \$149.3 million in 1993 to \$147.8 million in 1994, or by approximately 1 percent. The value of these imports entered under ATPA from Colombia represented virtually the total amount and declined from \$148.0 million in 1993 to \$146.4 million in 1994.²⁰ Standard carnations made up 53 percent of Colombia's shipments, pompon chrysanthemums 41 percent, and other chrysanthemums nearly all of the remaining 6 percent.²¹

Imports of these flowers entered under ATPA from Colombia represented approximately 88 percent of total U.S. imports of these flowers in 1993 and 1994.²² U.S. imports of chrysanthemums *et al.* from the world declined from \$168.3 million in 1993 to

\$166.7 million in 1994, only slightly less than the decrease in imports entered under ATPA from Colombia. Most, if not all, of the decline in the value of imports from Colombia can be attributed to several freezes that occurred there in late 1993 and early 1994.²³ This reduced the cut flowers of export quality available for shipment to the United States.

U.S. production of chrysanthemums *et al.* in 1994 declined by 5 percent from the 1993 level to \$59 million. According to USDA, factors contributing to this decrease included reduced acreage, weather factors, and import competition.²⁴

According to information received by the USDA, the Colombian industry will most likely continue to expand its production of these flowers, but at a slower rate than in recent years due to physical constraints, particularly limited water supplies.²⁵ The level of the water table is declining around Bogota, which accounts for nearly 90 percent of Colombia's cut flower production.²⁶ Colombian growers are also diversifying their production by increasing variety and creating value-added products such as bouquets.²⁷ Some growers are also diversifying by investing in cut flower growing operations in Ecuador, Costa Rica, and Mexico.²⁸ Hence, though ATPA continues to provide Colombian suppliers to the U.S. market with a price reduction not available under GSP (due to the loss of eligibility), currently available information indicates that ATPA is likely to have relatively little influence on U.S. domestic production of chrysanthemums, standard carnations, anthuriums, and orchids.

Fresh Cut Roses

U.S. imports of fresh cut roses (*HTS* subheading 0603.10.60) from the Andean countries increased by

¹⁹ All three of these product categories benefited exclusively from ATPA. Therefore, the value of imports under ATPA and the value of imports that benefited exclusively from ATPA are equivalent.

²⁰ Although imports of chrysanthemums *et al.* from Colombia were GSP- ineligible in 1994, imports of this item from Bolivia, Ecuador, and Peru were eligible for duty-free entry under both ATPA and GSP. The value of chrysanthemums *et al.* imports under ATPA from these three countries was \$0.6 million in 1993 and \$1.3 million in 1994. Only the imports under ATPA from Colombia benefited exclusively from ATPA.

²¹ Colombia's production and exports of anthuriums and orchids are negligible.

²² The Colombian Association of Flower Exporters (ASOCOLFLORES) submitted a statement to the Commission in response to its *Federal Register* request for comments. It stated that Colombia's strong performance in the U.S. cut flower market is due to "...higher quality, product diversification and year around availability, competitive prices that result from more effective cost management and ATPA." The Association further noted that "American consumers have benefited by the new channels of distribution, competitive prices and

²²—Continued

year round availability" of these imports and that "thousands of jobs have been created directly and indirectly in the U.S." Hernando Rojas, International Manager for ASOCOLFLORES, submission July 14, 1995.

²³ U.S. Department of Agriculture telegram, "Flowers," message reference No. CO4011, prepared by U.S. agricultural attache, Bogota, Colombia, May 20, 1994, p. 5.

²⁴ U.S. Department of Agriculture (USDA), *World Horticultural Trade and U.S. Export Opportunities*, June 1994.

²⁵ U.S. Department of Agriculture telegram, "Flowers," message reference No. CO4011, May 20, 1994.

²⁶ Ibid.

²⁷ USDA, *World Horticultural Trade and U.S. Export Opportunities*.

²⁸ Ibid.

16 percent in value, from \$109.2 million in 1993 to \$126.1 million in 1994. They also increased in quantity by 10 percent from 536 million blooms in 1993 to 589 million blooms in 1994. The value of imports entering under ATPA represented almost 100 percent of the total value from these four countries in 1994. Such imports increased by 23 percent, from \$102.3 million in 1993 to \$125.5 million in 1994.

The value of rose imports under ATPA represented 80 percent and 85 percent of all U.S. rose imports in 1993 and 1994, respectively. The majority of U.S. rose imports under ATPA come from Colombia and Ecuador. Together, these two countries accounted for 80 percent and 84 percent of the total U.S. import value in 1993 and 1994, respectively. Imports from Colombia grew by nearly 13 percent, from \$93.6 million in 1993 to \$105.6 million in 1994. Imports from Ecuador more than doubled, from \$8.4 million in 1993 to \$19.5 million in 1994. The growth of U.S. rose imports under ATPA during 1993-94 was notably higher than the 17 percent growth in total U.S. rose imports.

Fresh cut rose production in Colombia and Ecuador has risen substantially over the last several years. Both countries have invested heavily in the planting of new rose varieties that are in demand by consumers in the United States and other markets. Ideal climates, high light levels, abundant labor and land, and sophisticated distribution structures, enable these countries to produce high-quality, low-cost roses for export.²⁹

U.S. production of fresh cut roses declined from \$164 million in 1993 to \$155 million in 1994, or by 5 percent. This was primarily due to a decrease in the area devoted to rose production and in the number of growers of fresh cut roses.³⁰

Colombian rose exporters have indicated that they are concerned about antidumping investigations filed by U.S. rose producers.³¹ For these and other

²⁹ See USITC, *Fresh Cut Roses From Colombia and Ecuador, Investigation Nos. 731-TA-684 and 685 (Final)*, pp. II-9-10, II-14, II-31-34.

³⁰ U.S. Department of Agriculture, *Floriculture Crops, 1994 Summary*, April 1995, pp. 32-35.

³¹ U.S. Department of State telegram, "Colombian Flower Growers: Looking Away From U.S. Market," message reference No. 004044, prepared by U.S. Embassy, Bogota, March 1995.

Most recently, counsel for the U.S. Floral Trade Council filed a petition in 1994 alleging that an industry in the United States is materially injured or threatened with material injury by reason of LTFV imports of fresh cut roses from Colombia and Ecuador. Following its investigations, the Commission determined in March 1995

reasons, the new director of ASOCOLFLORES stated that the share of Colombian rose production coming to the United States may decrease as these exporters seek marketing opportunities in Europe and Japan.³²

Competition among fresh cut rose imports from the Andean countries, domestically produced roses,³³ and imported roses from other foreign producers is based on a number of factors, including quality, price, and availability of supply.³⁴ ATPA duty-free entry

³¹—*Continued*

that the U.S. domestic industry is not materially injured or threatened with material injury, and the establishment of an industry in the United States is not materially retarded, by reason of LTFV imports of roses from Colombia and Ecuador. For a full discussion of these investigations, see USITC, *Fresh Cut Roses From Colombia and Ecuador, Investigation Nos. 731-TA-684 and 685 (Final)*. A challenge to these determinations is currently pending before the U.S. Court of International Trade (Ct. No. 95-04-00382).

³² U.S. Department of State telegram, "Colombian Flower Growers: Looking Away From U.S. Market," message reference No. 004044, prepared by U.S. Embassy, Bogota, March 1995.

In its formal submission ASOCOLFLORES noted that "in sum the Andean Trade Preference Act has had a positive, beneficial effect upon the U.S. economy, and has fostered economic growth and diversification in Colombia with respect to floriculture." Hernando Rojas, International Manager for ASOCOLFLORES, submission, July 14, 1995.

³³ The U.S. Floral Trade Council submitted a statement to the Commission in response to its *Federal Register* request for comments. It noted that "...fresh cut roses were exempt from duty-free treatment under the Generalized System of Preferences and would be scheduled for a five-year tariff phaseout under NAFTA due to their import sensitivity." It also stated that the "...U.S. fresh cut flower industry has been, and continues to be adversely affected by continued duty-free treatment of all fresh cut flowers from Colombia, Bolivia, Ecuador, and Peru" and that "elimination of duties under the ATPA further compounds the imbalance in costs between U.S. and imported flowers." Stewart and Stewart, Special Counsel to the U.S. Floral Trade Council, submission, July 14, 1995.

³⁴ U.S. Department of Agriculture, *World Horticultural Trade and U.S. Export Opportunities*, June 1994, p. 10.

For an analysis of competition between domestic roses and imported roses from Colombia and Ecuador sold at LTFV, see USITC, *Fresh Cut Roses From Colombia and Ecuador, Investigation Nos. 731-TA-684 and 685 (Final)*.

has provided Andean roses a price advantage not available to imports from Mexico, Canada, and the Netherlands, the principal non-Andean suppliers to the United States.³⁵ Overall, ATPA appears to be benefiting Andean rose shipments to the United States.

Fresh or Chilled Asparagus

U.S. imports of fresh or chilled asparagus (*HTS* subheading 0709.20.90)³⁶ from the Andean countries increased by 45 percent in value, from \$9.4 million in 1993 to \$13.6 million in 1994. There was a corresponding rise in quantity of 30 percent, from 4,318 metric tons (mt) in 1993 to 5,623 mt in 1994. Approximately 64 percent of total fresh asparagus imports from the Andean countries in 1994 entered

³⁴—*Continued*

In these antidumping investigations, the Commission found that the domestic industry was neither materially injured nor threatened with material injury by reason of imported roses sold at LTFV from Colombia and Ecuador due, among other reasons, to significant differences between the imported and domestically produced roses that limited their competition.

³⁵ Guatemala and Costa Rica are also important non-Andean suppliers of fresh cut roses to the U.S. market. Imports from both of these countries are eligible for duty-free entry under CBERA.

³⁶ *HTS* subheading 0709.20.90 includes fresh or chilled asparagus other than that entered under *HTS* subheading 0709.20.10. *HTS* subheading 0709.20.10 includes fresh or chilled asparagus, not reduced in size, entered during the period from September 15 to November 15, inclusive, in any year, and transported to the United States by air. Imports under subheading *HTS* 0709.20.90 are eligible for duty-free treatment only under ATPA while imports under subheading *HTS* 0709.20.10 are eligible for duty-free entry under both ATPA and GSP.

the United States from November 16 through the following September 14, inclusive. Imports of asparagus entered under ATPA increased by 80 percent, from \$7.5 million in 1993 to \$13.6 million in 1994, with a similar rise in quantity by 70 percent, from 3,312 mt in 1993 to 5,620 mt in 1994.

The value of fresh or chilled asparagus imports under ATPA accounted for 17 percent and 30 percent of the value of all U.S. asparagus imports in 1993 and 1994, respectively. The large growth in asparagus imports under ATPA reflected a strong increase in shipments from Peru, the leading ATPA supplier, as well as a decline in imports from Mexico, a non-ATPA supplier. All but a small part of U.S. asparagus imports entered under ATPA in 1994 came from Peru, which was designated as an ATPA beneficiary in August 1993. While U.S. imports of asparagus under ATPA grew significantly during 1993-94, U.S. imports of asparagus from the world increased by only 1 percent.

In the United States, the leading states producing fresh asparagus are California and Washington, with significant production also in Michigan. Most domestic production occurs between February and June. The Imperial Valley in Southern California has the most significant overlap of shipping periods with ATPA imports. U.S. domestic production of asparagus rose by 2 percent, from 56,835 mt in 1993 to an estimated 57,854 mt in 1994, following a rise in yield in both California and Washington. The value of U.S. production fell insignificantly from 1993 and amounted to an estimated \$114.8 million in 1994. While ATPA allows fresh or chilled asparagus from the Andean countries to be more price competitive in the U.S. market, currently available information indicates that ATPA is likely to have a relatively small effect on U.S. domestic production.

CHAPTER 4

Probable Future Effects of ATPA

Export-oriented investment in the Andean region in response to duty-free or reduced-duty tariff levels for eligible ATPA products will most likely continue to produce effects on the U.S. economy in the future. The following section contains a summary of investment activities in the ATPA countries during 1994. Included is a summary of ATPA-related investment activity reported to the USITC by the U.S. Department of State. In addition, this chapter includes a summary of views of business and government officials about the effect of ATPA on investment activity in Colombia and Peru, based largely on USITC staff fieldwork in both countries.

Methodology

This chapter is based on information obtained from a variety of sources including field visits to the two largest beneficiary countries: Colombia and Peru. Meetings were held with host government and private sector officials involved in investment and export promotion, narcotics eradication, coca substitution, trading companies, other representatives of the local business community, and U.S. Embassy staff. Additional data and information on investment were obtained through reports from U.S. Embassies in the Andean region and from U.S. Government agencies, the U.S. Department of State in particular.

Investment in ATPA Beneficiaries

ATPA-related investment in beneficiary countries remained at a relatively low level in 1994. Based on information compiled by the Commission for this study, most of the ATPA-related investment was concentrated in a few sectors: cut flowers, jewelry, metal products, and processed foods. The greatest amount of ATPA-related investment activity occurred in Colombia and Peru, the two leading beneficiaries in terms of exports to the United States under the program. ATPA-related investment in Bolivia was

small; however, cut flower producers in that country indicated that they plan significant investment activity in 1995-96.

Although ATPA provides an incentive for exporters in Andean countries to market their products in the United States, several factors were identified that help explain the relatively low levels of ATPA-related trade and investment by beneficiary countries. These constraints include an inability of manufacturers in the Andean region to increase productive capacity and exports in the first years of the program, inadequate infrastructure in beneficiary countries, the relatively recent nature of ATPA and low level of awareness of its benefits among the business community, and a lack of knowledge of how to penetrate the U.S. market. It was also noted that the period of time since the implementation of the program is too short to allow identification of significant levels of ATPA-related investment activity. Finally, it was noted that all four beneficiary countries have recently undertaken, or are in the process of implementing, economic reform measures that will improve the climate for future growth of investment and trade in each country.

Colombia

Colombia has been an ATPA beneficiary since July 22, 1992. In 1993, the first full year of Colombia's status as an ATPA beneficiary, total U.S. imports from Colombia under the program reached \$323 million. From 1993 to 1994, U.S. imports under ATPA from Colombia increased by 27 percent, to \$412 million. Cut flowers accounted for approximately two-thirds of ATPA duty-free imports from Colombia in 1994. Other leading imports from Colombia under ATPA in 1994 included plastic products, sugar, fish, and leather luggage.

Colombia's GDP grew by 5.7 percent in 1994, slightly above the 5.3 percent growth recorded in 1993. Growth was led by increased consumer demand and a boost in activity in the construction, communications, and finance and transportation sectors. Inflation continued to register about a 23

percent annual increase. Total foreign debt rose by 15 percent to \$21.4 billion in 1994. The debt increase was largely accounted for by Colombian businesses securing overseas financing in light of high interest rates in the domestic market.¹

Foreign direct investment (FDI) in Colombia grew by 18 percent in 1994 to reach a record high of \$11.4 billion. About 40 percent of the \$1.8 billion inflow in 1994 was accounted for by new investment activity in the petroleum sector. Investment in manufacturing and other sectors (excluding petroleum and financial portfolio investment) accounted for about 46 percent, or about \$800 million of 1994 inflows. Financial portfolio investment accounted for about 15 percent. Investment in manufacturing and other sectors (excluding petroleum and financial portfolio investment) rose by 84 percent over the previous year to reach a total stock of \$5.2 billion.

The majority of manufacturing-related FDI flows in 1994 were accounted for by investment activity in chemicals, rubber, and plastics. The United States remained the principal foreign investor in Colombia in 1994, accounting for about 56 percent of total FDI stock (excluding petroleum and financial portfolio investment) and about 23 percent of such FDI flows.²

Effect of ATPA on Investment

Colombian government and business officials interviewed by USITC staff reported that there were relatively low levels of ATPA-related trade and investment activity in 1994. Some interviewees cited exceptions, however, both in terms of trade and investment, that suggest that for the sectors in which the program is used, it is very beneficial to the particular industry that takes advantage of the tariff preference. Cut flower exports, for example, account for approximately two-thirds of all U.S. imports from Colombia that enter under ATPA preferences.

Even though the ATPA program is not widely used by Colombia, business and government officials interviewed by the USITC in Colombia said they did not want to see the program rescinded or expire without renewal in 2001. They added that ATPA provides valuable access to the U.S. market for

¹ U.S. Department of State telegram, "Colombia's GDP Grows 5.7 percent in 1994," message reference No. 1993, prepared by U.S. Embassy, Bogota, Feb. 16, 1995.

² U.S. Department of State telegram, "Foreign Direct Investment in Colombia Increased in 1994," message reference No. 4997, prepared by U.S. Embassy, Bogota, Apr. 12, 1995.

Colombian exporters of ATPA-eligible goods. In addition, they noted, loss of ATPA benefits through the U.S. anti-narcotics certification process would reinforce a negative image of Colombia as a country influenced by narcotics interests and increase problems for exporters trying to clear Colombian goods through U.S. Customs.³

Several Colombian business and government officials interviewed by USITC staff in Bogota said that increased trade generated by new investment will only become apparent over several years. Significant trade and investment efforts are under way to take advantage of the access to the U.S. market provided by ATPA. Areas that were identified by interviewees as showing promise for increased exports to the United States under ATPA preferences include processed foods, specialty steel products, interior ceramic tiles, beer, and a variety of agricultural products, such as asparagus, mangoes, strawberries, melons, and lemons. It was noted that the principal beneficiaries of ATPA preferences in Colombia are exporters that had pre-existing exports to the United States before enactment of the program. Only later will the effect of investment initiated in response to the ATPA preferences be felt by other industries.⁴

In response to the Commission's request for information about ATPA-related investment activity in 1994, the U.S. Embassy in Bogota reported investment information from several Colombian manufacturers. A manufacturer of particle board and plywood reported that ATPA has been very beneficial to the firm's efforts to export plywood and other wood products to the United States. The firm reported new investment of \$28 million in 1994 and added that the project would not have been launched in the absence of ATPA preferences. On the subject of NAFTA, the firm expressed concern about the possible effect of NAFTA on its efforts to export to the United States. It added that Mexico exports products to the United States similar to those exported from Andean countries.⁵

A Colombian producer of disposable medical devices reported ATPA-related investment of \$15 million in 1994. The firm expects that exports generated by the investment project will start in

³ For a discussion of U.S. anti-narcotics efforts in the Andean region, see ch. 5.

⁴ Representatives of Ministry of Foreign Trade, USITC staff interview, Bogota, Mar. 30, 1995.

⁵ Response by Colombian particle board manufacturer to USITC investment survey, U.S. Embassy, Bogota, May 24, 1995.

mid-1995. The firm said that it would have been “more difficult or impossible” to undertake the project in the absence of ATPA preferences. The firm concluded that “ATPA is an excellent instrument to improve investment in nontraditional” industries. The firm said that it is not concerned that its exports to the United States might be affected by NAFTA exports from Mexico to the U.S. market.⁶

A manufacturer of tableware reported new ATPA-related investment of \$2.4 million in 1994. The firm reported, however, that the project would have been launched even in the absence of ATPA preferences. On the subject of NAFTA, the firm said that “the influence and preferences of the Mexican products could restrict the Andean exports to the U.S.A.”⁷

The Instituto de Fomento Industrial (IFI) provides low interest loans for working capital to Colombian companies. IFI offers lending through a so-called “ATPA line of credit” to firms that may be interested in making ATPA-related investments. IFI officials reported that the institution has made two loans using its ATPA line of credit. A loan for about \$600,000 was made in 1994 to a citrus company, which makes concentrated orange juice for sale to the United States. The other loan was approximately \$100,000 to a manufacturer of jewelry in late 1993. According to a representative of IFI, these two companies were the only firms that applied for credit on IFI’s ATPA line. The official said that IFI loans are not particularly attractive to Colombian firms because the loans are not offered at concessionary terms. The interest rate for IFI lending in 1994 was based on a minimum rate of 4 or more percentage points above the London Interbank Offered Rate (LIBOR).⁸

The National Industrialists Association (ANDI) published a study in 1994 on the effect of the ATPA on Colombia.⁹ ANDI concluded that ATPA has had a minimal effect on Colombia for several reasons, including (1) limited product coverage, (2) limited Colombian production of covered goods, and (3) overlap of ATPA preferences with the Generalized System of Preferences. In its report, ANDI noted that about 50 percent of Colombia’s 1993 exports to the

⁶ Response by Colombian manufacturer of medical devices to USITC investment survey, U.S. Embassy, Bogota, May 4, 1995.

⁷ Response by Colombian tableware manufacturer to USITC investment survey, U.S. Embassy, Bogota, May 3, 1995.

⁸ Representatives of IFI, USITC staff interview, Bogota, Mar. 27, 1995.

United States were excluded from the ATPA program. These products included petroleum, textiles and apparel, leather shoes, sugar, and canned tuna. According to the report, another 20 percent of Colombia’s exports, including seafood, coffee, cocoa, cocoa butter, and coal entered the United States MFN free of duty. In addition, 18 percent of Colombia’s exports to the United States, including bananas, emeralds, and miniature carnations, entered the United States free of duty under GSP. About 12 percent of Colombia’s 1993 exports to the United States entered under ATPA. These products included cut flowers (except miniature carnations), fresh and processed fruits, gelatin, fungicides, ceramics, aluminum home products and manufactured leather goods. ANDI concluded that cut flowers was the only product category that benefited significantly from ATPA. Finally, the ANDI report said that ATPA had not led to product diversification or substitution of legitimate products as an alternative to narcotics production.

Several interviewees said that processed foods is one sector that may see increased U.S. imports under ATPA from Colombia within the next few years. A group of Colombian supermarket wholesalers, with combined annual sales in Colombia of about \$2 billion, is evaluating processed food products for export to the United States under ATPA provisions.¹⁰ A representative of the group described the group’s efforts to identify products and find a market in the United States. The effort began with a study of the major supermarket chains in Colombia to determine potential products currently produced in Colombia that could be exported under ATPA. Initial research efforts identified about 200 potential export products. The products were ranked by such factors as product quality, productive capacity in Colombia, export potential, ATPA eligibility, and existing import competition in the United States. The group hopes to begin exporting to the United States no later than 1996.¹¹

⁹ For a summary of the ANDI report, see U.S. Department of State telegram, “ANDI Explains Why ATPA Has Little Effect in Colombia,” message reference No. 12302, prepared by U.S. Embassy, Bogota, Aug. 22, 1994.

¹⁰ U.S. Department of State telegram, “Major Retailers Join to Export to the U.S. under ATPA Provisions,” message reference No. 3200, prepared by U.S. Embassy, Bogota, Mar. 10, 1995.

¹¹ Representative of Fenalco, and international trade consultant, USITC staff interviews, Bogota, Mar. 27-29, 1995.

Difficulties Facing Exporters

Government and business officials in Colombia identified several problems that may inhibit trade and investment activity in Colombia. The main concerns cited were (1) U.S. anti-narcotics certification process, (2) rise in the value of the Colombian peso, (3) access to credit, especially for small and medium-sized companies, (4) infrastructure constraints, (5) uncertainty of how to deal with the U.S. market, (6) security of individuals and property, and (7) lack of export orientation by Colombian businesses.

Many business and government officials interviewed by USITC staff in Colombia said that the U.S. anti-narcotics certification process may, in effect, hinder ATPA-related trade and investment activity. The Foreign Assistance Act (FAA)¹² requires the President to determine and certify annually to Congress that, during the previous year, each major illicit drug producing country or major drug 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). 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.” Colombia received full certification in 1994 and “certification with national interests waiver” in 1995.¹³

Business and government officials expressed concern that if the United States would rule that Colombia is not cooperating with anti-narcotics activities, Colombia would lose ATPA preferences in the U.S. market. Many interviewees added that such perceived uncertainty about continued access for Colombia to ATPA preferences hinders investment in

¹² 22 U.S.C. 2291j.

¹³ 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.

See chapter 5 for detailed treatment of 1995 official U.S. actions regarding certification.

ATPA-eligible industries. The interviewees said, however, that investors need long-term certainty that the preference will remain before investing in an export project that might take several years to become profitable.

Some interviewees pointed out that European investors would benefit if the U.S. role in Colombia's economy is reduced by rescinding ATPA and other economic links because of the certification process. A few observers said that certification problems are detrimental to the economy of Colombia because increased uncertainty about certification hinders trade and investment and thereby strengthens the position of the narcotics-based elements in the economy. These individuals reasoned that any decline in legal economic activity, caused by decertification, for example, would result in an increase in the narcotics trade as persons displaced from legal economic activity would pursue income through illicit means.¹⁴

Another concern Colombian businesspersons frequently mentioned was that recent strengthening of the Colombian peso has had an adverse effect on the ability of all Colombian exporters to compete in world markets. One U.S. official said that a main cause of the peso's rise was the illegal inflow of dollars generated by the narcotics trade.¹⁵ When the dollars are brought into the country, the value of the peso rises as holders of the dollar seek to exchange the dollars for pesos. In 1994, the real value of the Colombian peso appreciated by about 13 percent, thereby making Colombian exports more expensive to foreign customers. A representative of an industry association said that, in terms of importance to exporters, “ATPA is very important, but the exchange rate is crucial; the ATPA benefit, [however], can help mitigate the effect of the appreciation to some extent.”¹⁶ A banker, however, downplayed the effect of the peso appreciation. He said that the sharp decline in Colombia's exports to Venezuela, caused by that country's economic difficulties, affected the economy of Colombia more than the appreciation of the peso.¹⁷

Other constraints on investment in Colombia that interviewees cited included access to credit, inadequate infrastructure, and concerns about security.

¹⁴ Representatives of Colombian business and government, USITC staff interviews, Bogota, Mar. 28-30, 1995.

¹⁵ U.S. Embassy official, USITC staff interview, Bogota, Mar. 27, 1995.

¹⁶ Representative of ANDI, USITC staff interview, Bogota, Mar. 29, 1995.

¹⁷ Representative of Bancoldex, USITC staff interview, Bogota, Mar. 29, 1995.

Access to credit in Colombia is difficult, many interviewees said, especially for small and medium-sized companies. They added that what is available is very expensive to borrowers. Infrastructure constraints place limits on export potential as productive facilities are often located away from port facilities. As a consequence, export products must be shipped by truck to port facilities. Colombia's recent efforts to privatize port facilities, develop land near ports, and build roads to shorten transport time to the Caribbean coast were offered as examples of efforts to solve some of the infrastructure difficulties. The question of safety, a Colombian investment promotion official said, is at least partly one of perception. He cited a poll which asked U.S. and Colombian investors to describe the main difficulty facing investors in Colombia. U.S. investors identified security as the main problem, but Colombian investors identified inconsistency of rules regarding taxation as the main problem facing investors in Colombia.¹⁸

Several interviewees said that Colombian businesses need to develop more of an export orientation to take advantage of ATPA and other export opportunities. Interviewees pointed out that Colombian firms had benefited from a long period of protection and had customarily focused their marketing efforts on domestic or neighboring Andean markets. As a consequence, they said, Colombian firms do not understand how to make export sales, deal with U.S. Customs, and confront other difficulties and regulations faced by exporters. Therefore, small and medium-sized Colombian businesses have not attempted to take much advantage of ATPA or other export opportunities.¹⁹ A recent report by the Bogota Chamber of Commerce cited the lack of entrepreneurial skills of Colombian firms as the reason for the low level of ATPA exports to the United States.²⁰

ATPA Promotion Efforts in Colombia

Several interviewees said that the ATPA program is no longer unknown in Colombia. The program is well-known and understood in the business

¹⁸ Representatives of the U.S. Embassy, ANDI, Fundagro, and Coinvertir, USITC staff interviews, Bogota, Mar. 27-29, 1995.

¹⁹ International trade lawyer and consultant, USITC staff interviews, Bogota, Mar. 27-29, 1995.

²⁰ For a summary of the Bogota Chamber of Commerce report, see U.S. Department of State telegram, "ATPA After Three Years, Colombia's Lost Opportunity?"

community, even though the level of total trade and investment directly related to the program is still relatively low. The problem facing Colombian businesses, several interviewees noted, is how to use ATPA. They pointed out that ATPA is only a way to cut the tariff cost of exporting eligible products to the United States. In order to be successful, however, exporters need to understand how to enter U.S. marketing and distribution channels. Lack of this knowledge, a representative of an agricultural cooperative said, is a more significant problem than limited awareness of the program among exporters.²¹

The Government of Colombia has taken steps to help Colombian exporters develop more expertise about exporting to the United States. With funding from government and private sources, a private consultant in Colombia recently developed computer software that allows exporters to analyze U.S. trade data and determine potential market niches for Colombian exports. On an 8-digit HTS subheading basis, the software shows U.S. market size of a product, competing countries that export the product to the United States, the ATPA, GSP, and MFN duty rates, unit value of the transaction, transportation and insurance costs, price of export, port of entry, and the names of the five largest U.S. importers of record of each product. The software is designed to be a tool for Colombian exporters to obtain the knowledge needed to begin exporting to the U.S. market under ATPA.²²

Officials from Colombia's export promotion agency, Proexport, expressed concern that Colombian businesses are missing an opportunity to take advantage of the ATPA trade benefit. Therefore, they said, they are working with chambers of commerce to increase awareness of the program. In addition, they have held seminars nationwide to inform businesses about ATPA and how to use it to increase exports to the United States. In addition to promoting awareness of ATPA in the Colombian business community, Proexport is also marketing Colombia's ATPA beneficiary status to attract foreign investment from East Asia and other countries. The Government of Colombia hopes, the official pointed out, to attract foreign investors to Colombia who can use ATPA as a method to export to the U.S. market.²³

²⁰—Continued

message reference No. 9500, prepared by U.S. Embassy, Bogota, July 14, 1995.

²¹ Representative of SAC/Fundagro, USITC staff interview, Bogota, Mar. 28, 1995.

²² International trade lawyer, USITC staff interview, Bogota, Mar. 27, 1995.

²³ Representatives of Proexport, USITC staff interview, Bogota, Mar. 29, 1995.

Peru

Peru became an ATPA beneficiary on August 31, 1993. In 1994, U.S. imports from Peru under ATPA reached \$107 million. Leading ATPA imports from Peru included jewelry, lead, asparagus, mangoes, sugar, copper, and zinc. Peru's merchandise exports rose 30 percent in 1994 and imports grew 39 percent. Peru's trade deficit was \$1.1 billion in 1994.

The economy of Peru grew by 12.9 percent in real terms in 1994, up from 6.5 percent growth in 1993. By mid-1995, the border war with Ecuador had caused only a slightly negative effect on the economy.²⁴ The sectors with the strongest growth in 1994 were construction, up 34.3 percent; fishing, up 31.5 percent; manufacturing, up 16.9 percent; and agriculture, up 13.2 percent.²⁵ Foreign debt increased 5.7 percent in 1994 to \$23.4 billion. The increase was mainly accounted for by new borrowing to finance development projects such as roads and hydroelectric plants, and to cover the trade deficit.²⁶

Overall levels of foreign direct investment (FDI) in Peru increased dramatically in 1994. Total direct foreign investment registered in Peru increased from \$1.7 billion at the end of 1993 to \$4.5 billion one year later. Nearly all of this 165 percent increase in FDI was accounted for by the Government of Peru's privatization program. In 1994 alone, the Government of Peru sold 29 state enterprises worth \$2.6 billion. Since the privatization program began in 1991, the Peruvian Government has sold almost 60 enterprises valued at more than \$3.5 billion.²⁷

The Commission found limited examples of ATPA-related investment in Peru in 1994. However, President Fujimori's economic stabilization and liberalization program, successes against the Shining Path terrorist group, and the government's privatization program have reportedly increased foreign investor confidence in Peru and contributed to the recent inflows of investment capital.²⁸

²⁴ U.S. Department of State telegram, "Peruvian Economic Indicators," message reference No. 4246, prepared by U.S. Embassy, Lima, May 3, 1995.

²⁵ U.S. Department of State telegram, "Peruvian 1994 Sectoral GDP," message reference No. 3658, prepared by U.S. Embassy, Lima, Apr. 17, 1995.

²⁶ U.S. Department of State telegram, "Peruvian Economic Indicators," message reference No. 4246, prepared by U.S. Embassy, Lima, May 3, 1995.

²⁷ U.S. Department of State telegram, "Foreign Investment in Peru," message reference No. 5179, prepared by U.S. Embassy, Lima, May 26, 1995.

²⁸ *Ibid.*

Foreign investment, largely related to privatization activity, has been projected to exceed \$6.7 billion in the near future.²⁹

Effect of ATPA on Investment

Based on Commission staff meetings with Peruvian private sector and government officials, ATPA trade preferences appear to have had the greatest effect in a few specific industries: jewelry, asparagus, and certain metal products. Although representatives from each industry indicated that recent investment activity has taken place in their respective sectors, most declined to specify the dollar value of specific investments. Peruvian industry representatives pointed out that the absence of quantitative restrictions under ATPA on duty-free imports makes the program significantly more attractive to businesses than GSP preferences. In particular, representatives from the jewelry and copper wire industry said that ATPA preferences have improved the ability of firms in those industries to export to the United States.³⁰

Private sector and business officials pointed out that the ATPA program has provided Peruvian businesses with the opportunity to increase exports of nontraditional, processed agricultural or higher value-added goods than had previously been possible. Several individuals said that for Peru to take better advantage of the program in the future, however, the Government of Peru needs to continue its economic reform program and businesses need to improve their competitiveness by modernizing plant and equipment.³¹

Representatives of PromPeru, the Government of Peru's export promotion agency, said that awareness of the ATPA program in Peru is currently low and needs to be increased among the business community, particularly among the nontraditional export sectors. PromPeru officials described several efforts it is undertaking to educate the private sector about the program and how to use it. These efforts include preparing brochures, videos and other information about the program, as well as holding public seminars to provide a forum for business attendees to learn about ATPA.³²

²⁹ *Ibid.*

³⁰ U.S. Department of State telegram, "USITC Delegation Visits Peru," message reference No. 3688, prepared by U.S. Embassy, Lima, Apr. 18, 1995.

³¹ *Ibid.*

³² Representatives of PromPeru, USITC staff interview, Lima, Apr. 4, 1995.

A Peruvian Government official described ATPA as “a unilateral NAFTA” because of the one-way duty-free access it provides to the U.S. market.³³ Most officials said that after less than 18 months of operation, it was too soon to conclude what effect ATPA has had on Peru. One trade official said that, although overall Peruvian exports to the United States have been declining in recent years, exports of products benefiting from ATPA had increased.³⁴

Representatives of two major Peruvian trade associations, the National Society of Industries (SNI) and the National Society of Exporters (SNE), differed from government officials in their perception of the program. Representatives of both groups said that ATPA has been well-publicized in Peru and that exporters are aware of its provisions. A representative of SNI noted that it had jointly presented with USAID two seminars on ATPA and was planning a third. He cited zinc, copper, lead, fisheries, asparagus, agro-industries, and cut flowers as industries in which ATPA-related investment in production might be underway or expected. He pointed out, however, that textiles, one of Peru’s largest export industries, does not benefit from ATPA preferences.³⁵ To expand exports to the United States, he suggested, exporters need to increase the quality of their products, and the government needs to improve ports and the infrastructure.³⁶ He said that recent private investment in Peru has largely been aimed at modernizing, but not expanding, capacity of production facilities. This much-needed investment, he said, explains why capital goods imports by Peru have increased 50 percent in recent years.³⁷ Representatives from both groups said that the overvalued Peruvian currency, the sol, hinders price competitiveness of Peruvian exports.

An official of SNE said that although ATPA was a very important program to Peruvian exporters, firms in Peru were slow to take advantage of ATPA because of widespread industrial reconversion and modernization that is still needed in Peru. He said that Peru’s long experience with import substitution

³³ Representatives of Ministry of Industry, Tourism, Integration, and International Commercial Negotiations, USITC staff interview, Lima, Apr. 4, 1995.

³⁴ U.S. Department of State telegram, “USITC Delegation Visits Peru,” message reference No. 3688, prepared by U.S. Embassy, Lima, Apr. 18, 1995.

³⁵ Ibid

³⁶ Representatives of the National Society of Industries and the National Society of Exporters, USITC staff interviews, Lima, Apr. 5, 1995.

³⁷ Representatives of the National Society of Industries, USITC staff interviews, Lima, Apr. 5, 1995.

has left a legacy of antiquated manufacturing facilities—with the notable exceptions of minerals and fishmeal — suited only for the domestic market and not able to supply the quantity or quality of goods required for profitable export. He speculated that the initial effect of ATPA on Peru was to divert exports produced for other foreign markets to new customers in the United States.³⁸

The representative of SNE summarized the views of several of the organization’s members about ATPA. One member, he reported, has begun test-marketing beer in the United States and is currently undertaking investment to increase productive capacity. He reported that, in the brewery’s view, it “could not export [to the United States] if it did not have the tariff advantage” under ATPA. A manufacturer of medical equipment is attempting to meet regulatory requirements of the U.S. Food and Drug Administration in order to export to the United States. A manufacturer of processed fruit juices said that the world price for their product is more important than ATPA. He added that low prices prevent the firm from making profitable exports at present. A manufacturer of metal products felt that international prices and competition from U.S. producers in the U.S. market were more important considerations than ATPA.³⁹ Other Peruvian industries identified by SNE as likely to expand exports to the United States under ATPA are asparagus, timber, shrimp, and frozen fish. Finally, it was noted that the duration of the ATPA program, through December 2001, is attractive to investors because it allows time to earn a return on ATPA-related investments.⁴⁰

Jewelry

Jewelry products accounted for about 36 percent of U.S. imports from Peru under ATPA preferences in 1994. Four producers of gold jewelry reported total ATPA-related investment of \$155,000 in 1994. All firms said that their ventures would not have been launched in the absence of ATPA preferences. One firm reported some concern about competition with Mexican suppliers entering the U.S. market under reduced NAFTA tariffs, but the other firms were not concerned about the effect of NAFTA on ATPA-related trade or investment. All four said that

³⁸ Representatives of the National Society of Exporters, USITC staff interviews, Lima, Apr. 5, 1995.

³⁹ Representatives of the National Society of Industries and the National Society of Exporters, USITC staff interviews, Lima, Apr. 5, 1995.

⁴⁰ Representatives of the National Society of Exporters, USITC staff interview, Lima, Apr. 5, 1995.

they had no concerns or difficulties associated with eligibility, application, or administration of the ATPA program.⁴¹ In a meeting with Commission staff, the chief representative of Peru's jewelry exporters said that ATPA preferences facilitate export of Peruvian jewelry to the United States. He estimated that 15,000 to 20,000 people are employed in the Peruvian jewelry industry.⁴²

Copper wire

A manufacturer of copper flat-wire told Commission staff that ATPA provides the firm a competitive advantage in the U.S. market, particularly in relation to Chilean competitors. Without revealing specific investment statistics, the representative pointed out that the firm is upgrading its flat-wire production line, a move scheduled for completion by mid-1995. The firm is also expanding into exporting copper sulfate to the United States. Copper sulfate is used by citrus growers as a fungicide.⁴³ He added that ATPA has helped the firm develop new markets, particularly in the wake of the Government's efforts to dismantle preferences in the domestic market for Peruvian manufacturers.⁴⁴

Asparagus

Asparagus production was identified by several interviewees as a product that has benefited from ATPA-related investment and export growth. The representative of a trading company that specializes in processed food products said that his firm has developed export capacity in asparagus spears since the introduction of ATPA. He added that exports of asparagus spears have grown more than any other ATPA product traded by his company. Although he did not reveal investment statistics, the trading company representative estimated that his firm employs about 1,000 people at its two asparagus-processing plants during peak season. Asparagus spear production, he said, which is labor-intensive, agricultural work, can help provide substitute employment activity for people who might otherwise seek employment in coca-producing areas of Peru.⁴⁵

⁴¹ U.S. Department of State telegram, "USITC Delegation Visits Peru," message reference No. 3688, prepared by U.S. Embassy, Lima, Apr. 18, 1995.

⁴² Ibid.

⁴³ Ibid.

⁴⁴ Representatives of Peruvian manufacturer of copper wire, USITC staff interview, Lima, Apr. 4, 1995.

⁴⁵ USITC staff interview with representatives of trading company, Lima, Apr. 7, 1995.

Other agricultural products

Representatives from Peruvian exporters and trading companies identified several other agricultural products that could benefit from ATPA preferences in the future.⁴⁶ These products include natural cotton, fruit juices, processed foods such as canned and frozen vegetables (diced peppers, pigeon peas, pinto beans, black-eyed peas, and baby corn) and gourmet foods that, like asparagus, require a large labor-intensive element for processing.⁴⁷ One trading company said that it switched from exporting mangoes to the United States under GSP to doing so under ATPA when GSP lapsed. The trading company also exports coffee, fish oil, palm oil, raw cotton, cotton yarn, and various fruits. In addition to trading, the firm owns a palm oil plantation which employs 800 workers. The plant, which can also process cottonseed oil and sunflower oil, helps provide alternative employment opportunities to coca.⁴⁸

Difficulties Facing Exporters

Although ATPA provides an incentive for Peruvian exporters to market their products in the United States, interviewees cited several constraints on short-term growth of Peru's exports. These constraints, they noted, help explain the relatively low levels of trade and investment in ATPA-related products during the first 2 years of the program. Constraints on exports include the lack of land titling in Peru, loss of an in-country inspector from the U.S. Agricultural and Plant Health Inspection Service (APHIS), limited capacity of manufacturers to increase production for export, relatively recent nature of the program, and a lack of knowledge about how to penetrate the U.S. market. Finally, a government official noted that the Government of Peru's economic reforms will strengthen the climate for future growth of investment and trade in Peru.

A Peruvian government official pointed out that the agricultural sector could benefit more from ATPA, but structural reforms are needed to increase agricultural productivity and to attract private investment. He added that agricultural reforms were exempted from recent structural reform initiatives undertaken by the Government of Peru. A major problem, he pointed out, is that the majority of farm land in Peru is not titled. The lack of land titling

⁴⁶ Representatives of trading companies, Government of Peru officials, and the National Society of Exporters, USITC staff interviews, Lima, Apr. 3-5, 1995.

⁴⁷ U.S. Department of State telegram, "USITC Delegation Visits Peru," message reference No. 3688, prepared by U.S. Embassy, Lima, Apr. 18, 1995.

⁴⁸ Ibid.

complicates the ability of farmers to apply for bank loans because they lack title to the land they are working. He noted that profitable ATPA products such as asparagus could be even more competitive and profitable with land titling.⁴⁹ A U.S. official pointed out that the size of land holdings is limited by the constitution, which is a legacy of Peru's land reform initiative of several decades ago.⁵⁰ The lack of land titling also complicates coca substitution efforts. A representative of Amazon indigenous groups said that the lack of land titling inhibits the ability of farmers to finance and grow legitimate crops instead of coca.⁵¹

Several interviewees said that exporters of fresh agricultural products in Peru are limited in their ability to sell to the United States because Peru lacks a resident APHIS inspector. It was noted that U.S. phytosanitary restrictions on importation of fresh agricultural products are not a barrier to exports when an APHIS inspector is available in the country. However, after the APHIS office in Peru was closed, the difficulties of dealing with U.S. phytosanitary requirements were greatly complicated, although Peru is trying to meet the standards.⁵² If an APHIS inspector were located in Lima, it is estimated that Peruvian growers of grapes, mangoes, bananas, oranges, tangerines, and other fresh agricultural products could increase exports to the United States. One observer noted that agricultural products are a promising export category for Peru because Peru's growing season is counter-cyclical to that of the United States.⁵³

Peruvian exporters may also be limited in their ability to export under ATPA for several other reasons. For example, many Peruvian firms lack the capacity to increase production for export to the United States. Most recent investment activity, it was noted, has centered on modernization of traditional industries. Little productive investment has yet to take place in expanding manufacturing capacity,

⁴⁹ Representatives of the Ministry of Industry, Tourism, Integration, and International Commercial Negotiations, USITC staff interview, Lima, Apr. 4, 1995.

⁵⁰ Representatives of U.S. Foreign Agriculture Service, USITC staff interview, U.S. Embassy, Lima, Apr. 6, 1995.

⁵¹ Representative of the Center for the Development of the Amazon Indian, USITC staff interview, Lima, Apr. 7, 1995. For a discussion of coca eradication and substitution, see ch. 5.

⁵² Representatives of Ministry of Foreign Relations, USITC staff interview, Lima, Apr. 3, 1995.

⁵³ Representatives of U.S. Embassy, USITC staff interview, Lima, Apr. 3, 1995.

whether in ATPA-eligible products or other industries. Some interviewees speculated ATPA is too new to have generated significant levels of investment in Peru. Some Peruvian exporters that now take advantage of ATPA merely shifted existing export capacity to the U.S. market to take advantage of the program but did not increase the overall level of their firm's exports.⁵⁴ In addition, a representative of a trading company said that manufacturers of nontraditional goods, which are typically small firms, have limited capacity to increase their volume of production to take advantage of export markets.⁵⁵

Several business and government officials in Peru stressed that, despite current low levels of trade and investment activity related to the program, ATPA is an important initiative for Peru because of the economic and industrial modernization currently under way in Peru. They noted that the Government of Peru is now trying to create a commercial, economic, and legal framework to allow the private sector to compete and grow based on comparative advantage. Formerly, they said, the economic system was based on contacts and favoritism. However, several business officials stated that the Government of Peru has enacted reforms such as a floating exchange rate and flat tariff and is generally following the guidance of free market principles in economic activity. One interviewee described these as "a radical change for Peru," because formerly, he said, companies in Peru felt that they deserved protection, which caused an arbitrary distribution of resources. Now, he added, there is "a serious commitment" to basing solid, sustained economic development on an open domestic market.⁵⁶ In this context, ATPA provides a useful stepping stone for Peruvian firms trying to enter the U.S. market.

Bolivia

Bolivia has been an ATPA beneficiary since July 22, 1992. In 1993, the first full year of Bolivia's status as an ATPA beneficiary, total U.S. imports from Bolivia under ATPA reached \$32.1 million. From 1993 to 1994, U.S. imports under ATPA from Bolivia increased to \$91.8 million, a rise of 186 percent. Nearly all of the increase was attributable to increased imports of jewelry from Bolivia under the program.

⁵⁴ Representatives of the National Society of Exporters and the National Society of Industry, USITC staff interview, Lima, Apr. 5, 1995.

⁵⁵ Representatives of trading company, USITC staff interview, Lima, Apr. 6, 1995.

⁵⁶ Representatives of the National Society of Exporters, USITC staff interview, Lima, Apr. 5, 1995.

The five leading U.S. imports from Bolivia in 1994 entering under ATPA provisions accounted for 99 percent of all ATPA imports from Bolivia. The top three items alone, various articles of jewelry, accounted for 98 percent of total ATPA imports. Roses and cut flowers rounded out the top five ATPA imports, but only accounted for 1 percent of ATPA imports from Bolivia in 1994.

Bolivia's exports to the world in 1994 reached \$1.1 billion, a 36 percent increase over the 1993 level of \$808 million. Nontraditional exports (other than minerals or hydrocarbons), at \$505 million, accounted for about one-half of 1994 exports. Gold jewelry exports alone accounted for \$123 million of Bolivia's 1994 exports, up 112 percent over the 1993 level. Bolivia's imports rose by a modest 2.5 percent in 1994.⁵⁷

The Government of Bolivia is undertaking a comprehensive privatization program for state-owned firms such as electricity generation, telecommunications, the national railroad and airline, and oil company. The capitalization project should contribute to a domestic economic climate conducive to sustained economic growth and export expansion.⁵⁸ The capitalization program is expected to provide opportunities for foreign investment in several of Bolivia's major economic sectors, including natural gas, mining, and transportation.⁵⁹ The economy of Bolivia grew by about 4 percent in 1994. Inflation in 1994 fell by nearly one percentage point from the previous year to about 8.5 percent. The Government of Bolivia's inflation target for 1995 is 6.5.⁶⁰ The International Monetary Fund estimated Bolivia's 1994 GDP at \$5.8 billion.⁶¹

⁵⁷ U.S. Department of State telegram, "Bolivian Economic Highlights — November-December 1994," message reference No. 939, prepared by U.S. Embassy, La Paz, Jan. 24, 1995.

⁵⁸ U.S. Department of State telegram, "Bolivia's Capitalization/Privatization Program: An Update," message reference No. 1080, prepared by U.S. Embassy, La Paz, Jan. 27, 1995.

⁵⁹ U.S. Department of State telegram, "Hemispheric Infrastructure Initiative," prepared by U.S. Embassy, La Paz, Feb. 21, 1995.

⁶⁰ U.S. Department of State telegram, "Bolivian Economic Highlights - April 1995," message reference No. 5913, prepared by U.S. Embassy, La Paz, May 22, 1995.

⁶¹ U.S. Department of State telegram, "Bolivian Economic Highlights — February 1995," message reference No. 3682, prepared by U.S. Embassy, La Paz, Mar. 28, 1995.

Effect of ATPA on Investment

In response to the Commission's request for information about ATPA-related investment activity in 1994, the U.S. Embassy in La Paz reported that both the Government of Bolivia and the private sector realize that Bolivia has not significantly benefited from the ATPA program. Two reasons were offered as to why Bolivia has not taken greater advantage of the program: lack of information in Bolivia about the program and a low level of interest in the program by Bolivian businesses. The U.S. Embassy reported that the Bolivian National Chamber of Industry and the Bolivian Chamber of Exporters have only recently started to analyze ATPA and its possible benefits to Bolivian industry. The groups plan to disseminate the results of their study among member businesses to encourage increased investment and trade activity with the United States under the ATPA program.⁶²

The U.S. Embassy noted that the current effect of the ATPA program on Bolivia is relatively small. However, the embassy reported, information collected from two major Bolivian export sectors — jewelry and cut flowers — suggests that ATPA-related trade with the United States "may be significant in the near future." The effect of the increased economic activity in ATPA trade, the embassy said, could lead to increased coca "crop substitution in the central valleys of Bolivia . . ." The embassy also noted that many Bolivian businesses are concerned that the program will terminate in 2001, and "all have requested that the program be extended."⁶³

The U.S. Embassy in La Paz reported new or expansion investment in ATPA-eligible sectors of \$3.7 million in 1994. The majority of reported investment took place in the sector that dominated U.S. imports under ATPA in 1994: gold and silver jewelry. As shown in the following tabulation, \$3.2 million of reported new investment was accounted for by the gold and silver jewelry sector. Investment of \$500,000 was reported by one firm in the cut flower sector. Although flower producers reported little investment activity in 1994, Asbolflores, a Bolivian association of cut flower growers, estimates that its members will invest approximately \$17 million in cut flower (carnations, chrysanthemums, and others) production during 1995-96.

	1994 Investment	New or Expansion amount
Gold and silver jewelry	\$6.8 million\$	3.2 million
Cut flowers	n/a	\$0.5 million

⁶² Ibid.

⁶³ Ibid.

None of the firms reported difficulties using the ATPA program. None of the ATPA-related investment reported by Bolivian firms for 1994 took place in free-trade zones.

Gold and silver jewelry

Bolivian jewelry exporters report that the existence of the ATPA program was key to their efforts to export to the United States. In addition, several firms indicated that the ATPA preference is fundamental to their efforts to penetrate the U.S. market at competitive prices.⁶⁴

Prior to enactment of ATPA preferences, jewelry from Bolivia entered the United States free of duty under the GSP. However, U.S. imports of jewelry from Bolivia experienced their most significant growth only after designation of Bolivia as an ATPA beneficiary. Leading U.S. jewelry imports from Bolivia grew from \$2 million under GSP in 1990 to \$104 million under both GSP and ATPA in 1994. In the first 2 full years of ATPA, jewelry imports under the program from Bolivia grew from \$30 million in 1993 to \$90 million in 1994, or by nearly 200 percent. Of the total jewelry imports from Bolivia entering under both programs in 1994, 87 percent entered under ATPA provisions. The remaining imports continued to enter free of duty under the GSP.

On the subject of NAFTA, three Bolivian jewelry firms said they do not expect NAFTA will have a negative effect on their exports to the United States. One firm, however, expressed some concern by noting that "NAFTA grants additional benefits to Mexico, one of our major competitors for gold and silver jewelry."⁶⁵

Cut flowers

Asbolflores, an association of 45 flower producers and exporters in Bolivia, reported no new ATPA-related investment among its members in 1994. The association added, however, that it expects new or expansion investment in cut flower production to reach \$17 million during 1995-96. Asbolflores credited the ATPA program with the rapid growth of the Bolivian flower industry. Between 1993 and 1994, Bolivia's cut flower exports to the United States under ATPA provisions grew by 163 percent, from \$346,000 to \$909,000. The Association noted that, in the absence of ATPA duty preferences, its members

would have likely continued to export to the United States "because most members of the flower growers association were already exporting before the ATPA came into effect."⁶⁶

One Bolivian flower producer reported new investment of \$500,000 in 1994. The firm said that in the absence of the ATPA program, "our flower export project would not have been fully successful." It added, however, that it would have likely made the investment in the absence of ATPA in order to serve other export markets. None of the flower representatives said that they expected NAFTA to cause a negative effect on flower exports from Bolivia to the United States.⁶⁷

Ecuador

In 1994, the first full year of Ecuador's participation as an ATPA beneficiary,⁶⁸ total U.S. imports from Ecuador under ATPA provisions reached \$72.9 million. Approximately 35 percent of ATPA imports from Ecuador in 1994 were cut flowers. The other major product categories of ATPA imports from Ecuador were fish, jewelry, fruit, and products of wood.

Foreign direct investment in Ecuador has grown rapidly in recent years, particularly in the oil sector. Total FDI inflows grew from \$178 million in 1992 to \$531 million in 1994. Over the same period, the share of foreign investment inflows as a percent of GDP has risen from 1.5 to 3.2 percent. The majority of the new foreign investment inflows in 1994 was directed into new or existing firms in the industrial sector.⁶⁹ Prior to the border war with Peru, FDI in Ecuador was projected to climb to \$556 million in 1995. The United States and Switzerland are major foreign suppliers of capital in Ecuador. The majority of U.S. investment is registered in the oil sector, financial services, food processing, chemical and pharmaceutical industries, and machinery and vehicle manufacturing.⁷⁰ The U.S. Embassy in Quito did not

⁶⁶ Ibid.

⁶⁷ Ibid.

⁶⁸ Ecuador has been an ATPA beneficiary since April 13, 1993.

⁶⁹ U.S. Department of State telegram, "Ecuador: Economic Highlights, January 1995," message reference No. 1203, prepared by U.S. Embassy, Quito, Feb. 15, 1995.

⁷⁰ U.S. Department of State telegram, "Investment Climate Statement: Ecuador 1995," message reference No. 4489, prepared by U.S. Embassy, Quito, July 13, 1995.

⁶⁴ Ibid.

⁶⁵ Ibid.

respond to the Commission's request for information about ATPA-related investment activity in Ecuador in 1994.

Ecuador has taken several steps to liberalize foreign investment regulations, particularly regarding taxation and employment permits, in order to attract new foreign investment activity. Also of interest to foreign investors is Ecuador's recent efforts to privatize much of the public sector including electricity generation, telecommunications, ports, and airports.⁷¹

Future foreign investment in Ecuador, whether in ATPA-eligible industries or in other sectors, may be affected by the border conflict with Peru. The conflict is expected to take a toll on the economy of Ecuador, including GDP growth, inflation, and perception of the country by potential investors. The Central Bank of Ecuador estimates the cost of the border conflict with Peru at about \$360 million to \$375 million in 1995.⁷² In early 1995, the Government of Ecuador estimated that the border conflict would cost the economy one percentage point in terms of GDP growth in 1995 and add four points to the inflation rate. Ecuador's GDP grew by

⁷¹ U.S. Department of Commerce, "Country Commercial Guides, Ecuador: Commercial Overview" and "Ecuador: Investment Climate," National Trade Data Bank, Dec. 26, 1994.

⁷² U.S. Department of State telegram, "Ecuador: Economic Highlights, April 1995," message reference No. 3303, prepared by U.S. Embassy, Quito, May 16, 1995.

3.9 percent in 1994, and had been expected to grow by 4 to 5 percent in 1995. The GDP growth range has been revised downward to 3 to 4 percent. In 1994, inflation ran at an annual rate of 25.4 percent. The inflation rate had originally been projected to fall to between 15 and 17 percent for 1995. Inflation for 1995, in light of the border conflict, is expected to run between 19 and 21 percent.⁷³

The land border between Ecuador and Peru was officially reopened by Peru on September 4, 1995,⁷⁴ after more than eight months of limited traffic.⁷⁵ Given normalized relations between the two countries, an increase in trade and investment expenditures can be anticipated. Most recently, interest rates and economic growth in Ecuador have returned to earlier levels.⁷⁶

⁷³ U.S. Department of State telegram, "Ecuadorian Economic Team Revises 1995 Macro Plan in Light of Border Conflict," message reference No. 1311, prepared by U.S. Embassy, Quito, Feb. 17, 1995.

⁷⁴ USITC staff interview with officials of the Embassy of Ecuador, Political Division, Washington, DC, Sept. 26, 1995.

⁷⁵ U.S. Department of State telegram, "Business Groups Welcome Reopening of Border," message reference No. 8306, prepared by U.S. Embassy, Lima, Sept. 8, 1995.

⁷⁶ U.S. Department of State telegram, "Ecuador: Economic and Environmental Highlights," message reference No. 5964, prepared by U.S. Embassy, Quito, Sept. 20, 1995.

CHAPTER 5

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

According to the U.S. Department of State, cocaine poses “the greatest immediate drug threat” to the United States.¹ While all of the world’s coca production takes place in the Andean region,² Bolivia is the world’s second largest producer of coca leaf after Peru and the second largest producer of cocaine after Colombia.³ Colombia is the world’s largest supplier of cocaine and the source of virtually all the cocaine shipped into the United States.⁴ Ecuador is considered primarily a transit zone for both unrefined coca products (shipped from Peru to Colombia, the world’s major processor of cocaine hydrochloride) and processed drugs (shipped from Colombia to the United States and Europe).

This chapter is structured in three parts. First, the scope of the analysis and the summary of findings pertaining to the ATPA reporting requirement on eradication and substitution are described.⁵ Crop eradication and substitution are then specifically addressed—as viewed by relevant U.S. Government agencies, and as they relate to the ATPA itself.

¹ U.S. Department of State, *International Narcotics Control Strategy Report* (hereafter, *INCSR*), Mar. 1995, p. 8.

² Office of National Drug Control Policy (ONDCP), The White House, *National Drug Control Strategy*, Feb. 1994, p. 51.

³ *INCSR*, p. xxix.

⁴ Colombia is also a significant supplier of heroin and one of the world’s largest cultivators of opium poppy. The amount of opium poppy eradicated in 1994 was almost 50 percent less than in 1993.

⁵ Last year’s report included a brief history of coca cultivation in the Andean region as well as a survey of drug production trends in the four ATPA beneficiary countries. See United States International Trade Commission (USITC), *Annual Report on the Impact of the Andean Trade Preference Act on U.S. Industries and Consumers and on Drug Crop Eradication and Substitution*, USITC publication 2814, Sept. 1994, pp. 51-62.

Finally, the impact of ATPA on drug-related crop eradication and crop substitution is assessed.

Summary of Findings

Since the Commission has no official role in U.S. antidrug efforts, it must rely on other organizations, both government and private, for information in preparing this assessment. Factfinding field trips and periodic unclassified embassy reports are the primary sources of antidrug information for this analysis. The Commission also relied on published reports from, and conducted interviews with, relevant U.S. Government agencies on drug crop eradication/substitution in the Andean region. Field work by Commission staff also afforded representatives of foreign governments and private sector interests to directly comment on the impact of ATPA.⁶

The Commission found that, during 1994, the effect of ATPA on crop eradication and substitution was minimal. The Commission believes that no precise estimate of the impact of ATPA on drug-related crop eradication and crop substitution is possible. The ATPA program is still relatively new in the region, and familiarity with its elements and its goals is increasing.⁷ ATPA must be recognized as only one prong in a multi-faceted effort to combat the drug problem. As a relatively new program, it is not empirically possible to draw the causal relationship between preferences and eradication/substitution.

The notion that trade preferences will successfully be used as a lever for crop eradication and substitution in drug-producing countries is met with a certain

⁶ Commission staff traveled to Colombia and Peru in March and April of 1995 to obtain information in connection with this investigation.

⁷ The ATPA utilization rate of 55 percent (table 2-9), achieved in three years of the program’s existence, indicates that awareness of the program is building in legitimate spheres of the beneficiary countries.

degree of skepticism in some quarters as discussed below. The principal problem is that of identifying and producing the crops that are successful substitutes for the illicit drug. Few, if any, economically-equivalent substitutes exist for coca in the Andean region. In addition, it was pointed out on more than one occasion that price alone is not the sole return that coca farmers seek. Security, legitimacy, and peace-of-mind—all offer returns to farmers.

On the other hand, there is some evidence, generally anecdotal, that ATPA is effective in creating new jobs and income that provide an alternative to coca. The fact that legal employment is available cannot help but undercut opportunities in the cocaine industry. Diversification and greater trade links between the United States and the Andean region offer a strong message to coca growers. Thus, it is possible to argue that ATPA may help the overall economic outlook in the Andean countries.

Limited drug-related crop eradication has been taking place, but achievements to date have been significantly fewer than the stated objectives. Bolivia has no official eradication policy, and Peru has not had any eradication since 1989. Only Colombia seems committed to an official policy of crop eradication.

Crop substitution, while occurring in the region, is taking place on an extremely small scale. Evidence of successful crop substitution is anecdotal at best. There is only limited evidence of substitution programs having a positive impact in the region. Indeed, the White House Office of National Drug Control Policy (ONDCP) report on crop substitution maintains that the best arguments for retaining crop substitution programs are not economic, but political. The study concludes that the “best hope for reducing coca in the Andes lies not in crop substitution but rather in (1) enforcement measures that ... wear down farmers and (2) development programs that promote solid growth throughout the national economy as a whole.”⁸

Thus, both crop eradication programs and crop substitution efforts in the Andean region appear to be marginal at best in their effectiveness in controlling the supply of illicit drugs leaving the region and entering the United States.

Any direct connection between substitution and coca reduction is difficult to ascertain.⁹ The further

⁸ ONDCP, *Crop Substitution in the Andes*, (hereafter ONDCP paper) Rensselaer Lee and Patrick Clawson, Dec. 1993, p. 3.

⁹ Evidence exists to show there is hardly any linkage between substitution and coca reduction. “Crop substitution has meant mostly agricultural diversification, not

linkage between either eradication and/or substitution and the ATPA is therefore particularly tenuous. It is not possible to predicate a causal relationship from the evidence available.¹⁰ For the first 3 years of its operation, however, ATPA has had a minimal impact on efforts to eradicate illicit drugs grown in the region and on efforts to substitute other crops for coca.

Eradication and Substitution: Views of U.S. Government Agencies

An underlying objective of the ATPA was to support the efforts that beneficiary countries were making to stem the supply of illicit drugs. The two aspects of supply management that are explicitly cited in the statute are crop eradication and crop substitution.

Eradication

The degree to which the United States and ATPA beneficiary countries engage in anti-narcotics cooperation is directly addressed in an annual report published by the U.S. State Department’s Bureau for International Narcotics and Law Enforcement Affairs. The Foreign Assistance Act (FAA)¹¹ requires the State Department to report annually on certain aspects of U.S. narcotics control strategy and to identify major illicit drug-producing and major drug-transit countries, as well as major money-laundering countries. In its annual report, the *International Narcotics Control Strategy Report (INCSR)*, the State Department evaluates the extent to which countries worldwide are meeting the goals and objectives of the 1988 United Nations Convention Against Illicit

⁹—*Continued*

replacement of coca with other crops. ... In Peru, the area devoted to legal crops grew in the 1980’s and early 1990’s, but coca cultivation grew at an equivalent or faster pace. The Bolivian government’s compensation payments for coca reduction have resulted in elimination of more than 20,000 hectares of coca; yet such payments also have financed the planting of new coca bushes. More land has been planted in coca over the life of the compensation program than has been planted in alternative crops.” ONDCP paper, *ibid.*, p. 2.

¹⁰ The ONDCP paper on crop substitution maintains that “no significant decline of coca and cocaine production can probably be expected for 10 to 20 years”, given present unfavorable trends and conditions in the Andes. *Ibid.*, p. 4.

¹¹ 22 U.S.C. 2291.

Traffic in Narcotic Drugs and Psychotropic Substances (U.N. Convention). The *INCSR* also provides the factual basis for Presidential determinations affecting foreign assistance and multilateral development banking to drug-producing countries.¹² Consideration of whether a country has cooperated fully with the United States, or has taken adequate steps on its own to achieve full compliance with the U.N. Convention, underlies the required Presidential determination certifying compliance.¹³

The latest *INCSR* report, issued in March 1995, includes the four ATPA countries among those determined to be major drug-producing and/or drug-transit countries. In 1995, based on information contained in the *INCSR* report, President Clinton fully certified only Ecuador among the ATPA beneficiary countries as complying with the U.N. Convention. Bolivia, Colombia, and Peru were certified only with a national interest waiver.¹⁴

Table 5-1 shows the illicit coca cultivation and eradication totals as reported by the Department of State in 1995.¹⁵ The data illustrate that from 1990 to 1993, eradication of land cultivated with coca declined steadily. This decrease preceded the

¹² Section 490 of the FAA “requires that fifty percent of certain kinds of assistance be withheld at the start of each fiscal year from such countries, pending ... certification. If a country is not certified, most foreign assistance is cut off and the United States is required to vote against multilateral development bank lending to that country.” U.S. Department of State, *INCSR*, Apr. 1994, p. 62.

¹³ Two levels of certification are possible: full certification and national interest certification. The latter is used in the case where a country cannot be certified under the standards required for full compliance, and where “vital national interests of the United States require” that assistance be provided and that the United States not vote against multilateral development bank lending to that country.

¹⁴ In March of 1995, Presidential Determination 95-15 of Feb. 28, 1995, as contained in *INCSR*, p. vii.

¹⁵ The *INCSR* report points out the shortcomings in various time series and data elements concerning illicit drugs. The numbers are used to examine trends and are to be considered as *approximations*, and not hard data. Generally, the most reliable information available is that on the amount of hectares under cultivation. Crop yields are more difficult to estimate. The report states that specific eradication efforts in recent years have been directed to cocaine, the illicit substance “at the top of the U.S. Government’s drug-control priority list.” Current methodology allows for reliable information on *potential* drug production rather than on actual final drug crop available for harvest.

inauguration of the ATPA program and continued during its first 2 years. Between 1993 and 1994 there was an increase in the eradication results, as nearly 6,000 hectares were eradicated, up from nearly 3,200 hectares in 1993.¹⁶ However, because the amount of Andean land area under new coca cultivation outpaced that lost through eradication, the net result was an increase in the net hectareage in coca from 1993 to 1994.

Of the three ATPA beneficiary countries where crop eradication is viewed as a needed control measure—Bolivia, Colombia, and Peru—only Colombia was successful in eliminating coca plants in 1994. Bolivian efforts fell far short of the government’s objectives, and Peruvian efforts were non-existent. Therefore, crop eradication as carried out in the Andean region cannot be deemed a successful supply control measure, nor can the ATPA generally be considered an enhancement to individual country efforts in this regard.

U.S. efforts to eliminate illicit coca production and offer crop substitutes to those currently engaged in its cultivation are country specific. Eradication is generally a bilateral effort—the United States provides the funding, fuel, and herbicides; the host government provides the personnel. Findings for each of the ATPA beneficiaries follow.

Bolivia

Bolivia’s attempts at successful eradication have steadily diminished from 1990 to 1994 (table 5-1, figure 5-1). The 1994 amount of 1,058 hectares was only an eighth of what was destroyed in 1990. This was the fourth consecutive year in which the eradication target was missed, and by the widest margin ever.¹⁷

The main impediments to eradication of drug-related crops in Bolivia are political.¹⁸ While the President of Bolivia is attempting to eliminate illegal coca, he considers forced eradication to be

¹⁶ The increased eradication is entirely attributable to Colombian efforts to attack coca production in 1994. See separate country discussion below.

¹⁷ The 1988 Bolivian Coca and Controlled Substances Law (Law 1088) establishes an annual range of between 5,000 and 8,000 hectares to be eradicated through voluntary or forced plant removal. The eradication efforts are contingent on international development assistance. USITC, *First Andean Report*, Sept. 1994, p. 54.

¹⁸ *INCSR*, p. 9.

Table 5-1
Coca cultivation and eradication in the Andean region, 1990-94

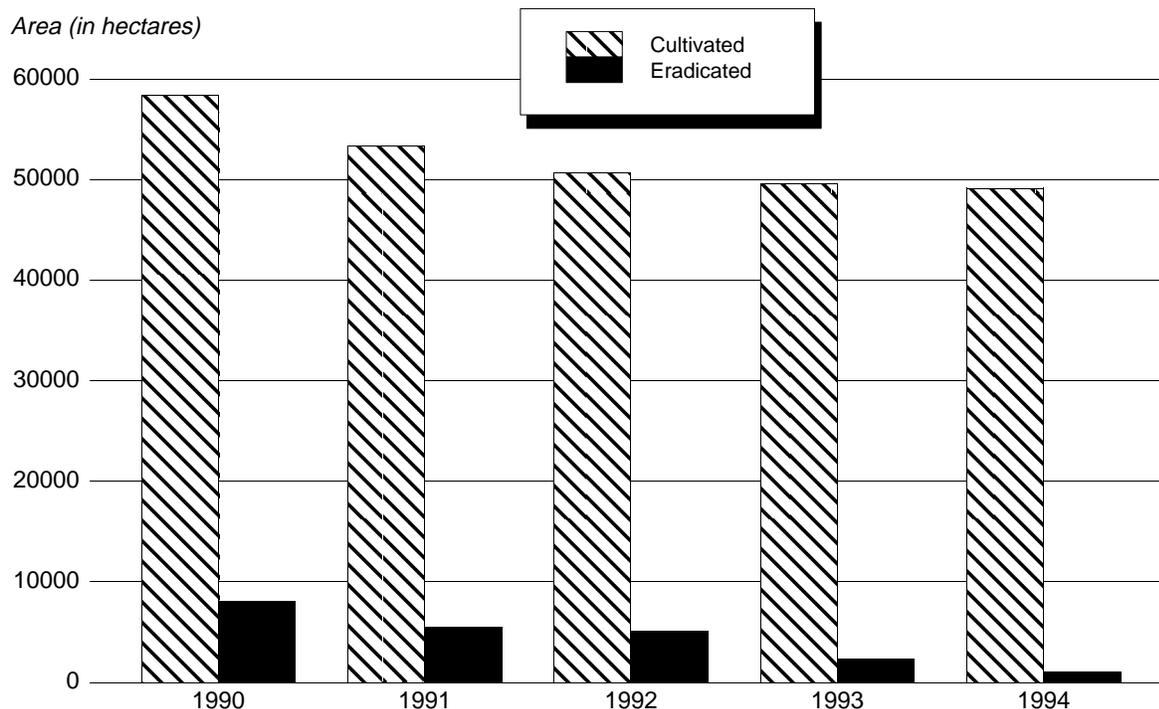
(In hectares)

	Bolivia	Colombia	Ecuador	Peru	Total
1990:					
Cultivated	58,400	41,000	150	121,300	220,850
Eradicated	8,100	900	30	0	9,030
Net	50,300	40,100	120	121,300	211,820
1991:					
Cultivated	53,386	38,472	120	120,800	212,778
Eradicated	5,486	972	80	0	6,538
Net	47,900	37,500	40	120,800	206,240
1992:					
Cultivated	50,649	38,059	(¹)	129,100	217,808
Eradicated	5,149	959	(¹)	0	6,108
Net	45,500	37,100	(¹)	129,100	211,700
1993:					
Cultivated	49,600	40,493	(¹)	108,800	198,893
Eradicated	2,400	793	(¹)	0	3,193
Net	47,200	39,700	(¹)	108,800	195,700
1994:					
Cultivated	49,158	49,910	(¹)	108,600	207,668
Eradicated	1,058	4,910	(¹)	0	5,968
Net	48,100	45,000	(¹)	108,600	201,700

¹ Not available.

Source: U.S. Department of State, *International Narcotics Control Strategy Report*, Mar. 1995, p. 26.

Figure 5-1
Coca cultivation and eradication in Bolivia, 1990-94



Source: U.S. Department of State, *International Narcotics Control Strategy Report*, March 1995, p. 26.

divisive.¹⁹ In February 1994, a campaign of forced eradication led to violent protests by coca growers with the 1994 efforts to devise an eradication strategy resulting in no progress.²⁰ Voluntary compensated eradication dropped sharply during the year. The Bolivian area under coca cultivation actually increased in 1994 (table 5-1).

Colombia

The Government of Colombia is on record as supporting the total eradication of all coca in the country within 2 years.²¹ In April 1994, the Colombian Government approved the aerial appli-

¹⁹ Cultivation of the plant is legal in Bolivia and a measured amount of coca leaf is licit for domestic consumption purposes. Forcible eradication, however, has yet to be endorsed as a government policy.

²⁰ *INCSR*, p. xxix.

²¹ Republic of Colombia, Counterdrugs National Council, "Report to the National Drugs Council on the Legal and Technical Aspects of the Eradication of Illicit Crops," *Eradication Policies About Illicit Drugs*, Bogota, Feb. 1995, and National Planning Department, *Alternative Development Programme*, Bogota, Oct. 1994.

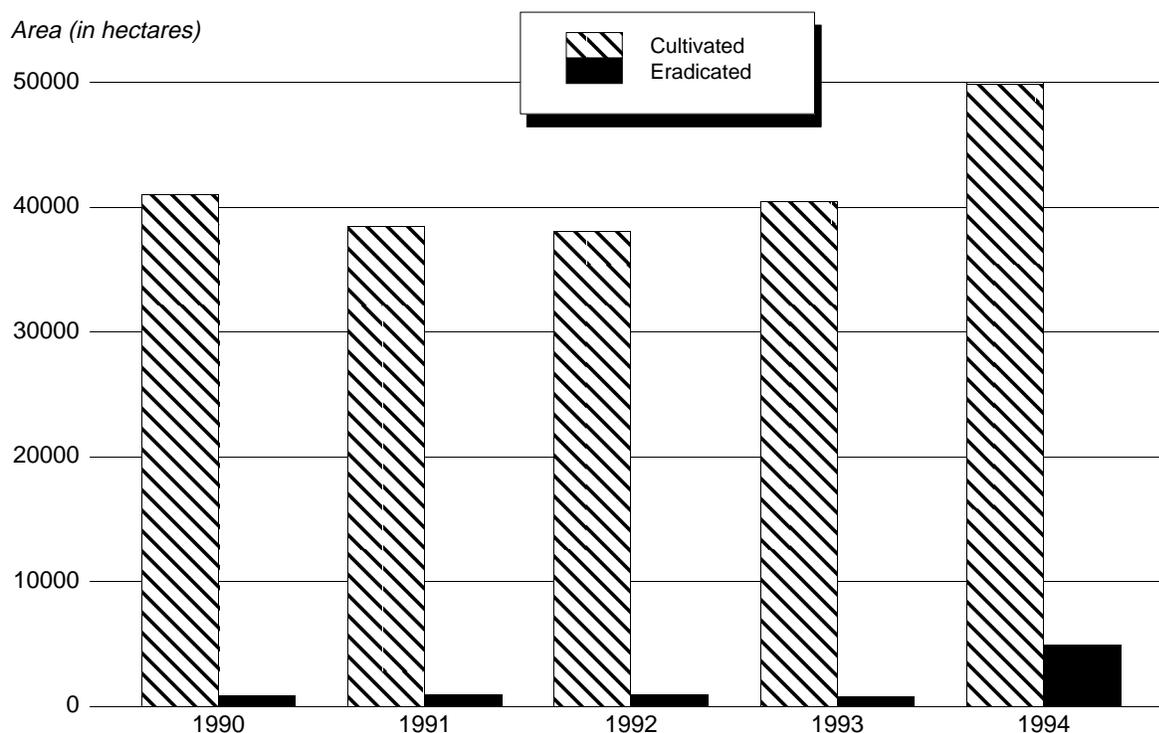
cation of a herbicide that kills coca plants.²² In November 1994, an aggressive plan to eradicate both coca and opium poppy was initiated by the National Directorate of Dangerous Drugs.²³ In the San Juan region, 3,000 hectares were eradicated despite large-scale protests by the coca growers. In December, 5,000 coca workers closed the airport in San Juan during demonstrations. The impasse was resolved when the Government agreed NOT to fumigate plots less than 2 hectares (about 5 acres), which are considered "subsistence" level farms.²⁴

²² Colombia is currently the only major drug-producing country that is carrying out intensive aerial eradication efforts. *INCSR*, Mar. 1995, p. 2. Aerial eradication is "the most efficient" method to make inroads into illicit drug production. Most countries will not allow the use of even environmentally approved herbicides for control use. *Ibid.* "The reasons for resisting aerially applied herbicides differ from country to country. They run from environmental concerns to the political and economic realities of displacing and finding legitimate alternatives for illegal crop farmers to simple lack of political will." *INCSR*, pp. 2-3.

²³ *INCSR*, p. 82.

²⁴ U.S. Embassy official, interview with USITC staff, Bogota, Mar., 1995.

Figure 5-2
Coca cultivation and eradication in Colombia, 1990-94



Source: U.S. Department of State, *International Narcotics Control Strategy Report*, March 1995, p. 26.

This concession was actually part of an agreement that had been made in February 1994, but the agreement was not publicly announced until the December demonstration.

Nevertheless, the 1994 level of 4,900 hectares eradicated (table 5-1, figure 5-2) compares favorably with the approximately 800 hectares eradicated in 1993. This significant eradication effort in Colombia is the only notable attempt at coca destruction in the entire Andean region. Despite these examples of successful eradication efforts, the State Department reported a 13.3-percent increase in the amount of Colombian land under coca cultivation over 1993.²⁵ It is anticipated that there will be a movement from gradual eradication to a more aggressive policy.²⁶

²⁵ *INCSR*, p. xxxi. The annual report also noted that "if [Colombian] cultivation is not contained and crops are not eradicated, Colombia could soon surpass Bolivia as the second largest source of coca after Peru."

²⁶ USITC staff interviews with representatives of the Ministry of Justice and Law, National Administration of Narcotics, Bogota, Colombia, March 30, 1995.

Ecuador

Ecuador is considered primarily a transit zone for drug-related products. No illicit crop cultivation was discovered in 1994.

Peru

Peru does not have a systematic program for forcible destruction of mature coca plants. As a result, there has been no reported eradication of mature coca in Peru since at least 1989 (table 5-1). No systematic mature coca eradication occurred in Peru in 1994.²⁷ In fact, there has been no such eradication in the last five years. According to U.S. Embassy officials, however, the eradication problem in Peru is not environmental; it is political.²⁸ Coca seedbed

²⁷ *INCSR*, p. xxxix.

²⁸ A safe and effective herbicide already exists and has been used in Peru, but the forced eradication effort resulted in riots. As a result, eradication in the Upper Huallaga Valley, the major coca growing area, was suspended.

eradication was reported, and this has contributed to a slight reduction in the amount of coca under cultivation in specific areas. Seedbed eradication was resumed in Peru in July 1994, after the program was suspended for financial reasons in late 1993.²⁹

Because economic alternatives for coca farmers have not been developed, there is official reluctance to address the eradication problem. The President of Peru continues to ban eradication efforts involving aerial herbicides.³⁰ The Government has taken the stance that eradication requires the creation of alternate development plans for coca growers; this position has meant that effective eradication programs in coca-growing communities are nonexistent.³¹ The number of cash subsistence farmers who depend on coca as their primary crop is estimated to be as high as 150,000. The policy of requiring a linkage between eradication and the provision of greater alternative development aid to the farmers who grow coca has resulted in little or no impact on illicit coca production in the country. Since alternate development programs—once established—will only operate with the consent of the coca producers, there is not much reason to anticipate significant eradication inroads.

Substitution

Information gathered during Commission field work and research indicates that crop substitution is a difficult concept to put into practice. Substitution means different things to different people, and comments obtained in field interviews reflect such divergences. In its most narrow sense, crop substitution in the context of Andean coca means the replacement of coca plants with a legal product.

²⁹ Seedbed eradication is the manual destruction of immature coca plants. Coca plants are generally transplanted within 3 to 5 months of planting. After 12 to 18 more months, the plants reach their productive stage. They can be harvested 3 to 4 times a year and will remain productive for 6 to 8 years, maybe even for 10 to 15 years (the longest productivity of a coca plant on record is 40 to 50 years). Destroying the seedbeds cuts the growth of future production. There is no popular opposition to seedbed eradication, unlike eradication by aerial fumigation. Seedbed eradication is relatively safe and easy to do. A 15 square meter area of seedbeds yields 1 hectare of definitive cultivation. It can also be done quickly, 15 to 30 minutes for 15 square meters, and there is a lower security risk with seedbed eradication than with aerial fumigation.

³⁰ *INCSR*, p. 104.

³¹ *Ibid*, p. 50.

Official programs to encourage such replacement may suggest specific replacement crops and may even offer financial support for the change.³²

Substitution in a wider sense connotes alternative development—a concept that is much broader in scope than the substitution of a legitimate crop for an illicit one. Alternative development strategies encompass substitution in an attempt to improve economic growth and provide suitable, stable employment in developing regions. In a 1993 report, the U.S. Agency for International Development (USAID), the principal U.S. Government agency responsible for encouraging and supporting economic development beyond the United States, concluded that “crop substitution is not viable. A broader, sustainable development approach which includes local participation, democratic institution building, and social programs for the poor is more feasible.”³³

Alternative development plans are often held out by host governments as an incentive to curb illicit drug production, offering farmers other economic means of support. The Chapare region of central Bolivia is a locus of such efforts, for example. Of the 48,000 hectares cultivated with Bolivian coca, 35,000 are in the Chapare region. The United Nations and the Government of Bolivia are increasing pressure on coca farmers to eradicate their coca crop and substitute other products, and are using the incentive method in the Chapare.³⁴

A 1986 USAID evaluation study concluded that

The crop substitution strategy focuses primarily on the identification and introduction of substitute crops to replace the income lost because of narcotics control efforts. This strategy has been unsuccessful in introducing substitute crops and in controlling illicit cultivation... Viable substitute crops are difficult to identify given the generally unfavorable agroclimatic conditions and poorly developed

³² The difficulty of identifying the crop or crops that will be readily accepted by growers as a substitute for coca, has been pointed out previously in this series of reports. See USITC, *First Andean Report*, USITC publication 2814, Sept. 1994, p. 63.

³³ USAID, *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. 5.

³⁴ Comtex Scientific Corp., “Bolivia-Drugs: Using Carrot and Stick to Control Coca Growth,” *NewsEDGE/LAN*, July 20, 1995.

*infrastructures that characterize most remote poppy- and coca-growing areas. In many instances there are no alternative crops that can be grown [as] profitably.*³⁵

The 1986 study argued that any substitution effort must be accompanied by effective enforcement measures in order to ensure the possibility of success. In examining coca plant cultivation control, the study's authors found that "there is no crop or mix of crops that can generate the returns, labor, and capital that coca does"³⁶ The 1986 report noted that even eradication efforts do not guarantee against the replanting of coca, either in the present area, or elsewhere. The economics of the coca trade are such that narcotics control efforts are frequently thwarted.

The limited successes to date must be contrasted with the increase in coca production in the region and the concomitant ineffectiveness of eradication and substitution. USAID's efforts continue to emphasize the long-term nature of any solution to the narcotics problem in the Andean region. It would appear that ONDCP supports the current USAID emphasis. In the conclusion to the 1993 report on crop substitution it states:

Crop substitution is not a promising strategy for reducing coca cultivation in the Andes. Probably the best hope for reducing coca cultivation in the Andes lies in a combination of interdiction ... and national economic development. ... National economic development can expand jobs, stimulate exports, and attract labor out of coca growing regions. ... economic reform and growth reduce the relative weight of narcotics industries in the national economy and hence in the national political system. ... expanding economies and rising living standards throughout the Andean region represent the best hope for meaningful U.S.-Andean cooperation in containing and ultimately reducing regional production of cocaine products. Broadly based economic growth can be thought of as the medicine that will cure the cocaine infection while—in the Andean context—law

³⁵ K. Kumar, et al., *A Review of AID's Narcotic Control Development Assistance Program*, AID Evaluation Special Study No. 29, Mar. 1986, pp. 38-39.

³⁶ *Ibid.*, p. D-8.

*enforcement is the lance that spears the boil of the infection.*³⁷

Findings on each Andean country are detailed below. This report examines, on one hand, practical applications of crop substitution and, on the other, the broader, indirect application of the substitution concept.

Bolivia

USAID has been effective in supporting the introduction of new crops in Bolivia.³⁸ There has been limited success, however, in making the transition to actual drug crop substitution.³⁹ In terms of profitability, USAID could not identify a substitute product.

Observers agree that viable coca substitutes must be mid-level agriculture or fishing products, with a certain amount of processing incorporated in order to increase the value-added and raise the level of return closer to that of unprocessed coca. U.S. Embassy officials reported that the increased economic activity resulting from ATPA could lead to more crop substitution in the future in the central valleys of Bolivia, where flowers could be substituted for coca.⁴⁰ However, others expressed doubt that flowers could be substituted for coca because they are grown in different areas from coca. Nonetheless, successful flower operations in Colombia have provided employment substitution for workers who might otherwise be involved in the illicit drug industry.⁴¹ Although crop substitution in the narrow sense does not appear to be a viable alternative in Bolivia, employment substitution has potential.

Colombia

U.S. Embassy officials reported that, from their perspective, the crop substitution problem in Colombia is practically insoluble. These officials, along with many others, argue that it is useless to give farmers seeds and credit to plant legal crops if the infrastructure is inadequate to ensure their

³⁷ ONDCP paper, p. 66.

³⁸ USITC staff interview with USAID official, Aug. 2, 1995.

³⁹ Bolivian alternative development project information received from USAID, Washington, DC cites advances in the cultivation of banana, citrus, plantain, pineapple, palm heart, passion fruit, and black pepper.

⁴⁰ U.S. Department of State telegram, "USITC Annual Andean investment survey," message reference No. 5906, prepared by U.S. Embassy, La Paz, May 22, 1995.

⁴¹ Representatives of COINVERTIR, USITC staff interview, Bogota, Mar. 28, 1995.

transportation and sale.⁴² Successful substitution requires integrated rural development of infrastructure, schools, subsidized credit, etc. Colombia has been slow to start this process.⁴³ Given the overwhelming challenge presented by the lack of infrastructure in most coca-growing regions (no roads, no electricity), it makes little difference what product might be substituted for coca. There is little possibility of profitably getting the product to market. Without the possibility of getting the alternative product to market, the appeal of substitution is effectively nonexistent.

Ecuador

Coca leaf chewing is not traditional in Ecuador as it is in other Andean countries, so the product does not have a significant domestic market. Because no major quantities of coca are believed to be produced in the country, crop substitution is not an issue in Ecuador.

Peru

In Peru, as in Bolivia and Colombia, the lack of infrastructure acts as a significant impediment to substitution efforts—whereas coca is compact and can be flown out on small aircraft, legal crops cannot economically be transported to markets. A new road development project has begun (funded by the Inter-American Development Bank), but it will be years before an adequate road system is in place in the coca regions of the country.

Peruvian Government and private analysts believe that ATPA can play an indirect role in reducing coca cultivation, but they cannot estimate the magnitude of the impact.⁴⁴ Peruvian studies have identified possible coca substitutes, among them, coffee, colored cotton,⁴⁵ cocoa, palm oil, asparagus, broccoli, and brussel sprouts. None of these products has reached a level of production to become a profitable alternative to coca. A representative of one of Peru's largest business groups cited palm, cottonseed, and sunflower

oils as potential coca substitutes, along with coffee and cocoa. However, these products require a lot of time and considerable investment to reach maturity and a profitable scale of operations.

A representative of a Peruvian trading company pointed out to Commission staff that labor-intensive agricultural work, such as that needed to produce asparagus, a successful ATPA export, can provide employment for people who might otherwise migrate to coca-producing areas. He noted that many employees in Peruvian food-processing plants come from coca-growing regions of the country. Absent their employment in a legitimate enterprise, they would likely be raising coca.⁴⁶ So, while the product itself, asparagus or another agricultural product, cannot be argued to be a direct substitute for coca, the employment possibilities are definitely a substitute for illicit activity employment.

A factor which complicates crop substitution efforts in Peru is the lack of adequate land titling in the country. This fact is especially troublesome in the agricultural sector. The majority of farmland in Peru is not titled. The ability of farmers to obtain credit to finance and grow legitimate crops as a substitute for coca is complicated by their lack of clear title to the land in which cultivation takes place.⁴⁷

A successful crop substitution project has occurred in Peru under the sponsorship of the United Nations Fund for Drug Abuse Control (UNFDAC). The program has provided aid in the form of soft credits and technical assistance to farmers in the fertile valley region northeast of Cuzco and has forged ties with 47 coffee grower cooperatives, four associations of swine and sheep farmers, cacao growers, and beekeepers. As a result, some 2,900 hectares of coca plants have been replaced with other crops, and an additional 4,500 hectares are planned for further substitute cultivation.⁴⁸

Ecotourism and achiote were mentioned as promising alternatives to coca.⁴⁹ Achiote [scientific

⁴² Comtex Scientific Corp., "Colombia-Drugs: Farmers Double Coca Production Figures," NewsEDGE/LAN, July 13, 1995.

⁴³ Representatives of USAID, USITC staff interview, Bogota, Mar. 27, 1995.

⁴⁴ U.S. Department of State telegram, "USITC Delegation Visits Peru To Study Impact of ATPA," message reference No. 61643, prepared by U.S. Embassy, Lima, Apr. 18, 1995.

⁴⁵ Cotton is grown naturally in colors such as beige-brown, red, and green.

⁴⁶ Representative of a trading company that specializes in processed food products, interview with USITC staff, Lima, Apr. 7, 1995.

⁴⁷ Representative of the Center for the Development of the Amazon Indian, interview with USITC staff, Lima, Apr. 7, 1995.

Legislation to address the land titling problem is pending in Peru.

⁴⁸ Comtex Scientific Corp., "Peru: Crop Substitution Project Replaces Coca with Development," NewsEDGE/LAN, Nov. 1, 1994.

⁴⁹ U.S. Department of State telegram, "USITC Delegation Visits Peru To Study Impact of ATPA," message reference No. 61643, prepared by U.S. Embassy, Lima, Apr. 18, 1995.

name: *bixa orellana*] is considered by some observers to be the most viable crop to compete with coca in terms of substitution efforts. Achiote is a natural dye that is used for food coloring and for cosmetics. It is considered “a promising economic alternative” to coca because it withstands drought and is possible to grow in deforested areas, in degraded or acidic soils, and in soils weakened by coca. Since 1993, the price of achiote has been stable and higher than that of coffee. However, the product does incur high transportation costs, and only 20 to 25 grams are usable from a single kilogram of the harvested product. Therefore, only 2 to 3 percent of the harvested/transported product will be used in the final product. Currently, 2,500 to 3,000 hectares are cultivated in achiote. To be profitable and more attractive as a crop substitute, it would be necessary to build a plant to process the achiote closer to the area of production. This would save on production costs (particularly, transportation) and encourage more production.⁵⁰

At present, the prospect of other alternative crop production is less attractive. The lack of roads, communications, and processing facilities are some of the many contributing problems.⁵¹ “We are not likely to find a case where a specific farmer has ceased to plant coca in favor of another crop because the latter benefits from ATPA.”⁵²

On the subject of alternative development for licit activities, one observer commented that “Eradication in this context is not about plants; it’s about people who decide to grow or not grow coca.” U.S. Embassy officials maintained that “it is not practical to force farmers away from growing coca. Many have no other source of income. They don’t take the government as a credible threat. It is unrealistic to criminalize such a widespread activity. So alternative development is not about plants but about people.”⁵³

Two press reports offer insights into the problems accompanying efforts to substitute for the production of coca plants. In early 1995 there were reports of a disease attacking Peruvian crops promoted as substitutes for lucrative coca. Farmers had reportedly taken out loans to buy the seed. Among the crops damaged was “luisa grass” (*Cymbopogon citratus*), a plant with aromatic leaves that can be used as a herbal

⁵⁰ Representative of the Center for the Development of the Amazon Indian, interview with USITC staff, Lima, Apr. 7, 1995.

⁵¹ Ibid.

⁵² Ibid.

⁵³ U.S. Embassy officials, interview with USITC staff, Lima, Apr. 3, 1995.

tea. Palm oil reportedly failed as an alternative because the industrial concentration demanded for production made it vulnerable to sabotage by guerilla groups.⁵⁴

A promising alternative is a variety of cotton, said to have been developed by the Incas, that naturally grows in tones of beige, brown, purple, red, green, and blue. The plant has been dubbed “ecological cotton” because it makes artificial dyes unnecessary. With financial support from European organizations, the cotton has been promoted as an alternative to coca. It has been grown by 600 peasant farmers in a 2,500 hectare area of the central Huallaga region of Peru.⁵⁵

In conclusion, employment opportunity substitution exists in those sectors in Peru where alternate economic opportunities can be developed. Such substitution opportunities are more realistic than is the belief that farmers will willingly replace the profitable, easy-to-grow coca with another crop of dubious profitability and ease.⁵⁶

ATPA Effectiveness

The brief existence of the ATPA preference program (only 3 years of operation for Colombia and Bolivia and fewer for Ecuador and Peru) means that the level of awareness of the ATPA in the Andean countries is still greatest among those who would have taken advantage of relatively low U.S. tariffs anyway, such as the flower growers in Colombia. Coca producers in the remote areas of the Andes are often separated to such a degree from the sources of information about market opportunities like those provided by ATPA that it will, in general, take longer than the initial 3 years of the program to produce any measurable effects in coca production directly attributable to the ATPA.

A number of interviewees advised Commission staff that it was too early in the process to evaluate the effectiveness of ATPA, particularly with respect to crop eradication and crop substitution. The difficulty of isolating the direct effects of ATPA was also

⁵⁴ Comtex Scientific Corp., “Disease Devastates Coca Replacement Crops,” NewsEDGE/LAN, Feb. 28, 1995, and “Murder of Sociologist Threatens Crop Project,” NewsEDGE/LAN, Mar. 22, 1995.

⁵⁵ Representative of USDA, Foreign Agricultural Service, interview with USITC staff, Lima, Apr. 6, 1995.

⁵⁶ U.S. Embassy officials, interview with USITC staff, Lima, Apr. 3, 1995. Other products specifically mentioned as alternate development possibilities in Peru were asparagus, mangoes, palm oil, jewelry, and colored cotton.

pointed out.⁵⁷ The fact that coca eradication and crop substitution programs have been going on for years in the region and that many such programs antedate the ATPA makes it difficult to factor out effects solely attributable to ATPA.⁵⁸

Among the several factors that directly impinge on the effectiveness of ATPA are the following: the continuing strong demand for cocaine and for other drugs in the United States and elsewhere, the lack of adequate information about viable alternative crops, existing U.S. policies that may hinder U.S. imports from Andean countries, the separation between the legal and illegal economies in the Andean countries, and the general level of awareness of ATPA in the beneficiary countries.

The high worldwide demand for cocaine and other drugs produced in the Andean countries inhibits the anti-drug effects of the ATPA. In fact, the lucrative economics of coca production are consistently seen as the primary constraint to widespread adoption of alternative crops that could benefit from such programs as the ATPA.⁵⁹

Economic analysis suggests that the profit returns for coca are very high relative to legitimate agricultural commodities that are more visibly affected by global markets. Coca profits are close to twice those of some high-value proposed alternative crops and nearly four times greater than those of traditional crops, such as pineapple or citrus.⁶⁰ Thus, the promotion and identification of alternative crops are made difficult. Producers of coca and other drugs, even if informed of alternative crops, are unlikely to substitute crops if assurances are not available that long-term markets exist and that mechanisms for production, harvest, processing, and transportation are in place.

Physical and economic infrastructure, such as paved roads, storage facilities, processing plants, and financing in Andean coca-producing areas, is inadequate to meet the requirements of alternative legal crops and industries. The fact that coca does not need pesticides, fertilizers, roads, or financing, underscores the difficulty. Moreover, development of an infrastructure better able to support alternatives to

drug production tends to be slowed by concerns that the potential benefits of development might profit the coca producers themselves (that is, paved roads to better facilitate transportation of coca) or might cause environmental damage.⁶¹ Furthermore, for alternative crops or industries to challenge coca production, a sufficient quantity and quality of product for market must be guaranteed in order to make use of economies of scale and to secure a place in the import market of a country such as the United States. In the initial ATPA years, this guarantee has been difficult to accomplish largely because of the aforementioned lack of knowledge about viable alternative crops and the lack of adequate infrastructure.

Related to the high returns for illicit drugs compared to alternative crops is the important but separate role that drug production has come to play in the economies of these countries. Part of the developmental goal in the ATPA is to encourage these countries dependent on the black-market drug economy to move toward legitimate markets and to focus on developing alternative agricultural systems incorporating high-value or multipurpose crops. However, existing national agricultural policies generally do not favor those small holders and isolated producers, who are most commonly involved in coca production because of traditional and cultural factors. Consequently, the distinction and the separation that exist between the producers of coca and those involved in the legitimate economies go beyond the abilities of a trade agreement, such as ATPA, to address.

ATPA's effectiveness is also impacted by such issues as U.S. demand for Andean products eligible for preferential treatment, domestic Andean demand for many potential U.S. exports, competition from Mexico, and such U.S. trade policies as import quotas and sanitary and phytosanitary regulations.

Most Andean products already faced relatively low U.S. tariffs before the enactment of ATPA. Consequently, if there had been a U.S. demand for many of the products of these countries, many of the duties prior to the enactment of the ATPA should not have been prohibitive to imports from the Andean countries and a U.S. market for the products should have existed. However, U.S. trade policies, such as the tariff-rate quota on sugar, that impeded exports previous to the ATPA, continue to exist.

Other factors deter ATPA export expansion. Cut flowers, which is one export that was expected to increase under the ATPA, have been the subject of

⁵⁷ Officials from Narcotics Assistance Service and Drug Enforcement Agency, U.S. Embassy, interview with USITC staff, Bogota, Apr. 12, 1994.

⁵⁸ The United Nations has been pursuing coca reduction efforts in the region for 6 to 7 years and has achieved about an 8-percent reduction. Ibid.

⁵⁹ Office of Technology Assessment (OTA), *Alternative Coca Reduction Strategies in the Andean Region*, July 1993, p. 3.

⁶⁰ Ibid., p. 7.

⁶¹ Ibid., p. 3.

several investigations under the U.S. antidumping laws, in which U.S. growers alleged that imports were being sold in the United States at less than fair value and that U.S. growers were materially injured or threatened with material injury by reason of such imports.⁶² Additionally, exports to the United States are subject to quality and grade standards in order to protect the general health of the nation. These quality and grade standards can be difficult to meet for countries lacking adequate transportation and

⁶² In March 1995, the Commission determined that the U.S. domestic rose industry was not materially injured by imports of roses from Colombia and Ecuador. See USITC, *Fresh Cut Roses From Colombia and Ecuador, investigation Nos. 731-TA-684 and 685 (final)*, USITC publication 2862, Mar. 1995.

storage facilities. Furthermore, Mexico, which in general has a comparative advantage in transportation to the United States relative to the Andean countries, produces many products that compete with the Andean goods, such as mangoes, and also receives preferential tariff treatment under the NAFTA. Additionally, ATPA benefits are legislated for only 10 years and can be withdrawn at any time. This lack of guaranteed continuance of existing duty-free status for Andean country goods has caused some uncertainty among potential investors.⁶³

⁶³ Representatives of PROMPERU, the Peruvian investment promotion agency, Lima, Peru, April 4, 1995; and of FUNDAGRO, a Colombian foundation for agricultural investment, interview with USITC staff, Bogota, Colombia, Mar. 28, 1995.

APPENDIX A

**LIST OF SUBMISSIONS
IN RESPONSE TO *FEDERAL REGISTER*
NOTICE**

**SUBMISSIONS FOR THE RECORD
INVESTIGATION NO. 332–352**

Maria Strong, on behalf of International Intellectual Property Alliance

James R. Cannon, Jr. on behalf of Floral Trade Council

Hernando Rojas, on behalf of Colombian Association of Flower Exporters—ASOCOLFLORES

APPENDIX B

TECHNICAL NOTES TO CHAPTER 3

This section presents the methodology used to estimate the impact of ATPA on the U.S. economy in 1994. The economic effects of duty reductions under ATPA are evaluated using a comparative static analysis. Since ATPA was already in operation in 1994, the impact of the program is measured by comparing the market conditions that might have existed under full tariffs with those currently present under ATPA. Thus, the analysis provides an estimate of what the potential costs and benefits to the U.S. economy would have been if ATPA had not been in place during 1994. The material on welfare and displacement effects, in the section titled “Analytical Approach” in Chapter 3 and in this appendix, however, discusses the impact of ATPA in terms of duty reductions, rather than the “removal” of duty reductions already in place. The effects of a duty reduction and a duty increase are symmetrical and lead to results that are equivalent in magnitude but opposite in sign.¹ Thus, the discussion is framed with respect to the implementation of duty reductions simply for clarity.

Using a partial equilibrium framework, three different markets in the United States, namely the markets for ATPA products, competing non-ATPA (foreign) products, and competing domestic products, are modeled. These three markets are depicted in panels a, b, and c of figure B-1. Imports from ATPA beneficiaries, imports from non-ATPA countries, and competing domestic output, are assumed to be imperfect substitutes for each other, and each is characterized by a separate market where different equilibrium prices exist.

The ATPA and non-ATPA import demand curves, D_a and D_n , and the demand curve for domestic output, D_d , are all assumed to be downward sloping with a constant elasticity of demand.² It is assumed that the ATPA import supply curve to the U.S. market, the non-ATPA import supply curve, and the domestic industry supply curve, S_a , S_n , and S_d , are all horizontal, i.e. perfectly elastic. The assumption of perfectly elastic supply curves is made in order to obtain upper-bound estimates of the welfare and domestic displacement effects on the U.S. economy.³

¹ This is technically true only if income effects are negligible. Given the small U.S. expenditure on goods from Andean countries, income effects are likely to be negligible for the products under consideration. See R. Willig, “Consumer’s Surplus Without Apology,” *American Economic Review*, 66 pp. 589-597.

² The subscripts a, n, and d refer to ATPA imports, non-ATPA imports, and U.S. output, respectively.

³ Since ATPA imports account for a very small share of U.S. domestic consumption in most sectors, these upper-bound estimates were minimal. Assuming upward

sloping supply curves would have resulted in even lower estimates.

The change from full tariffs to duty-free treatment for ATPA imports causes the import supply curve, S_a , in panel a to shift down to S_a' by the amount of the ad valorem tariff, t .⁴ Thus, the equilibrium price in the U.S. market for ATPA imports decreases from P_a to P_a' while the quantity imported increases from Q_a to Q_a' . The relationship between the price with the tariff (P_a) and the tariff-free price (P_a') is $P_a = P_a'(1 + t)$.

The increase in demand for ATPA imports leads to a decrease in demand for similar goods from other countries and domestic U.S. producers. Thus, the demand curves for both non-ATPA imports and domestic output, D_n and D_d , shift back to D_n' and D_d' , respectively. Since the supply curves in both of these markets are assumed to be perfectly elastic, the equilibrium prices do not change. The equilibrium quantity supplied in each market decreases from Q_n and Q_d to Q_n' and Q_d' , respectively.

The impact of ATPA on the U.S. economy is measured by examining the welfare effects of the tariff change in the market for ATPA imports and the domestic displacement effects of a decrease in demand in the competing U.S. market. The displacement of non-ATPA country imports, due to the implementation of ATPA duty reductions, is not estimated since the focus of the analysis is on the direct effects of the ATPA program on the United States.

The decrease in the tariff for ATPA imports leads to an increase in consumer surplus for these products. This is measured by the trapezoid P_aabP_a' in panel a. There is also an accompanying decrease in the tariff revenue collected from ATPA imports. This is measured by the area of the rectangle P_aacP_a' .

The net welfare effect of ATPA is equal to the increase in consumer surplus plus the decrease in tariff revenue—the trapezoid P_aabP_a' minus the rectangle P_aacP_a' in panel a. That is to say, triangle abc .⁵ The amount by which ATPA imports displace U.S. output is measured by the rectangle $Q_d'deQ_d$ in panel c.

Given the above assumptions and the additional assumption of constant elasticity demand curves, the markets for the three goods are described by the following three equations:

⁴ Although the discussion focuses on the impact of full duty reductions, exactly the same analysis applies to imports with reduced-duty provisions under ATPA.

⁵ Typically, welfare effects include a measure of the change in producer surplus. The change in producer surplus is not considered in this analysis because, due to the assumption of perfectly elastic supply curves, U.S. domestic prices do not fall in response to ATPA.

$$(1) \quad (Q_a / Q_a') = (P_a / P_a')^{\epsilon_{aa}}$$

$$(2) \quad (Q_n / Q_n') = (P_a / P_a')^{\epsilon_{na}}$$

$$(3) \quad (Q_d / Q_d') = (P_a / P_a')^{\epsilon_{da}}$$

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 ϵ_{ij} is the uncompensated elasticity of demand for good i with respect to price j . The values for the ϵ_{aa} , ϵ_{na} , and ϵ_{da} elasticities 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 imports, non-ATPA imports, and domestic output respectively, η is the aggregate demand elasticity, and the σ_{ij} 's are the elasticities of substitution between the i th and j th products.⁶ Estimates of the aggregate demand elasticities were taken from the literature.⁷ To obtain upper-bound estimates of the impact of ATPA, it is assumed that all of the elasticities of substitution are identical and high, in this case equal to 5.

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

⁷ 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.

Given equations (1)' - (3)', we can derive the following equations for calculating the changes in consumer surplus, tariff revenue, and domestic output:

Consumer surplus (where k is a constant)

$$\begin{aligned} \text{area of} \\ \text{trapezoid } P_a a b P_a' &= \int_{P_a'}^{P_a} k P_a^{\epsilon_{aa}} dP_a \\ &= [1/(1+\epsilon_{aa})][(1+t)^{(1+\epsilon_{aa})} - 1] P_a' Q_a' \quad \text{if } \epsilon_{aa} \neq -1 \\ &= k \ln(1+t) \quad \text{if } \epsilon_{aa} = -1 \end{aligned}$$

Tariff revenue from ATPA imports

$$\begin{aligned} \text{area of} \\ \text{rectangle } P_a a c P_a' &= (P_a - P_a') Q_a \\ &= t P_a' Q_a \\ &\quad \text{given } P_a = P_a'(1+t) \\ &= t P_a' Q_a' (1+t)^{\epsilon_{aa}} \\ &\quad \text{given } Q_a = Q_a' (1+t)^{\epsilon_{aa}} \end{aligned}$$

Domestic output

$$\begin{aligned} \text{area of} \\ \text{rectangle } Q_d' d e Q_d &= P_d (Q_d - Q_d') \\ &= P_d Q_d' [(1+t)^{\epsilon_{da}} - 1] \end{aligned}$$

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

