

# CRS Report for Congress

Received through the CRS Web

## **The Andean Trade Preference Act: Background and Issues for Reauthorization**

**Updated February 21, 2002**

J. F. Hornbeck  
Specialist in International Trade and Finance  
Foreign Affairs, Defense, and Trade Division

# The Andean Trade Preference Act: Background and Issues for Reauthorization

## Summary

Following passage by the 102<sup>nd</sup> Congress, President George Bush signed into law the Andean Trade Preference Act (ATPA) on December 4, 1991 (P.L. 102-182, title II), making it part of a multifaceted strategy to counter illicit drug production and trade in Latin America. For ten years, it has provided preferential, mostly duty-free, treatment of selected U.S. imports from Bolivia, Colombia, Ecuador, and Peru. ATPA's goal has been to encourage growth of a more diversified Andean export base, thereby promoting development and providing an incentive for Andean farmers and other workers to pursue economic alternatives to the drug trade. ATPA expired on December 4, 2001 and U.S. tariffs were reimposed, but on February 15, 2002, President Bush acted to defer collection of these tariffs for 90 days. In the meantime, reauthorizing legislation (H.R. 3009) has been passed by the full House and by the Senate Finance Committee and is part of the broader 2002 trade agenda.

In considering the merits of ATPA, it is important to understand that its benefits have been shown to be quantitatively small. Because many imports are not eligible by law for preferential treatment or enter the United States under other preferential trade arrangements, only 10% of imports from ATPA countries enter the United States exclusively under the ATPA provisions. This has not changed in recent years, suggesting that ATPA's trade effects are unlikely to increase, unless the program's parameters are modified. Because the trade response is small, so too are ATPA's likely effects on the Andean economies.

Although the trade effects of ATPA have been relatively small, there is some indication that the composition of trade has changed and that, with a few products, a case can be made that ATPA has supported this change. It is possible that the slightly altered composition of U.S. imports from ATPA countries reflects broader change in what Andean countries are producing and that this in turn points to some indirect evidence that resources once used for drug-related activity are being redirected toward ATPA-eligible products. Isolating ATPA's role from other counternarcotics and economic diversification programs, however, has been a difficult challenge, producing imprecise estimates. Supporters of ATPA argue that its effects are evident and have proposed that it be reauthorized to reinforce the U.S. commitment to the alternative development counternarcotics strategy and that preferential treatment be extended to other Andean exports to broaden the program effects. Both the House and Senate versions of H.R. 3009 express the findings of Congress that extending and expanding trade preferences to ATPA countries is part of an effective U.S. foreign policy to counter illicit drug trafficking from the Andean region. To enhance the effects of ATPA, both bills provide for an extension of trade preferences into 2006 and cover exports previously excluded, including certain textile and apparel articles, canned tuna, watches and parts, petroleum, footwear, and selected leather bags and goods. Although ATPA may be only a small part of a large and long-term counternarcotics effort, expanding duty-free provisions of ATPA to include more exports in growth industries may have a marginal effect on the program's effectiveness.

## Contents

An Overview of ATPA's Scope and Impact .....	1
U.S.-ATPA Country Trade .....	2
Imports from ATPA Countries by Duty Status .....	4
Imports from ATPA Countries by Product Level .....	5
ATPA Program Effects: Andean and U.S. Responses .....	7
ATPA's Economic Effects on the Andean Countries .....	7
Bolivia and Peru .....	7
Colombia and Ecuador .....	8
Coca Eradication and Crop Substitution .....	8
ATPA's Economic Effects on the United States .....	8
Changes in Trade Composition .....	9
Consumer Welfare and Tariff Effects .....	9
Producer Welfare Effects .....	9
Outlook and Legislation in the 107 <sup>th</sup> Congress .....	10
Legislation in the 107 <sup>th</sup> Congress .....	12
House-Passed Version .....	12
Senate Finance Committee-Passed Version .....	14
Discussion of Proposed Legislative Changes .....	15
Appendix 1. ATPA Program Details .....	17
Appendix 2. U.S.-ATPA Country Merchandise Trade, 1990-2000 .....	18

## List of Figures

Figure 1. U.S. Imports from ATPA Countries by Product Category .....	3
--	---

## List of Tables

Table 1. Duty Status of U.S. Imports from ATPA Countries .....	5
Table 2. Major U.S. Imports Entering Under ATPA .....	6

# The Andean Trade Preference Act: Background and Issues for Reauthorization

Following passage by the 102<sup>nd</sup> Congress, President George Bush signed into law the Andean Trade Preference Act (ATPA) on December 4, 1991 (P.L. 102-182, title II), making it part of a multifaceted strategy to counter illicit drug production and trade in Latin America. For ten years, it has provided preferential, mostly duty-free, treatment of selected U.S. imports from Bolivia, Colombia, Ecuador, and Peru. ATPA's goal has been to encourage growth of a more diversified Andean export base, thereby promoting development and providing an incentive for Andean farmers and other workers to pursue economic alternatives to the drug trade.

ATPA expired on December 4, 2001 and U.S. tariffs were reimposed on affected Andean exports. On February 15, 2002, the Bush Administration acted to defer collection of these tariffs for 90 days, in expectation that Congress would either reauthorize ATPA or temporarily extend the tariff provisions, presumably retroactively. In the meantime, reauthorizing legislation has been passed in the House and by the Senate Finance Committee and is part of a broader trade legislative agenda, including Trade Promotion Authority (TPA), under consideration in 2002.

## An Overview of ATPA's Scope and Impact

ATPA was created as part of a broader Andean initiative to address the growing drug trade from Latin America. It provides zero or reduced tariffs on certain U.S. imports from Bolivia, Colombia, Ecuador, and Peru (see **Appendix 1** for program details) to complement crop eradication, interdiction, military training, and other counternarcotics efforts. In 1992, when the program was implemented, supporters expected that ATPA-induced export diversification and growth would encourage economic alternatives to coca production and other drug-related activity, with one estimate projecting as much as a three-fold increase in U.S. imports from ATPA countries over a decade.<sup>1</sup>

Trade data alone, however, do not provide adequate measures of success, which should link a decline in drug activity with the expansion of ATPA supported industries. Indeed, there has been some movement on the drug front. For example, total coca cultivation has fallen by 13% from 1992 to 2000. This represents significant declines in Bolivia (68%) and Peru (74%), but an offsetting large increase

---

<sup>1</sup> For more on early expectations, see: CRS Report 92-172 F, *The Andean Drug Initiative: Background and Issues for Congress*, by Raphael F. Perl. February 13, 1992, p. 3.

in Colombia (267%). Little coca is grown in Ecuador.<sup>2</sup> Determining the role of ATPA tariff preferences in this trend, however, presents a difficult challenge because their effects must be isolated from other counternarcotics and economic development efforts.

Studies by the U.S. International Trade Commission (USITC) of ATPA's trade effects suggest that overall, the program has had a positive, but small influence on the volume and composition of U.S. imports from ATPA countries. For example, although total U.S. imports from ATPA countries on a dollar-value basis have grown 85% through the decade 1990-99, this is much less than some had hoped for and represents no growth of ATPA imports relative to U.S. import growth worldwide. Further, the composition of U.S. imports from Andean countries has changed only slightly in favor of products that are ATPA eligible. This suggests that there has been no major change in the production structure of ATPA economies, particularly in the biggest ATPA beneficiary, Colombia, which has actually experienced a large increase in coca production in the 1990s.

One of the most telling indicators of ATPA's limited influence is that *U.S. imports given preferential treatment exclusively under ATPA represent only 10% of total imports from the four eligible countries.*<sup>3</sup> This represents a small percentage of trade and has not grown thus far in the life of the program. Without legislative change to the ATPA program, a larger response may be limited in the short run by the Andean export sector's dependence on a limited number of natural-resource based products and simple manufactures, ATPA's program exclusion of many major Andean products (e.g. petroleum products, textiles, certain leather goods), and the fact that many products are already eligible for duty-free or preferential treatment under other trade arrangements.

In short, as discussed below, although there may have been a positive response to the ATPA preferential tariff provisions, the overall impact has been small and operates at the margin of Andean trade. Similarly, the tariff preferences have little effect on the United States economy, suggesting the cost of these preferences is low.

## U.S.-ATPA Country Trade

Colombia and Bolivia qualified as ATPA beneficiaries in mid-1992, with Ecuador and Peru following one year later. Since then, aggregate U.S. trade with ATPA countries has remained small and has grown in line, more or less, with the average for U.S. trade worldwide. For the decade 1990 to 2000, U.S. exports to ATPA countries rose by 84%, less than total export growth (see **Appendix 2** for aggregate trade data.) Relative to the rest of the world, U.S. exports to ATPA countries have

---

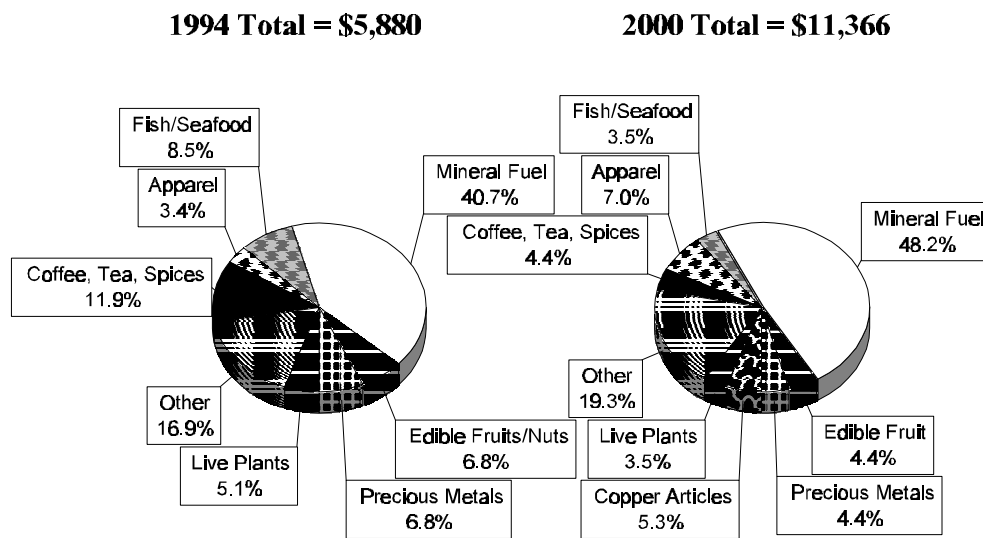
<sup>2</sup> United States Department of State. Bureau for International Narcotics and Law Enforcement Affairs. *International Narcotics Control Strategy Report (INCSR)*. March 2001. pp. II-11 and II-21.

<sup>3</sup> U.S. International Trade Commission. *Andean Trade Preference Act: Impact on U.S. Industries and Consumers and on Drug Crop Eradication and Crop Substitution*. Seventh Report 1999. Publication No. 3358, September 2000. p. 34.

declined slightly to less than 1% of total exports, although there was an upward trend in the mid-1990s. U.S. imports from ATPA countries, although rising by 105% in dollar terms from 1990 to 2000, also declined slightly on a relative basis to less than 1% of total U.S. world imports.

In addition to trade volume, another indicator of ATPA's possible effects is change in the composition of ATPA imports. **Figure 1** contrasts the composition of U.S. imports from ATPA countries between 1994 and 2000. Because 1994 is the first full year all four countries participated, it provides a base for comparison since it is unlikely to reflect large changes in the trade composition due to ATPA given that insufficient time had passed for industries to have responded fully.<sup>4</sup>

**Figure 1. U.S. Imports from ATPA Countries by Product Category**



Source: CRS graph based on U.S. International Trade Commission and Department of Commerce data.

For 2000, the major U.S. imports (approximately 80% of the ATPA countries total), by harmonized tariff schedule (HTS) chapter were: HTS 27, mineral fuels (81% of which is crude oil); HTS 71, precious stones and metals (43% gold); HTS 09, spices, coffee, and tea (99% coffee); HTS 08, edible fruit and nuts (91% bananas); HTS 03, fish and seafood (69% crustaceans or shrimp); HTS 61 and 62, knit and woven apparel (73% sweaters, shirts, and suits); HTS 06, live plants and trees (99% cut flowers); and HTS 74, copper articles (94% unwrought refined and alloy.)

<sup>4</sup> 1994 data from the U.S. International Trade Commission. *Andean Trade Preference Act: Impact on U.S. Industries and Consumers and on Drug Crop Eradication and Crop Substitution*. Seventh Report 1999, Publication 2995. September 1996, p. 8. Data for 2000 originated from the U.S. Department of Commerce as reported in World Trade Atlas.

A comparison of the two years suggests that on a broad product category basis, the composition of U.S. imports from eligible countries has changed only marginally since the ATPA program began. Most notable has been the addition of Peru's refined copper cathode imports, which began in 1995 and are ATPA eligible. Petroleum products, which are not eligible for ATPA tariff preferences, remain a large portion of imports, but come predominantly from Colombia. There has been a contrasting relative decline in seafood and coffee imports.

In general, the minimal change in U.S. import composition reflects three factors. First, most U.S. imports from ATPA countries are natural-resource based products (petroleum, gold, fish, coffee, bananas, cut flowers) or simple manufactures (knit apparel, sweaters, shirts, suits, copper cathodes), many of which are not ATPA eligible. This trend is likely to continue regardless of ATPA reauthorization. Second, the continuing large portion of oil imports on a dollar-value basis in 2000 continues to skew import figures, reflecting in part the worldwide surge in oil prices. Third, Colombia stands out as the dominant ATPA trade partner, accounting for 62% of total U.S. imports from the group in 2000, followed by Peru and Ecuador, both with 18%, and Bolivia trailing with only 2%.<sup>5</sup>

Given that the relative size and composition of ATPA imports, variables expected to reflect the program's effects, have not changed much during the course of the program, little trade effect seems attributable to the ATPA provisions. A closer look at the trade data at the sectoral level supports this conclusion until the data are further disaggregated by duty treatment and product type. These trends are in keeping with economic reasoning that would suggest a program such as ATPA would not affect the overall structure of trade, but might alter the composition of ATPA imports at the margin and within very specific product categories.

### **Imports from ATPA Countries by Duty Status<sup>6</sup>**

To determine which products are benefitting from ATPA, it is necessary to ascertain what portion would have entered duty-free *exclusively* because of their ATPA eligibility. Many imports qualify unconditionally as duty-free under general tariff rates (e.g. coffee) or through other favorable tariff arrangements such as the Generalized System of Preferences (GSP) or production sharing provisions and can enter under more than one of these arrangements. For example, some products eligible to enter under GSP come in under ATPA. As shown in **table 1**, when these products are subtracted, it turns out that imports eligible exclusively for ATPA preferences represented only 10% of total imports from the ATPA countries.<sup>7</sup> The table contrasts selected Andean country import data in 1995 and 1999 to reflect

---

<sup>5</sup> U.S. International Trade Commission, *Andean Trade Preference Act*, September 2000, p. 14.

<sup>6</sup> For this section, it was necessary to rely on specialized data produced by the International Trade Commission, which has not been updated for 2000.

<sup>7</sup> Estimates by USITC, *ibid*, p. 34. It should be noted that the 10% figure was higher during the mid-1990s when the GSP program lapsed on a few occasions, causing greater reliance on the ATPA provisions.

changes that may have occurred during a time when the ATPA program was in full force. Duty-free imports rose from 59% of total imports in 1995 to 66% in 1999, but because the ATPA-only category is unchanged, the increase appears due entirely to non-ATPA trade arrangements (general rates, GSP, production-sharing arrangements, or other smaller programs).

**Table 1. Duty Status of U.S. Imports from ATPA Countries**  
(1995 and 1999 in \$ millions)

Duty Status	Bolivia	Colombia	Ecuador	Peru	Total	% of Total
<b>1995 Total Imports:</b>	256.8	3,807.4	1,929.2	965.4	6,958.7	100%
Dutiable	19.0	1,717.0	756.6	360.5	2,853.1	41%
Duty-Free	237.8	2,090.4	1,172.7	604.7	4,105.6	59%
<b>(ATPA only)*</b>	na	na	na	na	699.0	<b>10%</b>
(Other Duty-Free)**	na	na	na	na	3,406.6	49%
<b>1999 Total Imports:</b>	216.8	5,476.2	1,798.6	1,781.8	9,273.6	100%
Dutiable	40.1	2,059.3	587.8	450.6	3,137.8	34%
Duty-Free	176.7	3,417.1	1,210.8	1,331.2	6,135.8	66%
<b>(ATPA only)*</b>	na	na	na	na	939.0	<b>10%</b>
(Other Duty-Free)**	na	na	na	na	5,196.8	56%

na = not available, per discussion with USITC.  
 \* Includes value of both duty-free and reduced-duty ATPA imports. Reduced-duty imports amounted to only 0.3% of total imports from ATPA countries in both years and so are not shown separately.  
 \*\* Includes all other imports that entered the United States duty-free: 1) under general rates; 2) under non-ATPA programs (e.g. Generalized System of Preferences (GSP) or production sharing provisions) and/or; 3) under ATPA, but eligible to enter duty free under another program.  
 Data source: U.S. International Trade Commission. *Andean Trade Preference Act: Impact on U.S. Industries and Consumers and on Drug Crop Eradication and Crop Substitution*. Publication No. 3358, September 2000. pp. 17 and 34.

The 10% figure is important because it shows first that the amount of imports entering duty-free exclusively under ATPA is a small portion of trade and second that, over the life of the program, ATPA-eligible imports as a group have not grown any faster than U.S. imports from the four Andean countries as a whole. This is unlikely to change in the short run without legislative action given that many imports already enter the United States duty free, other big items, such as petroleum and textile products, are not eligible for duty-free treatment, and economic diversification into new (ATPA-eligible) areas is a slow process.

### Imports from ATPA Countries by Product Level

The major products entering the United States under ATPA appear in **table 2** in descending order of importance. Between 1995 and 1999, cut flowers, most of



which come from Colombia, were the largest import item. Copper cathodes from Peru grew to become the second largest ATPA import, rising in 1999 to nearly 19% of the total on a dollar-value basis. Precious metals, mostly jewelry and gold products from Peru, are the third largest import group, comprising some 11% of the total. Colombian pigments (9%), Ecuadoran non-canned tuna (5%), and Peruvian zinc (5%) round out the major ATPA imports.

**Table 2. Major U.S. Imports Entering Under ATPA**  
(1995 and 1999, in percent)

HTS*	Article	% 1995	% 1999	Beneficiary Country
06	Live Plants (cut flowers)	39.6	25.0	Colombia - 80% Ecuador - 20%
74	Copper articles (cathodes)	2.9	18.9	Peru - 100%
71	Precious metals (jewelry/gold products)	18.9	10.7	Peru - 70% Bolivia - 30%
32	Pigments	0.3	9.3	Colombia - 100%
16	Tuna (non-canned)	4.2	5.0	Ecuador - 99% Colombia - 1%
79	Zinc	0.8	4.8	Peru - 100%
	Other	33.3	26.3	
	Total	100.0	100.0	
* HTS = harmonized tariff schedule chapter. Data source: USITC, <i>Andean Trade Preference Act</i> , September 2000, pp. 16-24, D-3.				

The composition of ATPA imports has changed some over the life of the program, but not in clearly predictable ways. Cut flowers, for example, which remain the largest U.S. import item on a dollar basis, have actually fallen from nearly 40% to 25% of total ATPA imports, reflecting falling demand in the United States for cut flowers and growth in other ATPA imports such as copper cathodes and pigments, which represent new U.S. imports since the ATPA the program began. Although there has been a large increase in zinc products coming in under ATPA, this growth is partially due to a shift in duty treatment of zinc products, which previously entered the United States duty-free under the GSP provisions.<sup>8</sup>

The benefits of ATPA fall in line with the overall trade importance of the countries. In 1999, Colombia and Peru benefitted most and had 45% and 36% of the dollar value of ATPA imports, respectively. Colombia's percentage has fallen slightly since 1995, reflecting a decline in cut flower imports, offset some by an increase in U.S. pigment imports. Peru is the fastest growing exporter under ATPA, reflecting its new copper cathode manufacturing industry. Ecuador accounted for 15% of ATPA imports in 1999, followed by Bolivia with only 4%. Ecuador accounts for most of the tuna imports and a small portion of cut flowers. Bolivia exports mostly gold jewelry items, which is the only major ATPA item it produces.<sup>9</sup>

<sup>8</sup> Ibid., pp. 23-24.

<sup>9</sup> Ibid., pp. 24-26, D-3. Bolivia also exports small amounts of wood products under ATPA.

Overall, the ATPA trade effects appear to be relatively small. Nonetheless, at the product level there has been some indication of a change in trade composition with new products coming on line, at least in part to take advantage of ATPA's duty-free provisions. This reflects some level of Andean economic diversification, but not a net growth in the amount of Andean exports eligible under ATPA on a relative basis. Given that total imports eligible exclusively under ATPA have remained at 10% of total U.S. imports from these countries, it appears that gains in some industries or products have been offset by declines in others.

## **ATPA Program Effects: Andean and U.S. Responses**

An evaluation of ATPA should indicate how any changes in trade patterns are affecting the economies of the Andean countries and the United States. Two studies required by the ATPA legislation tackle these questions. First, the U.S. International Trade Commission ATPA report evaluates both the Andean and U.S. responses to ATPA. The U.S. Department of Labor produces a separate targeted evaluation of ATPA's effects on U.S. workers. Both point to the marginal effects of ATPA on the economies of participating countries and the United States.

### **ATPA's Economic Effects on the Andean Countries**

Although the trade effects of ATPA have been relatively small, there is some indication that the composition of trade has changed and that, with a few products, a case can be made that ATPA has contributed to this change. It is possible that the altered composition of U.S. imports from ATPA countries reflects broader change in what Andean countries are producing and that this in turn points to some indirect evidence that ATPA-eligible products are being substituted for illicit coca.<sup>10</sup>

It is difficult to gauge the effects of ATPA on national economies because the program has a small effect relative to other variables. National macroeconomic policies, particularly in countries undergoing long-term economic reform, have a much larger effect on economic trends. Domestic Andean government policies also support crop substitution, the effects of which are not easily distinguishable from those of ATPA. In effect, they work together. External shocks to the region's economies, such as repeated El Ninos and other natural phenomena, have devastating effects on the agricultural sector that easily overshadow incremental policy shifts like ATPA. Isolating the marginal effects of ATPA, therefore, is an imprecise exercise.<sup>11</sup>

**Bolivia and Peru.** In its 2000 report, the USITC used Bolivia and Peru as case studies to explore the possibility of a link between ATPA program effects and

---

<sup>10</sup> The USITC also points out that the benefits of ATPA to eligible countries is declining as the "margin of preference" declines for various reasons, such as the continuing phase-in of other trade agreement tariff rate cuts from the Uruguay Round, as well as sectoral and regional agreements. For details, see: *ibid.*, pp. 33.

<sup>11</sup> *Ibid.*, pp. 53 and 55.

changes in economic production. Bolivia showed some diversification in exports to the United States that coincided with ATPA. In the mid-1990s, there was a marked expansion of jewelry and, to a lesser extent, leather and wood product exports that may be related to ATPA, but other domestic policy changes (e.g. the tax code) also affected production incentives for these goods. After 1996, however, this export growth trend slowed. In Peru, a broader array of export growth was discernible over the past decade, with a noticeable increase in copper cathodes and agricultural products, especially asparagus, all of which benefit from ATPA. Asparagus also stands out because it is grown near traditional coca cultivation areas and is presumed to be an alternative cash crop, at least in part encouraged by ATPA provisions.<sup>12</sup>

**Colombia and Ecuador.** In its 1999 report, the USITC evaluated ATPA's impact on Colombia and Ecuador. Of the ATPA-eligible products from Colombia over the past decade, cut flowers have increased the most as a proportion of U.S. imports, but overall, the composition of Colombia's exports to the United States has not changed dramatically since ATPA began, in part because of the dominance of petroleum. Other nontraditional products, such as asparagus, do present some potential for increased benefits from ATPA, but overall its benefits are considered small. Ecuador has a similar profile, with little change in the composition of exports to the United States, but some credit significant increases in the production of cut flowers and seafood, both of which benefit from ATPA, with encouraging export diversification. The overall effect is still small given the myriad variables that affect production capabilities and decisions.<sup>13</sup>

**Coca Eradication and Crop Substitution.** Alternative crop production is a critical component of the coca eradication effort underway in the Andes. Although there is some indirect evidence to suggest that crop substitution is occurring, it is small overall and the effect of ATPA on this process is marginal at best. Whereas larger substitution effects may be linked to the cut flower industry in Colombia, there are many factors that allowed such alternatives to exist before ATPA was even conceived. All the evidence points to ATPA's supportive, but relatively small effect, particularly given the magnitude of the problem and the comprehensive effort needed to address the drug trade. For example, numerous obstacles impede the alternative development strategy including the high profitability of coca production, lack of physical infrastructure required to support alternative cash crops, and overt, often violent, guerrilla pressure to reject the program.<sup>14</sup>

## ATPA's Economic Effects on the United States

Although ATPA was created to influence the economic landscape of the Andean region, Congress also requested analysis of how changes in trade patterns related to

---

<sup>12</sup> Ibid., pp. 55 and 62.

<sup>13</sup> U.S. International Trade Commission. *Andean Trade Preference Act: Sixth Report 1998*. USITC publication 3234, September 1999, pp. 106, 111-14, 118, 120-22.

<sup>14</sup> Wilson, Scott. Colombia's Anti-Drug Plan Fuels Fight in Coca Country. *The Washington Post*, October 14, 2000, p. A14 and DeYoung, Karen. Colombia Plan Faces 'Crunch Time.' *The Washington Post*, December 22, 2000, p. A35.

ATPA might affect the United States. The USITC looks at three basic issues: 1) consumer welfare gains from lower-priced imports; 2) the offsetting tariff revenue losses; and 3) producer welfare losses (production displacement). The U.S. Department of Labor produces a separate report dealing solely with ATPA's effects on the domestic labor force.

**Changes in Trade Composition.** Given that only a very small share of U.S. imports are involved in the ATPA program, its effects on the aggregate U.S. economy are negligible. Therefore, measuring the gains and losses to the U.S. economy must be done at the product/industry level. In 1999, copper cathodes, cut flowers (roses and chrysanthemums), tuna, and gold compounds together accounted for 83% of total imports that benefitted exclusively from the ATPA provisions. Copper cathodes and cut flowers each contributed to approximately one-third of the ATPA-exclusive imports. Hence, an analysis of the benefits and displacement costs related to these products covers most of the effects ATPA has on the U.S. economy.<sup>15</sup>

**Consumer Welfare and Tariff Effects.** USITC market share data showed that ATPA-imported copper cathodes, although growing briskly, still accounted for only 7.4% of the U.S. market in 1999 and imported gold compounds claimed only 6.7%. Cut flowers, by contrast, accounted for up to 75% of the U.S. market. Based on a partial equilibrium analysis, the USITC estimated that the consumer welfare effects in all three cases were, nonetheless, small. In the first two, market penetration was simply too small, but even in the case of Colombia's dominance of the U.S. cut flower market, the USITC suggests that U.S. consumers would have paid only 5.5% more for flowers than they would have in the absence of ATPA. In addition, the consumer benefits were offset, in many cases, by reduced tariff revenues. The net welfare effects for the United States as a whole, therefore, were considered small.<sup>16</sup>

**Producer Welfare Effects.** Of greater concern to many are ATPA's effects on U.S. producers. To the extent that ATPA encourages a marginal increase in imports, those industries in the United States that produce competing products are potentially "displaced" from the market. Given market share figures, the USITC found that only cut flowers and asparagus caused "displacement" of over 5% of the market. Asparagus imports are small and enter during the late summer and fall months when domestic crop production is low and so have a clear benefit to U.S. consumers. Because they do not directly compete with the U.S. growing season, however, they are not a primary target for concern over displacement.<sup>17</sup>

Cut flower imports have been a greater concern, but as the USITC points out, Colombia, the major flower exporter, had established its market dominance before ATPA, and the U.S. growers had already responded by differentiating their products. The overall impact of ATPA flower imports is deemed small given domestic industry adjustment. One indication that U.S. flower growers are no longer seriously

---

<sup>15</sup> U.S. International Trade Commission, *Andean Trade Preference Act*, September 2000, pp. 36-37.

<sup>16</sup> *Ibid.*, pp. 38 and 45.

<sup>17</sup> *Ibid.*, p. 38.

concerned with competition from Andean imports is their decision to discontinue pursuing antidumping and countervailing duty remedies as of May and October 1999, respectively. In short, should ATPA tariff preferences be eliminated, it appears there would be little effect on the domestic cut flower industry.<sup>18</sup>

The U.S. Department of Labor (DOL) report targets ATPA's impact on the domestic work force. It concluded that the overall effects of ATPA in 1998 were negligible given the strong U.S. economy and employment picture, and the fact that ATPA-eligible imports were so small that their effect on aggregate U.S. employment was virtually unmeasurable.<sup>19</sup> Based on an analysis of products that entered the United States duty free exclusively from ATPA provisions, the Department of Labor argued that only the cut flower industry was likely to have presented any adjustment problem. U.S. cut flower production had fallen by 11% in 1998 as ATPA imports rose, perhaps suggesting that ATPA may have had some effect on the industry's contraction, but the Department of Labor report is quick to note that other factors may have affected cost competitiveness of the U.S. cut flower industry, such as complying with worker protection standards, and that in any case, their estimates were not precise.<sup>20</sup>

Of the workers potentially affected by layoffs in the flower industry, the DOL noted that all were seasonal agricultural workers who experience periods of unemployment, have a very low wage level, and live predominantly in poverty. Some 43% were estimated to be of "illegal, temporary, or unknown legal status." DOL did not estimate the "degree of adjustment difficulty," but noted that the strong U.S. economy should be able to minimize any employment dislocation that might occur. Adjustment costs faced by other industries from increased import competition from ATPA were considered insignificant.<sup>21</sup>

## Outlook and Legislation in the 107<sup>th</sup> Congress

ATPA is only a small part of the larger Andean counternarcotics effort. Coca production is the primary target of these efforts and because it is a highly profitable undertaking and particularly enticing for poor areas of the world, a key element of the strategy is supporting the cultivation of alternative cash crops.<sup>22</sup> ATPA's supporters

---

<sup>18</sup> Ibid., p. 43.

<sup>19</sup> U.S. Department of Labor. Bureau of International Labor Affairs. *Trade and Employment Effects of the Andean Trade Preference Act*. Sixth Annual Report to Congress, by Robert C. Shelburne. 1999. p 14.

<sup>20</sup> Ibid., p. 10. The DOL report covers 1998 and so does not reflect the fact that in 1999 the cut flower industry representatives dropped interest in antidumping and countervailing duty investigations, suggesting doubt in their ability to make a strong case that the industry is being materially harmed by ATPA-eligible imports.

<sup>21</sup> Ibid., pp. 11-14.

<sup>22</sup> U.S. Department of State, *2001 International Narcotics Control Strategy Report* (continued...)

argue that reduced tariffs conceivably play a part of the “alternative development” strategy by providing an additional financial incentive to substitute legal crops for coca cultivation. The increase in non-agricultural exports (e.g. copper cathodes), it could be argued, may also reflect, in part, ATPA’s preferential tariff treatment.

Testimony before congressional committees has expressed the desire by groups in the United States and the Andean countries to reauthorize ATPA and consider expanding the tariff preferences to more products and countries. These views have been summarized before Congress by the Bush Administration as well, which has represented ATPA as achieving its goal of promoting “export diversification and broad-based economic development that provides sustainable economic alternatives to drug-crop production in the Andean region.”<sup>23</sup>

In considering the merits of ATPA, it is important to understand that the benefits it provides are quantitatively small. ATPA’s influence should be visible in the changing composition of U.S. imports, which has so far been marginal. Because many imports are not eligible by law for duty-free treatment or enter the United States under other preferential trade arrangements, only 10% of ATPA country imports enter the United States exclusively under the ATPA provisions. This has not changed in recent years, suggesting that ATPA’s effect on trade is unlikely to increase, unless the program’s parameters are modified.

Because the trade response is small, so too are ATPA’s likely effects on the Andean economies. Still, indirect evidence suggests that it may have supported economic diversification into products such as copper cathodes and asparagus. Asparagus, for example, is being cultivated in larger quantities near traditional coca producing regions. Although an encouraging sign, given the high profitability of coca and active resistance by both armed guerrilla groups and peasants, there are limits to what ATPA may be expected to accomplish and it is not clear that there is a strong direct link between increased ATPA-eligible exports and any verifiable diminished drug-related activity.

In addition to the economic analysis, the debate over ATPA will likely consider more intangible policy benefits. For example, supporters argue that ATPA is an expression of direct U.S. support for the regional counternarcotics efforts with potentially positive side benefits in the area of economic development. They also note that it is a less expensive and invasive counter-drug option compared to the large financial and military commitment of Plan Colombia.

Supporters of ATPA have proposed at least three program initiatives. First, reauthorize ATPA for an extended period of time to reinforce the U.S. commitment to the alternative development counternarcotics strategy. Second, extend duty-free treatment to other Andean exports, such as textile and apparel products, to broaden

---

<sup>22</sup>(...continued)  
(*INCSR*),pp. IV-6, 18, 27, 37.

<sup>23</sup> Testimony of Ambassador Peter Allgeier, Deputy United States Trade Representative, before the Senate Committee on Finance, Subcommittee on International Trade. August 3, 2001. p. 1.

the program effects, particularly in Colombia, which remains the most problematic country. Third, include Venezuela as a beneficiary country, which although not currently a major coca producer, is part of the larger drug trafficking problem.

## Legislation in the 107<sup>th</sup> Congress

On December 4, 2001, ATPA expired and U.S. tariffs were reimposed on affected Andean exports. On February 15, 2002, the Bush Administration acted to defer the collection of these tariffs for 90 days in expectation that the 107<sup>th</sup> Congress would either reauthorize ATPA or provide a short-term extension of its trade preferences, presumably retroactively. In the meantime, ATPA reauthorizing legislation has moved in both the House and the Senate.

In the House, H.R. 3009, the Andean Trade Promotion and Drug Eradication Act was introduced on October 3, 2001 by Representative Crane (for himself and Ways and Means Chairman Thomas). Hearings were held by the House Ways and Means Committee on October 5, 2001. Chairman Thomas offered an amendment in the nature of a substitute and the committee ordered the bill favorably reported, as amended, by voice vote. On November 14, 2001, the bill was reported to the House (H. Rept. 107-290). On November 16, 2001, the House Rules Committee reported (H. Rept. 107-293) the rule (H. Res. 289) for consideration of H.R. 3009 by a vote of 225 to 191. H.R. 3009 was passed by the House the same day by voice vote.

In the Senate, S. 525, the Andean Trade Preference Expansion Act (ATPEA) was introduced by Senator Graham on March 13, 2001 and referred to the Committee on Finance. The Subcommittee on International Trade held hearings on August 3, 2001. The amended House-passed version of H.R. 3009 was also sent to the Senate on November 16, 2001, where it was referred to the Committee on Finance. Full committee consideration and mark up occurred on November 29, 2001, and by voice vote, the language of S. 525, with some modifications, was offered in the nature of a substitute for H.R. 3009, which was adopted, along with three amendments, and reported to the full Senate (S. Rept. 107-126). The Senate is not expected to act on the bill before March 2002.

Both the House and Senate versions of H.R. 3009 express the findings of Congress that extending and expanding trade preferences to ATPA countries is part of an effective U.S. foreign policy to counter illicit drug trafficking from the Andean region. To enhance the effects of ATPA, both bills provide for an extension of trade preferences into 2006 and cover exports previously excluded, including certain textile and apparel articles, canned tuna, watches and parts, petroleum, footwear, and selected leather bags and goods (see discussion below). These provisions provide treatment similar to that received by Caribbean countries under the Caribbean Basin Trade Promotion Act (CBTPA). There is a new emphasis on giving preferential treatment to articles made from regional fabrics, an important provision for Peru, which produces much of its yarn locally from alpaca, llama, and vicuna. Both bills include a longer list of country eligibility requirements and expanded transshipment and safeguard provisions to address concerns of U.S. apparel manufacturers.

**House-Passed Version.** The House-passed version of H.R. 3009 would extend preferential treatment to articles from ATPA beneficiary countries through December 31, 2006. Duty-free treatment would be expanded to cover five of eight

categories of articles previously excluded, provided the countries meet new enhanced eligibility standards and the President of the United States does not declare any of the products “import sensitive” for purposes of this act. New non-apparel articles to be made eligible include: 1) certain footwear not eligible under the Generalized System of Preferences (GSP); 2) petroleum products; 3) watches and watch parts; 4) selected leather goods (including certain handbags, gloves, flat goods, luggage); and 5) tuna preserved in any airtight container (canned). Three categories of articles will remain ineligible for preferential treatment: 1) textiles subject to textile agreements and apparel products not specifically mentioned below; 2) sugar and related products; and 3) rum and tafia.<sup>24</sup>

The number of apparel articles that would receive duty-free treatment would be expanded based on various product categories differentiated by origin of fabric, yarn, and components used. Specifically, this section includes articles sewn or otherwise assembled from materials from one or more beneficiary countries that fall into the following categories:<sup>25</sup>

- 1) fabric or fabric components formed, or components knit-to-shape, in the United States from yarns formed in the United States or one or more beneficiary countries;
- 2) fabrics or fabric components formed, or components knit-to-shape, in one or more beneficiary countries, from yarns formed in one or more beneficiary countries, if such fabrics are formed chief in weight of llama or alpaca;
- 3) fabrics or yarn not produced in the United States or a beneficiary country, but are eligible for preferential treatment under the North American Free Trade Agreement (NAFTA) short-supply provisions (Annex 401);
- 4) apparel articles sewn or otherwise assembled in one or more beneficiary countries from fabrics or fabric components formed or components knit-to-shape, in a beneficiary country from yarns formed in the United States or in one or more beneficiary countries, whether or not the apparel articles are also made from any of the fabrics, fabric components formed, or components knit-to-shape in the United States defined in paragraph 1 above. Imports of apparel made from regional fabric and yarn would be capped at 3% of U.S. imports, growing to 6% of U.S. imports in 2006.

---

<sup>24</sup>The bill would also amend the Caribbean Basin Trade Promotion Act and the African Growth and Opportunity Act to clarify congressional intent regarding various draft Customs regulations addressing duty-free and quota-free treatment of, among other products, knit-to-shape articles and apparel articles that are cut both in the United States and the beneficiary countries. These provisions are not included in the Senate bill. See: U.S. Congress. House of Representatives. *Andean Trade Promotion and Drug Eradication Act*. Report 107-290 to accompany H.R. 3009. November 14, 2001. pp. 6-8 and 18-21.

<sup>25</sup> In paragraphs 1, 3, and 4 below, fabrics eligible for duty-free treatment include fabrics not from yarns if classified under HTS 5602 and 5603, referring to felt. This provision does not appear in the Senate Version. *Ibid.*, pp. 3 and 12-13.



In addition, this act allows for duty-free importation of handloomed, handmade, and folklore articles, clarifies and enhances penalties for transshipment of apparel goods through the Andean countries, and provides for NAFTA-equivalent safeguard protections related to apparel imports. It also expands requirements for becoming eligible as a beneficiary country to include, in addition to previously defined requirements: undertaking obligations set out in the World Trade Organization (WTO); participating in negotiations to complete the Free Trade Area of the Americas (FTAA); providing protection of intellectual property rights; adhering to internationally recognized worker rights; committing to eliminating the worst forms of child labor; meeting counternarcotics certification criteria; becoming party to the Inter-American Convention Against Corruption; and applying transparent, non-discriminatory, and competitive procedures to government procurement.

**Senate Finance Committee-Passed Version.** The Senate Finance Committee-passed version (the Andean Trade Preference Expansion Act - ATPEA) agrees in principal with much of the House-passed version, but is slightly more restrictive in some product categories. It would extend the program through February 28, 2006 or until the FTAA is enacted, whichever comes first, and would expand coverage to most of the same products identified in the House bill.

Non-apparel provisions vary slightly or are worded differently from the House version. Of the eight categories of goods not eligible for preferential treatment under current expired law, five would receive tariff treatment equal to that under NAFTA, or a zero tariff if the products are so treated under different trade laws (e.g. the GSP or CBTPA): 1) selected footwear; 2) petroleum products; 3) watches and watch parts; 4) selected leather goods; and 5) rum and tafia products. Except for rum products this is similar to the House provisions. One category, sugars, syrups, and molasses, remains ineligible for trade preferences as in the House version. A second category, tuna prepared in airtight containers, is given duty-free treatment like the House version, but the Senate places a cap on this type of tuna import equal to 20% of U.S. production in the previous year and requires tuna to be harvested by U.S. or ATPEA beneficiary country vessels.<sup>26</sup>

Finally, textile and apparel articles are treated separately and in detail, allowing certain goods into the United States duty-free based on the origin of fabric, yarn, or components used. Apparel provisions are similar to those in the House bill, with a few exceptions. There are six categories of apparel products that would qualify for duty-free treatment. The first is similar to the House version and includes articles sewn or otherwise assembled from one or more beneficiary countries if so done with materials that fall into any of the following categories:

- 1) U.S. fabric, or fabric components, or components knit-to-shape, from yarns wholly formed in the United States;

---

<sup>26</sup> This is one of three amendments made to the bill. The other two do not relate directly to ATPA. They include waiving restrictions on duty-free imports on fans from Thailand through July 30, 2002 and suspending from January 1, 2002 through December 31, 2006 duties imposed on selected steam or other vapor generating boilers used in nuclear facilities. See: U.S. Congress. Senate. *Andean Trade Preference Expansion Act*. Report 107-126 to Accompany H.R. 3009. December 14, 2001. pp. 6, 12, and 20.

- 2) a combination of both U.S. and ATPEA beneficiary country components knit-to-shape from yarns wholly formed in the United States;
- 3) ATPEA beneficiary country fabric, fabric components, or knit-to-shape components, made from yarns wholly formed in one or more ATPEA beneficiary countries, if the constituent fibers are primarily llama, alpaca, or vicuna hair; and
- 4) fabrics or yarns, regardless of origin, if such fabrics or yarns have been deemed, under NAFTA, not to be widely available in commercial quantities in the United States (short supply provisions).

The second duty-free category includes apparel articles knit-to-shape (except socks) in an ATPEA country from yarns wholly formed in the United States. The third category includes apparel articles wholly assembled in an ATPEA country from fabric or fabric components knit, or components knit-to-shape in an ATPEA country from yarns wholly formed in the United States, with an annual cap set on quantity imported and increased each year. The fourth category includes brassieres that are cut or sewn, or otherwise assembled, in the United States and/or one or more ATPEA country. The fifth category captures “handloomed, handmade, and folklore” articles, to be defined jointly by the United States and the beneficiary countries. The sixth category includes textile luggage assembled in an ATPEA country from fabric and yarns formed in the United States.

Like the House version, the Senate language also includes stronger transshipment penalties for infractions related to apparel products, and adopts safeguard provisions on apparel goods similar to those found in NAFTA, both of which also are found in the CBTPA. Country eligibility requirements are also lengthened in similar fashion to those found in the House bill (see **Appendix 1** for current program requirements).

**Discussion of Proposed Legislative Changes.** Supporters of the apparel provisions would argue that they serve multiple purposes, they: 1) provide similar tariff treatment to ATPA, NAFTA, and CBTPA countries, thereby eliminating the relative competitive disadvantage of ATPA countries; 2) deepen coverage of the ATPA tariff program to include products that compose a larger portion of Andean exports and hence improve the chances for greater impact on their trade diversification, economic development, and counterdrug activity; 3) encourage increased U.S. investment in ATPA countries; and, 4) take into account possible negative repercussions to domestic apparel manufacturers.<sup>27</sup>

Although it is possible that the ATPA countries will respond to these additional incentives, countries will not benefit equally. In dollar terms, Colombia may benefit the most because it has the largest share of U.S. apparel imports from ATPA countries (49% in 2000). Peru, which constituted 46% of U.S. apparel imports from these countries, uses mostly non-U.S. materials and so has lobbied for removing

---

<sup>27</sup> For more details, see: U.S. International Trade Commission. Apparel: Andean Countries Seek Parity with Caribbean Basin Countries to Remain Competitive in U.S. Market. *Industry Trade and Technology Review*, March 2001. pp. 9-13.

restrictions on use of local fabrics and yarns. It would benefit significantly if such language remains in the final version of H.R. 3009. Ecuador and Bolivia have small apparel export industries, each accounting for only 2% of the ATPA country apparel exports to the United States.<sup>28</sup> (Ecuador is a major tuna exporter and so would benefit to extent that restrictions on canned tuna are reduced or eliminated.)

Some groups in the United States challenge the expansion of ATPA provisions, arguing that the benefits to Andean countries may come at a cost to domestic industries. Apparel is a high profile U.S. import commodity group from the region. The U.S. industry is also facing an increasingly competitive environment worldwide. Therefore, domestic U.S. producers have expressed opposition to these legislative changes.

Overall, however, apparel products accounted for only 7% of U.S. imports from ATPA countries in 2000, although this percentage has doubled since 1994 (see **figure 1**). Also, ATPA apparel imports accounted for less than 2% of the total sector's U.S. imports in 2000. Still, the United States is the primary market for Andean apparel, capturing 93% of the region's apparel exports.<sup>29</sup> Although ATPA may still be only a small part of a large and long-term counternarcotics effort, expanding duty-free provisions of ATPA to a larger portion of the region's exports, including its growth industries, may have a marginal positive effect on the program's effectiveness.

---

<sup>28</sup> Ibid., pp. 2-7 and 9-10.

<sup>29</sup> Ibid, p. 2.

## Appendix 1. ATPA Program Details

The ATPA program has two major facets. First, each of the four Andean nations must be designated a “beneficiary country” by meeting legislated standards.<sup>30</sup> Beneficiary status can be denied if a country: 1) is a Communist country; 2) unfairly nationalizes or expropriates U.S. property, tangible or intellectual, without due recourse or commitment for compensation; 3) fails to act in good faith in recognizing arbitral awards in favor of U.S. citizens or companies; 4) affords preferential treatment to products from other developed countries that may have a significant impact on U.S. commerce; 5) has a government entity that fails to follow copyright agreements for broadcast materials; 6) is not a signatory to an agreement providing for the extradition of U.S. citizens; or 7) is not taking steps to afford internationally recognized workers rights as in the Trade Act of 1974. All conditions, except 4 and 6, may be waived by the President if conferring beneficiary status is deemed in the economic or security interests of the United States. The President is also required to consider other factors, among them the prospective beneficiary country’s: 1) interest in ATPA; 2) economic conditions and development policies; 3) trade policies and practices complying with rules defined in the World Trade Organization (WTO) agreement; and 4) efforts to meet the narcotics cooperation certification criteria.

Second, eligible articles must be imported directly from a beneficiary country. The content of materials and processing costs originating in CBTPA or ATPA beneficiary countries, Puerto Rico, the Virgin Islands and up to 15 percentage points of U.S. origin value must sum to at least 35% of the value of the article when it enters the United States. Many products are denied duty-free treatment, including textile and apparel products subject to textile agreements, crude and refined petroleum products, canned tuna, and certain footwear, watches, sugars, syrups, molasses, and rum products. Selected import sensitive products are eligible for only a 20-percent reduction in duties, including certain handbags, luggage, flat goods, work gloves, and leather wearing apparel. The President may suspend duty-free treatment under title II of the Trade Act of 1974 (safeguard actions) or the national security provision (sec. 232) of the Trade Expansion Act of 1962, as amended (19 U.S.C. 1862). Other trade regulations apply, such as quotas and food-safety requirements.<sup>31</sup>

ATPA operates in addition to the Generalized System of Preferences (GSP), a program in place since 1976 giving duty-free treatment to certain developing country imports to promote economic development. Where the two programs overlap, many Andean exporters prefer to use ATPA because it covers more tariff categories, tends

---

<sup>30</sup> P.L. 102-182, title II, sec. 203, as amended (19 U.S.C. 3202). Because these benefits would violate the U.S. WTO obligation to accord all WTO members equal (most-favored-nation) treatment, they require a temporary waiver by the WTO, which was in place, but expired with the ATPA program on December 4, 2001. See: WTO General Council. *United States-Andean Trade Preference Act-Decision of 14 October 1996*. WT/L/184.

<sup>31</sup> *Ibid.*, sec. 204 (19 U.S.C. 3203), including detailed provisions for “perishable products.”

to be more liberal and easier to qualify under, and has had a ten-year authorization and so until recently, has not expired as has the GSP multiple times in the 1990s.<sup>32</sup>

---

<sup>32</sup> See: CRS Report 97-389 E, *Generalized System of Preferences*, by William H. Cooper.

## Appendix 2. U.S.-ATPA Country Merchandise Trade, 1990-2000

(\$ millions)

<b>U.S. Exports</b>							
<b>Country</b>	<b>1990</b>	<b>1992</b>	<b>1994</b>	<b>1996</b>	<b>1998</b>	<b>2000</b>	<b>% Change 90-00</b>
Bolivia	138	222	185	270	417	251	81.9%
Colombia	2,029	3,286	4,064	4,714	4,816	3,689	81.8%
Ecuador	678	999	1,195	1,259	1,683	1,037	53.0%
Peru	772	1,005	1,408	1,774	2,063	1,662	115.3%
Total ATPA	3,617	5,512	6,852	8,017	8,979	6,639	83.6%
Total World	393,592	448,164	512,627	625,075	682,138	780,419	98.3%
<b>U.S. Imports</b>							
<b>Country</b>	<b>1990</b>	<b>1992</b>	<b>1994</b>	<b>1996</b>	<b>1998</b>	<b>2000</b>	<b>% Change 90-00</b>
Bolivia	203	162	260	275	224	191	-5.9%
Colombia	3,168	2,837	3,171	4,424	4,656	6,969	120.0%
Ecuador	1,376	1,344	1,726	1,958	1,752	2,210	60.6%
Peru	802	738	841	1,261	1,975	1,996	148.9%
Total ATPA	5,549	5,081	5,998	7,918	8,607	11,366	104.8%
Total World	495,310	532,665	663,256	795,289	911,896	1,216,888	145.7%
<b>U.S. Balance of Trade</b>							
<b>Country</b>	<b>1990</b>	<b>1992</b>	<b>1994</b>	<b>1996</b>	<b>1998</b>	<b>2000</b>	<b>% Change 90-00</b>
Bolivia	-65	60	-75	-6	193	61	
Colombia	-1,139	449	893	291	160	-3,280	
Ecuador	-697	-345	-532	-700	-69	-1,173	
Peru	-29	266	566	513	87	-334	
Total ATPA	-1,930	430	852	98	371	-4,726	
Total World	-101,718	-84,501	-150,629	-170,214	-229,758	-436,469	
Data Source: U.S. Department of Commerce.							