1999 Andean Trade Preference Report to Congress

TRADE AND EMPLOYMENT EFFECTS OF THE ANDEAN TRADE PREFERENCE ACT

Sixth Annual Report to the Congress
Pursuant to Section 207 of the
Andean Trade Preference Act

Submitted by
The U.S. Department of Labor
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Executive Summary

During 1998, $1.6 billion in U.S. imports from the four Andean Trade Preference Act (ATPA) beneficiary countries entered the United States duty-free under provisions in the ATPA; however, a significant portion of these duty-free entries (45 percent or $731 million) probably would have qualified for duty-free entry under other existing U.S. trade preference programs such as the Generalized System of Preferences. Thus, approximately 55 percent ($887 million) of these duty-free entries represent the unique benefits of the ATPA to the ATPA-beneficiary nations. These unique ATPA benefits represented 10.6 percent of total U.S. imports from the ATPA beneficiary nations and 0.1 percent of total U.S. imports from all nations in 1998.

The main finding of this report is: Preferential tariff treatment under the ATPA does not appear to have had an adverse impact on, or have constituted a significant threat to, U.S. employment. While declines in production and possibly employment in some sectors of the cut flower industry (standard carnations, standard and pompon chrysanthemums, and roses) may have been affected to some extent by the tariff preferences granted under the ATPA program, other factors may also have contributed to production and employment declines.

Introduction

The Andean Trade Preference Act (ATPA), which was enacted on December 4, 1991 (Public Law 102-182, title II), contains the trade component of the President's Andean Initiative that was launched in 1991 to expand private sector opportunities and investment in nontraditional sectors of the Andean countries as an alternative to production of illegal drugs and to help them to diversify their economies and expand their exports. The ATPA authorized the President to proclaim duty-free treatment for eligible articles from Bolivia, Colombia, Ecuador, and Peru. The President proclaimed duty-free treatment of certain eligible articles for Bolivia and Colombia on July 2, 1992, for Ecuador on April 13, 1993, and for Peru on August 11, 1993. ATPA preferential duty treatment is scheduled to terminate on December 4, 2001.

Section 207 of the ATPA requires the Secretary of Labor, in consultation with other appropriate federal agencies, to undertake a continuing review and analysis of the impact of the implementation of the ATPA on U.S. labor. The legislation also directs the Secretary to submit an annual report to the Congress presenting a summary of the results of the review and analysis. This report is the sixth in a series of annual reports to the Congress pursuant to Section 207 of the ATPA. It presents a summary of the analysis of the impact of duty-free treatment of certain U.S. imports from beneficiary Andean nations under the ATPA on U.S. trade and employment during calendar 1998.

First, this report reviews trends in U.S. trade with the four ATPA beneficiary nations and identifies the leading items in U.S. trade (imports and exports) with those nations. Next, U.S. imports from the ATPA beneficiary nations are examined with regard to the various U.S. trade preference programs (e.g., the ATPA; the Generalized System of Preferences (GSP), a U.S. program initiated in 1975 that provides for duty-free treatment of nearly 4,700 tariff items from over 140 designated beneficiary developing countries and territories; and a U.S. harmonized tariff schedule provision for the duty-free entry of U.S. components and materials incorporated in offshore assembly of items imported into the United States--HTS 9802.0080). The report then attempts to identify U.S. trade preferences which are uniquely available to the beneficiary countries under the ATPA. Finally, domestic employment trends are reviewed for those domestic industries that produce goods like or similar to those of U.S. imports from the ATPA beneficiaries which have experienced significant growth and established significant U.S. market share as the result of ATPA benefits. The report closes with some general conclusions on the impact of the ATPA on U.S. employment.

U.S. import (customs value of imports for consumption) and export (f.a.s. value of domestic exports) data used in this report are based upon compilations of official statistics from the U.S. Department of Commerce, Bureau of the Census; U.S. nonfarm employment data (annual averages of monthly establishment employment) are tabulated from establishment payroll employment survey data from the U.S. Department of Labor, Bureau of Labor Statistics. More detailed tabulations of U.S. trade with the ATPA beneficiary nations are available in more comprehensive annual reports (for this year as well as for prior years) which are prepared by the U.S. Department of Labor and are available from the Department's Bureau of International Labor Affairs, Office of International Economic Affairs, 200 Constitution Avenue, N.W., Room S-5325, Washington, DC 20210 (telephone: 202-219-7610), or the Bureau's web site (www.dol.gov/dol/ilab), or the National Technical Information Service (NTIS), 5285 Port Royal Road, Springfield, Virginia 22161 (telephone: 703-487-4690).

U.S. Trade with the ATPA Beneficiary Countries

U.S. imports from the four ATPA beneficiary nations in 1998 accounted for 0.9 percent of total U.S. merchandise imports from all countries and amounted to $8.4 billion, a 3.6 percent decrease over their level in 1997. U.S. exports to the ATPA beneficiaries in 1998 accounted for 1.4 percent of all U.S. merchandise exports to the world and amounted to $8.7 billion, a 0.1 percent decrease over their level in 1997.

On a bilateral basis, U.S. trade with the ATPA beneficiary nations has moved from a merchandise trade deficit of just under $1.2 billion in 1991 to a surplus of $309 million in 1998. The decrease in U.S. imports from the ATPA beneficiaries during 1998 was the first since the ATPA was implemented beginning in 1992; U.S. exports have increased each year except 1996 and 1998. In nominal (current dollar) terms, U.S. exports to the ATPA beneficiaries in 1998 were 128.3 percent above their 1991 level, while U.S. imports from the ATPA beneficiaries in 1998 were 68.2 percent above their 1991 level.

By broad industrial division, 31 percent of U.S. imports from the ATPA beneficiaries in 1998 were agricultural and fishery products, 30 percent were crude and refined petroleum and minerals, 35 percent were manufactures, and 4 percent were miscellaneous items. During 1998, U.S. imports of crude and refined petroleum products from the ATPA beneficiary countries decreased by 19.3 percent, while U.S. imports of non-petroleum products from the ATPA beneficiary nations increased from their 1997 level of $5.7 billion to $6.0 billion in 1998, a 4.4 percent increase.

Leading industrial categories of U.S. imports from the ATPA beneficiary nations in 1998 included: agricultural products ($1,832 million); crude petroleum ($1,507 million); primary metal products ($1,016 million); refined petroleum products ($857 million); fishery products ($729 million); apparel ($618 million); miscellaneous manufactures ($323 million); food products ($284 million); chemicals ($210 million); and miscellaneous commodities ($199 million). These top-ten categories, based on the 2-digit Standard Industrial Classification system, accounted for 90.6 percent of all U.S. imports from the ATPA beneficiaries in 1998.

Leading industrial categories of U.S. exports to the ATPA beneficiary nations in 1998 included: nonelectrical machinery ($2,107 million); chemicals ($1,290 million); electrical machinery ($1,003 million); transportation equipment ($707 million); agricultural products ($628 million); food products ($483 million); miscellaneous manufactures, not specifically provided for ($334 million); scientific and professional instruments ($322 million); paper products ($290 million); and primary metals ($285 million). These top-ten categories, based on the 2-digit Standard Industrial Classification system, accounted for 85.9 percent of all U.S. exports to the ATPA beneficiaries in 1998.

Several of the leading categories of U.S. exports to the Andean region are also among the leading import categories, indicating a moderate two-way flow of trade. In part, this results from the trade under provision 9802.00.80 in the harmonized tariff schedule (HTS)--formerly item 807.00 in the Tariff Schedules of the United States--that assesses U.S. import duties only on the foreign value-added in offshore assembly or further processing of U.S.-made components which are then imported into the United States. In 1998, 5.8 percent of the total value of all U.S. imports subject to duty from the ATPA beneficiary nations entered the United States under this provision.

U.S. Imports under the ATPA and Other Special Tariff Rate Provisions and Trade Preference Programs

Products specifically excluded from ATPA duty-free treatment include most textile and apparel items; certain footwear; canned tuna; petroleum and petroleum products; certain sugar, syrup, and molasses products; rum and tafia; and certain watches and watch parts. Beginning in 1992, reduced rates of duty were applied to handbags, luggage, flat goods, work gloves, and leather wearing apparel from the ATPA beneficiaries; duties on these items were reduced by a maximum of 20 percent over the following five-year period. U.S. imports of ATPA-beneficiary non-petroleum products subject to duty and excluded from ATPA (primarily wearing apparel) have increased at an average annual rate of 10.0 percent over the 1991-98 period.

To be eligible for duty-free treatment under the ATPA, all products unless specifically excluded must meet one of these conditions: (1) be wholly grown, produced, or manufactured in a ATPA-beneficiary country; or (2) have at least 35 percent of the direct processing costs and materials produced in any one or more of the ATPA beneficiaries, any of the 24 Caribbean Basin Economic Recovery Act (CBERA) beneficiaries,[(1)] Puerto Rico, or the U.S. Virgin Islands--inputs from the United States (up to 15 percent of the value) are allowed to account for a portion of the 35 percent content rule. In addition, the articles must be exported directly to the customs territory of the United States.

All of the ATPA beneficiaries are also eligible for the tariff preferences provided by the GSP. The ATPA differs from the GSP program in three significant ways: 1) the number of items eligible for the duty-free entry is greater under the ATPA, 2) the percentage of value-added that must be produced in the exporting country is lower under the ATPA, and 3) there are no dollar limits in the amount of an item that can enter duty-free from a beneficiary country under the ATPA program while there are limits (referred to as competitive need limits) under the GSP program.

In 1998, over $3.7 billion (or 44 percent) of the $8.4 billion in total U.S. imports from the ATPA beneficiary countries was imported normal trade relations (NTR) duty-free.[(2)] Of the remaining $4.7 billion which was not NTR duty-free (henceforth, referred to as imports subject to duty), U.S. import duties were assessed on almost $2.7 billion, while almost $2.0 billion entered duty-free under one of several special U.S. tariff preference programs.

Of the almost $2.0 billion in U.S. imports subject to duty from the ATPA beneficiaries that entered duty-free under one of the special U.S. tariff preference programs (i.e., not NTR duty-free) in 1998, $1,617 million entered duty-free under the ATPA provision, $190 million entered duty-free under the GSP provision, $159 million (U.S.-content value) entered duty-free under the 9802.00.80 provision, and $33 million entered duty-free under other special rate provisions (mostly temporary rate provisions).

Nearly all products eligible for GSP duty-free entry are also eligible for duty-free entry under the ATPA. For products that were already eligible for GSP treatment when the ATPA came into effect in 1992, the ATPA beneficiaries have increased their utilization of available U.S. tariff preferences (i.e., the percentage of eligible products that actually entered duty-free under either GSP or ATPA has risen moderately). In 1991, 75 percent of the value of items eligible for both GSP and ATPA (had the latter been in effect) entered duty-free under GSP; in 1992, 83 percent of the value of items eligible for both GSP and ATPA entered duty-free (9 percent under ATPA and 74 percent under GSP); and by 1998, 97 percent of the value of these items entered duty-free (84 percent under ATPA and 14 percent under GSP). For products eligible for ATPA, but not GSP, utilization has increased even more substantially from 29 percent in 1992 to 98 percent in 1998. Thus most items that are eligible for duty-free treatment under either the ATPA or the GSP, are actually imported duty-free.

The share of U.S. imports subject to duty from the ATPA beneficiaries that is eligible for duty-free treatment under the ATPA has increased from 28 percent in 1992 to 40 percent in 1998; most of the items eligible for ATPA duty-free treatment were already eligible for GSP duty-free treatment (items eligible for the ATPA but not the GSP accounted for only 3 percent of imports subject to duty in 1992). U.S. imports from the ATPA beneficiaries of items eligible for duty-free treatment only under the ATPA have increased at an average annual rate of 25.2 percent since 1991.

Leading industrial categories of ATPA duty-free U.S. imports (some of which would have been eligible for GSP duty-free entry) in 1998 included: horticultural specialties ($452 million); nonferrous rolled and drawn products ($213 million); primary nonferrous metal products ($210 million); jewelry and silverware ($182 million); watches and clocks ($55 million); industrial inorganic chemicals ($50 million); miscellaneous food products ($50 million); sugar and confectionery products ($42 million); paints and varnishes ($40 million); and miscellaneous plastic products ($38 million). These top-ten categories, based on the 3-digit Standard Industrial Classification system, accounted for 82.3 percent of total ATPA duty-free U.S. imports in 1998.

Assembly of U.S.-made parts or materials by the ATPA beneficiaries (primarily into products ineligible for ATPA duty-free entry or into

ATPA-eligible products that did not meet ATPA or GSP rules-of-origin requirements) decreased in 1998 (as in 1996) and was below the level in 1995. The value of U.S. imports from the ATPA-beneficiary nations of assembled items entered under HTS item 9802.00.80 rose from $175 million in 1991 to $280 million in 1995, but fell to $272 million (or 5.8 percent of all U.S. imports subject to duty from the ATPA beneficiaries) in 1998. U.S. components comprised 58.2 percent of the value of these items in 1998. The U.S. tariff provision covering the assembly of articles made from U.S.-made parts and materials is available generally for U.S. imports from any country.

Assembled apparel items ($252 million with 57 percent U.S.-content value) accounted for almost 93 percent of the value of U.S. imports from ATPA beneficiaries under HTS item 9802.00.80 in 1998; the other industrial groups with appreciable amounts were textile mill products ($20 million with 76 percent U.S.-content value).

In addition to receiving ATPA benefits, the ATPA beneficiary countries are eligible for reduced duties on certain leather products (including handbags, luggage, work gloves, and leather wearing apparel, but not footwear). In 1998, the United States imported $27.4 million of these eligible leather products from the ATPA beneficiaries, $26.2 million of which was subject to lower duties, $1 thousand was U.S. content entered under 9802, and the balance ($1.2 million) was subject to full duty. The value of leather products imports from the ATPA beneficiaries eligible for reduced duties in 1998 was approximately the same as it was in 1991, the year before the reduced duties program began.

The ATPA beneficiary countries are eligible for the Special Access Program (SAP) for textile and apparel products, which was established on August 24, 1995. The SAP is a quota preference program similar to that under the Caribbean Basin Economic Recovery Act of 1982 in which CBERA countries are provided additional access to the U.S. market in the form of guaranteed access levels (GALs) for products assembled from U.S. formed and cut fabric. Presently (and during 1998), no ATPA beneficiary country exports under this program.

U.S. Trade Preferences Uniquely Provided by the ATPA

The ATPA provided the beneficiary nations unique duty-free treatment of their exports to the United States in 1998 in the following cases: products eligible for ATPA duty-free entry, but not eligible for duty-free entry under GSP ($480 million, of which $471 million entered ATPA duty-free) and products eligible for both ATPA and GSP duty-free entry which were imported from ATPA beneficiary countries that had lost their GSP product eligibility due to exceeding that program's competitive-need limitations ($443 million, of which $416 million entered ATPA duty-free).

The total unique ATPA benefits of $887 million in 1998 represented the amount of ATPA duty-free imports that would not have received duty-free treatment under the GSP program and would have been subject to duty in the absence of the ATPA program. These benefits were $287 million, or 47.9 percent above their level in 1997 (which followed increases of 30.9 percent in 1997 and 28.7 percent in 1996) and represented 10.6 percent of total U.S. imports from the ATPA-beneficiary nations (but only 0.1 percent of total U.S. imports from all sources) in 1998.

The top-ten tariff schedule categories of items receiving duty-free treatment unique to the ATPA in 1998 included: cathodes ($201.0 million); fresh cut roses ($195.7 million), fresh cut chrysanthemums, standard carnations, anthuriums, and orchids ($143.2 million), semimanufactured nonmonetary gold ($115.0 million), watch cases ($48.4 million), tuna and skipjack not in airtight containers ($46.1 million), gold compounds ($34.3 million), fresh or chilled asparagus entered from November 15 to September 15 ($23.2 million), zinc plates ($16.8 million), and oil well tubing of iron ($7.2 million). These ten items accounted for 93.7 percent ($830.9 million) of the duty-free entries unique to the ATPA in 1998. Four of the top-ten items are items normally eligible for GSP but at least one of the ATPA beneficiaries had lost its GSP eligibility for the item by exceeding that program's competitive need limitation. These four items were: cathodes from Peru; fresh cut chrysanthemums, standard carnations, anthuriums, and orchids from Colombia; gold compounds from Colombia; and zinc plates from Peru. The remaining six top-ten items were items that ATPA beneficiaries benefitted from due to these items being eligible for duty-free entry under the ATPA but not under the GSP program.

In 1998, Peru accounted for 49 percent ($432 million) of total ATPA duty-free imports unique to the ATPA, Colombia for 39 percent ($347 million), Ecuador for 12 percent ($108 million), and Bolivia for less than one-twentieth of one percent ($270 thousand). The $887 million in ATPA unique duty-free treatment represented 19.0 percent of U.S. imports subject to duty from the ATPA beneficiaries in 1998. Unique ATPA duty-free benefits relative to imports subject to duty were highest for Peru (36 percent), followed by Ecuador (16 percent), Colombia (13 percent), and Bolivia (0.2 percent).

U.S. Employment and Trade with the Andean Nations

Any adverse U.S. employment effects due to the tariff preferences of the ATPA would result from increased imports of items due to these tariff preferences. Given the availability of several U.S. trade preference programs with different requirements, it is often not clear how to isolate the effects of the ATPA. The analysis in this report used two measures of duty-free entries under the ATPA to assess the impact of the ATPA on U.S. employment: 1) the total amount that entered ATPA duty-free, and 2) the amount that entered ATPA duty-free uniquely to the ATPA (i.e., items entered ATPA duty-free that were not eligible for duty-free entry under the GSP program). Using these two measures, attention is focused on the import groups which showed significant growth and represented a significant share of total U.S. imports in 1998.

Four import groups based on the 3-digit Standard Industrial Classification (SIC) system were identified in which ATPA duty-free imports increased by over $5 million during 1998 and accounted for at least two percent of total U.S. imports of that SIC group: horticultural specialties, paints and varnishes, secondary nonferrous metals, and nonferrous rolled and drawn products. There were four import groups which had an increase in duty-free imports unique to the ATPA of over $1 million and accounted for at least one percent of total U.S. imports of that SIC group: primary nonferrous metals, watches and clocks, horticultural specialities, and nonferrous rolled and drawn products. Two groups (horticultural specialities, and nonferrous rolled and drawn products) satisfied both criteria.

U.S. import trends in these product groups and employment trends in each of the U.S. industries producing products like those in these import groups are examined below. Significant increases in U.S. imports of these products from the ATPA beneficiaries may, in part, reflect the availability of duty-free treatment under the ATPA. To place the analysis of domestic employment trends in perspective, the overall U.S. employment situation in 1998 is discussed first.

The U.S. Employment Situation in 1998

During 1998, the overall employment situation in the United States remained strong. The U.S. economy added 3.1 million jobs during 1998; employment has increased by 17.6 million since 1991. Total nonfarm employment in 1998 (125.8 million) was 16.4 million (or 15.0 percent) above the previous cyclical high recorded in 1990. The job gains during 1998 occurred in both the service-producing and goods-producing sectors. Within the goods-producing sector, there were job gains in construction and manufacturing, but a small decrease in mining. Employment in the goods-producing sector in 1998 (25.3 million) was 442,000 above its level in 1990. The manufacturing sector gained 97,000 jobs in 1998 (although the sector still has 304,000 jobs fewer than in 1990). The U.S. manufacturing sector, with employment of 18.8 million in 1998, has lost 2.3 million jobs since its peak in employment in 1979, although real manufacturing GDP has increased substantially since then. Most economists agree that many of these employment losses reflect, in part, the growth in productivity and changes in technology over this period, but there is disagreement about the relative importance of increased imports or trade deficits as a cause of these losses.

U.S. Import and Domestic Employment Trends in Selected Industrial Sectors Receiving Significant Benefits Provided under the ATPA in 1998

Horticultural specialties (SIC 018): U.S. imports of horticultural specialties (SIC 018) from the ATPA beneficiaries increased $7.7 million (or 1.7 percent) to $455 million in 1998. Almost all of this ($452 million) entered ATPA duty-free, and these duty-free imports accounted for 35.6 percent of total U.S. imports of horticultural specialties. A very large share of these duty-free imports ($339 million) was composed of items not eligible for the GSP and consisted primarily of fresh cut chrysanthemums and standard carnations (HTS 0603.10.70) from Colombia and fresh cut roses (HTS 0603.10.60) largely from Colombia (but also Bolivia and Ecuador). ATPA duty-free entries under these two tariff items accounted for 21.2 percent of all ATPA duty-free entries and 38.2 percent of the duty-free entries that were unique to the ATPA in 1998. ATPA duty-free imports which were also eligible for the GSP consisted primarily of miniature (spray) carnations and ornamental cut flowers (except roses, carnations, orchids, and chrysanthemums); these ATPA duty-free imports decreased by 4 percent to $113 million during 1998.

U.S. imports of fresh cut roses (HTS 0603.10.60) from the ATPA beneficiaries increased by $11.6 million (or 6.3 percent) to $195.9 million in 1998; over 99 percent of these imports entered ATPA duty-free. U.S. imports of fresh cut roses from the Andean beneficiaries have increased consistently over the last several years with increases of 18 percent in 1997, 22 percent in 1996 and 22 percent in 1995. During 1998, 90 percent of total U.S. imports of fresh roses entered ATPA duty-free with most of the remainder from other nations entering duty free under the NAFTA and the CBERA. Colombia accounted for 64 percent, Ecuador 26 percent, and Bolivia accounted for less than one-tenth of one percent of total U.S. imports of fresh roses. This tariff item is not eligible for GSP duty-free entry and had the second largest amount of duty-free imports unique to the ATPA during 1998. The ATPA allowed the beneficiaries to avoid a 7.2 percent tariff. According to the U.S. International Trade Commission (USITC), U.S. imports of roses from the ATPA beneficiaries accounted for an increased share of apparent domestic consumption (imports plus domestic production, less exports), growing from 34 percent in 1993 to 65 percent in 1998. According to the U.S. Department of Agriculture, domestic production of roses (in blooms) declined by 40 percent between 1989 and 1997, and declined a further 16.3 percent in 1998. In terms of value domestic production decreased by 13.1 percent during 1998. The number of producers (with annual sales over $100,000) fell from 232 in 1997 to 207 in 1998.

U.S. imports of ATPA duty-free chrysanthemums and standard carnations (HTS 0603.10.70) from Colombia, which had lost eligibility for GSP by exceeding the competitive need limits in previous years, decreased slightly from $143.4 million in 1997 to $143.2 million in 1998. Chrysanthemums and standard carnations from Colombia received the third largest unique benefits under the ATPA of any eight-digit HTS item. Colombia accounted for 89 percent of all U.S. imports of this tariff item from all sources. Ecuador accounted for 2 percent of total U.S. imports (or $4 million) of this item and almost all of these entered ATPA duty-free although imports from Ecuador are also eligible for

GSP duty-free treatment. Approximately 48 percent of U.S. imports from Colombia of this tariff item was composed of carnations (HTS 0603.10.7030) and 52 percent was chrysanthemums (HTS 0603.10.7010 and 0603.10.7020), with the very small amount of orchids. According to the USITC, U.S. imports from Colombia under this tariff item accounted for approximately three-fourths of apparent domestic consumption during 1998. According to the U.S. Department of Agriculture, U.S. domestic production (in blooms) of chrysanthemums declined by 50 percent between 1989 and 1994 and remained relatively stable in 1995. During 1996 and 1997, domestic production of standard chrysanthemums decreased by 22 percent, but during 1998, domestic production of standard chrysanthemums increased by 20.8 percent. Domestic production (in bunches) of pompon chrysanthemums decreased 13 percent during 1996 and 1997 but increased by 2.4 percent in during 1998. Domestic production of standard carnation blooms declined by 32 percent from 1989 to 1994 and declined by a further 47 percent between 1994 and 1997. During 1998, domestic production of standard carnations decreased by 15.2 percent. Overall, U.S. domestic production (by value) of pompon chrysanthemums, standard chrysanthemums, and standard carnations declined by 16.4 percent during 1997 but increased by 1.5 percent to $34.1 million in 1998. With imports increasing and domestic production decreasing for these items over the last several years, U.S. growers' domestic market share for chrysanthemums and standard carnations has fallen significantly.

Fresh cut flowers from the major Andean producer nations are subject to several additional restrictions and duties as the result of actions taken under U.S. laws concerning unfair trade practices. U.S. antidumping law provides relief in the form of additional special duties that is intended to offset margins of dumping (imports sold at less than fair market value in the United States), while U.S. countervailing-duty law provides relief (additional special duties) that is intended to offset foreign subsidies on products imported into the United States. During 1998, countervailing duties were 17.53 percent on imports of pompon chrysanthemums from Peru, 0.5 to 5.89 percent on chrysanthemums and standard carnations from Ecuador, and 0.1 to 9.1 percent on chrysanthemums and carnations from Colombia.

Although the USITC determined in March 1995 that the U.S. domestic rose industry had not been injured by imports of roses from Colombia and Ecuador, the USITC determination is not particularly relevant to the analysis of this report. The USITC determination was based on trade and production data covering 1991 through 1994 and therefore does not cover developments since 1994 which is the primary focus of this report. In addition, the USITC determination was based on a more restrictive set of considerations; imports by firms which were not found to be selling below costs (23 percent of Colombia imports in 1993) were at times not considered and at least one of the commissioners evaluated the impact on the domestic industry by comparing the state of the industry when imports were dumped to the state of the industry if imports had been priced "fairly" (as opposed to the impact of these imports generally or the effect of ATPA preferences).

On January 7, 1997, Congressman Sam Farr (D-CA) introduced a bill (H.R. 54) in the House of Representatives to remove flowers from the list of eligible ATPA products; this bill died at the end of the 1998 session. The Floral Trade Council claims that ATPA duty-free imports of fresh cut flowers has significantly reduced the number of domestic fresh cut flower growers.

The continual increase in U.S. imports from the ATPA nations and the continual decrease in domestic production of carnations and cut roses, and to a lesser extent chrysanthemums, over the last several years does suggest that ATPA imports may be negatively affecting U.S. production of these flowers. Besides the effects of the tariff preferences provided by the ATPA, domestic producers of cut flowers may have lost competitiveness with ATPA producers due to other factors; some cut flower producers have cited the increased costs of complying with worker protection standards covering pesticides.[(3)]

Although domestic employment data for growers of specific types of flowers are not available, the U.S. Department of Agriculture does collect data on the peak number of workers hired by floriculture establishments--i.e., firms that grow a wide variety of flowers for cutting, potted plants, and bedding plants. A total of 12,373 operations reported hired workers during 1998 which used an average of 15.8 workers compared with 10,210 operations with an average number of workers of 13.0 in 1997. The wholesale value of all domestically produced cut flowers decreased by 11 percent in 1998; the number of cut flower growers dropped by 135 to 694 during 1998. Roses, standard carnations, standard and pompon chrysanthemums account for approximately one-third of total cut flower production and these flowers are grown primarily in California as are cut flowers generally. Thus any workers released by the reduced production of these selected cut flowers may experience difficulties in finding employment in another segment of the cut flower industry in their current geographic location. The ability of these workers to find employment in the floriculture industry generally is difficult to determine. It is estimated that approximately 57 percent of crop workers are domestic U.S. citizens or legal permanent residents with the remainder being illegal, temporary, or of unknown legal status. These domestic and permanent resident farm workers are subject to extensive periods of unemployment and low wages; poverty is pervasive (61 percent live below the poverty line) among farm workers.[(4)] Neither the Department of Labor nor the Agriculture Department collect wage data specifically for cut flower agriculture workers

Therefore trends in domestic production in 1998 suggest that increased imports of fresh roses, standard carnations, and standard and pompon chrysanthemums due to the trade preferences in the ATPA may have displaced some domestic growers or helpers that they might have hired. Although the number of affected workers was likely to have been small, it is difficult to determine the degree of adjustment difficulty faced by these workers. The employment opportunities for these displaced workers were probably limited in the cut flower industry but less so in the floriculture industry; the overall health of the U.S. economy would tend to minimize the adjustment costs for these workers.

Paints and varnishes (SIC 285): U.S. imports from the ATPA countries of paints and varnishes increased by 1,237 percent to $39.6 million in 1998; all of this amount entered ATPA duty-free from Colombia. These ATPA duty-free imports were entered under one ten-digit HTS item (pigments-HTS 3212.90.00.50) and were also eligible for duty-free treatment under the GSP. ATPA duty-free imports of this ten-digit item accounted for 63.9 percent of total U.S. imports of this item and 8.0 percent of total U.S. imports of paints and varnishes.

U.S. employment in the paints and varnishes industry increased by 700 to 52,300 in 1998; employment in this industry has fallen from levels during the U.S. economy's previous cyclical peaks of 68,600 in 1979 and 61,100 in 1990. However, since ATPA duty-free imports were concentrated in a small segment of this industry, overall employment conditions in the industry are of only secondary importance in appraising any adjustment problem. Since 1998 was the first year in which there were significant ATPA duty-free imports and since employment in the industry increased during 1998, it is unlikely that imports from the ATPA beneficiaries have created any adjustment problem for this industry. In addition, since these imports were also eligible for duty-free treatment under the GSP, it can be concluded that the provisions of the ATPA have not created an adjustment problem for this industry.

Primary nonferrous metals (SIC 333): U.S. imports of primary nonferrous metals from the ATPA nations increased by 28.4 percent to $659.3 million in 1998. ATPA duty-free imports increased from $184.9 million in 1997 to $210.3 million in 1998 and have almost doubled since 1996. Most of these ATPA duty-free imports were from Peru and consisted of refined copper cathodes (HTS 7403.11.00.00) and refined copper bars (HTS 7403.12.00.00) which were not eligible for duty-free treatment under the GSP program since Peru had exceeded the competitive need limitations for these items. ATPA duty-free imports whose duty-free status was unique to the ATPA represented 1.5 percent of total U.S. imports of primary nonferrous metals. However, ATPA duty-free imports of refined copper cathodes from Peru have increased almost seventeen-fold since 1995 and accounted for 18.4 percent of total U.S. imports of this item during 1998.

U.S. employment in the primary nonferrous metals industry fell by 300 to 39,000 during 1998. Employment in this industry has declined by 46 percent since 1979 and 15 percent since 1990, although employment has declined by only 2.5 percent since 1995. Clearly any adjustment problem created by the provisions of the ATPA would be concentrated in a small specific sector of this industry, i.e., the copper cathode segment. Duty-free imports unique to the ATPA of copper cathodes accounted for less than 4 percent of U.S. apparent consumption of this item (based on 1998 USITC estimates of apparent consumption). In addition, the USITC estimated that less than one percent of the equivalent U.S. domestic industry had been displaced by increased imports of copper cathodes due to the duty-free provisions of the ATPA. Thus, it does not appear that the ATPA is responsible for any adjustment problem in this industry.

Secondary nonferrous metals (SIC 334): U.S. imports of secondary nonferrous metals from the ATPA beneficiaries doubled from $24.4 million in 1997 to $52.8 million in 1998. Approximately one-half ($25.7 million) of these imports entered ATPA duty-free, with most of the remaining items entering duty-free under the GSP. The items which entered ATPA duty-free were also eligible for duty-free treatment under the GSP. These imports consisted of unwrought zinc from Peru.

U.S. employment in the secondary nonferrous metals industry increased by 300 to 16,400 during 1998; employment in this industry has increased slightly each year since 1993 although employment in 1998 was 8,400 below its level in 1979 and 2,700 below its level in 1990. Since these imports could enter duty-free under the GSP program and since employment in this industry has been stable, the provisions of the ATPA do not appear to be creating any adjustment problem for this industry.

Nonferrous rolled and drawn products (SIC 335): U.S. imports of nonferrous rolled and drawn products from the ATPA beneficiaries increased from $4.7 million in 1995 to $125.9 million in 1997 and to $255.2 million in 1998 (a 5,330 percent increase over three years). Almost $213 million entered ATPA duty-free and almost two-thirds of this ($136 million) was not eligible for GSP duty-free treatment. ATPA duty-free imports accounted for 2.7 percent of total U.S. imports of these items during 1998. The primary items entered ATPA duty-free, which were also eligible for GSP duty-free treatment, were insulated electric conductors and gold articles. The primary items entered ATPA duty-free that were not eligible for GSP duty-free treatment were zinc plates and sheets from Peru (which has lost GSP eligibility due to competitive need considerations) and semi-manufactured gold.

U.S. employment in the nonferrous rolled and drawn products industry increased by 1,400 during 1998 to 170,300; although employment in 1998 was 3,100 above its level in 1991, this industry has lost 49,700 jobs since 1979 and 2,000 since 1990. Although ATPA duty-free imports have increased quite significantly since 1995, they remained a small portion of total U.S. imports of this industry, and domestic employment in this industry has remained stable. For these reasons the duty-free benefits of the ATPA program do not appear to have created any adjustment problem for this industry.

Watches and clocks (SIC 387): The ATPA nations' exports of watches and clocks to the United States increased from $0.6 million in 1997 to $54.9 million in 1998, an 8,681 percent increase. Almost all ($54.8 million) of these items entered ATPA duty-free and almost all ($54.5 million) of these were items not eligible under the GSP. These unique ATPA duty-free imports represented 1.9 percent of total U.S. imports of watches and clocks during 1998. Most of the imports in this category were parts of watch cases made of precious metals (HTS 9111.90.40) from Peru.

U.S. employment in the watches and clocks industry fell by 900 to 6,700 in 1998. Employment in this industry is 4,200 below its 1990 level and 21,000 below its 1979 level. According to the USITC, the rapid increase in U.S. imports of precious metal watch cases from Peru during 1998 was the result of a new Peruvian law which refunded the value-added tax on newly mined gold. Because of fraud, the program was terminated during 1998; therefore, imports of this item from Peru are expected to decline during 1999. In addition, the USITC found evidence that most of the watch cases were melted down for their gold content; thus imports of this item probably had no real effect on the domestic watch industry. The domestic industries most likely to be affected by these imports were the gold and silver ores mining industry (SIC 104), gold refining (SIC 3339) and gold rolling and drawing (SIC 3356). U.S. domestic employment in the primary nonferrous metals (SIC 333) and the nonferrous rolling and drawing (SIC 335) are discussed in the previous sections above; generally, employment in these industries was relatively stable during 1998. U.S. employment in the gold and silver mining industry declined by 2,000 (10.5 percent) to 17,100 in 1998; before the 1998 decline, employment in this industry had been relatively stable during the 1991-97 period. It is difficult to determine what the employment consequences of these gold imports were during 1998, but since these imports are likely to decline during 1999, the benefits provided by the ATPA for these items are unlikely to produce any further adjustment problem.

Update on industries with significant ATPA duty-free imports from previous reports: Two industries which have been analyzed frequently in previous reports but did not meet the requirements for further analysis in 1998 are the tuna loins and asparagus industries. ATPA duty-free imports of tuna loins increased by 953 percent between 1993 and 1996, but fell by 18.4 percent during 1997 and by 2.5 percent during 1998. Therefore, tuna loins imports under the ATPA appear to have stabilized; and as discussed in previous reports, the U.S. commercial fishing fleet (and any employment connected with it) did not appear to have experienced any adjustment problem during the years in which imports of ATPA duty-free tuna loins increased rapidly.

Duty-free imports of asparagus unique to the ATPA almost tripled from $8.8 million in 1994 to $26.8 million in 1997; during 1998, they increased 11.6 percent to $29.9 million. Asparagus imported between November 15 and September 15 is not eligible for GSP, while imports between September 15 and November 15 are eligible for GSP, however, Peru was not eligible for GSP for this item because they had exceeded the program's competitive need limits. During 1998, total U.S. imports of fresh asparagus increased by 30.8 percent, while ATPA duty-free imports increased by 11.4 percent. ATPA duty-free imports of fresh asparagus accounted for 33.0 percent of total U.S. asparagus imports in 1998. Adequate U.S. employment data for asparagus farming or the vegetables and melons industry are not available; however the U.S. Department of Agriculture (USDA) makes estimates of annual domestic production of asparagus. According to USDA, domestic production of fresh and prepared asparagus decreased steadily from 109,850 tons in 1994 to 99,450 tons in 1996, and then increased to 101,300 tons in 1997 and to 102,300 tons in 1998. The dollar value of U.S. production declined from $178 million in 1994 to $156 million in 1996, and then increased to $182 million in 1997 and to $211 million in 1998 due largely to an increase in the price of fresh asparagus. U.S. production of asparagus occurs primarily between February and June and most of the imports from the ATPA nations enter between August and January. In 1998, fresh asparagus accounted for 80 percent and processed for 20 percent by value. U.S. production tonnage of fresh asparagus increased by 12 percent between 1996 and 1997 and by 7 percent between 1997 and 1998, while U.S. production of processed asparagus decreased by 11 percent in 1997 and 8 percent. According to the USITC, imports of ATPA duty-free asparagus were equal to 18 percent of U.S. apparent consumption during 1998. It is possible that the increasing amounts of ATPA duty-free fresh asparagus during the winter months have reduced the demand for U.S. processed asparagus; however, the U.S. production of fresh asparagus remains healthy.

Conclusions

Although a definitive evaluation of the domestic employment impact of the ATPA cannot be made since the effects of duty-free provisions of the ATPA on U.S. imports cannot be completely isolated from the effects of other trade preference programs such as the GSP and HTS item 9802.00.80, it is unlikely that the ATPA has had a significant effect on overall U.S. employment. In addition, U.S. trade flows with the ATPA beneficiary countries have been small, representing 0.9 percent of total U.S. imports.

Neither the dollar amount nor the rate of increase in U.S. imports from the ATPA nations has been extraordinary or threatening. The share of total U.S. imports subject to duty from the ATPA beneficiaries that received duty-free treatment has risen from 22 percent in 1991 to 43 percent in 1998. This is largely due to increased utilization of the duty-free benefits under the ATPA--especially for products not eligible for GSP duty-free treatment; nevertheless, the amounts entered duty-free have remained quite modest.

During 1998, 19.3 percent of U.S. imports from the ATPA beneficiaries entered ATPA duty-free; however, slightly less than half of these (10.6 percent of imports from the ATPA beneficiaries) entered duty-free due to unique provisions provided by the ATPA program. These unique benefits were $287 million or 47.9 percent more than they were in 1997 (following increases of 30.9 percent in 1997, and 28.7 percent in 1996). Approximately one-half of the unique ATPA duty-free imports (or $471 million) were imports of items not eligible for duty-free entry under the GSP program, and the other half (or $416 million) were imports of items covered by the GSP program but ineligible due to exceeding the competitive need limitations. Almost one-half of the duty-free imports provided uniquely by the ATPA were imports from Peru, while 39 percent were imports from Colombia and 12 percent were imports from Ecuador; Bolivia appears to have received little benefit from the ATPA duty-free provisions. The ATPA provision allowing for reduced duties for certain leather items has not resulted in any increase in the imports of leather items from the ATPA beneficiaries. Overall, the ATPA program does not appear to have had a significant effect in altering the production or export structure of the ATPA nations.

Six groups of products, one agricultural product group (horticultural specialties--in particular, fresh cut chrysanthemums, standard carnations, and roses), four non-ferrous metal groups (primary nonferrous metals --refined copper cathodes; secondary nonferrous metals --unwrought zinc; nonferrous rolled and drawn products--semi-manufactured gold; and watches --gold watch cases), and paints and varnishes received substantial benefits in 1998 from duty-free treatment under the ATPA. For paints and varnishes and secondary nonferrous metals, almost all of the ATPA duty-free imports would have been eligible for duty-free treatment under the GSP. ATPA duty-free entries of these six groups accounted for 62 percent of all ATPA duty-free imports and 83 percent of all duty-free imports in 1998 that were unique to the ATPA. For each of the U.S. industries that produced products similar to the six import groups, it is difficult to identify major adverse effects on U.S. employment. It is possible that the decline in the production of cut roses, pompon chrysanthemums, standard chrysanthemums, and standard carnations in the United States, and any employment declines associated with it, may have been due in part to imports of these cut flowers from the ATPA beneficiaries, but it is also possible that other trade or non-trade factors may also have been in part responsible.

Generally, the current level and composition of ATPA beneficiary exports to the United States do not appear to pose a threat to U.S. employment. As the Andean region develops, it is anticipated that it will attract increasing levels of U.S. exports which will generate additional job opportunities in the United States. On the other hand, the duty-free benefits of the ATPA offer an incentive for diversification of production and development of exports to the U.S. market. Thus, the ATPA could create a more significant impact on U.S. employment in the future.

While the ATPA may offer the beneficiary nations an incentive to diversify their export structure and more readily gain access to the U.S. market, the margin of these benefits has been declining in recent years. For example, the United States has successfully negotiated and implemented several comprehensive free trade agreements (with Israel in 1986; Canada in 1989; and Canada and Mexico in 1994). In 1984, the United States granted unilateral trade preferences (which now have no expiration date) to the Caribbean Basin beneficiaries on many of the same items covered by the ATPA. Also, as the result of the conclusion and implementation of the Uruguay Round of multilateral trade negotiations, U.S. trade barriers in general will be reduced for all (normal-trade-relations) trading partners.

ENDNOTES

1. The CBERA is a U.S. trade initiative similar to the ATPA that was implemented in 1984 and directed toward countries and dependent territories in Central America and the Caribbean as part of a broader Caribbean Basin Initiative (CBI). The 24 CBERA beneficiaries are: Antigua and Barbuda; Aruba; the Bahamas; Barbados; Belize; the British Virgin Islands; Costa Rica; Dominica; the Dominican Republic; El Salvador; Grenada; Guatemala; Guyana; Haiti; Honduras; Jamaica; Montserrat; the Netherlands Antilles; Nicaragua; Panama; St. Kitts-Nevis; St. Lucia; St. Vincent and the Grenadines; and Trinidad and Tobago. Anguilla, the Cayman Islands, Suriname, and the Turks and Caicos Islands are potentially eligible for CBERA benefits, but they have not been designated so by the United States although Suriname has requested designation.

2. Almost all nations, except several communist nations, are eligible for NTR rates of duty; for some products the duty rate is free and imports of these products enter NTR duty-free (this was formerly known as most-favored-nation (MFN) duty-free).

3. *National Dialogue on the Worker Protection Standard* , Office of Pesticides Programs, U.S. Environmental Protection Agency, March 1997, page 217.

4. *A Profile of U.S. Farmworkers*, Office of the Assistant Secretary for Policy, U.S. Department of Labor, April 1997.

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