1997 ATPA Congressional Report

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TRADE AND EMPLOYMENT EFFECTS OF THE ANDEAN TRADE PREFERENCE ACT

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

Submitted by
The U.S. Department of Labor
Bureau of International Labor Affairs

December 1997

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Executive Summary

During 1996, $1.2 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 (62 percent or $787 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 38 percent ($458 million) of these duty-free entries represent the unique benefits of the ATPA to the ATPA-beneficiary nations. These unique ATPA benefits represented 9.3 percent of total U.S. imports subject to duty from the ATPA beneficiary nations and 0.06 percent of total U.S. imports from all nations in 1996.

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 cut flower industries (standard carnations, 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 fourth 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 1996.

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 4,500 tariff items from over 150 designated beneficiary developing countries; 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. Further details and analysis concerning the ATPA as well as 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 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 1996 accounted for 1.0 percent of total U.S. merchandise imports from all countries and amounted to $7.9 billion, an 12.9 percent increase over their level in 1995. U.S. exports to the ATPA beneficiaries in 1996 accounted for 1.3 percent of all U.S. merchandise exports to the world and amounted to $7.7 billion, a 1.3 percent decrease over their level in 1995.

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 during 1992-95 and back to a deficit of $149 million in 1996. Both U.S. exports to and imports from the ATPA beneficiaries have increased each year since 1991 except for the export decline in 1996. In nominal (current dollar) terms, U.S. exports to the ATPA beneficiaries in 1996 were 103.2 percent above their 1991 level, while U.S. imports from the ATPA beneficiaries in 1996 were 58.3 percent above their 1991 level.

By broad industrial division, 27 percent of U.S. imports from the ATPA beneficiaries in 1996 were agricultural and fishery products, 41 percent were crude and refined petroleum and minerals, 29 percent were manufactures, and 3 percent were miscellaneous items. During 1996, U.S. imports of crude and refined petroleum products from the ATPA beneficiary countries increased by 32.8 percent, while U.S. imports of non-petroleum products from the ATPA beneficiary nations increased from their 1995 level of $4.6 billion to $4.7 billion in 1996, a 2.7 percent increase.

Leading industrial categories of U.S. imports from the ATPA beneficiary nations in 1996 included: crude petroleum ($2,359 million); agricultural products ($1,573 million); refined petroleum products ($780 million); primary metal products ($666 million); fishery products ($507 million); apparel ($496 million); food products ($335 million); miscellaneous manufactures ($305 million); miscellaneous commodities ($138 million); and chemicals ($138 million). These top-ten categories, based on the 2-digit Standard Industrial Classification system, accounted for 92.7 percent of all U.S. imports from the ATPA beneficiaries in 1996.

Leading industrial categories of U.S. exports to the ATPA beneficiary nations in 1996 included: nonelectrical machinery ($1,932 million); chemicals ($1,318 million); electrical machinery ($774 million); agricultural products ($716 million); transportation equipment ($461 million); food products ($384 million); paper products ($296 million); scientific and professional instruments ($265 million); miscellaneous manufactures, not specifically provided for ($218 million); and primary metals ($176 million). These top-ten categories, based on the 2-digit Standard Industrial Classification system, accounted for 84.7 percent of all U.S. exports to the ATPA beneficiaries in 1996.

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 1996, 4.8 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 8.7 percent over the 1991-96 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, 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 1996, over $2.9 billion (or 37 percent) of the $7.9 billion in total U.S. imports from the ATPA beneficiary countries was imported most-favored-nation (MFN) duty-free. Of the remaining $4.9 billion which was subject to duty (i.e., not MFN duty-free), U.S. import duties were assessed on almost $3.4 billion, while over $1.5 billion entered duty-free under one of the special U.S. tariff preference programs.

Of the over $1.5 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 in 1996, $1,245 million entered duty-free under the ATPA; $127 million entered duty-free under the GSP; $130 million (U.S.-content value) entered duty-free under the 9802.00.80 provision; and $42 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 1996, 96 percent of the value of these items entered duty-free (85 percent under ATPA and 11 percent under GSP). For products eligible for ATPA, but not GSP, utilization has increased even more substantially from 29 percent in 1992 to 97 percent in 1996.

There has been a 25.5 percent average annual increase since 1991 in U.S. imports of items eligible for duty-free treatment only under the ATPA. However, 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 only slightly from 28 percent in 1992 to 29 percent in 1996 since most of the items eligible for ATPA duty-free treatment were already eligible for GSP duty-free treatment.

Leading industrial categories of ATPA duty-free U.S. imports (some of which would have been eligible for GSP duty-free entry) in 1996 included: horticultural specialties ($436 million); jewelry and silverware ($202 million); primary nonferrous metal products ($113 million); sugar and confectionery products ($77 million); miscellaneous food products ($65 million); nonferrous rolled and drawn products ($62 million); miscellaneous plastic products ($38 million); vegetables and melons ($30 million); prepared fruits and vegetables ($27 million); and secondary nonferrous metals ($22 million). These top-ten categories, based on the 3-digit Standard Industrial Classification system, accounted for 86.1 percent of the total ATPA duty-free value of U.S. imports in 1996.

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 significantly in 1996. 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 $234 million (or 4.8 percent of all U.S. imports subject to duty from the ATPA beneficiaries) in 1996. U.S. components comprised 55.7 percent of the value of these items in 1996. 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 ($228 million with 55 percent U.S.-content value) accounted for over 97 percent of the value of U.S. imports from ATPA beneficiaries under HTS item 9802.00.80 in 1996; two other industrial groups with appreciable amounts were textile mill products ($4 million with 87 percent U.S.-content value) and miscellaneous manufactures ($2 million with 88 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 1996, the United States imported $26.9 million of these eligible leather products from the ATPA beneficiaries, $25.2 million of which was subject to lower duties, $3 thousand was U.S. content entered under 9802, and the balance ($1.7 million) was subject to full duty. The value of leather products imports from the ATPA beneficiaries eligible for reduced duties in 1996 was lower than it was in 1991, the year before the reduced program began.

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 1996 in the following cases: products eligible for ATPA duty-free entry, but not eligible for duty-free entry under GSP ($308 million, of which $298 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 ($161 million, virtually all of which entered ATPA duty-free).

The total unique ATPA benefits of $458 million in 1996 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 $102 million (or 28.7 percent) more than they were in 1995 and represented 5.8 percent of total U.S. imports from the ATPA-beneficiary nations (but only 0.06 percent of total U.S. imports from all sources) in 1996.

The top-ten tariff schedule categories of items receiving duty-free treatment unique to the ATPA in 1996 included: fresh cut chrysanthemums, standard carnations, anthuriums, and orchids ($158.4 million), fresh cut roses ($156.0 million), tuna and skipjack not in airtight containers ($57.9 million), nonmonetary gold ($18.7 million), fresh or chilled asparagus entered from November 15 to September 15 ($15.3 million), nonpure nonmonetary gold ($10.9 million), glazed ceramic flags and tiles ($5.5 million), onions ($4.8 million), prepared or preserved mushrooms ($3.1 million), and nails and tacks ($2.7 million). These ten items accounted for 94.5 percent ($435.3 million) of the duty-free entries unique to the ATPA in 1996. The top item (fresh cut chrysanthemums, standard carnations, anthuriums, and orchids), which accounted for 35 percent of the duty-free benefits unique to the ATPA, would normally have been eligible for duty-free entry under the GSP program, except that Colombia has lost its GSP eligibility for the item by exceeding that program's competitive need limitation. All of the other 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 1996, Colombia accounted for 67 percent ($305 million) of total ATPA duty-free imports unique to the ATPA, Ecuador for 22 percent ($99 million), Peru for 12 percent ($53 million), and Bolivia for less than one percent ($1.6 million).

U.S. Employment and Trade with the Andean Nations

If there are any adverse U.S. employment effects due to the tariff preferences of the ATPA, these will result from increased imports of items due to these tariff preferences. Given the availability to the ATPA beneficiaries of several U.S. trade preference programs with different requirements (and particularly the uncertainty surrounding the GSP program), 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 1996. Seven import groups based on the 3-digit Standard Industrial Classification (SIC) system were identified in which ATPA duty-free imports increased by over $2 million during 1996 and these imports accounted for at least one percent of total U.S. imports of that SIC group. These seven groups were: vegetables and melons, horticultural specialties, miscellaneous food products, sugar and confectionery products, secondary nonferrous metals, nonferrous rolled and drawn products, and jewelry and silverware. Three of these (vegetables and melons, horticultural specialties, and miscellaneous food products) also had an increase in duty-free imports unique to the ATPA of over $1 million and accounted for at least one-half of one percent of total U.S. imports of that SIC group.

U.S. import trends in these seven product groups and employment trends in each of the U.S. industries producing products like those in these import groups is 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 1996 is discussed first.

The U.S. Employment Situation in 1996

During 1996, the overall employment situation in the United States remained strong. The U.S. economy added 2.3 million jobs during 1996; employment has increased by 11.3 million since 1991. Total nonfarm employment in 1996 (119.5 million) was 10.1 million (or 9.2 percent) above the previous cyclical high recorded in 1990. The job gains during 1996 occurred in both the service-producing and goods-producing sectors. Within the goods-producing sector, there were job gains in construction, but job losses in mining and manufacturing. Despite overall gains, employment in the goods-producing sector in 1996 (24.4 million) was 474,000 below that in 1990. The manufacturing sector lost 67,000 jobs in 1996 (leaving the sector with 619,000 jobs fewer than in 1990). The U.S. manufacturing sector, with employment of 18.5 million in 1996, has lost 2.6 million jobs since its peak in employment in 1979, although real manufacturing GDP has increased substantially since 1979. Most economists agree that many of these employment losses partially reflect growth in productivity and changes in technology; there is disagreement amongst economists over the relative importance of trade deficits and increased openness 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 1996

Vegetables and melons: The ATPA nations increased their exports of vegetables and melons (SIC 016) to the United States to $30.3 million in 1996, a 33.9 percent increase compared to a 43.4 percent increase in 1995. These exports represented 1.8 percent of total U.S. imports of vegetables and melons, and almost entered duty-free under the ATPA. Of the $29.6 million which entered ATPA duty free, $22.1 million were items not eligible for the GSP; these items accounted for 1.3 percent of total U.S. imports of this SIC group. The major item not eligible for GSP was asparagus.

The import category of vegetable and melons is composed of a large number of different crops, but fresh asparagus accounted for 74 percent of the ATPA duty-free imports in this group and almost 85 percent of this was imported from Peru. Normally, 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 from July 1, 1995 to October 1, 1996 because they had exceeded the program's competitive need limits. During 1996, total U.S. imports of fresh asparagus increased by 32.4 percent, while ATPA imports increased by 14.8 percent. ATPA duty-free imports of fresh asparagus accounted for 36.8 percent of total U.S. asparagus imports in 1996.

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 101,200 tons in 1995, and to 99,450 tons in 1996. The dollar value of U.S. production also declined from $178 million in 1994, to $177 million in 1995, and to $156 million in 1996. The 12 percent reduction in production value from 1995 to 1996 was due largely to a 10 percent reduction in the price of asparagus although there was also a 2 percent fall in output. Since 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, the degree to which fresh asparagus imports from the ATPA countries compete with fresh U.S. production, as opposed to U.S. processed (frozen and canned) production, cannot be determined precisely. It is possible that imports of fresh asparagus during the winter months reduce the demand for U.S. processed asparagus. In 1996, fresh asparagus accounted for 56 percent and processed (canned or frozen) for 44 percent of total U.S. production by weight, while fresh asparagus accounted for 66 percent and processed for 34 percent by value. U.S. production tonnage of fresh asparagus decreased by 16 percent between 1994 and 1995 but remained stable during 1996, while U.S. production of processed asparagus increased by 4 percent in 1995 but declined by 6 percent in 1996. The price of fresh asparagus fell by 18 percent in 1996 while the price of processed asparagus increased by 5 percent, although the price of frozen asparagus fell by 25 percent. In dollar value terms, U.S. imports from all sources of fresh asparagus were equal to 57 percent of U.S. production of fresh asparagus; ATPA duty-free imports were equal to 21 percent of U.S. production in 1996. The decrease in U.S. production of asparagus over the last two years, the significant fall in domestic prices of fresh and frozen asparagus during 1996, and the sizable amount (and moderately increasing) of ATPA duty-free imports suggest that trends in asparagus imports will need to be monitored. However, at this time, the duty-free provisions of the ATPA for this item do not appear to have created a significant adjustment problem for this industry.

Horticultural specialties: U.S. imports of horticultural specialties (SIC 018) from the ATPA beneficiaries increased $65 million (or 17.3 percent) to $438 million in 1996. Almost all of this ($436 million) entered ATPA duty-free, and these duty-free imports accounted for 38.9 percent of total U.S. imports of horticultural specialties. A very large share of these duty-free imports ($314 million) was composed of items not eligible for the GSP and consisted primarily of fresh cut chrysanthemums and standard carnations from Colombia and fresh cut roses (largely from Colombia but also Bolivia and Ecuador). ATPA duty-free entries under these two tariff items accounted for 25.3 percent of all ATPA duty-free entries and 68.6 percent of the duty-free entries that were unique to the ATPA in 1996. Over one-half of the ATPA duty-free imports not eligible for GSP were chrysanthemums and standard carnations from Colombia which had lost eligibility for GSP by exceeding the competitive need limits in previous years; U.S. imports of this item from Colombia increased by 8.7 percent to $158 million in 1996. Chrysanthemums and standard carnations from Colombia received the largest unique benefits under the ATPA of any eight-digit HTS item. The remainder of the ATPA duty-free items not eligible for GSP were largely fresh cut roses. 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 duty-free imports increased by 22.7 percent during 1996.

U.S. imports of fresh cut chrysanthemums and carnations (HTS 0603.10.70) from Colombia which are not eligible for GSP increased by $12.7 million (or 8.7 percent) during 1996. Colombia accounted for 90 percent of all U.S. imports of this tariff item from all sources. Approximately 54 percent of this tariff item was composed of carnations (HTS 0603.10.7030) and 46 percent was chrysanthemums (HTS 0603.10.7010 and 0603.10.7020), with the small remaining balance being composed of orchids. According to the U.S. International Trade Commission, U.S. imports from Colombia under this tariff item accounted for approximately two-thirds of apparent domestic consumption (imports plus domestic production, less exports). 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 stable in 1995; during 1996, domestic production of standard chrysanthemums increased (1.5 percent in terms of blooms and 4.6 percent in terms of value) while domestic production of pompon chrysanthemums decreased (11.7 percent in terms of bunches and 12.4 percent in value terms). Domestic production of standard carnation blooms declined by 32 percent from 1989 to 1994 and declined by 2 percent in 1995; during 1996, domestic production declined by 18.8 percent in terms of blooms and 24.9 percent in terms of value. Overall, U.S. domestic production (by value) of pompon chrysanthemums, standard chrysanthemums, and standard carnations declined by 14.3 percent from $42.3 million in 1995 to $36.2 million in 1996. 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.

U.S. imports of fresh cut roses (HTS 0603.10.60) from the Andean beneficiaries were $28.7 million (or 22 percent) higher in 1996 than 1995; this came on top of a 22 percent in 1995 and a 16 percent increase in 1994. Over 99 percent of these imports entered ATPA duty-free in 1996. This tariff item is not eligible for GSP duty-free entry, and the ATPA allows the beneficiaries to avoid a 7.8 percent tariff. In 1996, the Andean beneficiaries accounted for 87 percent of all U.S. imports of fresh roses from all sources. Colombia accounted for 76 percent of ATPA fresh rose exports to the United States while Ecuador accounted for 23 percent (Bolivia accounted for less than one percent). According to the U.S. International Trade Commission, U.S. imports of roses from the ATPA beneficiaries accounted for an increased share of apparent domestic consumption, growing from 34 percent in 1993 to 43 percent in 1994. According to the U.S. Department of Agriculture, domestic production of roses (in blooms) declined by 21 percent between 1989 and 1994 and declined by 16 percent in 1995; during 1996, domestic production declined by 11.8 percent in terms of blooms and 6.0 percent in terms of value. The increase in the dollar value of U.S. cut rose imports from the ATPA nations of $28.7 million in 1996 was significantly more than the decline in domestic production of $7.5 million.

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. Since 1987, there have been outstanding antidumping orders and actions on fresh cut flowers from Ecuador and Colombia, and countervailing-duty orders and actions for pompon chrysanthemums from Peru and fresh cut flowers from Ecuador. In addition, suspension agreements for countervailing-duty actions (an agreement with the exporting country to eliminate or completely offset the offending subsidy) were in place for miniature carnations and cut flowers from Colombia.

Although the U.S. International Trade Commission (ITC) had determined in a preliminary investigation that the U.S. rose industry was likely to be materially injured by rose imports from Colombia and Ecuador, the Commission determined in March 1995 that the U.S. domestic industry had not been injured by imports of roses from these countries. The ITC determination, however, was not unanimous as two of the commissioners dissented. The ITC determination was based on trade and production data covering 1991 through 1994 and therefore does not cover developments during 1995 and 1996 which is the focus of this report. In addition, the ITC 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). For these reasons, the ITC determination is not particularly relevant to the analysis of this report. The ITC in its 1996 analysis of the ATPA (ITC investigation 332-352) estimated as an upper bound that 12.9 percent of the domestic cut rose industry in 1995 may have been displaced by increased imports due to the duty provisions of the ATPA.

The continual increase in imports from the ATPA nations and the continual decrease in U.S. production of chrysanthemums, carnations, and cut roses in 1996 does suggest that ATPA imports may be negatively affecting U.S. production of these flowers, although other factors may also be responsible for these output declines.

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. About 84 percent of floriculture operations used some hired workers. The peak number of hired workers in floriculture crops increased from 110,041 in 1995 to 113,740 in 1996; in 1993 there were 114,458. Thus at a more aggregated level, employment in this sector has been relatively stable over the last few years. These numbers do not include workers at the wholesale and retail level. The wholesale value of all domestically produced cut flowers increased by 5.4 percent after falling 8 percent in 1995 and increasing 4 percent in 1994 (roses, standard carnations, standard and pompon chrysanthemums account for approximately one-third of total cut flower production). Both the changes in employment and the value of all cut flowers suggest that overall the cut flower industry is relatively stable; in addition, these selected cut flowers are grown primarily in California as are cut flowers generally. Thus workers released by the reduced production of these selected cut flowers may be able to find employment in another segment of the cut flower industry in their current geographic location.

Therefore trends in domestic production in 1996 suggest that increased imports of fresh roses, standard carnations, 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. However, production and employment in the floriculture industry remains relatively stable, due to growth in segments other than cut flowers. Thus it is unlikely that the preferences provided by the ATPA have created any significant adjustment problem.

Sugar and confectionery products: U.S. imports of sugar and confectionery products (SIC 206) from the ATPA nations increased by 18.7 percent to $166.8 million during 1996 and accounted for 5.7 percent of U.S. sugar imports. ATPA duty-free imports increased from $66.4 million in 1995 to $76.8 million in 1996; very few of these imports (less than $1 million) were items not eligible for the GSP. U.S. cane sugar imports, however, remain subject to U.S. quota levels and only a very small amount of sugar products that enter ATPA duty free are not subject to quotas.

U.S. employment in the sugar and confectionery products industry has decreased at an annual rate of 0.8 percent over the 1979-96 period and decreased at a 0.1 percent rate over the 1990-96 period; in 1996, employment decreased by 1,500 jobs. U.S. sugar cane quotas are set to equate projected U.S. consumption needs with projected U.S. production. Therefore, duty-free entry of cane sugar under the ATPA program does not allow the ATPA beneficiaries to increase their exports of sugar to the United States at the expense of U.S. production. The ATPA program simply redistributes tariff revenue from the U.S. Treasury to the ATPA-beneficiary sugar exporters; there is no effect on U.S. producers or U.S. employment. Only a small portion of the ATPA duty-free imports in this industry are not covered by U.S. quotas, and it is possible that duty-free treatment of these items may have increased ATPA exports of these items. The duty-free provisions of the ATPA do not appear to have presented any adjustment problems for this industry.

Miscellaneous food products: U.S. imports of ATPA miscellaneous food products (SIC 209) increased by 1.4 percent to $95.4 million in 1996 (compared to a 49.7 percent increase during 1995); these imports accounted for 3.9 percent of total U.S. imports in this SIC category during 1996. The amount which entered ATPA duty-free increased by $17.2 million to $64.8 million and $58.5 million of this (2.4 percent of total U.S. imports of this item) were items not eligible for the GSP. ATPA duty-free imports which were also eligible for the GSP were primarily sardines and noncorn cereals, while ATPA duty-free imports not eligible for the GSP were primarily uncanned skipjack tunas. U.S. employment in the miscellaneous food products industry increased by 3,900 to 185,400 in 1996. With the increase in 1996, employment in this industry is now slightly above its level in 1990 (181,800) and 1991 (180,900). Over the longer term, employment in this industry has been increasing at an average annual rate of 0.7 percent since 1979. The domestic miscellaneous food products industry, however, covers a broad mix of food preparation establishments, including those engaged in canning and cooking fish and seafood, in preparing fresh or frozen fish and seafood, in roasting coffee and manufacturing coffee concentrates, in manufacturing potato and corn chips and other snacks, in manufacturing ice for sale, in manufacturing dry macaroni, spaghetti, vermicelli, and noodles, and in manufacturing a wide variety of other prepared foods and miscellaneous food specialties. Given the diversity of activities engaged in by establishments in this industry, industry employment trends at this level of aggregation may not be particularly meaningful or useful for analysis at a detailed product level.

ATPA duty-free imports of miscellaneous food products 1996 were concentrated in one tariff schedule item: HTS 1604.14.40--tuna and skipjack (in bulk, not in oil) not in airtight containers, with $64.6 million in value, of which $57.9 million entered ATPA duty free. This item is eligible for ATPA duty-free entry, but not GSP duty-free entry. The U.S. imports from the ATPA beneficiaries of this item increased by $8.4 million (or 14.9 percent) in 1996; in 1995 they increased 120 percent. Imports of this item have increased by 1,800 percent since 1992. A significant percentage of these imports entered ATPA duty-free; duty-free imports increased $21.4 million (58.6 percent) to $57.9 million during 1996 and have now increased by 905 percent since 1993. In 1996, 91.6 percent of these imports (97.3 percent of the duty-free imports) from the ATPA beneficiaries came from Ecuador with the remainder from Colombia. U.S. imports from the ATPA nations represented 63 percent of total U.S. imports from all sources of this tariff item in 1996, while ATPA duty-free imports represented 57 percent. ATPA duty-free entries under this item accounted for 12.6 percent of all duty-free entries that were unique to the ATPA in 1996.

According to the U.S. International Trade Commission, this product category (HTS 1604.14.40) comprises the cooked and cleaned meat of tuna, which in the trade is referred to as loins. Loins represent an intermediate stage that occurs during the production of canned tuna. According to the Commission, there is no U.S. production of tuna loins as a primary product, since most U.S. tuna fishermen are either employed directly by the canneries or they sell their tuna unprocessed. Tuna loins generally are produced in foreign tuna processing plants (which are labor-intensive) and exported to U.S. tuna canneries where they are further processed into canned tuna (which is capital-intensive). Imports of canned tuna are not eligible for duty-free treatment under the ATPA. A reason cited by the Commission for the recent growth in U.S. imports of tuna loins is the increased use of tuna loins by U.S. canneries in Puerto Rico to compensate for traditional supplies from the Eastern Tropical Pacific that have been restricted due to environmental concerns (a combination of private-sector "dolphin-safe" initiatives and U.S. government embargoes under the Marine Mammal Protection Act).

According to the U.S. International Trade Commission, the U.S. tuna industry is relatively small; in 1991, there were 9,500 workers in U.S. canneries and 740 commercial U.S. tuna fishermen (excluding albacore tuna which are caught on multi-species boats). The commercial fishing segment of the industry went through a significant restructuring during 1991-92, due to the enactment of "dolphin-safe" environmental legislation. As a result, the smaller boats that had fished the eastern Pacific virtually vanished, while the larger boats moved to the western Pacific. The total catch of light-meat tuna changed from 45.8 million pounds ($87.9 million) in 1995 to 51.4 million pounds ($80.1 million); thus there was a 19 percent fall in the price of light meat tuna. In 1994, light meat tuna output was 45.1 million pounds ($81.6 million); thus the price had increased by 6 percent in 1995. The catch of albacore tuna increased to 34.1 million pounds ($30.2 million) in 1996 from 17.2 million pounds ($14.3 million) in 1995 and 25.7 million pounds ($22.2 million) in 1994. Therefore, the albacore segment of the market experienced significant growth, while the light meat segment had moderate growth in output but a significant price decline. It is not clear what role increased imports, and especially the increased duty-free imports under the ATPA, have had in this price decline for light meat tuna. However, U.S. commercial tuna fishing output in terms of pounds in 1996 would suggest that the U.S. commercial fishing fleet (and the employment connected with it) did not appear to have experienced any adjustment problem as of 1996.

<u>Secondary nonferrous metals</u>: U.S. imports of secondary nonferrous metals (SIC 334) from the ATPA nations increased by 31.3 percent to $25.6 million in 1996. ATPA duty-free imports amounted to $22.2 million which accounted for 2.5 percent of total U.S. imports of secondary nonferrous metals. All of the ATPA duty-free imports were items also eligible for GSP and were primarily unwrought zinc. The increase in imports from the ATPA beneficiaries in 1996 represented a partial rebound from their 57 percent decrease in 1995; U.S. imports of these items from the ATPA nations remained significantly below their level in 1994. U.S. employment in the secondary nonferrous metals industry remained stable at 15,900 in 1996. However, employment in this industry has declined by 8,900 since 1979 and 3,200 since 1990. Since the 1996 increase in imports of nonferrous metals from the ATPA nations represented a recovery from their significant decrease in 1995, and since U.S. employment in this industry remained stable during 1996, it does not appear that the ATPA is responsible for any adjustment problem in this industry.

<u>Nonferrous rolled and drawn products:</u> U.S. imports of nonferrous rolled and drawn products (SIC 335) increased from $4.7 million in 1995 to $68.3 million in 1996 (a 1,355 percent increase). Most of this ($61.9 million) entered ATPA duty-free and approximately half of this ($29.5 million) was not eligible for GSP duty-free treatment. ATPA duty-free imports accounted for only one percent of total U.S. imports of these items during 1996. The primary items entered ATPA duty- free which were also eligible for GSP duty-free treatment were zinc plates and sheets, and copper bars. The primary item entered ATPA duty-free that was not eligible for GSP duty-free treatment was semimanufactured gold.

U.S. employment in the nonferrous rolled and drawn products industry increased by 100 during 1996 to 167,700; however, this industry has lost 52,300 jobs since 1979 and 4,600 since 1990, although employment in 1996 was 500 above its level in 1991. While employment in this industry decreased considerably between 1979 and 1991, it has been stable since then. Thus although ATPA duty-free imports increased quite significantly in 1996, they remained a small portion of total U.S. imports of this industry, and employment in this industry 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.

Jewelry and silverware: U.S. imports of jewelry and silverware (SIC 391) from the ATPA countries totaled $290.2 million in 1996; this represented a decrease of 11.3 percent from 1995. ATPA duty-free imports increased from $135.9 million in 1994 to $176.4 million in 1995 and to $202.0 million in 1996. This $66.1 million increase in ATPA duty-free imports between 1994 and 1996 was matched by a $76.8 million decrease in GSP duty-free imports of these items from the ATPA beneficiaries over the same period. Thus the large increase in ATPA duty-free imports has been the result of importers switching to the ATPA program from the GSP program, and not the result of an increase in imports from the ATPA countries. U.S. imports from the ATPA beneficiaries accounted for 2.5 percent of total U.S. jewelry and silverware imports in 1996. All the items which entered ATPA duty-free were also eligible for the GSP; the major items included gold and platinum necklaces.

U.S. employment in the jewelry and silverware industry has been relatively stable, with employment totaling 49,100 in 1996, which was slightly below its 1990 level of 52,000. Employment in this industry decreased by 1,200 between 1995 and 1996. Jewelry and silverware imports from the ATPA nations decreased in 1995 and 1996, while U.S. imports from all sources increased both years. Since jewelry and silverware imports from ATPA countries have decreased over the last two years, although ATPA duty-free imports increased substantially due to importers switching to the ATPA from the GSP program, the provisions of the ATPA do not appear to be creating any adjustment problems in this industry.

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 0.06 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 31 percent in 1996. 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, and the ATPA program does not appear to have had a significant effect in altering the production or export structure of the ATPA nations.

Seven groups of products, two agricultural product groups (vegetables and melons--in particular, asparagus; and horticultural specialties--in particular, fresh cut chrysanthemums, standard carnations, and roses), two food-related manufactures (sugar and miscellaneous food products--in particular, tuna), and three metal-related manufactures (secondary nonferrous metals, nonferrous rolled and drawn products, and jewelry and silverware) received substantial benefits in 1996 from duty-free treatment under the ATPA. For three of these (sugar and confectionery products, secondary nonferrous metals, and jewelry and silverware) 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 seven groups accounted for 72 percent of all ATPA duty-free imports and 93 percent of all duty-free imports in 1996 that were unique to the ATPA. For each of the U.S. industries that produced products similar to the seven 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 in the United States, and any employment declines associated with it, may be due in part to imports of cut roses from ATPA beneficiaries; it is also possible that other trade or non-trade factors may also be 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 (most-favored-nation) trading partners. Balancing these declines in the margin of benefit is the uncertain future of the U.S. GSP program; if the GSP program were to be eliminated in the future, the unique benefits that the ATPA program provides to the ATPA beneficiaries would be significantly increased.

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