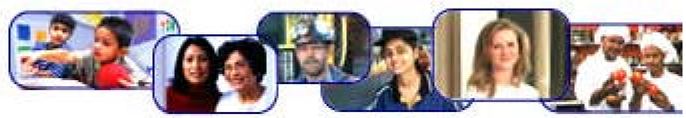

ATPA 1998 Congressional Report

TRADE AND EMPLOYMENT EFFECTS OF THE ANDEAN TRADE PREFERENCE ACT

Fifth 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 1997, $1.3 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 (54 percent or $717 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 46 percent ($600 million) of these duty-free entries represent the unique benefits of the ATPA to the ATPA-beneficiary nations. These unique ATPA benefits represented 6.9 percent of total U.S. imports from the ATPA beneficiary nations and 0.07 percent of total U.S. imports from all nations in 1997.

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, 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 fifth 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 1997.

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 4,750 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 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 1997 accounted for 1.0 percent of total U.S. merchandise imports from all countries and amounted to $8.7 billion, an 10.2 percent increase over their level in 1996. U.S. exports to the ATPA beneficiaries in 1997 accounted for 1.3 percent of all U.S. merchandise exports to the world and amounted to $8.7 billion, a 12.5 percent increase over their level in 1996.

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 $8 million in 1997. Both U.S. exports to and imports from the ATPA beneficiaries have increased each year since 1991 except for a small export decline in 1996. In nominal (current dollar) terms, U.S. exports to the ATPA beneficiaries in 1997 were 128.6 percent above their 1991 level, while U.S. imports from the ATPA beneficiaries in 1997 were 74.5 percent above their 1991 level.

By broad industrial division, 32 percent of U.S. imports from the ATPA beneficiaries in 1997 were agricultural and fishery products, 35 percent were crude and refined petroleum and minerals, 30 percent were manufactures, and 3 percent were miscellaneous items. During 1997, U.S. imports of crude and refined petroleum products from the ATPA beneficiary countries decreased by 6.7 percent, while U.S. imports of non-petroleum products from the ATPA beneficiary nations increased from their 1996 level of $4.7 billion to $5.7 billion in 1997, a 21.5 percent increase.

Leading industrial categories of U.S. imports from the ATPA beneficiary nations in 1997 included: agricultural products ($1,982 million); crude petroleum ($1,879 million); refined petroleum products ($1,048 million); fishery products ($756 million); primary metal products ($712 million); apparel ($585 million); food products ($361 million); miscellaneous manufactures ($293 million); chemicals ($221 million); and miscellaneous commodities ($153 million). These top-ten categories, based on the 2-digit Standard Industrial Classification system, accounted for 92.1 percent of all U.S. imports from the ATPA beneficiaries in 1997.

Leading industrial categories of U.S. exports to the ATPA beneficiary nations in 1997 included: nonelectrical machinery ($2,249 million); chemicals ($1,404 million); electrical machinery ($1,096 million); transportation equipment ($560 million); agricultural products ($524 million); food products ($404 million); paper products ($335 million); scientific and professional instruments ($324 million); miscellaneous manufactures, not specifically provided for ($248 million); and refined petroleum ($246 million). These top-ten categories, based on the 2-digit Standard Industrial Classification system, accounted for 85.1 percent of all U.S. exports to the ATPA beneficiaries in 1997.

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 1997, 6.1 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 9.9 percent over the 1991-97 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 1997, over $4.0 billion (or 46 percent) of the $8.7 billion in total U.S. imports from the ATPA beneficiary countries was imported normal trade relations (NTR) (formerly known as most-favored-nation (MFN)) duty-free. Of the remaining $4.7 billion which was subject to duty (i.e., not NTR duty-free), U.S. import duties were assessed on almost $2.9 billion, while almost $1.8 billion entered duty-free under one of the special U.S. tariff preference programs.

Of the almost $1.8 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 1997, $1,317 million entered duty-free under the ATPA, $254 million entered duty-free under the GSP, $165 million (U.S.-content value) entered duty-free under the 9802.00.80 provision, and $53 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 1997, 98 percent of the value of these items entered duty-free (78 percent under ATPA and 20 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 1997. 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 35 percent in 1997; most of the items eligible for ATPA duty-free treatment were already eligible for GSP duty-free treatment. 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 22.9 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 1997 included: horticultural specialties ($445 million); primary nonferrous metal products ($185 million); jewelry and silverware ($157 million); nonferrous rolled and drawn products ($93 million); industrial inorganic chemicals ($72 million); miscellaneous food products ($52 million); miscellaneous plastic products ($37 million); sugar and confectionery products ($35 million); vegetables and melons ($32 million); and prepared fruits and vegetables ($28 million). These top-ten categories, based on the 3-digit Standard Industrial Classification system, accounted for 86.2 percent of total ATPA duty-free U.S. imports in 1997.

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) increased in 1997 after a significant decrease during 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 in 1996 and then increased to $286 million (or 6.1 percent of all U.S. imports subject to duty from the ATPA beneficiaries) in 1997. U.S. components comprised 57.8 percent of the value of these items in 1997. 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 ($272 million with 57 percent U.S.-content value) accounted for over 95 percent of the value of U.S. imports from ATPA beneficiaries under HTS item 9802.00.80 in 1997; two other industrial groups with appreciable amounts were textile mill products ($11 million with 68 percent U.S.-content value) and miscellaneous manufactures ($3 million with 87 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 1997, the United States imported $28.4 million of these eligible leather products from the ATPA beneficiaries, $27.2 million of which was subject to lower duties, $3 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 1997 was approximately the same as it was in 1991, the year before the reduced duties program began.

In addition to receiving ATPA duty-free benefits, Colombia is eligible (as of August 24, 1995) for the Special Access Program (SAP) which was established in 1986 and sets liberal quotas (guaranteed access levels, GALs) for textile and apparel items assembled in eligible CBERA beneficiaries from fabric formed and cut to pattern in the United States; the other ATPA beneficiaries are not subject to textile and apparel quotas. In 1997, U.S. textile and apparel imports from Colombia under the SAP program amounted to $25.9 million, or about 10 percent of all U.S. imports of assembled apparel items under the HTS 9802 provisions from Colombia.

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 1997 in the following cases: products eligible for ATPA duty-free entry, but not eligible for duty-free entry under GSP ($341 million, of which $329 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 ($288 million, of which $271 million entered ATPA duty-free).

The total unique ATPA benefits of $600 million in 1997 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 $142 million or 30.9 percent more than they were in 1996 (68.4 percent more than in 1995) and represented 6.9 percent of total U.S. imports from the ATPA-beneficiary nations (but only 0.07 percent of total U.S. imports from all sources) in 1997.

The top-ten tariff schedule categories of items receiving duty-free treatment unique to the ATPA in 1997 included: fresh cut roses ($184.1 million), fresh cut chrysanthemums, standard carnations, anthuriums, and orchids ($143.4 million), cathodes ($104.0 million); tuna and skipjack not in airtight containers ($47.3 million), nonpure nonmonetary gold ($41.3 million), fresh or chilled asparagus entered from November 15 to September 15 ($19.8 million), zinc plates ($7.7 million), fresh or chilled asparagus entered from September 15 to November 15 ($7.0 million), oil well tubing of iron ($6.8 million), and glazed ceramic flags and tiles ($5.6 million). These ten items accounted for 94.5 percent ($567.0 million) of the duty-free entries unique to the ATPA in 1997. 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 fresh cut chrysanthemums, standard carnations, anthuriums, and orchids from Colombia, cathodes from Peru, zinc plates from Peru, and fresh asparagus entered from 9/15 to 11/15 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 1997, Colombia accounted for 51 percent ($303 million) of total ATPA duty-free imports unique to the ATPA, Peru for 32 percent ($192 million), Ecuador for 17 percent ($104 million), and Bolivia for less than one-tenth of one percent ($390 thousand).

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, 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 1997.

Five 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 1997 and these imports accounted for at least one percent of total U.S. imports of that SIC group. These five groups were: vegetables and melons, horticultural specialties, industrial inorganic chemicals, primary nonferrous metals, and nonferrous rolled and drawn products. All of these except industrial inorganic chemicals 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 five 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 1997 is discussed first.

The U.S. Employment Situation in 1997

During 1997, the overall employment situation in the United States remained strong. The U.S. economy added 3.1 million jobs during 1997; employment has increased by 14.4 million since 1991. Total nonfarm employment in 1997 (122.7 million) was 13.3 million (or 12.1 percent) above the previous cyclical high recorded in 1990. The job gains during 1997 occurred in both the service-producing and goods-producing sectors. Within the goods-producing sector, there were job gains in construction, manufacturing and mining. With these gains, employment in the goods-producing sector in 1997 (24.9 million) was slightly above that in 1990 by 29,000. The manufacturing sector gained 162,000 jobs in 1997 (although the sector still has 419,000 jobs fewer than in 1990). The U.S. manufacturing sector, with employment of 18.7 million in 1997, has lost 2.4 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 1997

Vegetables and melons: The ATPA nations' exports of vegetables and melons (SIC 016) to the United States increased to $32.3 million in 1997, a 6.6 percent increase compared to 43.4 percent and 33.9 percent increases in 1995 and 1996. These exports represented 1.8 percent of total U.S. imports of vegetables and melons, and almost all entered duty-free under the ATPA. Of the $31.9 million which entered ATPA duty free, $30.2 million were items not eligible for the GSP; these items accounted for 1.7 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 85 percent of the ATPA duty-free imports in this group and 82 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, Peru was not eligible for GSP for this item because they had exceeded the program's competitive need limits. During 1997, total U.S. imports of fresh asparagus increased by 19.0 percent, while ATPA imports increased by 25.2 percent. ATPA duty-free imports of fresh asparagus accounted for 38.8 percent of total U.S. asparagus imports in 1997. Most of the remaining U.S. imports of asparagus enter NAFTA duty-free from Mexico or GSP duty-free from Chile; duties are paid on only one percent of total U.S. asparagus imports. Thus the duty-free provisions of the ATPA provide the Andean nations parity with the other asparagus exporting nations instead of providing them a preference.

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 has decreased steadily from 109,850 tons in 1994, to 99,450 tons in 1996, and to 98,970 tons in 1997. The dollar value of U.S. production declined from $178 million in 1994, to $156 million in 1996, but increased in 1997 to $181 million 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. It is possible that imports of fresh asparagus during the winter months reduce the demand for U.S. processed asparagus, however, 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. In 1997, fresh asparagus accounted for 61 percent and processed (canned or frozen) for 39 percent of total U.S. production by weight, while fresh asparagus accounted for 74 percent and processed for 26 percent by value. U.S. production tonnage of fresh asparagus increased by 8 percent between 1996 and 1997, while U.S. production of processed asparagus decreased by 11 percent in 1997. The price of fresh asparagus increased by 19 percent in 1997 but this simply reversed an 18 percent decrease during 1996. The price of processed asparagus has remained relatively stable during the 1995 to 1997 period. Processed asparagus generally sells for slightly more than one-half the price of fresh asparagus. In dollar value terms, U.S. imports from all sources of fresh asparagus were equal to 53 percent of U.S. production of fresh asparagus; ATPA duty-free imports were equal to 21 percent of U.S. production in 1997. Thus the decrease in U.S. production of asparagus over the last several years slowed in 1997, and the domestic prices of fresh and processed asparagus were similar in 1997 to their level in 1995. Therefore the sizable (and moderately increasing) amounts of ATPA duty-free imports 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 $8.9 million (or 2.0 percent) to $447 million in 1997. Almost all of this ($445 million) entered ATPA duty-free, and these duty-free imports accounted for 37.3 percent of total U.S. imports of horticultural specialties. A very large share of these duty-free imports ($328 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 24.9 percent of all ATPA duty-free entries and 54.6 percent of the duty-free entries that were unique to the ATPA in 1997. 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 decreased by 3 percent to $117 million during 1997.

U.S. imports of ATPA fresh cut roses (HTS 0603.10.60) increased by $27.8 million (or 17.8 percent) to $184.3 million in 1997; 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 22 percent in 1996 and 22 percent in 1995 and 16 percent in 1994. During 1997, over 89 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 and Ecuador 25 percent (Bolivia accounted for less than one percent) of total U.S. imports of fresh roses. This tariff item is not eligible for GSP duty-free entry, and had the largest amount of duty-free imports during 1997 which were unique to the ATPA; the ATPA allows the beneficiaries to avoid a 7.8 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 57 percent in 1996. According to the U.S. Department of Agriculture, domestic production of roses (in blooms) declined by 34 percent between 1989 and 1995, and declined by 11.8 percent in 1996; during 1997, domestic production increased by 2.8 percent in terms of blooms but decreased by 1.1 percent in terms of value. The USITC estimates (based on 1996 data) that 14.1 percent of domestic fresh cut rose shipments may have been displaced by increased imports due to the duty provisions of the ATPA.

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 by 9.5 percent to $143 million in 1997. Chrysanthemums and standard carnations from Colombia received the second 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 almost 3 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 remain eligible for GSP duty-free treatment. Approximately 51 percent of U.S. imports from Colombia of this tariff item was composed of carnations (HTS 0603.10.7030) and 49 percent was chrysanthemums (HTS 0603.10.7010 and 0603.10.7020), with the very small remaining balance being composed 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 1996. 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. In 1996, domestic production of standard chrysanthemums decreased by 1.5 percent and during 1997 domestic production of standard chrysanthemums decreased 20.4 percent in terms of blooms and 31.3 percent in terms of value. Domestic production of pompon chrysanthemums decreased 11.7 percent in 1996 and decreased in 1997 by 1.0 percent in terms of bunches (but increased by 2.3 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 and in 1997 production declined by 33.4 percent in terms of blooms and 28.0 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 during 1996 and declined by 16.4 percent to $30.9 million in 1997. 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. 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 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. 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 chrysanthemums, carnations, and cut roses over the last several years 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 85 percent of floriculture operations used hired workers. The peak number of hired workers in floriculture crops decreased from 114,372 in 1996 to 109,934 in 1997; 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 but did decrease by 4 percent during 1997. These numbers do not include workers at the wholesale and retail level. The wholesale value of all domestically produced cut flowers increased by 5.8 percent in 1997 after increasing by 5.4 percent in 1996. 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 total cut flower sales have shown modest growth over the last several years, while domestic employment in the floriculture industry has been relatively stable until the decreases experienced in 1997. 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.

Therefore trends in domestic production in 1997 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. Although the number of negatively impacted workers was likely to have been small, it is difficult to determine the degree of adjustment difficulty faced by these displaced workers. Although employment opportunities for these displaced workers were probably limited in the floriculture industry, the overall health of the U.S. economy would tend to minimize the adjustment costs for these workers.

Industrial inorganic chemicals: U.S. imports from the ATPA countries of industrial inorganic chemicals (SIC 281) increased by 206 percent to $90.7 million in 1997. Of this amount, $72.3 million entered ATPA duty-free and all of this were items which were also eligible for duty-free treatment under the GSP. These ATPA duty-free imports consisted largely of gold compounds (HTS 2843.30.00.00) from Colombia ($66 million) and Peru ($5 million). Although ATPA duty-free imports accounted for only 1.0 percent of total U.S. imports of industrial inorganic chemicals, ATPA duty-free imports of gold compounds accounted for 96.6 percent of total U.S. imports of gold compounds.

U.S. employment in the industrial inorganic chemicals industry decreased by 2,000 to 117,200 in 1997; employment in this industry has fallen significantly from its previous cyclical peaks of 162,300 in 1979 and 138,100 in 1990. However, since U.S. imports from the ATPA beneficiaries are concentrated in a small segment of this industry, overall employment conditions in the industry are of only minor significance in appraising any adjustment problem created by ATPA duty-free imports. Given that gold compounds are eligible for duty-free treatment under the GSP, the provisions of the ATPA do not appear to be creating any additional adjustment problem for this industry.

Primary nonferrous metals: U.S. imports of primary nonferrous metals (SIC 333) from the ATPA nations decreased by 6.0 percent to $513.3 million in 1997. However, ATPA duty-free imports increased from $112.5 million in 1996 to $184.9 million in 1997. There was a 78.4 percent increase to $221.9 million of imports of items generally eligible for the ATPA but not the GSP. However there was a very large increase from $2.0 million in 1996 to $107.1 million in 1997 of ATPA duty-free imports which were not eligible for the GSP at the time they were imported due to Peru's loss of GSP eligibility for refined copper cathodes (HTS 7403.11.00.00) and refined copper bars (HTS 7403.12.00.00) after July 1, 1997 due to competitive need considerations. ATPA duty-free imports whose duty-free status was unique to the ATPA represented 0.8 percent of total U.S. imports of primary nonferrous metals. However, ATPA duty-free imports of refined copper cathodes from Peru have increased twelve-fold since 1995 and accounted for 11.8 percent of total U.S. imports of this item during 1997.

U.S. employment in the primary nonferrous metals industry fell by 200 to 39,300 during 1997. Employment in this industry has declined by 46 percent since 1979 and 14 percent since 1990, although employment has declined by less than 2 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 industry. Duty-free imports unique to the ATPA of copper cathodes accounted for less than 2 percent of U.S. apparent consumption of this item (based on 1996 USITC estimates of apparent consumption). In addition, the USITC estimated (using 1996 data) that less than one-tenth of 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.

Nonferrous rolled and drawn products: U.S. imports of nonferrous rolled and drawn products (SIC 335) increased from $4.7 million in 1995 to $68.3 million in 1996 and to $125.9 million in 1997 (a 2,579 percent increase over two years). Over $93 million entered ATPA duty-free and more than half of this ($54.3 million) was not eligible for GSP duty-free treatment. ATPA duty-free imports accounted for 1.3 percent of total U.S. imports of these items during 1997. 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 lost GSP eligibility July 1, 1997) and semi-manufactured gold.

U.S. employment in the nonferrous rolled and drawn products industry increased by 600 during 1997 to 168,400; although employment in 1997 was 1,200 above its level in 1991, this industry has lost 51,600 jobs since 1979 and 3,900 since 1990. Thus although ATPA duty-free imports have increased quite significantly during 1996 and 1997, they remained a small portion of total U.S. imports of this industry, and 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.

Update on industries with significant ATPA duty-free imports from previous reports: Several industries which were analyzed more fully in last year's report are not considered in this year's report because the growth of ATPA duty-free imports subsided during 1997. ATPA duty-free imports of sugar and confectionary products (SIC 206) fell significantly as importers switched back to using the GSP provision to enter these products duty free in 1997; ATPA duty-free imports of sugar products not eligible under the GSP were negligible. In the miscellaneous food products industry (SIC 209), ATPA duty-free imports fell by 20 percent to $51.7 million, while ATPA duty-free imports of items not eligible under the GSP fell by 19 percent to $47.4 million. Most of the ATPA duty-free imports in the miscellaneous food products industry were tuna loins; ATPA duty-free imports increased by 905 percent between 1993 and 1996, but fell by 18.4 percent during 1997--nevertheless they remain 29.5 percent above the level in 1995. U.S. imports of secondary nonferrous metals (SIC 334) from the ATPA beneficiaries decreased by 4.8 percent during 1997 while most of these items which had entered duty-free under the ATPA during 1996 entered duty-free under the GSP during 1997. U.S. imports of jewelry and silverware (SIC 391) from the Andean beneficiaries decreased by 4.7 percent to $276 million in 1997. ATPA duty-free imports of these items fell by 22.5 percent; only a negligible portion of these ATPA duty-free imports were items not eligible under the GSP program.

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 1.0 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 38 percent in 1997. 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.

Five 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), and three metal-related manufactures (industrial inorganic chemicals -- primarily gold compounds; primary nonferrous metals --refined copper cathodes; and nonferrous rolled and drawn products--semi-manufactured gold) received substantial benefits in 1997 from duty-free treatment under the ATPA. For industrial inorganic chemicals, 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 five groups accounted for 63 percent of all ATPA duty-free imports and 87 percent of all duty-free imports in 1997 that were unique to the ATPA. For each of the U.S. industries that produced products similar to the five 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 be due in part to imports of these cut flowers from the 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 (normal-trade-relations) trading partners.

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