

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

**Third Report 1995**  
Investigation No. 332-352



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# **U.S. International Trade Commission**

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# **U.S. International Trade Commission**

Washington, DC 20436

## **Andean Trade Preference Act: Impact on U.S. Industries and Consumers and on Drug Crop Eradication and Crop Substitution**

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# PREFACE

The submission of this study to the Congress and to the President continues a series of annual reports by the U.S. International Trade Commission (the Commission) on the impact of the Andean Trade Preference Act (ATPA) on U.S. industries and consumers. Under section 206 of the act (19 U.S.C. 3204), beginning in 1993, the Commission must report annually on the operation of the program. The present study fulfills the requirement for calendar year 1995.

The ATPA, enacted on December 4, 1991 (Public Law 102-182, title II, 105 Stat. 1236, 19 U.S.C. 3201 et seq.), authorized the President to proclaim duty-free treatment for eligible articles from Bolivia, Colombia, Ecuador, and Peru. The President proclaimed preferential duty treatment for Bolivia and Colombia on July 2, 1992, for Ecuador on April 13, 1993, and for Peru on August 11, 1993. Section 206 of the act requires the Commission to report to the President and the Congress on the economic impact of the act “on United States industries and consumers and, in conjunction with other agencies, the effectiveness of the act in promoting drug-related crop eradication and crop substitution efforts of the beneficiary countries.” The Commission is to submit its report by September 30 of each year until ATPA benefits expire in the year 2001.

The Commission is an independent factfinding agency. Statements made in this report do not necessarily reflect the views of executive branch agencies and, unless cited as such, should not be taken as official statements of U.S. trade policy. Because this report was completed separately from any other work conducted by the Commission, nothing in it should be construed to indicate what the Commission’s determination would be in any investigation conducted under any statutory authority.

Copies of this current report as well as the 1994 report on ATPA are available in electronic format on the Commission’s Internet Web site (<http://www.usitc.gov/>).



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# EXECUTIVE SUMMARY

The Andean Trade Preference Act (ATPA), signed into law on December 4, 1991, authorizes the President to proclaim duty-free treatment or reduce duties on eligible products of four Andean mountain countries of South America—Bolivia, Colombia, Ecuador, and Peru. The goal of ATPA is to promote the development of sustainable economic alternatives to drug crop production in the Andean countries by offering these alternative Andean products broader access to the U.S. market. The preferential trade benefits provided under ATPA are similar to those provided to Caribbean Basin countries under the Caribbean Basin Economic Recovery Act.

## Background:

Section 206 of ATPA requires the U.S. International Trade Commission (the Commission) to report annually on the actual and probable future effects of ATPA on the U.S. economy generally, on U.S. industries, on U.S. consumers, and on the impact of ATPA on drug crop eradication and crop substitution. The effects of duty reductions are measured by estimating: (1) the extent to which consumers benefit from duty reductions through lower prices (consumer surplus); (2) the loss of tariff revenues to the Government; and (3) the potential displacement of domestic production. Net welfare effects are measured by subtracting estimated tariff revenue losses from estimated gains in consumer surplus.<sup>1</sup> The potential displacement in domestic production is measured based on the change in demand for competing domestic products. Probable future effects are estimated based on an analysis of recent investment trends and factfinding travel by Commission staff to Bolivia, Ecuador, and Peru. The impact on drug crop eradication and crop substitution also is based on the factfinding travel, as well as on information from other U.S. Government agencies.

Highlights of the Commission's 3d annual report on ATPA for the year 1995 follow:

## 1995 trade update:

- U.S. merchandise imports from Bolivia, Colombia, Ecuador, and Peru totaled nearly \$7.0 billion in 1995, or 0.9 percent of total U.S. imports worldwide. Imports entered under ATPA provisions in 1995, the second full year that all four countries were designated beneficiaries, totaled \$939 million—just 0.1 percent of total U.S. imports worldwide.
- ATPA duty-free imports totaled \$916 million in 1995. During the August 1 through December 31, 1995 lapse of the U.S. Generalized System of Preferences (GSP) program, several products—such as certain wood products and copper—that had entered free of duty under that program were entered under ATPA for the first time in 1995. Imports valued at \$23 million paid

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<sup>1</sup> Welfare effects include changes in consumer surplus and producer surplus that are the results of changes in price. To produce maximum potential welfare and displacement estimates, the analysis used in this report does not consider changes in producer surplus because it assumes that production in each market faces no capacity constraints over the relevant range—that is, the supply of U.S. domestic production is assumed to be perfectly elastic (the supply curves in all of the markets are horizontal) and, consequently, U.S. domestic prices are assumed not to fall in response to ATPA imports. These assumptions lead to an overstatement of the net welfare effect.

duties that were reduced, but not eliminated, under other ATPA provisions. In all, 13.3 percent of imports from the Andean countries entered under ATPA provisions.

- In terms of value, imports entered under ATPA shipped from Colombia, Ecuador, and Peru increased between 1994 and 1995. Imports from Colombia rose by 21 percent. Colombia is by far the leading supplier of imports entered under ATPA provisions, and alone accounted for over one-half of the value of all ATPA entries. Colombia was the leading or sole supplier in 1995 of 8 of the top 20 ATPA imports, including four categories of cut flowers, cellular plastic plates and sheets with manmade textile components, raw sugar, leather cases and bags, and leather trunks and suitcases. Although they increased in value, imports of cut flowers accounted for a smaller share of Colombia's ATPA entries in 1995 than in prior years.
- Imports entered under ATPA provisions from Peru and Ecuador doubled in value during 1995. Peru was the leading supplier of rope of precious metal except silver, gold rope necklaces and neck chains, unrefined copper, unwrought lead, and fresh or chilled asparagus not entered from September 15 through November 15. Ecuador was the leading supplier of tuna not in cans, fresh or chilled fish, and articles of wood. Imports from Bolivia declined, mirroring that country's slower economic growth and reduced level of overall exports.

### **Effects of ATPA on U.S. industries and consumers:**

- Of the \$939 million worth of U.S. imports that entered under ATPA provisions in 1995, \$699 million of those imports could not have received tariff preferences under any other program.
- The Commission used a partial-equilibrium analysis of the 25 leading items benefiting exclusively from ATPA tariff preferences in 1995 to produce estimates of the maximum potential effects of ATPA.
- All of the items analyzed for which data were available produced net welfare gains for U.S. consumers. Fresh cut roses yielded the largest such gains (valued at \$850,000); followed by fresh or chilled asparagus not entered from September 15 through November 15 (\$637,000); chrysanthemums, standard carnations, anthuriums, and orchids (\$519,000); and jewelry and parts of precious metal except silver (\$175,000).
- Industries estimated to experience maximum displacement of more than 5 percent of the value of U.S. production were those producing chrysanthemums, standard carnations, anthuriums, and orchids (19.0-percent of domestic shipments potentially displaced, valued at \$8.6 million); fresh cut roses (13.0-percent displacement, valued at \$15.4 million); fresh or chilled asparagus not entered from September 15 through November 15 (12.5-percent displacement, valued at \$6.2 million); and rope and chain of precious metal except silver (7.2-percent displacement, valued at \$6.5 million).

### **Probable future effects of ATPA:**

- Drawing largely on direct observation and reports from U.S. Embassies, the Commission identified several new projects engaged in ATPA-related export-oriented production in 1995.
- Several of these projects involved the production of articles that resulted in the displacement of U.S. production in 1995, including projects to produce jewelry articles in Bolivia and Peru, fresh cut roses in Ecuador, and fresh asparagus in Peru.

## **Impact of ATPA in drug crop eradication and crop substitution:**

- ATPA had little effect on drug crop (primarily coca, the raw material of cocaine) eradication in the Andean region in 1995, according to sources contacted during this investigation. However, ATPA had a small and indirect—but positive—effect on crop substitution during 1995 by providing improved access to the U.S. market for certain Andean products.
- Despite increased coca eradication in Bolivia and Colombia, the net area of land under coca cultivation in the Andean region increased from 201,700 hectares in 1994 to 214,800 hectares in 1995—the highest amount under cultivation since ATPA has been operative. Peru did not engage in crop eradication in 1995. Ecuador, primarily a transit zone for drug-related products and money laundering, is not a significant source of drug crop cultivation.
- Bolivia has made the most progress in the Andean region in promoting substitutes for coca. In 1995, activities were underway in Bolivia to develop such alternative crops as pineapples, palm hearts, and dairy products; other products such as cashew nuts offer longer term potential. In Peru, projects are underway to produce yellow onions, yellow potatoes, and craft products as alternatives in coca-growing regions. Colombia launched an alternative crop substitution program in 1995 that has not yet yielded tangible results.



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# CHAPTER 1

## Introduction

The United States enacted the Andean Trade Preference Act (ATPA) in 1991 to encourage the South American Andean countries of Bolivia, Colombia, Ecuador, and Peru to reduce drug crop cultivation and production.<sup>1</sup> ATPA authorizes the President to proclaim preferential rates of duty to many Andean products entering the United States.

This report fulfills a statutory mandate under ATPA that the U.S. International Trade Commission (the Commission) report annually on the economic impact of ATPA on U.S. industries, consumers, and the economy in general, as well as on the estimated effect of ATPA on drug-related crop eradication and crop substitution in the beneficiary countries.<sup>2</sup> The report, the third in the series, covers calendar year 1995. In June 1995, the House Ways and Means Committee approved and reported out legislation (H.R. 1887) that would have, among other things, repealed the Commission's ATPA reporting requirement. No further action on this legislation has yet been scheduled.

### Approach

The estimated effects of ATPA on the U.S. economy and industries are assessed through analyses of (1) imports entered under this program and trends in U.S. consumption of the affected goods and (2) trends in production, employment, investment, and other economic factors in U.S. industries that produce similar or competing products. General economic and trade data come from official statistics of the U.S.

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<sup>1</sup> ATPA was passed by the Congress on November 26, 1991, and signed into law by President Bush on December 4, 1991. President, "Statement on Signing Legislation on Trade and Unemployment Benefits," *Weekly Compilation of Presidential Documents: Administration of George Bush*, vol. 27, No. 49 (Dec. 4, 1991), p. 1758. Public Law 102-182, Title II, 105 Stat. 1236, 19 U.S.C. 3201 et seq. Relatively minor amendments to ATPA were made by Public Law 102-583.

<sup>2</sup> The reporting requirements are described in greater detail in sec. 205(b) of ATPA (19 U.S.C. 3204(b)).

Department of Commerce and from materials developed by commodity and industry analysts of the Commission. Investment information is derived principally from factfinding travel to Bolivia, Ecuador, and Peru, and from reports by U.S. Embassies in the Andean region. The report also incorporates public comments received in response to the Commission's *Federal Register* notice for this investigation.<sup>3</sup>

Assessments of the economic effects of ATPA are made using a method developed for these reports as described in Appendix B.<sup>4</sup> The effects of CBERA duty reductions are measured by estimating: (1) the extent to which consumers benefit from duty reductions through lower prices (consumer surplus);<sup>5</sup> (2) the loss of tariff revenues to the Government; and (3) the potential displacement of domestic production. Net welfare effects are measured by subtracting

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<sup>3</sup> *Federal Register*, vol. 61, No. 124 (June 26, 1996), p. 33137.

<sup>4</sup> Commissioner Newquist notes that, in the context of this investigation, economic modeling provides only "estimates" regarding the impact of any event or series of events. In his view, economic models rely on the manipulation of a number of assumptions and variables, all of which differ according to the information sought and the judgment and prejudices of the modeler. Thus, models measuring the impact of a single event can and do produce widely divergent "results." For purposes of this investigation, therefore, Commissioner Newquist considers economic modeling to be but one of many tools available to the Commission to analyze and assess the effects of ATPA.

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

<sup>5</sup> Depending on the competitive situation and market structure of the particular industry in the United States, all or some portion of the gain—realized through lower prices—will be passed on to end users, or to intermediate, downstream industries.

estimated tariff revenue losses from estimated gains in consumer surplus.<sup>6</sup> The potential displacement in domestic production is measured based on the change in demand for competing domestic products. Probable future effects of the ATPA are discussed based on a qualitative analysis of economic trends and investment patterns in ATPA beneficiaries and in competing U.S. industries.

The report assesses the impact of ATPA on illicit drug crop eradication and crop substitution through an evaluation of the extent of drug crop production in the Andean region on a country-by-country basis. The primary sources for much of this information were interviews conducted with public and private sector officials during a field trip to Bolivia, Ecuador, and Peru, and information from other U.S. Government agencies such as the Department of Justice (Drug Enforcement Agency) and the Department of State.

## Organization

The present chapter summarizes the ATPA program. Chapter 2 describes U.S. trade with ATPA beneficiaries during 1995. Chapter 3 addresses the estimated effects of ATPA in 1995 on the economy, industries, and consumers of the United States. Chapter 4 examines the probable future effects of ATPA. Chapter 5 considers the impact of ATPA on drug crop eradication and crop substitution efforts in the beneficiary countries. Appendix A contains a list of the submissions received in response to the Commission's *Federal Register* notice for this investigation. Appendix B explains the economic model used to derive the findings presented in chapter 3.

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<sup>6</sup> Typically, welfare effects include changes in consumer surplus and producer surplus that are the results of changes in price. To produce maximum potential welfare and displacement estimates, the analysis used in this report does not consider changes in producer surplus because it assumes that production in each market faces no capacity constraints over the relevant range—that is, the supply of U.S. domestic production is assumed to be perfectly elastic (the supply curves in all of the markets are horizontal) and, consequently, U.S. domestic prices are assumed not to fall in response to CBERA imports. These assumptions lead to an overstatement of the net welfare effect.

## Summary of the ATPA Program

ATPA authorizes the President to grant certain unilateral preferential trade benefits to Bolivia, Colombia, Ecuador, and Peru. The program permits shippers to claim reduced-duty or duty-free entry of eligible products imported into the customs territory of the United States. ATPA preferential tariffs are scheduled to expire 10 years after the date of enactment, or on December 3, 2001. In 1992, the United States was granted a temporary waiver from the most favored nation (MFN) provisions of the General Agreement on Tariffs and Trade (GATT);<sup>7</sup> that waiver was carried into the World Trade Organization (WTO) for two years, and it is scheduled to expire on December 31, 1996.<sup>8</sup> The following sections summarize ATPA provisions for beneficiaries and qualifying rules.

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<sup>7</sup> The United States affords MFN tariff treatment to all ATPA countries pursuant to U.S. domestic law, in accordance with U.S. international obligations under the GATT or other agreements. MFN tariff rates are set forth in column 1-general of the Harmonized Tariff Schedule of the United States (HTS). The column 1-general duty rates are, for the most part, concessional and have been set through staged reductions of full statutory rates in negotiations with other countries. The basic statute currently in force with respect to MFN treatment is sec. 126(a) of the Trade Act of 1974 (19 U.S.C. 2136). For a discussion of the replacement of the GATT institutional arrangements by the WTO, see USITC, *The Year in Trade 1995: Operation of the Trade Agreements Program*, 47th Report, USITC publication 2971, Aug. 1995, p. 2-1.

<sup>8</sup> A WTO waiver is required because ATPA tariff preferences are extended on a non-reciprocal basis to a limited number of countries, and are not extended to all WTO members. By decision of the Contracting Parties of the GATT of Mar. 19, 1992, the United States was granted a waiver of its obligations under para. 1 of Article 1 of the GATT, for the provision of preferential tariffs to eligible products of beneficiary Andean countries under ATPA; the waiver was granted for the period Dec. 4, 1991 until Dec. 4, 2001. The waiver was carried over when the Marrakesh Agreement Establishing the World Trade Organization (WTO Agreement) entered into force on Jan. 1, 1995; but, pursuant to para. 2 of the Understanding in Respect of Waivers of Obligations, unless renewed, this waiver is scheduled to expire on Dec. 31, 1996—two years after entry into force of the WTO Agreement. The United States has requested a WTO waiver for ATPA tariff preferences; a decision on this request has not been made as of this writing.

## Beneficiaries

Only Colombia, Bolivia, Peru, and Ecuador are eligible to be designated by the President for ATPA benefits;<sup>9</sup> the President can terminate such designations or suspend or limit a country's ATPA benefits at any time.<sup>10</sup> In determining whether to designate a country for ATPA benefits, the President must take into account whether that country has met the U.S. narcotics cooperation certification criteria.<sup>11</sup> By 1995, all four countries had been designated for full ATPA benefits.<sup>12</sup> ATPA beneficiaries are required, among other things, to afford internationally recognized worker rights as defined under the Generalized System of Preferences (GSP) program<sup>13</sup> and to provide effective protection of intellectual property rights (IPR), including copyrights for film and television material.<sup>14</sup> ATPA benefits have not been withdrawn from any country for any reason to date; beginning in 1996 the United States will monitor IPR protection in Colombia, Ecuador, and Peru.<sup>15</sup>

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<sup>9</sup> 19 U.S.C. 3202(b).

<sup>10</sup> 19 U.S.C. 3202(e).

<sup>11</sup> 19 U.S.C. 3202(d)(11). The narcotics cooperation certification criteria for eligibility for U.S. assistance are set forth in section 2291(h)(2)(A) of title 22.

<sup>12</sup> Bolivia and Colombia were designated for ATPA benefits in 1992. Ecuador was designated for ATPA benefits April 13, 1993, and Peru was designated August 11, 1993. For further information on country designations, see USITC, *Annual Report on The Impact of the Andean Trade Preference Act on U.S. Industries and Consumers and on Drug Crop Eradication and Crop Substitution, First Report, 1993*, USITC publication 2814, p. 6.

<sup>13</sup> Under the GSP program, internationally recognized worker rights include the right of association, the right to organize and bargain collectively, a prohibition on the use of forced or compulsory labor, a minimum age for the employment of children, and acceptable working conditions regarding minimum wages, hours of work, and occupational safety and health. Sec. 502(a)(4), Trade Act of 1974, title V (Public Law 93-618, 88 Stat. 2066 and following). GSP is described in more detail below.

<sup>14</sup> The President may waive this condition if he determines, and so reports to Congress, that the designation of a particular country would be in the economic or security interest of the United States. 19 U.S.C. 3202(c)(7).

<sup>15</sup> In April 1996, the Office of the United States Trade Representative (USTR) conducted a review of country practices pertaining to IPR protection under the so-called "special 301" provisions of the Trade Act of 1974, as amended. In that review, USTR placed 26 countries, including Colombia, Ecuador, and Peru, on the "watch list" of countries to be monitored for progress in implementing commitments with regards to IPR protection

## Trade Benefits Under ATPA

ATPA affords preferential rates of duty below the MFN rates<sup>16</sup> to most products of Andean countries by reducing the tariff rate to free or, for a small group of products, by establishing tariff rates below the MFN rate.<sup>17</sup> For some products, duty-free entry under ATPA is subject to certain conditions in addition to basic preference eligibility rules. Imports of sugar and beef, like those of some other agricultural products, remain subject to any applicable and generally imposed U.S. quotas and food safety requirements.<sup>18</sup> While not eligible for duty-free entry, certain handbags, luggage, flat goods (such as wallets and portfolios), work gloves, and leather wearing apparel from ATPA countries enter at reduced rates of duty.<sup>19</sup> Not eligible for ATPA preferential duty treatment are most textile and apparel articles, certain footwear, canned tuna, certain petroleum and petroleum products, certain watches and watch parts, certain sugar products, and rum.<sup>20</sup>

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<sup>15</sup>—Continued

and for providing comparable market access for U.S. intellectual property products. Concerning Colombia, USTR cited copyright piracy problems and deficiencies in that country's patent and trademark regime. USTR stated that Ecuador had not yet ratified and implemented the 1993 U.S.-Ecuador IPR Agreement and had allowed discriminatory treatment for U.S. investment and trademarks. On Peru, USTR cited the problems of inadequate antipiracy efforts and of deficiencies in the patent and trade regime, particularly concerning protection for pharmaceutical patents. In separate observations, USTR stated that Bolivian copyright law remains unclear as to the protection of software and that the Bolivian Government had not passed legislation to implement updated copyright legislation. USTR, "USTR Announces Two Decisions: Title VII and Special 301," press release, Apr. 30, 1996 and "Fact Sheets: 'Special 301' on Intellectual Property Rights and 1996 Title VII Decisions."

<sup>16</sup> For some products, the MFN tariff rate is free.

<sup>17</sup> General note 3(c) to the HTS summarizes the special tariff treatment for eligible products of designated countries under various U.S. trade programs, including ATPA. General note 11 covers ATPA.

<sup>18</sup> These U.S. measures include the price support program for sugar provided in sec. 22 of the Agricultural Adjustment Act of 1933 (7 U.S.C. 624), quotas on imports of beef under the Meat Import Act of 1979 (19 U.S.C. 1202), and restrictions on beef imports imposed by the U.S. Animal and Plant Health Inspection Service.

<sup>19</sup> Applies to articles that were not designated for GSP duty-free entry as of Aug. 5, 1983. Under ATPA provisions, beginning in 1992, duties on these goods are being reduced by a total of 20 percent in five equal annual stages. 19 U.S.C. 3203(c).

<sup>20</sup> 19 U.S.C. 3203(b).

## Qualifying Rules

ATPA provides generally that eligible products must be wholly grown, produced, or manufactured in a designated ATPA country or be “new or different” articles from substantially transformed non-ATPA inputs used in their manufacture in order to receive duty-free entry into the United States.<sup>21</sup> The cost or value of the local (that is, ATPA) materials and direct cost of processing in one or more ATPA countries must total at least 35 percent of the appraised customs value of the product at the time of entry. These rule-of-preference provisions allow ATPA countries to pool their resources to meet value content requirements, and also allow inputs from Puerto Rico, the U.S. Virgin Islands, and countries designated under the Caribbean Basin Economic Recovery Act<sup>22</sup> to count in full toward the value threshold. Also, the rules let ATPA products meet the 35-percent minimum value content requirement more easily by including goods with a ATPA-content value of 20 percent of the customs value and the remaining 15 percent attributable to U.S.-made (excluding Puerto Rican) materials or components.<sup>23</sup> So-called “double substantial transformation” also may be used to meet the 35-percent local content requirement.<sup>24</sup>

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<sup>21</sup> Products undergoing the following operations do not qualify: simple combining or packaging operations, dilution with water, or dilution with another substance that does not materially alter the characteristics of the article. 19 U.S.C. 3203(a)(2).

<sup>22</sup> Countries so designated during 1995 were Antigua and Barbuda, Aruba, The Bahamas, Barbados, Belize, British Virgin Islands, Costa Rica, Dominica, Dominican Republic, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Montserrat, Netherlands Antilles, Nicaragua, Panama, St. Kitts-Nevis, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago.

<sup>23</sup> 19 U.S.C. 3203(a).

<sup>24</sup> “Double substantial transformation” involves transforming material into a new and different product that, in turn, becomes the constituent material used to produce a second new and different article. Thus, ATPA countries may import inputs from non-ATPA countries, transform the inputs into intermediate material, and transform the intermediate materials into ATPA-eligible articles. The cost or value of the constituent intermediate material may be counted toward the 35-percent ATPA content requirement. For additional information, see U.S. Department of Commerce and U.S. Agency for International Development, *Guidebook to the Andean Trade Preference Act* (Washington, DC: GPO, July 1992), p. 5.

## ATPA and GSP

The four ATPA beneficiaries also are GSP beneficiaries, when GSP is in effect.<sup>25</sup> ATPA and GSP share many similarities and many products may enter the United States duty-free under either program.<sup>26</sup> However, the two programs differ in several ways that tend to make Andean producers prefer using ATPA to GSP. ATPA covers the same 4,300 tariff categories covered by GSP plus an additional 1,700 categories. ATPA imports are not subject to GSP “competitive need” and country income restrictions;<sup>27</sup> indeed, products so restricted under GSP may continue to enter free of duty under ATPA on appropriate request. In addition, ATPA qualifying rules are more liberal than those of GSP.<sup>28</sup>

Although some Andean suppliers continued to use GSP because they were more familiar with that program, as documented in this series of reports, imports from ATPA countries entered under GSP

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<sup>25</sup> The U.S. GSP program was originally enacted pursuant to title V of the Trade Act of 1974 (Public Law 93-618, 88 Stat. 2066 and following) and was renewed for an additional 10 years pursuant to title V of the Trade and Tariff Act of 1984 (Public Law 98-573, 98 Stat. 3018 and following), as amended (19 U.S.C. 2461 and following). The GSP program expired July 4, 1993, but was retroactively extended until Sept. 30, 1994, as part of the Omnibus Budget Reconciliation Act of 1993 on Aug. 4, 1993; it was again renewed retroactively through July 31, 1995 by the Uruguay Round Agreements Act. The most recent GSP expiration and renewal are discussed in more detail below.

<sup>26</sup> Both programs share the goal of offering increased access to the U.S. market. Like ATPA, GSP requires that eligible imports—(1) be imported directly from beneficiaries into the customs territory of the United States; (2) meet the substantial transformation requirement for any foreign parts or components; and (3) contain a minimum of 35 percent local value-added. The documentation requirements necessary to claim either ATPA or GSP duty-free entry are identical—a Certificate of Origin Form A is to be presented at the time the qualifying products enter the United States with a claim for either tariff preference.

<sup>27</sup> Under GSP, products that achieve a specified market penetration in the United States (the “competitive need” limit) may be excluded from GSP eligibility. Countries may lose all GSP privileges if their national income grows to exceed a specified amount. 19 U.S.C. 2464(c)-(f).

<sup>28</sup> GSP requires that 35 percent of the value of the product be added in a single beneficiary or in a specified association of eligible countries. 19 U.S.C. 2463(b)(1)(B). See the discussion above for ATPA qualifying rules.



provisions have declined since ATPA has been operative. In addition to the many benefits of using ATPA over GSP, suppliers increasingly have come to prefer ATPA to avoid any risk of losing duty-free access to the U.S. market when GSP is not in effect.

The U.S. GSP program expired at midnight on July 31, 1995. The program became operative again on October 1, 1996.<sup>29</sup> All imports entered from August 1 through December 31, 1995 (the end of the period covered by this report) claiming the GSP tariff preference were subject to ordinary MFN duties unless other preferential treatment—such as ATPA—was claimed. Duties paid on articles entered from August 1, 1995 through December 31, 1995 claiming GSP duty-free status will be refunded once the program is again operative.<sup>30</sup> During 1995, however, importers could not anticipate the duration

of the lapse in the GSP program in 1995 and whether—or when—duties paid for articles denied GSP duty-free entry would be refunded. Thus, during the period of August 1 through December 31, 1995, Andean suppliers could be sure only that ATPA preferential tariff provisions were in force.

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<sup>29</sup> Legislation renewing the GSP program retroactive to Aug. 1 1995 was included in the Small Business Job Protection Act of 1996 (H.R. 3448), and signed into law by the President on Aug. 20, 1996.

<sup>30</sup> Refunds apply to qualified articles entered from Aug. 1, 1995 through Sept. 30, 1996—the entire period during which GSP lapsed. Procedures for such refunds were announced in U.S. Customs Service, “Procedures If the Generalized System of Preferences Program Expires,” *Federal Register*, vol. 60, No. 128 (July 5, 1995), p. 35103.



# CHAPTER 2

## U.S. Imports From ATPA Countries

This chapter provides an overall description of imports from the four designated ATPA beneficiaries—Bolivia, Colombia, Ecuador, and Peru (hereafter ATPA countries)<sup>1</sup>—though the focus is on those imports which entered under ATPA preferential tariff provisions. The latter were valued at \$939 million in 1995, equal to 0.1 percent of total U.S. imports worldwide.<sup>2</sup> Although ATPA has been operative since 1992, 1995 marked only the second full year that eligible imports from all four countries have received ATPA tariff preferences. Thus, the effective base year for the comparative analysis in this chapter is 1994, unless otherwise indicated.<sup>3</sup>

### Total U.S. Imports

U.S. imports from ATPA countries totaled more than \$6.9 billion in 1995, an increase of 18.5 percent over 1994 (table 2-1). Colombia, the largest ATPA economy and by far the largest ATPA trading partner of the United States, accounted for over one-half of

these imports, as it has since ATPA has been operative. Imports from Colombia in 1995 were up 21.5 percent over 1994. Imports from Ecuador and Peru in 1995 increased by 13.4 percent and 23.8 percent, respectively. Imports from Bolivia, the smallest ATPA economy, declined marginally in 1995 reflecting overall lower economic output in that country.<sup>4</sup>

Table 2-2 shows the value of the top 30 U.S. import items from ATPA countries during 1994-95 on an 8-digit Harmonized Tariff Schedule of the United States (HTS) subheading basis, ranked by their 1995 import value. Only a few of these leading import items—petroleum oils, distillate and residual fuel oils, and apparel items—are dutiable on an MFN basis.<sup>5</sup> Seven of the import items listed (chrysanthemums,

<sup>1</sup> Country designations are discussed in ch. 1.

<sup>2</sup> Based on U.S. worldwide imports of \$739.7 billion in 1995. Data compiled from official statistics of the U.S. Department of Commerce.

<sup>3</sup> For more detailed data on trade during the first two years of ATPA, covering the years 1992 and 1993, see USITC, *Annual Report on The Impact of the Andean Trade Preference Act on U.S. Industries and Consumers and on Drug Crop Eradication and Crop Substitution, First Report, 1993*, USITC publication 2814.

<sup>4</sup> A more detailed analysis of economic and investment conditions in each of the ATPA countries during 1995 is presented in ch. 4.

<sup>5</sup> The MFN duties are: petroleum oils from bituminous minerals testing 25 degrees A.P.I. or more (HTS subheading 2709.00.20)—10.5 cents per barrel; petroleum oils and oils from bituminous minerals testing under 25 degrees A.P.I. (HTS subheading 2709.00.10) and distillate and residual fuel oils including blends (HTS subheading 2710.00.05)—5.25 cents per barrel; cotton sweaters and pullovers (HTS subheading 6110.20.20)—19.9 percent *ad valorem*; men's or boys' trousers (HTS 6203.42.40)—17.5 percent *ad valorem*; men's or boys' cotton shirts (HTS subheading 6105.10.00)—20.7 percent *ad valorem*; and panty hose and tights (HTS subheading 6115.11.00)—16.8 percent *ad valorem*.

**Table 2-1**  
**U.S. imports for consumption from ATPA countries, 1992-95**

(1,000 dollars, customs value)

Source	1992	1993	1994	1995
Colombia .....	2,888,009	3,009,831	3,132,398	3,807,348
Ecuador .....	1,323,031	1,389,324	1,709,790	1,939,218
Peru .....	686,043	698,115	779,945	965,370
Bolivia .....	161,586	185,022	257,373	256,795
Total .....	5,058,669	5,282,292	5,879,505	6,968,729

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

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

**Table 2-2**  
**Leading U.S. imports for consumption from ATPA countries, 1994-95**

(1,000 dollars, customs value)

HTS item	Description	1994	1995
2709.00.20	Petroleum oils and oils from bituminous minerals testing 25 degrees A.P.I. or more	1,402,626	1,978,628
0901.11.00	Coffee, not roasted, not decaffeinated	606,163	651,639
0306.13.00	Shrimp and prawns, cooked in shell or uncooked, live, fresh, chilled, frozen, dried, or salted in brine	498,915	491,989
0803.00.20	Bananas, fresh or dried	392,616	387,065
2709.00.10	Petroleum oils and oils from bituminous minerals testing under 25 degrees A.P.I.	388	167,916
7108.12.10	Unwrought gold bullion and dore, nonmonetary	67,611	165,418
2710.00.05	Distillate and residual fuel oils (including blends) testing under 25 degrees A.P.I.	236,156	155,468
0603.10.70	Chrysanthemums, standard carnations, anthuriums, and orchids	121,054	147,966
7113.19.10	Rope and chain for jewelry, of precious metal except silver	83,921	127,863
0603.10.60	Roses, fresh cut	105,926	127,817
9999.95.00	Informal entries under \$1,251 each	100,140	120,760
0901.12.00	Coffee, not roasted, decaffeinated	69,908	95,903
7103.91.00	Rubies, sapphires and emeralds, worked or graded	90,151	94,200
2701.12.00	Bituminous coal, whether or not pulverized	89,544	84,561
7106.91.10	Unwrought silver bullion and dore	61,678	70,900
0603.10.80	Fresh cut flowers and flower buds suitable for bouquets, not elsewhere specified	45,699	64,592
1701.11.10	Raw sugar not containing added flavoring or color	(1)	57,618
7113.19.50	Jewelry and parts of precious metal except silver, except necklaces and clasps.	103,080	57,550
9801.00.10	U.S. goods returned, not advanced in value or improved in condition while abroad	43,196	56,697
1604.14.40	Tuna and skipjack, not in airtight containers	25,603	56,183
6110.20.20	Sweaters and pullovers, of cotton, knitted or crocheted	59,632	55,634
1801.00.00	Cocoa beans, whole or broken, raw or roasted	36,748	50,050
4407.23.00	Baboen, mahogany, imbuia and balsa tropical woods	34,712	45,343
6203.42.40	Men's or boys' trousers, breeches and shorts, not knitted, of cotton	33,723	42,809
8001.10.00	Unwrought tin, not alloyed	38,605	40,256
0803.00.30	Plantains, fresh	39,126	38,939
6105.10.00	Men's or boys' shirts, knitted or crocheted, of cotton	27,569	38,206
1701.11.20	Raw sugar used to produce polyhydric alcohols	(2)	36,813
6115.11.00	Panty hose and tights, knitted or crocheted of synthetic fibers	32,773	33,559
0603.10.30	Miniature (spray) carnations, fresh cut	25,034	32,362
	Total of items shown	4,472,298	5,574,703
	Total all commodities	5,879,505	6,968,729

<sup>1</sup> Prior to Jan. 1, 1995, reported under statistical annotations under HTS subheading 1701.11.01.

<sup>2</sup> Prior to Jan. 1, 1995, reported under statistical annotations under HTS subheading 1701.11.02.

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

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

standards carnations, anthuriums, and orchids; fresh cut roses; other fresh cut flowers and flower buds; raw sugar; jewelry and parts of precious metal; tuna not in cans and miniature spray carnations) are dutiable, but also are eligible for ATPA tariff preferences.<sup>6</sup> Import trends for these items are discussed in more detail below. Most of the remaining items listed in table 2-2 are most-favored-nation (MFN) duty-free goods (coffee,

<sup>6</sup> The MFN duties of these ATPA-eligible items are: chrysanthemums, standard carnations, anthuriums, and orchids (HTS subheading 0603.10.70)—7.5 percent *ad valorem*; fresh cut roses (HTS subheading 0603.10.60)—7.6 percent *ad valorem*; other fresh cut flowers and flower buds (HTS subheading 0603.10.80)—7.5 percent *ad valorem*; raw sugar (HTS subheadings 1701.11.10 and 1701.11.20)—1.4606 cents/kg less 0.020668 cents/kg for each degree under 100 degrees of polarization but not less than 0.943854 cents/kg; rope and chain for jewelry, of precious metal except silver (HTS subheading 7113.19.10)—7 percent *ad valorem*; jewelry and parts of precious metal except silver (HTS subheading 7113.19.50)—6.1 percent *ad valorem*; tuna not in cans (HTS subheading 1604.14.40)—1.1 cents/kg; and miniature (spray) carnations (HTS subheading 0603.10.30)—3.7 percent *ad valorem*.

shrimp and prawns, bananas, unwrought gold bullion, rubies, sapphires and emeralds, bituminous coal, unwrought silver, cocoa, tropical woods, unwrought tin, and plantains).

Colombia is the principal supplier of the top two items on this list—petroleum oils and coffee. Petroleum products accounted for one-third of all U.S. imports from ATPA countries.<sup>7</sup> These imports increased in value by over 40 percent in 1995, reflecting increased demand and an upturn in crude oil prices on world markets during that year. Increased demand and higher international prices also benefited Andean coffee exports, which rose in value by over 10 percent in 1995.<sup>8</sup>

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

<sup>8</sup> Data on petroleum and coffee prices provided by United Nations Economic Commission for Latin America and the Caribbean, *Preliminary Overview of the Latin American and Caribbean Economy, 1995*, Dec. 1995, p. 33 and table A.8, p. 54. This source also provides a more detailed analysis of global commodity price trends and the impact of these trends on the economies of Latin America during 1995.

### U.S. Trade Surplus with ATPA Countries Widens in 1995

The United States is the single largest trading partner for each of the ATPA countries which, when combined, accounted for 1.4 percent of U.S. merchandise exports to the world and 0.9 percent of U.S. imports from the world in 1995. U.S. exports to ATPA countries totaled \$7.8 billion in 1995, rising by 21.3 percent over 1994. ATPA countries collectively ranked 18th as an export market for the United States, placing them ahead of such countries as Thailand and Saudi Arabia but behind Italy and Malaysia. Total U.S. imports from ATPA countries amounted to nearly \$7.0 billion in 1995, an increase of 18.5 percent over their 1994 level, making these countries collectively the 21st-largest supplier of U.S. imports—ahead of the Netherlands and Sweden but behind Indonesia and the Philippines.

The combined U.S. trade balance with the ATPA countries moved from a deficit of \$1.2 billion in 1991 to a surplus of over \$261 million in 1992, the first year of ATPA. The United States recorded a trade surplus with the ATPA countries of more than \$851 million in 1995—three times larger than during the first year of ATPA. The shift from a U.S. deficit to a U.S. surplus mirrored, to some extent, the post-1990 economic upturn in the Andean countries and the consequent increase in their demand for U.S. capital goods.

#### U.S. trade with ATPA countries, 1992-95

Year	U.S. exports	Share of U.S.	U.S. imports	Share of U.S.	U.S. trade balance
	(f.a.s. basis)	exports to the world	(customs value)	imports from the world	
	Million dollars	Percent	Million dollars	Percent	Million dollars
1992 ..	5,319.7	1.3	5,058.7	1.0	261.0
1993 ..	5,359.1	1.2	5,282.3	0.9	76.7
1994 ..	6,445.0	1.3	5,879.5	0.9	565.5
1995 ..	7,820.2	1.4	6,968.7	0.9	851.4

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

## Duty Collection

Table 2-3 shows that the dutiable portion of U.S. imports from ATPA countries increased in 1995; this share was 41.1 percent, compared with 36.2 percent in 1994. Dutiable imports from ATPA countries rose by 34.7 percent in 1995, significantly higher than the 9.4-percent increase in duty-free imports from ATPA countries during that same year.<sup>9</sup> Meanwhile, U.S. tariff revenues from imports from ATPA countries, indicated by “calculated duties,” increased marginally to \$86.3 million, while the average MFN rate of duty declined from approximately 4.0 percent *ad valorem* in 1994 to just over 3.0 percent in 1995.<sup>10</sup>

These trends reflect two new developments during 1995. First, the U.S. GSP program expired on midnight, July 31, 1995, and products entered from August 1 through December 31, 1995 claiming GSP tariff treatment were subject to ordinary MFN duties unless other preferential treatment was claimed.<sup>11</sup> Second, there was a sharp increase in dutiable imports (not eligible for duty-free entry under any U.S. provisions) in 1995 due to an increase in imports of relatively low-duty petroleum products (table 2-2). The resulting shift in the composition of dutiable U.S. imports from the region away from higher duty items led to a decline in average duties collected in 1995 compared with 1994.

<sup>9</sup> Data on duty-free imports from ATPA countries during the period 1994-95 are shown in table 2-4.

<sup>10</sup> The average rate of duty was 4.1 percent *ad valorem* in 1991, the year before ATPA was implemented. USITC, *ATPA, First Report, 1993*, p. 8.

<sup>11</sup> The GSP program is discussed in more detail in ch. 1.

## Duty-Free Imports

In 1991, the year before ATPA became operative, about 54 percent of all U.S. imports from ATPA countries entered free of duty.<sup>12</sup> The portion that entered free of duty rose to 63.8 percent in 1994, but declined to 58.9 percent in 1995 (table 2-4), largely because of an increase in dutiable imports like petroleum oils, as discussed above.

Imports from the Andean region in 1995 entered free of duty under one of the following provisions: (1) unconditionally free under MFN or column 1-general tariff rates (39.3 percent of total imports); (2) conditionally free under ATPA (13.1 percent); (3) conditionally free under the GSP (3.3 percent); (4) conditionally free under chapter 98 of the HTS, i.e. under production-sharing provisions (2.5 percent); or (5) under other provisions (0.7 percent).

ATPA provisions are the second-leading vehicle for duty-free entry of Andean products after MFN. Since entering into force, ATPA has gained in importance. For example, in 1993, the value of Andean MFN duty-free entries was more than five times that of ATPA duty-free entries;<sup>13</sup> in 1994, MFN duty-free entries were nearly four times the value of ATPA duty-free entries; in 1995, MFN duty-free entries were just three times the value of ATPA duty-free entries (table 2-4).

Another trend that continued into 1995 was the decline in imports that entered duty-free under GSP. GSP imports declined by 24.3 percent from 1993 to 1994, from \$448 million to \$339 million; this decline steepened to 32.8 percent from 1994 to 1995, accelerated by the August 1 through December 31,

<sup>12</sup> Data for years prior to 1994 can be found in USITC, *ATPA, First Report, 1993*, table 2-1, p. 26.

<sup>13</sup> *Ibid.*

**Table 2-3**  
**U.S. imports for consumption from ATPA countries: Dutiable value, calculated duties, and average duty, 1994-95**

Item	1994	1995
Dutiable imports (1,000 dollars) <sup>1</sup> .....	2,126,059	2,863,078
Dutiable as a share of total imports (percent) .....	36.2	41.1
Calculated duties (1,000 dollars) <sup>1</sup> .....	85,467	86,325
Average duty (percent) <sup>2</sup> .....	4.02	3.01

<sup>1</sup> Dutiable value and calculated duty exclude the U.S. content entering under HTS heading 9802.00.80 and subheading 9802.00.60 and misreported imports. Data based on product eligibility corresponding to each year.

<sup>2</sup> Average duty = (calculated duty/dutiable value) \* 100.

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

**Table 2-4**  
**U.S. imports for consumption from Bolivia, Colombia, Ecuador, and Peru, by duty treatment, 1994-95**

Description	Bolivia	Colombia	Ecuador	Peru	ATPA total	Share of
						ATPA total
	1,000 dollars, customs value					Percent
1994:						
Total imports	257,373	3,132,398	1,709,790	779,945	5,879,505	100.0
Dutiable value <sup>1</sup>	12,425	1,312,104	591,338	210,192	2,126,059	36.2
ATPA reduced duty	684	19,635	102	10	20,432	0.3
Duty-free value <sup>2</sup>	244,948	1,820,294	1,118,452	569,753	3,753,446	63.8
MFN <sup>3</sup>	115,185	1,070,386	1,007,929	270,876	2,464,376	41.9
ATPA <sup>4</sup>	91,156	392,007	72,803	107,420	663,386	11.3
GSP <sup>5</sup>	37,418	88,754	37,267	176,012	339,451	5.8
Production sharing <sup>6</sup>	853	145,550	254	9,013	155,670	2.6
Other duty free <sup>7</sup>	336	123,597	199	6,432	130,563	2.2
1995:						
Total imports	256,795	3,807,348	1,939,218	965,370	6,968,729	100.0
Dutiable value <sup>1</sup>	18,974	1,716,998	766,565	360,541	2,863,078	41.1
ATPA reduced duty	1,317	21,715	138	6	23,176	0.3
Duty-free value <sup>2</sup>	237,821	2,090,350	1,172,653	604,829	4,105,653	58.9
MFN <sup>3</sup>	137,083	1,330,470	1,000,602	273,575	2,741,730	39.3
ATPA <sup>4</sup>	82,783	477,546	147,721	207,563	915,613	13.1
GSP <sup>5</sup>	15,470	75,737	23,125	113,908	228,240	3.3
Production sharing <sup>6</sup>	2,106	169,028	907	185	172,226	2.5
Other duty free <sup>7</sup>	379	37,569	298	9,598	47,844	0.7

<sup>1</sup> Dutiable value excludes the U.S. content entering under HTS heading 9802.00.80 and subheading 9802.00.60 and misreported imports.

<sup>2</sup> Calculated as total imports less dutiable value.

<sup>3</sup> Value of imports that have a col. 1-general duty rate of free.

<sup>4</sup> Reduced by the value of MFN duty-free imports and ineligible items that were misreported as entering under ATPA.

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

<sup>6</sup> HTS heading 9802.00.80 and subheading 9802.00.60. Refers to the value of nondutiable exported and returned U.S.-origin products or components.

<sup>7</sup> Calculated as a remainder, and represents imports entering free of duty under special rate provisions.

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

1995 program lapse, with GSP imports falling to \$228 million.<sup>14</sup>

## ***Imports Under ATPA***

U.S. imports afforded duty-free entry under ATPA rose by 38.0 percent over 1994, up from \$663 million (11.3 percent of total imports from the ATPA countries) to \$916 million in 1995 (13.1 percent of the total) (table 2-4).<sup>15</sup> (The spectacular 72.7-percent increase in ATPA duty-free imports recorded from 1993 to 1994 occurred largely because Ecuador and Peru were added to the list of designated ATPA

beneficiaries during 1993.) The strong increase in ATPA duty-free imports during 1995 was in part due to the expiration of the GSP program. With GSP preferential tariffs unavailable from August 1 through December 31, 1995, a number of Andean products that formerly entered under GSP were entered under ATPA to maintain duty-free entry. Less than 1 percent of imports entered under ATPA reduced duty rates in 1995, little change from 1994 (table 2-4).<sup>16</sup> Imports by statute excluded from ATPA totaled \$2.9 billion in 1995.<sup>17</sup>

<sup>14</sup> The U.S. GSP program is discussed in greater detail in ch. 1.

<sup>15</sup> Some of these imports also were eligible for GSP and could have entered duty-free under that program. Imports that benefited exclusively under ATPA are discussed in ch. 3.

<sup>16</sup> Products entered at the reduced rates were handbags, luggage, flat goods, work gloves, and leather wearing apparel. The ATPA staged 20-percent duty reduction for these products is discussed in greater detail in ch. 1.

<sup>17</sup> That statute, discussed in more detail in ch. 1, excludes most textiles and apparel, certain footwear, canned tuna, petroleum and petroleum products, certain

## ATPA Utilization Ratio

The ATPA utilization ratio provides a quantitative benchmark to assess the extent to which ATPA has been used (table 2-5).<sup>18</sup> This indicator is calculated as the ratio of duty-free imports entered under ATPA to the ATPA-eligible portion of total imports (that is, imports not excluded from ATPA benefits or not already eligible for MFN duty-free entry). For 1995, the ATPA utilization ratio was 69.6 percent. This relatively higher utilization ratio reflects in part the higher level of imports entered under ATPA due to the expiration of the U.S. GSP program.

## Leading Items

Table 2-6 shows the leading 20 items entered under ATPA provisions in 1994 and 1995. These items are ranked in terms of their 1995 import value,<sup>19</sup> and show the principal ATPA supplier of each product in that year. Also indicated for each item is the share of imports entered under ATPA provisions relative to total (duty-free and dutiable) imports of the item from all ATPA beneficiaries. All of the imports of one item listed, cellular plastic plates and sheets with manmade textile components (HTS subheading 3921.12.11), entered under ATPA provisions; for five other items, in excess of 99 percent of imports entered under ATPA provisions. (A share of less than 100 percent indicates that a portion of the imports entered

<sup>17</sup>—Continued  
sugar, and rum. More than 80 percent of these excluded items, in terms of import value, are petroleum and petroleum products.

<sup>18</sup> As calculated, the ATPA utilization ratio also includes those items that switched from GSP to ATPA and do not necessarily represent increased duty-free access to the U.S. market.

<sup>19</sup> Total U.S. imports from ATPA countries of a number of these products are listed in table 2-2.

under provisions other than ATPA—for example, under GSP—or paid MFN duties.<sup>20</sup>

All but three of the items listed in table 2-6 also ranked among the leading ATPA imports in 1994.<sup>21</sup> The three exceptions are raw sugar used to produce polyhydric alcohols (HTS subheading 1701.11.20) supplied primarily by Colombia, unrefined copper (HTS subheading 7402.00.00) supplied entirely by Peru, and articles of wood (HTS subheading 4421.90.98), supplied primarily by Ecuador.<sup>22</sup>

Colombia significantly expanded sugar production during 1995 and its exports benefited from an increased U.S. sugar import quota. Approximately 18 percent of Colombia's sugar exports were shipped to the United States in 1995; one-fifth of that amount entered under the U.S. sugar quota, and the rest was imported for refining and re-export.<sup>23</sup> Most raw sugar used to produce polyhydric alcohols is re-exported either as refined sugar or in sugar-containing products. Ecuador, a traditional supplier of a wide variety of wood products to the United States,<sup>24</sup> experienced a surge in exports globally during 1995 due to increased

<sup>20</sup> Even though all of the items listed in table 2-6 were eligible for ATPA tariff preferences, a certain portion of each HTS subheading may have paid full MFN duties for a variety of reasons, including, for example, insufficient documentation to qualify for ATPA or GSP tariff preferences.

<sup>21</sup> For 1994 data, see USITC, *ATPA, Second Report 1994*, table 2-8, p. 12.

<sup>22</sup> Analysis of share provided by each country derived from data presented in table 2-8.

<sup>23</sup> U.S. Department of State telegram, "Semi-Annual Sugar Report," message reference No. 14089, prepared by U.S. Embassy, Bogotá, Oct. 19, 1995.

<sup>24</sup> Leading U.S. imports from Ecuador during 1990-93 are shown in USITC, *ATPA, First Report, 1993*, table B-7, p. B-10. Items listed include articles of wood (HTS subheading 4421.90.95), plywood (HTS subheading 4412.11.20 and HTS subheading 4412.29.40), and nonconiferous woods (HTS subheading 4407.99.00).

**Table 2-5**  
**U.S. imports for consumption: ATPA eligibility and utilization, 1994-95**

Item	1994	1995
Eligible duty-free under ATPA (1,000 dollars) <sup>1</sup> .....	1,198,576	1,315,691
Duty-free under ATPA (1,000 dollars) <sup>2</sup> .....	663,386	915,613
ATPA utilization ratio (percent) <sup>3</sup> .....	55.3	69.6

<sup>1</sup> Calculated as total imports from ATPA countries (table 2-4) minus imports not eligible for ATPA duty-free entry minus MFN duty-free imports (table 2-4).

<sup>2</sup> From table 2-4.

<sup>3</sup> Utilization ratio = (duty-free entries/eligible entries) \* 100.

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



demand.<sup>25</sup> Peru, a traditional supplier of copper to the United States,<sup>26</sup> significantly expanded copper exports globally in 1995 as world copper prices rose.<sup>27</sup> Copper is eligible for either GSP or ATPA duty-free entry, but traditionally entered under GSP; when GSP lapsed, these entries from Peru entered under ATPA, causing copper to appear on the list of ATPA imports for the first time.

Apart from the appearance of raw sugar, articles of wood, and copper on the list in table 2-6, as described above, few trends changed between 1994 and 1995 in the composition of leading imports under ATPA provisions. The Andean fresh cut flower sector, centered predominantly in Colombia, continued to be the principal beneficiary of ATPA. Nearly 40 percent of total imports entering under ATPA provisions were accounted for by four categories of cut flowers, the combined imports of which amounted to \$371 million—(1) chrysanthemums, standard carnations, anthuriums, and orchids (HTS subheading 0603.10.70); (2) fresh cut roses (HTS subheading 0603.10.60); (3) flowers and flower buds suitable for bouquets (HTS subheading 0603.10.80); and (4) miniature (spray) carnations (HTS subheading 0603.10.30). Even though their combined import value rose by 25 percent in 1995, the share of these cut flowers as a portion of all ATPA entries was smaller in 1995 than it was in 1994 (44 percent), or in 1993 (60 percent). This decline in the relative share of cut flowers reflects even more rapid growth of other categories of ATPA-eligible products—namely certain jewelry articles and tuna and skipjack not in airtight containers (HTS subheading 1604.14.40) (hereafter tuna not in cans).

Imports of rope and chain for jewelry of precious metal other than silver (HTS subheading 7113.19.10) (hereafter rope and chain for jewelry) entered under ATPA provisions grew by more than threefold to \$102

<sup>25</sup> U.S. Department of State telegram, “Ecuador Experiences Boom in Exports, But Faces Growing Import Bill,” message reference No. 06230, prepared by U.S. Embassy, Quito, Oct. 4, 1995.

<sup>26</sup> Leading U.S. imports from Peru during 1990-93 are shown in USITC, *ATPA, First Report, 1993*, table B-8, p. B-12. Items listed include unrefined copper, cathodes of refined copper (HTS subheading 7403.11.00), bars and rods of refined copper (HTS subheading 7407.10.50), and articles of refined copper (HTS subheading 7403.19.00).

<sup>27</sup> U.S. Department of State telegram, “Peru’s Balance of Payments Worsened in 1995 But Outlook Improves for 1996,” message reference No. 04565, prepared by U.S. Embassy, Lima, May 26, 1996.

million in 1995. Total imports in this category, all of which were eligible for duty-free entry under either ATPA or GSP, were up from \$84 million in 1994 to \$128 million in 1995 (table 2-2). The surge in ATPA imports in this category (not all categories of jewelry experienced similar trends, as the data in table 2-6 show) may be attributable both to the more general increase in imports in this category as well as to imports entered under ATPA rather than GSP.<sup>28</sup>

Imports of tuna not in cans under ATPA provisions more than doubled to \$36 million in 1995; total imports in this category rose from \$25 million in 1994 to \$56 million in 1995 (table 2-2). Tuna is not eligible for GSP. Thus, the increase in tuna imports was not attributable to the loss of GSP tariff preferences, but to significantly higher import value primarily from Ecuador, the largest Andean supplier of tuna.<sup>29</sup>

## *ATPA Imports by Country*

Colombia is the leading supplier of imports from the Andean region in terms of both overall U.S. imports and entries under ATPA (table 2-7). Ecuador is the second-largest overall U.S. supplier among the Andean countries, reflecting its relatively large shipments of items not eligible for ATPA tariff preferences (especially petroleum products); however, Ecuador ranks only third as a supplier of entries under ATPA, behind Peru. While the United States imported in total more than twice as much from Ecuador than it did from Peru in 1995, the value of ATPA entries shipped from Peru were nearly 1.5 times greater than that shipped from Ecuador.<sup>30</sup> ATPA entries shipped from both countries doubled from 1994 to 1995—far outpacing the rate of increase of total imports from either country. Bolivia is the smallest regional supplier, with ATPA entries from that country declining marginally during 1995. Based on available 1995 trade data, trade patterns present little evidence that ATPA countries engage to any significant degree

<sup>28</sup> Total U.S. imports of rope and chain for jewelry from ATPA countries increased from \$84 million in 1994 to \$128 million in 1995 (table 2-2). Import trends are discussed in more detail in ch. 3.

<sup>29</sup> U.S. Department of State telegram, “Ecuador Experiences Boom in Exports, But Faces Growing Import Bill,” message reference No. 06230, prepared by U.S. Embassy, Quito, Oct. 4, 1995.

<sup>30</sup> Reasons for Ecuador’s relative lack of success in fully utilizing ATPA tariff preferences are examined in ch. 4.

**Table 2-6**  
**Leading U.S. imports for consumption entered under ATPA provisions, 1994-95**

HTS subheading	Description	1994		1995		Leading supplier <sup>3</sup>
		Entries under ATPA <sup>1</sup>	Share of total imports <sup>2</sup>	Entries under ATPA <sup>1</sup>	Share of total imports <sup>2</sup>	
		1,000 dollars <sup>4</sup>	Percent	1,000 dollars <sup>4</sup>	Percent	
0603.10.70	Chrysanthemums, standard carnations, anthuriums and orchids . . . . .	121,036	99.9	147,875	99.9	Colombia
0603.10.60	Roses, fresh cut . . . . .	105,475	99.5	126,897	99.2	Colombia
7113.19.10	Rope and chain for jewelry, of precious metal except silver . . . . .	29,036	34.6	101,574	79.4	Peru
0603.10.80	Cut flowers and flower buds suitable for bouquets, not elsewhere specified. . . . .	45,187	98.8	64,388	99.6	Colombia
7113.19.50	Jewelry and parts of precious metal except silver, except necklaces and clasps . . . . .	85,205	82.6	46,810	81.3	Bolivia
1604.14.40	Tuna and skipjack, not in airtight containers. . . . .	13,802	53.9	36,524	65.0	Ecuador
0603.10.30	Miniature (spray) carnations, fresh cut . . . . .	24,391	97.4	32,360	99.9	Colombia
1701.11.10	Raw sugar not containing added flavoring or color . . . . .	( <sup>5</sup> )	( <sup>5</sup> )	31,860	55.2	Peru
3921.12.11	Cellular plastic plates and sheets with manmade textile components, over 70% by weight of polymers of vinyl chloride . . . . .	28,260	100.0	29,967	100.0	Colombia
1701.11.20	Raw sugar used to produce polyhydric alcohols . . . . .	( <sup>6</sup> )	( <sup>6</sup> )	21,073	57.2	Colombia
0302.69.40	Fresh or chilled fish, including sable, ocean perch, snapper, grouper, and monkfish . . . . .	17,055	79.6	19,174	90.9	Ecuador
7113.19.21	Gold rope necklaces and neck chains . . . . .	9,351	32.2	13,966	51.6	Peru
7402.00.00	Unrefined copper; copper anodes . . . . .	( <sup>7</sup> )	( <sup>7</sup> )	13,395	53.1	Peru
7801.10.00	Refined lead, unwrought . . . . .	12,114	84.0	12,982	88.8	Peru
0709.20.90	Asparagus, fresh or chilled, not reduced in size, not entered Sept. 15-Nov. 15 . . . . .	8,760	99.9	12,868	99.7	Peru
7403.11.00	Cathodes and sections of cathodes of refined copper . . . . .	8,239	27.9	11,995	45.0	Peru
7113.19.29	Gold necklaces and neck chains, other than rope or mixed link . . . . .	10,493	89.0	10,926	96.2	Bolivia
4421.90.98	Articles of wood, including pencil slats and others . . . . .	0	0.0	10,682	96.6	Ecuador
4202.91.00 <sup>8</sup>	Leather golf bags, travel bags, sports bags, and cases . . . . .	6,093	73.0	9,272	89.4	Colombia
4202.11.00 <sup>8</sup>	Leather trunks, suitcases, vanity cases, and briefcases . . . . .	9,431	76.8	9,097	82.4	Colombia
	Total of above items . . . . .	533,928	9.0	763,686	10.9	
	Total, all items entered under ATPA provisions . . . . .	683,817	11.6	938,789	13.4	

<sup>1</sup> Value of imports entered under ATPA provisions from all ATPA beneficiaries.

<sup>2</sup> Value of imports entered under ATPA provisions as a percent of total imports of this item from all ATPA beneficiaries. A share of 100.0 percent indicates that all of the imports of an item entered under ATPA provisions. As indicated in the text, a portion of some items may have entered under other provisions.

<sup>3</sup> Indicates leading ATPA source based on total U.S. imports for consumption during 1995.

<sup>4</sup> Customs value.

<sup>5</sup> Prior to Jan. 1, 1995, reported under statistical annotations under HTS subheading 1701.11.01.

<sup>6</sup> Prior to Jan. 1, 1995, reported under statistical annotations under HTS subheading 1701.11.02.

<sup>7</sup> Eligible for duty-free entry under ATPA, but entered under GSP provisions during 1994.

<sup>8</sup> Subject to the ATPA staged 20-percent reduced duty provision.

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

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

**Table 2-7**  
**U.S. imports for consumption from ATPA**  
**countries, total imports, and entries under**  
**ATPA ranked by country, 1994-95**

(1,000 dollars, customs value)

Source	1994	1995
<i>Ranked by total imports:</i>		
Colombia .....	3,132,398	3,807,348
Ecuador .....	1,709,790	1,939,218
Peru .....	779,945	965,370
Bolivia .....	257,373	256,795
Total .....	5,879,505	6,968,729
<i>Ranked by imports entered</i> <i>under ATPA provisions:</i>		
Colombia .....	411,642	499,261
Peru .....	107,430	207,568
Ecuador .....	72,905	147,859
Bolivia .....	91,840	84,099
Total .....	683,817	938,789

Note.—Data may not add to the totals shown because of rounding. ATPA imports include both ATPA duty-free items and items subject to the ATPA staged 20-percent duty reduction.

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

in production sharing with Caribbean Basin countries.<sup>31</sup>

Table 2-8 shows the 1995 value of items entered under ATPA provisions from each of the Andean countries in 1995. Colombia was the leading or sole supplier of 8 of the top 20 items listed in table 2-6, including several flower products. Altogether, Colombia supplied 53.2 percent of ATPA entries in 1995, down from its 60.2-percent share of the total in 1994 in large part due to sharply higher shipments from Peru and Ecuador. The list of leading imports entered under ATPA from Colombia in 1995 shown in table 2-8 is identical to the list of items in 1994.<sup>32</sup>

<sup>31</sup> Such production sharing is provided under 19 U.S.C. 3203(a); that provision is discussed in ch. 1. For a discussion of the methodological approach used and the data difficulties encountered in this type of analysis, see USITC, *ATPA, Second Report, 1994*, pp. 15-16.

<sup>32</sup> For 1994 data, see USITC, *ATPA, Second Report, 1994*, table 2-10, p. 14 and table 2-11, p. 15.

Peru supplied 22.1 percent of U.S. imports entered under ATPA provisions in 1995 (versus 15.7 percent in 1994) and was the leading or sole supplier of 7 of the top 20 items shown in table 2-6. Imports were concentrated in jewelry items and metals and minerals (table 2-8). Rope and chain for jewelry was by far the largest category of items entered under ATPA from Peru in both 1994 and 1995, with imports increasing threefold in value during the period.<sup>33</sup> In addition to being the sole supplier of unrefined copper entered under ATPA, Peru also was the sole supplier of refined unwrought lead and copper cathodes. Peru also was the primary supplier of fresh or chilled asparagus entered under ATPA provisions.

Ecuador accounted for 15.7 percent of imports entered under ATPA provisions in 1995 (versus 10.6 percent in 1994) and was the leading supplier of 3 of the top 20 import items shown in table 2-6—tuna not in cans, fresh or chilled fish, and articles of wood. Imports from Ecuador comprised primarily fish and flower products (table 2-8). Imports of fresh cut roses, the leading import in 1994, nearly doubled in value in 1995;<sup>34</sup> nonetheless, a more than threefold increase in imports of tuna propelled that item to become the leading ATPA import from Ecuador in 1995. New to the list of leading imports from Ecuador in 1995 was fruit juices (HTS subheading 2009.80.60).

Bolivia supplied 8.9 percent of the items entered under ATPA provisions during 1995 (versus 13.4 percent in 1994). ATPA entries from that country declined from \$92 million in 1994 to \$84 million in 1995, mirroring Bolivia's somewhat slower economic growth and reduced level of overall exports. Bolivia was the leading supplier of 2 of the top 20 items shown in table 2-6—jewelry and parts of precious metal except silver and gold necklaces and neck chains. Imports of the first category declined by 54 percent while the second category declined marginally during 1995. Imports of rope and chain for jewelry, the leading ATPA import from Bolivia, increased nearly fourfold. As in prior years, jewelry products again accounted for the majority of ATPA duty-free entries from Bolivia (table 2-8).<sup>35</sup>

<sup>33</sup> Ibid.

<sup>34</sup> Ibid.

<sup>35</sup> Ibid.

**Table 2-8**  
**Leading U.S. imports for consumption entered under ATPA provisions, by countries, 1995**

Source	HTS No.	Description	Entries under ATPA	Share of country's ATPA entries
			1,000 dollars <sup>1</sup>	Percent
Bolivia . . . .	7113.19.10 . . . . .	Rope and chain for jewelry, of precious metal except silver . . . . .	34,620	41.2
	7113.19.50	Jewelry and parts of precious metal except silver, except necklaces and clasps. . . . .	33,741	40.1
	7113.19.29	Gold necklaces and neck chains, other than rope or mixed link . . . . .	6,496	7.7
		Total of above items . . . . .	74,857	89.0
Colombia . .	0603.10.70 . . . . .	Chrysanthemums, standard carnations, anthuriums and orchids . . . . .	145,985	29.2
	0603.10.60	Roses, fresh cut . . . . .	99,533	19.9
	0603.10.80	Cut flowers and flower buds suitable for bouquets, not elsewhere specified. . . . .	44,262	8.9
	0603.10.30	Miniature (spray) carnations, fresh cut . . . . .	31,304	6.3
	3921.12.11	Cellular plastic plates and sheets with manmade textile components over 70% by weight of polymers of vinyl chloride . . . . .	29,967	6.0
	1701.11.20	Raw sugar used to produce polyhydric alcohols . . . . .	20,995	4.2
	4202.11.00 <sup>2</sup>	Leather trunks, suitcases, vanity cases, and briefcases . . . . .	9,004	1.8
	Total of above items . . . . .	381,050	76.3	
Ecuador . . .	1604.14.40 . . . . .	Tuna and skipjack, not in airtight containers . . . . .	35,672	24.1
	0603.10.60	Roses, fresh cut . . . . .	27,084	18.3
	0603.10.80	Cut flowers and flower buds suitable for bouquets, not elsewhere specified. . . . .	19,531	13.2
	0302.69.40	Fresh or chilled fish, including sable, ocean perch, snapper, grouper, and monkfish . . . . .	16,373	11.1
	4421.90.98	Articles of wood, including pencil slats and others . . . . .	10,677	7.2
	2009.80.60	Fruit juices including cherry, berry, and others, unfermented . . . . .	3,291	2.2
		Total of above items . . . . .	112,628	76.1
Peru . . . . .	7113.19.10 . . . . .	Rope and chain for jewelry, of precious metal except silver . . . . .	66,953	32.2
	1701.11.10	Raw sugar not containing added flavoring or color . . . . .	20,119	9.7
	7113.19.21	Gold rope necklaces and neck chains . . . . .	13,803	6.6
	7402.00.00	Unrefined copper; copper anodes . . . . .	13,395	6.5
	7801.10.00	Refined lead, unwrought . . . . .	12,982	6.2
	7403.11.00	Cathodes and sections of cathodes of refined copper . . . . .	11,995	5.8
	7113.19.50	Jewelry and parts of precious metal except silver, except necklaces and clasps . . . . .	10,940	5.3
	0709.20.90	Asparagus, fresh or chilled, not entered Sept. 15-Nov. 15 . . . . .	10,623	5.1
		Total of above items . . . . .	160,810	77.4

<sup>1</sup> Customs value.

<sup>2</sup> Indicated articles are subject to the ATPA staged 20-percent duty reduction.

Note.—For each country, leading items are listed to total at least 75 percent of total entries under ATPA from that country.

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

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

# CHAPTER 3

## Impact of ATPA on the United States in 1995

This chapter examines the impact of ATPA on the U.S. economy and presents estimates of its effects on U.S. consumers, industries, and tariff revenues. The leading import commodities that benefited exclusively from ATPA in 1995 are identified, and the impact of duty reductions analyzed. The maximum potential welfare effects of ATPA on the U.S. economy are estimated based on changes in consumer surplus and the tariff revenue collected by the Government. The impact of ATPA on particular U.S. industries is determined by measuring the maximum amount of domestic production potentially displaced by imports benefiting from ATPA.

As the analysis described below indicates, based on “upper bound” (i.e., maximum potential effects) estimates, the U.S. industries most likely to be affected by ATPA in 1995 were those producing the following products:<sup>1</sup> chrysanthemums, standard carnations, anthuriums, and orchids (hereafter

chrysanthemums et al.) (HTS subheading 0603.10.70); fresh cut roses (HTS subheading 0603.10.60);<sup>2</sup> fresh or chilled asparagus not entered from September 15 through November 15 (hereafter fresh or chilled asparagus) (HTS subheading 0709.20.90); and rope and chain for jewelry, of precious metal except silver (hereafter rope and chain for jewelry) (HTS subheading 7113.19.10). However, the magnitude of the impact of ATPA, whether measured in terms of welfare changes or by the share of U.S. production potentially displaced, was relatively small for nearly all of the products formally examined. This is not an unexpected result since, as indicated in chapter 2, total U.S. imports from the four Andean countries continue to represent a small portion (0.9 percent in 1995) of total U.S. imports. Articles entered under ATPA tariff preferences, valued at \$939 million in 1995, make up just 13.5 percent of total imports from the ATPA countries (table 3-1).

<sup>1</sup> Unless otherwise stated, the word “product” used for analyzing welfare and displacement effects in this section means a group of products classifiable under an 8-digit HTS subheading.

<sup>2</sup> During 1994-95, fresh cut roses (HTS subheading 0603.10.60) from Colombia and Ecuador, allegedly sold at

**Table 3-1**  
**Total imports from ATPA beneficiaries, imports entered under ATPA provisions, and imports that benefited exclusively from ATPA provisions, 1993-95**

Item	1993 <sup>1</sup>	1994	1995
Total imports from ATPA beneficiaries:			
Value ( <i>million dollars</i> ) <sup>2</sup> .....	5,282	5,880	6,969
Imports entered under ATPA provisions: <sup>3</sup>			
Value ( <i>million dollars</i> ) <sup>2</sup> .....	401	684	939
Percent of total .....	7.6	11.6	13.5
Imports that benefited exclusively from ATPA provisions: <sup>4</sup>			
Value ( <i>million dollars</i> ) <sup>2</sup> .....	249	288	699
Percent of total imports from ATPA beneficiaries .....	4.7	4.9	10.0

<sup>1</sup> Ecuador and Peru were designated as ATPA beneficiaries in 1993.

<sup>2</sup> Customs value.

<sup>3</sup> Includes articles entered duty-free under ATPA provisions and under ATPA staged 20-percent duty reduction (table 2-4). Those provisions are discussed in ch. 1.

<sup>4</sup> As defined in text below.

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

## Products That Benefited Exclusively From ATPA in 1995

The analysis in this chapter focuses on only those imports that benefited exclusively from ATPA in 1995. These imports are defined as products that are eligible for ATPA tariff preferences only, and are not eligible under any other U.S. preference program such as GSP (except as described below). Moreover, also included in this category are products for which the exporting country has lost its GSP eligibility—such as imports that exceeded GSP competitive need limits and thus were eligible for duty-free entry only under ATPA.<sup>3</sup>

As discussed earlier, the U.S. GSP program was not operative from August 1 through December 31, 1995.<sup>4</sup> Consequently, articles eligible for GSP duty-free entry were subject to ordinary MFN duties during that period unless another valid preferential tariff benefit, such as ATPA, was claimed and accorded. The analysis used in this report implicitly assumes that importers did not expect the GSP program to be reinstated or for the duties to be refunded and, therefore, that products otherwise

<sup>2</sup>—Continued

less than fair value (LTFV), were the subject of antidumping investigations in the United States. The LTFV rose imports considered in those investigations accounted for 30 percent of the total U.S. rose imports from each of these countries (estimated by USITC staff from official statistics of the U.S. Department of Commerce). The Commission determined negatively for those dumping investigations (i.e., found no serious injury or threat of injury to U.S. producers); consequently, no dumping duties on fresh cut roses were imposed by the U.S. Department of Commerce. For additional information, see USITC, *Fresh Cut Roses From Colombia and Ecuador, Investigation Nos. 731-TA-684 and 685 (Final)*, USITC publication 2862, March 1995. The designation “fresh cut roses” in the present study refers to all rose imports from the Andean countries.

<sup>3</sup> For example, chrysanthemums et al. (HTS subheading 0603.10.70) and certain copper stranded wire (HTS subheading 7413.00.10) qualified as GSP-eligible items and normally would be excluded from the analysis in this chapter. However, imports of chrysanthemums et al. from Colombia and copper stranded wire from Peru exceeded the GSP competitive need limits and therefore were not eligible for GSP duty-free tariff treatment pursuant to general note 4(d) to the HTS; thus, such imports are included in the analysis.

<sup>4</sup> The GSP program is discussed in more detail in ch. 1.

eligible for GSP during this period entered the United States under ATPA. Hence, the effects of duty-free entry of these otherwise GSP-eligible products are attributed to ATPA for the period of August 1 through December 31, 1995. This results in the estimated effects of ATPA being greater than they would be<sup>5</sup> had the GSP program been operative during that period.<sup>6</sup> This inclusion of otherwise GSP-eligible products in the ATPA program during the period of August 1 through December 31, 1995, contributed to a significant increase in imports that benefited exclusively from ATPA between 1994 and 1995—helping to push up the import value of products that benefited exclusively from ATPA by 143 percent, from \$288 million in 1994 to \$699 million in 1995 (table 3-1).<sup>7</sup>

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<sup>5</sup> The size of the overstatement depends on the extent to which importers *expected* the GSP program to be reinstated and duties paid to be refunded. Because the duration of the lapse of the GSP program was uncertain, importers were unlikely to accurately predict when these events would occur. Therefore, any attempt to estimate the magnitude of the overstatement in this analysis due to the lapse in GSP would require knowledge of the expectations of importers. An appropriate estimate would include survey responses pertaining to the expectation by importers *prior* to the reinstatement of the GSP program and allowance of a refund; currently, such a survey is impossible.

The alternative approach would have excluded from this analysis items that were eligible for GSP that entered from Aug. 1 through Dec. 31. However, that approach implicitly assumes that the importers of record fully expected the refund of duties, and knew beforehand the duration of the GSP lapse—thus leading to an understatement of the effects of ATPA. The staff used the approach that overstates the estimates, in line with the approach to analysis in this chapter, which seeks to obtain the maximum potential effects of the ATPA on the U.S. economy.

<sup>6</sup> Based on a USITC staff analysis of ATPA and GSP eligibility status of imports from the ATPA countries entered under either program during 1995. This analysis determined the goods listed in the lower portion of tables 3-2, 3-3, and 3-4.

<sup>7</sup> Because of the above assumptions about GSP, the findings derived from the analysis in this report are not strictly comparable to the findings from previous reports in this series, despite the similar analytical approach used.

# Welfare and Displacement Effects of ATPA on U.S. Industries and Consumers in 1995<sup>8</sup>

## *Analytical Approach*

A computable partial equilibrium model was used to estimate the welfare effects of ATPA on the U.S. economy.<sup>9</sup> This analysis<sup>10</sup> includes three different markets—namely, the markets for ATPA imports, competing U.S. domestic products, and competing imports from non-ATPA countries. ATPA tariff preferences lead to a decrease in the price of affected imports from ATPA countries, an increase in affected imports from these countries, and a decrease in demand for substitute products produced both in the United States and in non-ATPA countries.

The maximum potential impact of ATPA on U.S. consumers and industries is measured by examining the welfare effects of a duty reduction<sup>11</sup> in the market for ATPA imports and the potential displacement of production of competing domestic products. Net welfare effects are measured by adding two components: (1) the gain in consumer surplus and (2) the decrease in tariff revenues collected by the Government.<sup>12</sup> The maximum potential displacement

in domestic production is determined based on the change in demand for competing domestic products.<sup>13</sup>

Two assumptions have been made that tend to produce “upper bound,” or maximum potential estimates of the welfare and potential displacement effects. The first assumption is that the substitutability between ATPA products and competing U.S. products is high. This is reflected in the use of high elasticities of substitution (that is, equal to 5) in the analysis.<sup>14</sup> The second assumption is that production in each market faces no capacity constraints over the relevant range, that is, that the supply curves in all of the markets are perfectly elastic (horizontal). The purpose of employing these assumptions is to ensure that the items that could be most affected by ATPA are included in measuring the welfare and displacement effects. Appendix B presents a more detailed explanation of the model and accompanying assumptions.

The analysis is conducted on the 25 leading items that benefited exclusively from ATPA in 1995. Using the above-mentioned assumptions, estimates of the maximum potential welfare and U.S. industry displacement effects are made, and the characteristics of only those U.S. industries with an

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<sup>12</sup>—Continued

the total net gain (loss) to U.S. consumers from lower (higher) prices. Likewise, the change in producer surplus as a result of a price change measures the total net loss (gain) to competing domestic producers from lower (higher) prices. See Walter Nicholson, *Microeconomic Theory: Basic Principles and Extensions* (New York: The Dryden Press, 1989), for additional information. To produce maximum potential welfare and displacement estimates, the analysis used in this report does not consider changes in producer surplus because it assumes that the production in each market faces no constraints in meeting demand over the relevant range—that is, the supply of U.S. domestic production is assumed to be perfectly elastic (the supply curves in all of the markets are horizontal) and, consequently, U.S. domestic prices are assumed not to fall in response to ATPA imports. To the extent that the supply curve is less than perfectly elastic, the estimated net welfare effects for this analysis tend to be higher because the loss in producer surplus is omitted.

<sup>13</sup> These measures do not include short-run adjustment costs that are due to the reallocation of resources between different industries.

<sup>14</sup> For some of the items included in this analysis, the actual degree of substitutability observed in the market may be quite different. Indeed, subsequent industry analysis revealed that the elasticity of substitution is relatively low for rope and chain for jewelry. For further information, see the discussion of rope and chain for jewelry below.

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<sup>8</sup> Summaries of comments by U.S. industries and others on the effects of ATPA appear in Appendix A.

<sup>9</sup> See appendix B for a description of this methodology.

<sup>10</sup> The views of Commissioners Bragg and Newquist on economic modeling are summarized in footnote 6 of ch. 1.

<sup>11</sup> Although the term “duty reduction” is used, the methodology employed in the analysis for this report applies equally to a duty elimination (which is a duty reduction in the full amount of the duty). The method is described in more detail in appendix B.

<sup>12</sup> Typically, net welfare effects are measured by adding three components: (1) the gain in consumer surplus, (2) the decrease in tariff revenues collected by the Government, and (3) the loss in producer surplus. Welfare effects include changes in consumer surplus and producer surplus that result from price changes. Conceptually, consumer surplus is defined as the “difference between the total value consumers receive from the consumption of a particular good and the total amount they pay for the good.” Producer surplus is conceptually defined as the return to entrepreneurs and owners of capital over and above what they would have earned in their next-best opportunities. So the change in consumer surplus as a result of a price change measures

estimated potential displacement effect equal to or greater than 5 percent are examined.

## ***Items Analyzed***

Although a large number of products are eligible for duty-free entry or the staged 20-percent reduced duty under ATPA provisions, a relatively small group of products accounts for most of the imports that benefit exclusively from ATPA. Table 3-2 presents the 25 leading items that benefited exclusively from ATPA in 1995 by their c.i.f. import values,<sup>15</sup> and ranked by their 1995 value of imports.<sup>16</sup> The upper portion of the table shows imports that benefited exclusively from ATPA during the entire calendar year (i.e., imports that at no time during 1995 were also GSP-eligible). The lower portion of the table shows imports that also were eligible for GSP duty-free entry until GSP expired; from August 1 through December 31, 1995, these items also benefited exclusively from ATPA. Combined, these products represented 65 percent of the \$699 million of imports that benefited exclusively from ATPA by the end of 1995.<sup>17</sup>

As shown in table 3-2, the five leading imports that benefited exclusively from ATPA in 1995 were (1) chrysanthemums et al.; (2) fresh cut roses; (3) rope and chain for jewelry; (4) tuna and skipjack not in airtight containers (HTS subheading 1604.14.40) (hereafter tuna not in cans); and (5) raw sugar not containing added flavoring or color (HTS subheading

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<sup>15</sup> The analysis uses U.S. market expenditure shares in computing estimates of welfare and domestic production displacement effects. Since U.S. expenditures on imports necessarily include freight and insurance charges and duties, when applicable, the analysis, where indicated in the text and supporting tables, uses c.i.f. values for products benefiting exclusively from ATPA and duty-paid values for the remaining imports. Technically, landed, duty-paid values are equal to c.i.f. values for items entering free of duty.

<sup>16</sup> Two of the items listed, leather golf bags, travel bags, sports bags, and cases (HTS subheading 4202.91.00) and leather trunks, suitcases, vanity cases, and briefcases (HTS subheading 4202.11.00), were subject to the ATPA staged 20-percent duty reduction. The other 23 items listed entered duty-free under ATPA.

<sup>17</sup> The c.i.f. values reported in tables 3-2 and 3-3 reflect only that portion of each HTS subheading that entered duty free or under the ATPA staged 20-percent duty reduction. Even though all of these items were eligible for ATPA tariff preferences, a certain portion of each HTS subheading paid full MFN duties for a variety of reasons, including, for example, insufficient documentation.

1701.11.10). The two leading items—chrysanthemums et al. and fresh cut roses, both supplied primarily by Colombia—also ranked first and second in 1994. Rope and chain for jewelry and raw sugar not containing added flavoring or color, ranked third and fifth, respectively, are eligible for duty-free entry under GSP from all ATPA countries, and appear on the list of imports that benefited exclusively from ATPA only because GSP expired.

The magnitude of imports that benefited exclusively from ATPA relative to U.S. apparent consumption in 1995 is indicated in table 3-3. Two items exceeded 50 percent of U.S. apparent consumption in 1995—chrysanthemums et al. (72.7 percent), and fresh cut roses (50.2 percent). Imports of two food items, fresh or chilled asparagus entered from September 15 through November 15, and tuna not in cans, also gained substantial market shares—up to 40 percent and 33 percent, respectively. Other imports that gained sizeable market shares in 1995 were miniature (spray) carnations (30.8 percent), rope and chain for jewelry (20.6 percent), fresh or chilled asparagus not entered September 15 through November 15 (17.2 percent), and gold necklaces and chains (10.4 percent). The remaining products, although important as imports benefiting exclusively from ATPA, represented a relatively small share of the U.S. market.

## **Estimated Effects on Consumers and Producers**

Table 3-4 presents the economic impact of ATPA tariff preferences on the U.S. economy.<sup>18</sup> Estimates of the maximum potential gains in consumer surplus and the losses in tariff revenue, as well as measures of the largest potential displacement of U.S. production, are presented below.

### ***Effects on U.S. Consumers***

Chrysanthemums et al. provided the largest estimated maximum gain in consumer surplus (\$10.3 million) resulting exclusively from ATPA tariff preferences in 1995 (table 3-4). The price U.S. consumers would have paid for chrysanthemums et al. would have been 7.7 percent higher (the *ad valorem* tariff rate) without ATPA. Fresh cut roses provided the second-largest estimated consumer surplus (\$9.0 million). Without ATPA, the price of fresh cut roses would have been 7.8 percent higher. In general, the items that provided the largest gains in consumer

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<sup>18</sup> The methodology used is described in appendix B.



**Table 3-2**  
**C.i.f. value of leading imports that benefited exclusively from ATPA tariff preferences in 1995**

HTS subheading	Description	Value	Rank
		<i>1,000 dollars</i>	
<b>Benefited January 1 - December 31</b>			
0603.10.70 <sup>1</sup>	Chrysanthemums, standard carnations, anthuriums, and orchids .....	173,756	1
0603.10.60	Roses, fresh cut .....	149,807	2
1604.14.40	Tuna and skipjack, not in airtight containers .....	37,843	4
0709.20.90	Asparagus, fresh or chilled, not entered Sept. 15-Nov. 15 .....	19,571	9
4202.91.00 <sup>2</sup>	Leather golf bags, travel bags, sports bags, and cases .....	9,590	15
4202.11.00 <sup>2</sup>	Leather trunks, suitcases, vanity cases, and briefcases .....	9,452	16
<b>Benefited August 1 - December 31<sup>3</sup></b>			
7113.19.10	Rope and chain for jewelry, of precious metal except silver. ....	56,867	3
1701.11.10	Raw sugar not containing added flavoring or color .....	33,237	5
0603.10.80	Cut flowers and flower buds suitable for bouquets not elsewhere specified .....	31,290	6
1701.11.20	Raw sugar used to produce polyhydric alcohol .....	23,587	7
7113.19.50	Jewelry and parts of precious metal except silver, excluding necklaces and clasps. ....	22,684	8
0603.10.30	Miniature (spray) carnations, fresh cut .....	15,406	10
7402.00.00	Unrefined copper; copper anodes for electrolytic refining .....	13,678	11
3921.12.11	Cellular plastic plates and sheets with manmade textile components, over 70% by weight of polymers of vinyl chloride .....	12,299	12
7403.11.00	Cathodes and cathode sections of refined copper .....	12,231	13
7113.19.21	Gold rope necklaces and neck chains .....	11,169	14
0709.20.10	Asparagus, fresh or chilled, entered Sept. 15-Nov. 15 .....	9,350	17
7801.10.00	Refined lead, unwrought .....	9,063	18
7113.19.29	Gold necklaces and chains, other than rope and mixed link .....	6,815	19
7901.11.00	Unwrought zinc, not alloyed, by weight 99.99% or more of zinc .....	5,916	20
0302.69.40	Fresh or chilled fish, including sable, ocean perch, snapper, grouper, and monkfish .....	5,472	21
4421.90.98	Articles of wood, including pencil slats and others. ....	4,876	22
1704.90.20	Confectionery or sweetmeats, excluding candied nuts .....	4,288	23
2009.80.60	Fruit juices including cherry, berry, and others, unfermented .....	3,338	24
2005.90.97	Other prepared or preserved vegetables and mixtures of vegetables .....	3,004	25

<sup>1</sup> Includes only imports from Colombia during the period Jan. 1-July 31, and imports from all ATPA countries during the period Aug. 1-Dec. 31.

<sup>2</sup> Subject to the ATPA staged 20-percent duty reduction.

<sup>3</sup> Items listed were eligible for GSP duty-free entry until that program expired July 31, 1995. The import values reported are only for items entered Aug. 1- Dec. 31, 1995.

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

**Table 3-3**  
**Leading imports that benefited exclusively from ATPA, apparent U.S. consumption, and market shares, 1995**

HTS subheading	Description	ATPA imports (c.i.f. value) (A)	U.S. apparent consumption (B)	Market share (A/B)
			1,000 dollars	Percent
<b>Benefited January 1 - December 31</b>				
0603.10.70 <sup>1</sup>	Chrysanthemums, standard carnations, anthuriums, and orchids	173,756	238,972	72.71
0603.10.60	Roses, fresh cut	149,807	298,613	50.17
1604.14.40	Tuna and skipjack, not in airtight containers	37,843	114,882	32.94
0709.20.90	Asparagus, fresh or chilled, not entered			
	Sept. 15-Nov. 15	19,571	113,650	17.22
4202.91.00 <sup>2</sup>	Leather golf bags, travel bags, sports bags, and cases	9,590	191,685	5.00
4202.11.00 <sup>2</sup>	Leather trunks, suitcases, vanity cases, and briefcases	9,452	210,618	4.49
<b>Benefited August 1 - December 31<sup>3</sup></b>				
7113.19.10	Rope and chain for jewelry, of precious metal except silver	56,867	276,638	20.56
1701.11.10	Raw sugar not containing added flavoring or color	33,237	4,593,231	0.72
0603.10.80	Cut flowers and flower buds suitable for bouquets not elsewhere specified	31,290	407,328	7.68
1701.11.20	Raw sugar used to produce polyhydric alcohol	23,587	( <sup>4</sup> )	( <sup>4</sup> )
7113.19.50	Jewelry and parts of precious metal except silver, excluding necklaces and clasps	22,684	3,483,689	0.65
0603.10.30	Miniature (spray) carnations, fresh cut	15,406	50,099	30.75
7402.00.00	Unrefined copper; copper anodes for electrolyte refining	13,678	4,678,220	0.29
3921.12.11	Cellular plastic plates and sheets with manmade textile components, over 70% by weight of polymers of vinyl chloride	12,299	219,978	5.59
7403.11.00	Cathodes and cathode sections of refined copper	12,231	6,953,644	0.18
7113.19.21	Gold rope necklaces and neck chains	11,169	107,168	10.42
0709.20.10	Asparagus, fresh or chilled, entered			
	Sept. 15-Nov. 15	9,350	23,096	40.48
7801.10.00	Refined lead, unwrought	9,063	563,837	1.61
7113.19.29	Gold necklaces and chains, other than rope and mixed link	6,815	1,074,425	0.63
7901.11.00	Unwrought zinc, not alloyed, by weight 99.99% or more of zinc	5,916	1,229,406	0.48
0302.69.40	Fresh or chilled fish, including sable, ocean perch, snapper, grouper, and monkfish	5,472	206,523	2.65
4421.90.98	Articles of wood, including pencil slats and others	4,876	4,264,161	0.11
1704.90.20	Confectionery or sweetmeats, excluding candied nuts	4,288	553,655	0.77
2009.80.60	Fruit juices including cherry, berry, and others, unfermented	3,338	69,174	4.83
2005.90.97	Other prepared or preserved vegetables and mixtures of vegetables	3,004	1,765,083	0.17

<sup>1</sup> Includes only imports from Colombia during the period Jan. 1-July 31, and imports from all ATPA countries during the period Aug. 1-Dec. 31.

<sup>2</sup> Subject to the ATPA staged 20-percent duty reduction.

<sup>3</sup> Items listed were eligible for GSP duty-free entry until that program expired July 31, 1995. The import values reported are only for items entered Aug. 1- Dec. 31, 1995.

<sup>4</sup> Most raw sugar imported under this HTS subheading is re-exported either as refined sugar or in sugar-containing products, which would qualify for a duty drawback under other HTS subheadings. It is estimated that little or no domestic production occurs.

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

**Table 3-4**  
**Estimated maximum potential welfare and displacement effects of leading imports that benefited exclusively from ATPA, 1995**

HTS subheading	Description	Maximum potential welfare gain			U.S. domestic shipments (C)	Maximum potential displacement	
		Gain in consumer surplus (A)	Loss in tariff revenue (B)	Net welfare effect (A-B)		Value (D)	Share (D/C)
<b>Benefited January 1 - December 31</b>							
0603.10.70 <sup>1</sup>	Chrysanthemums, standard carnations, anthuriums, and orchids	10,340	9,821	519	45,083	8,580	19.03
0603.10.60	Roses, fresh cut	8,970	8,121	850	119,054	15,444	12.97
1604.14.40	Tuna and skipjack, not in airtight containers	181	180	1	34,576	259	0.75
0709.20.90	Asparagus, fresh or chilled, not entered Sept. 15-Nov. 15	2,316	1,679	637	49,500	6,192	12.51
4202.91.00 <sup>2</sup>	Leather golf bags, travel bags, sports bags, and cases	95	92	3	22,600	36	0.16
4202.11.00 <sup>2</sup>	Leather trunks, suitcases, and case vanity cases, and briefcases	47	46	1	59,300	42	0.07
<b>Benefited August 1 - December 31<sup>3</sup></b>							
7113.19.10	Rope and chain for jewelry, of precious metal except silver	3,478	3,037	441	90,000	6,467	7.19
1701.11.10 <sup>4</sup>	Raw sugar not containing added flavoring or color	-	800	-	3,954,206	-	-
0603.10.80	Cut flowers and flower buds suitable for bouquets not elsewhere specified	1,760	1,514	246	209,727	3,898	1.86
1701.11.20 <sup>5</sup>	Raw sugar used to produce polyhydric alcohol	-	-	-	-	-	-
7113.19.50	Jewelry and parts of precious metal except silver, excluding necklaces and clasps	1,228	1,053	175	1,260,000	2,503	0.20
0603.10.30	Miniature (spray) carnations, fresh cut	485	455	30	10,923	429	3.93
7402.00.00	Unrefined copper; copper anodes for electrolytic refining	105	103	2	4,420,264	454	0.01
3921.12.11	Cellular plastic plates and sheets with manmade textile components, 70% by weight of polymers of vinyl chloride	460	417	43	155,910	1,588	1.02
7403.11.00	Cathodes and cathode sections of refined copper	117	114	3	5,908,523	456	0.01
7113.19.21	Gold rope necklaces and neck chains	605	528	77	45,000	1,430	3.18
0709.20.10	Asparagus, fresh or chilled, entered Sept. 15-Nov. 15	298	283	15	9,685	615	6.35
7801.10.00	Refined lead, unwrought	257	238	19	431,197	938	0.22
7113.19.29	Gold necklaces and chains, other than rope and mixed link	369	317	52	405,000	784	0.19
7901.11.00	Unwrought zinc, not alloyed, by weight 99.99% or more of zinc	82	79	3	556,443	172	0.03
0302.69.40	Fresh or chilled fish, including sable, ocean perch, snapper, grouper, and monkfish	14	13	1	13,457	4	0.03
4421.90.98	Articles of wood, including pencil slats and others	184	166	18	3,843,702	843	0.02
1704.90.20	Confectionery or sweetmeats, excluding candied nuts	232	199	33	151,812	301	0.20
2009.80.60	Fruit juices including cherry, berry, and others, unfermented	187	161	26	30,000	432	1.44
2005.90.97	Other prepared or preserved vegetables and mixtures of vegetables	323	225	98	1,721,023	1,893	0.11

<sup>1</sup> Includes only imports from Colombia during Jan. 1-July 31, and imports from all ATPA countries during Aug. 1-Dec. 31.

<sup>2</sup> Subject to the ATPA staged 20-percent duty reduction.

<sup>3</sup> Items listed were eligible for GSP duty-free entry until that program expired July 31, 1995. The import values reported are only for items entered Aug. 1- Dec. 31, 1995.

<sup>4</sup> Raw sugar imports of this category are subject to U.S. tariff-rate quotas; therefore, the net welfare from a tariff elimination on these imports is composed solely of a transfer of tariff revenue from the U.S. Treasury to sugar exporters. Because the quotas set maximum U.S. import levels, no U.S. shipments are displaced following a tariff reduction.

<sup>5</sup> Most raw sugar imported under this HTS subheading is re-exported either as refined sugar or in sugar-containing products, which would qualify for a duty drawback under other HTS subheadings. Therefore, there is no effect on U.S. consumers and no loss of tariff revenues, and there is no domestic production to be displaced.

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

surplus also had either (1) the highest MFN tariff rates and/or (2) the largest volumes of imports. ATPA tariff preferences provided U.S. consumers with more fresh cut flowers at lower prices.

At the same time, ATPA lowered U.S. tariff revenues. For both chrysanthemums et al. and fresh cut roses, lower tariff revenues offset most of the gain in consumer surplus. For other items listed in table 3-4, lower tariff revenues offset nearly all of the gain in consumer surplus.

Overall, the estimated maximum potential welfare effects of ATPA were small in magnitude. The gain in consumer surplus (column A of table 3-4) was greater than the corresponding decline in tariff revenue (column B) for all of the products analyzed except for the two categories of raw sugar—HTS subheading 1701.11.10, which is subject to quotas and does not provide a gain in consumer surplus, and HTS subheading 1701.11.20, which is re-exported.<sup>19</sup> Of the resulting maximum potential net welfare gains, the largest were for fresh cut roses (\$850,000); fresh or chilled asparagus (\$637,000); and chrysanthemums et al. (\$519,000). These same products also had the largest net welfare gains in 1994.<sup>20</sup> Other noticeable welfare gain items in 1995 included rope and chain for jewelry (\$441,000); fresh cut flowers suitable for bouquets (\$246,000); and jewelry of precious metal (\$175,000). The estimated maximum potential net welfare gain for each of the remaining items was minimal, or less than \$100,000.

## *Effects on U.S. Producers*

Measures of the maximum potential displacement in domestic production were also small for most of

<sup>19</sup> Imports of raw sugar of category HTS subheading 1701.11.10 are subject to tariff-rate quotas; the quotas set the maximum import levels both globally and for individual countries. Because of the tariff-rate quotas, the net welfare associated with duty elimination is composed solely of a transfer of tariff revenue from the U.S. Treasury to sugar exporters; thus, the price of sugar did not change, even after ATPA tariff reductions on sugar were implemented. Most raw sugar imported under HTS subheading 1701.11.20 is re-exported either as refined sugar or in sugar-containing products, which would qualify for a duty drawback under other HTS subheadings; little or no domestic production occurs. Therefore, there is no effect on U.S. consumers and no loss of tariff revenues.

<sup>20</sup> In 1994, the estimated maximum net welfare gains were: fresh cut roses—\$864,000; chrysanthemums, et al.—\$805,000; and fresh or chilled asparagus—\$468,000. See USITC, *ATPA, Second Report, 1994*, table 3-4, p. 23.

the individual sectors.<sup>21</sup> Because of the assumptions of high substitutability and no capacity constraints to production described in the “Analytic Approach” above, such maximum potential effects are likely to be higher than the effects actually felt by producers. The analysis indicates that the largest potential displacement estimates were for chrysanthemums et al. (an upper bound estimate of 19.0 percent displaced in 1995, up from 13.4 percent in 1994), fresh cut roses (an upper bound of nearly 13.0 percent displaced in 1995, versus 8.5 percent in 1994), fresh or chilled asparagus (an upper bound of 12.5 percent displaced in 1995, nearly double the 6.4 percent in 1994), and rope and chain for jewelry (an upper bound of 7.2 percent displaced).<sup>22</sup> These industries are discussed in greater detail below. However, the estimated maximum potential displacement share for one-half of the leading imports benefiting exclusively from ATPA in 1995 was less than 1 percent.<sup>23</sup>

<sup>21</sup> See footnotes to table 3-4 for discussions of raw sugar (HTS subheadings 1701.11.10 and 1701.11.20). One of the factors that affects the displacement of U.S. domestic shipments is the U.S. market share. In general, the larger the ATPA market share, the larger the displacement of domestic shipments. A comparison of tables 3-3 and 3-4 shows this relationship holds for most of the items with significant domestic displacement effects. This relationship may not always hold, however, due to the influence of other factors such as the size of the tariff reduction and/or the aggregate demand elasticity relative to the elasticity of substitution. The interaction of these other factors may override the relationship between market share and displacement outlined above.

<sup>22</sup> A comparable 1994 statistic for rope and chain for jewelry is not available because such imports were GSP eligible that year.

<sup>23</sup> These potential displacement effects are in percentage terms. In value terms, the four products with the largest potential displacement effects on domestic shipments in 1995 were also fresh cut roses (\$15.4 million), chrysanthemums et al. (\$8.6 million), rope and chain for jewelry (\$6.5 million), and fresh or chilled asparagus (\$6.2 million) (column D of table 3-4). Imports of chrysanthemums et al. and fresh cut roses entered under ATPA provisions accounted for 89.7 percent and 83.2 percent, respectively, of the U.S. total imports of these two products; whereas, imports of fresh or chilled asparagus under ATPA provisions accounted for 32.8 percent of the U.S. total imports. In evaluating the relative significance of the displacement of domestic shipments across industries, comparison of the percentages of market share displaced is more meaningful than comparing the actual value of that displacement.

## Highlights of U.S. Industries Most Likely Affected by ATPA in 1995

The above analysis, based on estimates of the maximum potential welfare and domestic production displacement effects, was used to identify the U.S. industries most likely to be affected by imports that benefited exclusively from ATPA in 1995. As an aid to understanding how U.S. industries may be adjusting to competing imports from ATPA countries, the Commission selected for a more detailed analysis those industries that were estimated to experience a 5-percent or higher maximum potential displacement share of domestic production as presented in table 3-4. Based on that criterion, industries selected for further examination were those producing chrysanthemums, standard carnations, anthuriums, and orchids; fresh cut roses; fresh or chilled asparagus; and rope and chain for jewelry.<sup>24</sup>

### *Chrysanthemums, Standard Carnations, Anthuriums, and Orchids*

U.S. imports of chrysanthemums et al. (HTS subheading 0603.10.70) from the Andean countries increased from \$121 million in 1994 to \$148 million in 1995, or by approximately 22 percent. Imports from Colombia entered under ATPA provisions accounted for virtually the total amount, increasing from \$120 million in 1994 to \$146 million in 1995.<sup>25</sup>

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#### <sup>23</sup>—Continued

As stated in the text, these values represent “upper-bound” estimates of displacement because of the assumptions of high elasticities of substitution and perfectly elastic supply curves. If the elasticities of substitution were lower, the potential displacements also would be lower. See appendix B for additional information about these assumptions. These “upper-bound” estimates do not represent measures of actual displacement in the respective industries.

<sup>24</sup> Trade data for these analyses are present in customs value.

<sup>25</sup> As discussed above, imports of chrysanthemums et al. from Colombia exceeded the competitive need limit and thus were not eligible for GSP duty-free entry during Jan. 1-July 31, 1995; during that period, such imports from Colombia entered duty-free only under ATPA provisions while chrysanthemums et al. from Bolivia, Ecuador, and Peru were eligible for duty-free entry under either ATPA or GSP. During the period Aug. 1-Dec. 31, 1995—when GSP provisions lapsed—imports of chrysanthemums et al. from all ATPA beneficiaries were

Standard carnations made up 53 percent of Colombia’s shipments, pompon chrysanthemums 41 percent, and other chrysanthemums nearly all of the remaining 6 percent. Colombia’s production and export of anthuriums and orchids are negligible.

These ATPA imports from Colombia represented over 90 percent of total U.S. imports of these flowers in 1995, up from 88 percent in 1994. Colombian growers were able to expand their flower shipments to the United States in 1995 following the industry’s recovery from freezes that occurred there in late 1993 and early 1994.<sup>26</sup> Those freezes reduced the volume of export quality cut flowers available for shipment to the United States in 1994.

The Colombian industry is most likely to continue to expand its production of chrysanthemums et al., but at a slower rate than in recent years due to production constraints, particularly limited water supplies.<sup>27</sup> The level of the water table is declining around the city of Bogotá, which accounts for nearly 90 percent of Colombia’s cut flower production.<sup>28</sup> Most water used for flower production comes from deep wells. It has been alleged that the use of large quantities of well water by Colombian flower growers contributes to the sinking of land in the Bogotá plateau.<sup>29</sup> Moreover, Colombian growers are diversifying their production by increasing the variety of flowers produced and creating value-added products such as bouquets.<sup>30</sup> In addition, some Colombian growers are diversifying by investing in cut flower growing operations in Ecuador, Costa Rica, and Mexico.<sup>31</sup>

U.S. production of chrysanthemums et al. in 1995 declined by 1 percent from the 1994 level to \$52 million in 1995. Production of standard carnations, anthuriums, and orchids declined, while production of chrysanthemums increased. This series of reports has documented the decline in U.S. production of chrysanthemums et al.—even during periods of declining imports of competing products entered

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#### <sup>25</sup>—Continued

eligible for duty-free entry only under ATPA provisions. GSP provisions are discussed in more detail in ch. 1.

<sup>26</sup> U.S. Department of Agriculture telegram, “Flowers,” message reference No. CO4011, prepared by U.S. agricultural attaché, Bogotá, Colombia, May 20, 1994, p. 5.

<sup>27</sup> *Ibid.*, p. 3.

<sup>28</sup> *Ibid.*

<sup>29</sup> USDA, telegram, “Flowers,” Message reference No. CO6011, May 5, 1995, p. 3.

<sup>30</sup> USDA, *World Horticultural Trade and U.S. Export Opportunities*, June 1994.

<sup>31</sup> *Ibid.*

under ATPA provisions—because of reduced acreage, adverse weather factors, and import competition.<sup>32</sup>

## ***Fresh Cut Roses***

U.S. imports of fresh cut roses (HTS subheading 0603.10.60) from the Andean countries increased by more than 20 percent in value, from \$106 million in 1994 to \$128 million in 1995, and by 15 percent in quantity, from 589 million blooms in 1994 to 679 million blooms in 1995.

Rose imports that entered duty-free under ATPA provisions represented 85 percent of the value of all U.S. rose imports in 1994 and 1995. Colombia and Ecuador supplied the majority of those imports; together, they supplied 85 percent and 84 percent of the total U.S. import value in 1994 and 1995, respectively. Imports from Colombia grew by over 9 percent, from \$91 million in 1994 to \$99 million in 1995. Imports from Ecuador nearly doubled in value, from \$14 million in 1994 to \$27 million in 1995.

Fresh cut rose production in Colombia and Ecuador has risen over the last several years. Both countries have invested heavily in planting new rose varieties that are in demand by consumers in the United States and other markets. Ideal rose-growing climates, high light levels, abundant labor and land, and sophisticated distribution structures enable these countries to produce high-quality, low-cost roses for export. However, limited water availability may become a factor constraining Colombian flower production in the next few years.<sup>33</sup>

U.S. production of fresh cut roses declined from \$155 million in 1994 to \$126 million in 1995, or by 19 percent. There was a decrease in the area devoted to rose production and in the number of rose growers. Competition among fresh cut rose imports from the Andean countries, domestically produced roses, and imported roses from other foreign producers depends on factors such as quality, price, and availability of supply. ATPA duty-free entry provides Andean roses a price advantage not available to imports from Mexico, Canada, the Netherlands, and Guatemala, the principal non-Andean suppliers to the United States. Thus ATPA encourages Andean rose shipments to the United States relative to shipments from other foreign suppliers.

<sup>32</sup> For further discussion, see USITC, *ATPA Second Report, 1994*, p. 24.

<sup>33</sup> See the above section on chrysanthemums et al. for further discussion of water-related constraints affecting the Colombian fresh cut flower industry.

## ***Fresh or Chilled Asparagus***

U.S. imports of fresh or chilled asparagus (HTS subheadings 0709.20.10 and 0709.20.90)<sup>34</sup> from ATPA countries rose 47 percent in value, from \$9 million in 1994 to \$13 million in 1995, with a corresponding 31 percent rise in quantity from 5,623 metric tons (mt) in 1994 to 7,385 mt in 1995.

Total U.S. imports of fresh or chilled asparagus from ATPA countries increased 40 percent from \$14 million in 1994 to \$19 million in 1995, with a corresponding 21 percent rise in quantity from 8,743 mt in 1994 to 10,566 mt in 1995. Peru was the leading Andean supplier, accounting for about 87 percent of total U.S. fresh or chilled asparagus imports entered under ATPA. Fresh or chilled asparagus entered under ATPA provisions accounted for 32 percent of total U.S. fresh asparagus imports from all countries in 1995, versus 30 percent of the total in 1994. In addition to duty-free entry under ATPA provisions, fresh or chilled asparagus also is permitted duty-free entry into the United States from the Caribbean Basin countries under the Caribbean Basin Economic Recovery Act, and from Israel under the United States-Israel Free Trade Area Agreement.

U.S. production of fresh asparagus fell by 5 percent in value, from \$127 million in 1994 to \$121 million in 1995, with a corresponding 15-percent decline in quantity, from 57,650 mt in 1994 to about 48,770 mt in 1995. The leading U.S. States producing fresh asparagus are California and Washington, with other significant production in Michigan and New Jersey. The bulk of U.S. production occurs mainly in Southern California during the months of February through June. Thus, there is a significant overlap between the peak U.S. asparagus season and the peak shipping period for fresh or chilled asparagus entered duty-free under ATPA provisions.

## ***Rope and Chain for Jewelry of Precious Metal Except Silver***

Total U.S. imports of rope and chain of precious metal except silver<sup>35</sup> suitable for the manufacture of

<sup>34</sup> Approximately 67 percent by value of total 1995 U.S. fresh asparagus imports from Andean countries were not entered from Sept. 15 through Nov. 15. The remainder entered under HTS subheading 0709.20.10, fresh or chilled asparagus, not reduced in size, entered Sept. 15 through Nov. 15, and transported to the United States by air. For purposes of this analysis, these two categories were combined.

<sup>35</sup> Precious metal except silver includes gold, platinum, and other metals of the platinum group (such as

jewelry (HTS subheading 7113.19.10) from the Andean countries increased by 52 percent, from \$84 million in 1994 to \$128 million in 1995. Imports of these items entered duty-free under ATPA provisions more than tripled in 1995, rising from \$29 million to \$102 million. Peru supplied two-thirds of these imports (\$67 million), and Bolivia supplied the remaining one-third (\$35 million). Gold chain and similar articles accounted for 32.6 percent of total ATPA imports from Peru and 41.2 percent of total ATPA imports from Bolivia.<sup>36</sup>

Part of the increase in imports of rope and chain entered under ATPA provisions was balanced by a \$20 million decrease in imports from ATPA countries entered under GSP provisions. However, the large increase in imports entered under ATPA provisions from Bolivia was accompanied by a small increase in GSP entries from that country.

According to U.S. industry sources, precious jewelry production in Peru and Bolivia has increased in recent years. Both countries have nurtured their industries in light of ATPA duty reductions, newly available export opportunities, and rising consumer demand for high-quality and low-cost jewelry items in the United States. Abundant manual labor, artistic skills of local jewelry craftsmen, and low-cost labor rates all contributed to the creation of an

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<sup>35</sup>—*Continued*

iridium, osmium, palladium, rhodium, and ruthenium). Such metal can also include so-called “filled metal,” which refers to precious metal with a plating of gold alloy not less than 10-carat fineness and when the plating constitutes at least 1/20th of the weight of the metal in the entire article.

<sup>36</sup> Data on total imports entered under ATPA provisions are provided in table 2-8.

increasingly export-competitive industry in those countries.<sup>37</sup>

In addition to duty-free entry under ATPA provisions, precious jewelry also is eligible for duty-free entry into the United States from Caribbean Basin countries (the Dominican Republic and Nicaragua are leading sources) under the Caribbean Basin Economic Recovery Act, and from Israel under the U.S.-Israel Free Trade Agreement. Similar jewelry articles produced in several secondary suppliers such as Zimbabwe, Indonesia, Chile, Turkey, and Thailand are eligible for duty-free entry under the U.S. GSP program when that program is operative. The United States is by far the largest market for jewelry products worldwide.

U.S. producers’ shipments of comparable gold or platinum rope and chain articles leveled off during 1995 at an estimated \$90 million. Competition among precious jewelry imports from the Andean countries, domestically produced jewelry, and imported jewelry from other foreign producers is based on a number of factors, including quality, price, and availability of supply. According to industry experts, ATPA duty-free imports are not likely to translate into any real slowdown of the domestic industry because most jewelry imports from Peru and Bolivia are low-cost and labor-intensive products that do not compete directly with U.S. production.<sup>38</sup> Industry experts report that the nature of the products imported require the type of low-cost, manual labor that is typically no longer available in the U.S. labor market.<sup>39</sup>

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<sup>37</sup> USITC staff telephone interviews with officials of the Manufacturing Jewelers and Silversmiths of America, Inc. (MJSA), July 8-12, 1996.

<sup>38</sup> This would imply a much lower elasticity of substitution for rope and chain for jewelry than that described in the “Analytical Approach” above.

<sup>39</sup> USITC staff telephone interview with an official of the MJSA, July 12, 1996.





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# CHAPTER 4

## Probable Future Effects of ATPA

This chapter describes the probable future effects of ATPA on the U.S. economy through an analysis of ATPA-related investment and export promotion activity in the Andean countries.<sup>1</sup> Information in this chapter was obtained from field visits to Bolivia, Ecuador, and Peru, from U.S. Embassies in the Andean region, and from various published sources.

Previous reports in this series found that most of the effects on the U.S. economy and consumers of the one-time elimination of import duties under ATPA occurred within 2 years of the effective date of the act.<sup>2</sup> Other effects were expected to occur over time as a result of an increase in export-oriented investment in the region. Such investment in new production facilities, or to expand existing facilities, may rise in response to the availability of ATPA tariff preferences.<sup>3</sup> Therefore, this report continues to monitor ATPA-related investment in the Andean countries, using investment expenditures as a proxy for future trade effects of ATPA on the United States.

### ATPA-Related Investment During 1995

Although ATPA provides an incentive for exporters in Andean countries to market their products in the United States, ATPA-related investment in beneficiary countries remained at a relatively low

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<sup>1</sup> The term "ATPA-related" refers to investment and export promotion expenditures that is directed toward the production, or the encouragement of the production, of goods that may qualify for ATPA tariff preferences.

<sup>2</sup> USITC, *Annual Report on the Impact of the Andean Trade Preference Act on U.S. Industries and Consumers and on Drug Crop Eradication and Crop Substitution, First Report, 1993*, USITC publication 2814, September 1994.

<sup>3</sup> The methodology of using investment to assess the probable future economic effects on the United States was developed as part of the Commission's reporting requirement on the Caribbean Basin Economic Recovery Act (CBERA). For a more detailed discussion of the methodology, see USITC, *CBERA, First Report 1984-1985*, USITC publication 1897, Sept. 1986, p. 4-1.

level in 1995. Most of the investment was concentrated in a few sectors—primarily fresh cut flowers, jewelry, and processed foods. Government and private sector representatives interviewed identified several factors present in the Andean countries that help explain the relatively low levels of ATPA-related trade and investment in beneficiary countries. These constraints include inadequate transportation infrastructure; high energy, production, and transportation costs; inadequate access to financing; and ineffective trade promotion programs. In addition, it was noted that the scheduled December 3, 2001 termination date for ATPA provisions may not provide a sufficient incentive to attract investment in industries that require a longer startup time. Finally, a number of business and government officials in the region stated that ATPA incentives would be enhanced if the tariff preferences also extended to apparel (especially alpaca products), canned tuna, and footwear.<sup>4</sup>

### Bolivia

#### *Investment Activity*

Bolivia's economy grew by just under 4 percent in 1995, somewhat lower than the 1994 growth rate due largely to reduced output in the agricultural sector. Inflation was about 13 percent in 1995, up from 9 percent in 1994. The Government of Bolivia does not collect or publish statistics on foreign investment. However, the Bolivian Government recently estimated that foreign direct investment was approximately \$128 million in 1994. Most foreign investment in Bolivia is estimated to flow into the mining and hydrocarbon sectors. The United States is the principal source of foreign investment in Bolivia.<sup>5</sup>

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<sup>4</sup> Representatives of government and businesses, Lima, Peru, Quito and Guayaquil, Ecuador, La Paz and Cochabamba, Bolivia, USITC staff interviews, July 15-26, 1996.

<sup>5</sup> U.S. Department of Commerce, International Trade Administration, "Country Commercial Guide, Bolivia," 1996, National Trade Data Bank.

Foreign investment receives nondiscriminatory treatment in Bolivia and is not subject to screening or registration requirements.<sup>6</sup> In addition, Bolivian law provides for free currency conversion, unrestricted remittances and international arbitration of disputes. The United States and Bolivia are negotiating a bilateral investment treaty, which would further codify the rights of U.S. investors in Bolivia.<sup>7</sup>

According to the Bolivian Investment Promotion Center, 63 new ATPA-related investment projects were launched during 1995. The majority of these projects involved the production of gold and silver jewelry and cut flowers. Other ATPA-related investment involved the production of wood furniture and other wood products, leather goods, alpaca wool sweaters, and palm hearts.<sup>8</sup> In its submission to the Commission, the American Chamber of Commerce of Bolivia stated that ATPA had encouraged the growth of non-traditional exports such as jewelry and wood products.<sup>9</sup> European governments and the World Bank are funding projects to develop export capacity, some of which may be ATPA-related, in processed agricultural goods.<sup>10</sup>

## *Export Promotion*

Products identified by the Bolivian Government for export promotion include wood products, furniture, leather apparel, alpaca products, gold jewelry, cut flowers, and grains such as quinoa. Export promotion officials identified these as “priority” export items not necessarily because of ATPA tariff preferences (some are excluded from ATPA), but because productive capacity presently exists in Bolivia to increase exports of these products.

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<sup>6</sup> U.S. Department of State telegram, “Government of Bolivia Ready to Restart Bilateral Investment Treaty Talks,” message reference No. 4451, prepared by the U.S. Embassy, La Paz, July 5, 1996.

<sup>7</sup> Ibid.

<sup>8</sup> U.S. Department of State telegram, “USITC Annual Andean Investment Survey,” message reference no. 4477, prepared by the U.S. Embassy, La Paz, July 8, 1996. Dollar values of investments are not available as Bolivian law does not require investors to declare the amount of their investments.

<sup>9</sup> Anna Maria Galindo de Paz, submission to the U.S. International Trade Commission, July 23, 1996 on behalf of the American Chamber of Commerce of Bolivia.

<sup>10</sup> Representatives of Bolivian export promotion associations, USITC staff interviews, La Paz, July 15-16, 1996.

<sup>11</sup> Representatives of the Government of Bolivia and private sector export promotion associations, USITC staff interviews, La Paz, July 15-16, 1996.

Other products identified with export potential include handicrafts made of ceramics, pewter, or wood.<sup>11</sup>

Two private sector organizations, the Investment Promotion Center and the National Chamber of Industries, are undertaking a comprehensive export promotion project in Bolivia financed by the Inter-American Development Bank. This 18-month project is scheduled to last through early 1997. The project will explain ATPA provisions to Bolivian firms; identify and analyze the best export prospects for Bolivia under ATPA; provide access to export credit; set up trade missions and trade shows; and provide detailed advice to Bolivian producers about quality, standards, and other requirements which must be met to successfully market products in the United States. Promotion efforts are concentrated on some 200 ATPA-eligible products considered the best prospects for increased exports by Bolivia in the short term, including wood and wood furniture, food and other agricultural products, jewelry, and toys. Using a software package developed as part of the project, potential exporters can evaluate import competition from other sources in the U.S. market. The software shows the value of goods entering under other preferential tariff programs, port of entry, and mode of transportation, with the goal of helping improve the competitiveness of Bolivian exports in the U.S. market.<sup>12</sup>

Bolivian industry groups are taking other steps to help exporters meet technical and quality standards of the U.S. and European markets. Several private sector representatives said that opportunities exist for Bolivian exports in niche markets, such as ethnic food products, in the United States that require a relatively low volume of exports. To be most successful, though, it was noted that Bolivian exporters need to invest more in equipment and training to increase the quality of their products. Bolivian export groups are also working with consultants and importers in the United States to increase the awareness of Bolivian goods among U.S. purchasers and distributors. Private sector representatives said, however, that their efforts to promote exports are taking place with little participation or assistance from the Bolivian Government. Other difficulties faced by Bolivian exporters include high transportation costs to the U.S. market and the high cost of credit in Bolivia.<sup>13</sup>

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<sup>12</sup> Representatives of export promotion and industry associations, USITC staff interviews, La Paz, July 22-23, 1996.

<sup>13</sup> Representatives of Bolivian private sector export promotion associations, USITC staff interviews, La Paz, July 22-23, 1996.

## Constraints on Exports

Chapter 3 identified rope and chain for jewelry of precious metal except silver (HTS subheading 7113.19.10) as one of the U.S. industries most likely to be affected by imports that benefited exclusively from ATPA in 1995. These and other jewelry articles accounted for the majority of U.S. imports from Bolivia entered under ATPA in 1995. However ATPA entries of some categories of jewelry from Bolivia declined in 1995.<sup>14</sup> Business and government officials in Bolivia blamed the decline in jewelry exports on a recent government policy change that cut the level of duty drawback for gold jewelry processors. They noted that the drawback previously had attracted foreign investment in the gold sector. The new policy increases the royalty payment by gold processors to areas where the gold was extracted and, consequently, reduces processors' tax benefits—causing the decline in exports of gold jewelry. Officials interviewed said that this policy reversal was implemented without consideration of the possible effects on exports. Private sector representatives cited this change in the drawback provisions as an example of inconsistent government policies that impede the ability of Bolivian businesses to plan long-term investments or sustain profitable exports. They reported that it is unclear to what extent this change in drawback provisions will undermine future ATPA-related exports to the United States.<sup>15</sup>

## Colombia

Colombia's economy grew by over 5 percent in 1995, marginally lower than the 1994 growth rate.

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<sup>14</sup> For example, table 2-6 shows the decline in imports of jewelry and parts of precious metal except silver (HTS 7113.19.50), for which Bolivia is the leading supplier of articles entered under ATPA provisions.

<sup>15</sup> Representatives of Bolivian Government and export promotion associations, USITC staff interviews, La Paz, July 15-16, 1996.

<sup>16</sup> In December 1995, a Colombian congressional committee found insufficient evidence to charge President Samper with a crime. In January 1996, President Samper's former campaign manager accused President Samper of complicity in having receiving campaign contributions from drug traffickers; the Colombian Chamber of Representatives exonerated President Samper of those charges in June 1996. In July 1996, the United States revoked the U.S. entry visa of President Samper. U.S. Department of State telegram, "Economic Trends and Outlook," message reference No. 7770, prepared by U.S. Embassy, Bogotá, Aug. 12, 1996.

Growth in 1995 was due largely to increased production in the mining and hydrocarbons sector; however, manufacturing output increased by only 0.9 percent. Economic performance deteriorated in late 1995 as questions related to the political stability of Colombia emerged following the August 1995 accusation by his former political associates that President Ernesto Samper and his advisors solicited funds from Colombian drug cartel leaders during Samper's 1994 presidential campaign.<sup>16</sup>

According to the most recent statistics, new foreign investment in Colombia reached \$1.9 billion in 1995, up from \$1.2 billion in 1994. The United States is the principal source of foreign investment in Colombia and accounts for over 51 percent of the total stock of foreign investment in Colombia. The majority of new investment in 1995 was accounted for by investment in the petroleum (32 percent), manufacturing (30 percent), and transportation and the communications (11 percent) sectors.<sup>17</sup> Foreign investment in Colombia receives nondiscriminatory treatment and is subject to few restrictions; moreover, the Government of Colombia offers tax and other incentives to attract foreign investors.<sup>18</sup>

In the early 1990s, Colombia implemented an economic liberalization and deregulation program called *apertura*. The program relaxed or eliminated many of the legal restrictions affecting foreign investment and privatized a number of government-owned entities. While the *apertura* program remains in place, the administration of President Samper, which entered office in August 1994, has not significantly pursued its goals. Consequently, some sectors of the Colombian economy—notably agriculture—remain tightly regulated.<sup>19</sup>

Chapter 3 identified chrysanthemums and cut roses as two of the U.S. industries most likely to be affected by imports that benefited exclusively from ATPA in 1995. Chrysanthemums and cut roses accounted for the majority of U.S. imports from Colombia entered under ATPA preferences in 1995.<sup>20</sup>

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<sup>17</sup> U.S. Department of State telegram, "Investment Climate Statement: Colombia," message reference No. 7768, prepared by U.S. Embassy, Bogotá, Aug. 12, 1996.

<sup>18</sup> Ibid.

<sup>19</sup> U.S. Department of State telegram, "Economic Trends and Outlook," message reference No. 7770, prepared by U.S. Embassy, Bogotá, Aug. 12, 1996.

<sup>20</sup> Chrysanthemums and roses entered under ATPA provisions are discussed in more detail in ch. 3.

Table 2-6 shows that ATPA imports of chrysanthemums increased by 22 percent and ATPA imports of roses expanded by 20 percent in 1995; Colombia was the primary supplier of these products. Investment data for new or expansion projects in rose or chrysanthemum production were not available.

## Ecuador

### *Investment Activity*

Ecuador's economy grew by 2.5 percent in 1995, up slightly from the modest growth rates of the previous 2 years. Inflation registered 25 percent in 1995.<sup>21</sup> Foreign investment in Ecuador was \$469 million in 1993 and is projected to reach \$720 million in 1996. The vast majority of recent foreign investment in Ecuador has been in the petroleum sector, particularly in oil exploration and production in the Amazon Basin. Registered foreign investment flows reached \$531 million in the oil sector in 1994 and \$98 million in the non-oil sector. Non-oil sectors that have received foreign investment include financial services, food processing, chemicals, pharmaceuticals, and machinery and vehicle manufacturing. The principal sources of foreign investment are a variety of offshore locations<sup>22</sup> (50 percent), the United States, (20 percent), and Switzerland (12 percent).<sup>23</sup>

Foreign investment is allowed in virtually all sectors in Ecuador and receives nondiscriminatory treatment.<sup>24</sup> Full repatriation of profits and capital is allowed.<sup>25</sup> Certain limitations apply to foreign investment in the following areas: petroleum, mining, fishing, electricity, telecommunications, media, and strategic sectors related to national security.<sup>26</sup>

<sup>21</sup> U.S. Department of Commerce, International Trade Administration, "Country Commercial Guide, Ecuador," 1996, National Trade Data Bank.

<sup>22</sup> This registered capital includes movements of Ecuadorian-owned capital from locations such as Panama, The Bahamas, Bermuda, Cayman Islands, Virgin Islands, Aruba, Netherlands Antilles, Guernsey, and Liechtenstein that would not normally be considered foreign direct investment.

<sup>23</sup> U.S. Department of Commerce, International Trade Administration, "Country Commercial Guide, Ecuador," 1996, National Trade Data Bank.

<sup>24</sup> U.S. Department of State telegram, "Investment Climate Statement: Ecuador 1996," message reference No. 3546, prepared by the U.S. Embassy, Quito, June 21, 1996.

<sup>25</sup> Ibid.

<sup>26</sup> Ibid.

The main exports from Ecuador that have benefited from ATPA tariff preferences are tuna, cut flowers, and wood products. Chapter 3 identified fresh cut roses among the U.S. industries most likely affected by ATPA in 1995. Ecuador was the second-largest supplier of fresh cut roses entered under ATPA provisions in 1995.

Other products that benefit from ATPA include fruit juices, banana pulp, and jewelry. Government and business officials in Ecuador identified agricultural and agro-industry products as having the highest potential for increased exports to the United States while ATPA is still in effect. Specific nontraditional product areas cited as good prospects for future ATPA exports were palm hearts, asparagus, ginger, pigeon peas, processed fruits and vegetables, and organically grown fruits. A recent investment in freezing equipment for broccoli and potatoes is expected to boost export capacity of those products.<sup>27</sup>

Several representatives of the private sector and government expressed optimism that pending legal and institutional changes would create an economic climate more conducive to investment in nontraditional industries and export promotion. Ecuador's recent accession to the World Trade Organization, they noted, will require maintaining a predictable international trade policy regime consistent with international standards. They also said that passage of a foreign trade and investment bill, which was drafted under the previous administration, would better organize government and private sector export and investment promotion efforts. Several private sector representatives said that the newly elected government plans to submit the bill to Congress shortly after taking office.<sup>28</sup>

### *Export Promotion*

The government and private sector in Ecuador are currently involved in several export promotion projects. The Government of Ecuador is involved in a 2-year program, with funding from the Inter-American Development Bank, to promote nontraditional exports. This project includes initiatives to strengthen Ecuador's foreign trade

<sup>27</sup> Representatives of U.S. Embassy, Quito, Government of Ecuador, and Ecuadorian agricultural export businesses and trade associations, USITC staff interviews, Quito and Guayaquil, July 17-19, 1996.

<sup>28</sup> Representatives of U.S. Embassy, Quito, Government of Ecuador, and Ecuadorian export businesses and trade associations, USITC staff interviews, Quito and Guayaquil, July 17-19, 1996.

institutions and to increase the general awareness of ATPA in the Ecuadorian business community.<sup>29</sup>

The export promotion project also includes an effort to identify the ATPA-eligible products most likely to be competitive in the U.S. market. A software program has been developed that allows Ecuadorian exporters to evaluate competing goods in the U.S. market. The software shows Ecuadorian exporters the tariff advantages of ATPA versus MFN, and identifies their principal sources of competition that enter the United States under GSP.<sup>30</sup>

The Government of Ecuador is also developing a *Strategic Planning Guide for Exports* to help exporters increase productivity and competitiveness. The guide calls for increasing production of higher value added goods, diversifying production into nontraditional product areas, establishing a modern and efficient legal framework for international trade, providing for better use of natural resources, and improving the quality of export products. The *Strategic Planning Guide for Exports* and the efforts to create a new legal framework for trade and investment promotion are designed to help producers concentrate on expanding exports and to help the government meet its goals of increasing national welfare.<sup>31</sup>

Another export promotion project involves a survey of 1,200 companies in Ecuador about their production capacity, product lines, and product quality to determine which products have the best export potential. Results of the survey will help determine the future allocation of training and export promotion assistance. Several observers noted that the agricultural sector in Ecuador possesses a high degree of potential for increased exports to the United States. For example, it was pointed out, the varied terrain and climate of Ecuador—*islands, coastal regions, mountains, and the Amazon jungle*—with seasons counter-cyclical to those of North America create a production advantage in many product areas. Production throughout the year or during the off-season in North America is possible for a wide range of products such as trout, okra, mangos, melons, and crawfish.<sup>32</sup>

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<sup>29</sup> Representatives of Government of Ecuador, Ministry of Industry, USITC staff interview, Quito, July 17, 1996.

<sup>30</sup> Ibid.

<sup>31</sup> Representatives of Government of Ecuador, USITC staff interviews, Quito and Guyaquil, July 17-19, 1996.

<sup>32</sup> Representatives of agro-businesses and export trade associations, USITC staff interviews, Quito and Guyaquil, Ecuador, July 17-19, 1996.

## Constraints on Exports

Many business and some government representatives in Ecuador were not aware of ATPA tariff preferences. This may explain the relative low value of ATPA entries from Ecuador discussed in chapter 2 (table 2-7). Officials interviewed expressed the concern that, as a consequence, ATPA-related investment in Ecuador could continue at very low levels and that Ecuador might be unable to take full advantage of ATPA tariff preferences before the program expires.<sup>33</sup>

Private-sector and government officials contacted cited numerous constraints on their ability to export to the United States. These difficulties are both domestic and foreign in origin. The domestic impediments include high production costs, high interest rates, high energy costs, high transportation costs, transport bottlenecks, exchange rate instability, the lack of a centralized, long-term international trade policy, and no formal, institutionalized trade promotion program.<sup>34</sup>

Foreign constraints on increased exports include the cost of learning how to market effectively in the United States, difficulties in finding partners in the U.S. market, U.S. packaging and labeling requirements, and high quality expectations in the U.S. market.<sup>35</sup> U.S. phytosanitary regulations also were cited as hindering some of Ecuador's potential exports. One government official said that agricultural producers were not willing to diversify into nontraditional exports in part because they do not know how to meet U.S. phytosanitary regulations.<sup>36</sup> Several private-sector representatives in the Guyaquil area, which is adjacent to the main tropical fruit growing areas, said that Medfly treatment for mangos severely damages the quality of their products prior to export. A former Ecuadorian Cabinet minister added that a grower of honeydew melons, despite having worked with U.S. Department of Agriculture's Agriculture and Plant Health Inspection Service

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<sup>33</sup> Representatives Government of Ecuador, and Ecuadorian export businesses and trade associations, USITC staff interviews, Quito and Guyaquil, July 17-19, 1996.

<sup>34</sup> Representatives of U.S. Embassy, Quito, Government of Ecuador, and Ecuadorian agricultural export businesses and trade associations, USITC staff interviews, Quito and Guyaquil, July 17-19, 1996.

<sup>35</sup> Representatives of Government of Ecuador, Customs Bureau, USITC staff interview, Guyaquil, July 19, 1996.

<sup>36</sup> Representatives of Government of Ecuador, USITC staff interviews, Quito and Guyaquil, July 17-19, 1996.

(APHIS) for 8 years to demonstrate that his crop was free of Medflies, is only allowed to export to an area of the United States where Medflies cannot survive.<sup>37</sup>

Individuals interviewed also expressed the concern that some businesses may not be exporting in significant quantities because of the fear of being held liable for narcotics that are placed in shipping containers by drug traffickers. U.S. officials noted that security at the port of Guayaquil is generally insufficient to deter such efforts. A representative of Ecuador's Customs bureau said that over 100 customs agents had recently been fired and that future shipments will require verification by private inspection agencies prior to export.<sup>38</sup>

## Peru

### *Investment Activity*

Peru's economy grew by 6.9 percent in 1995—second only to Chile as the best economic performance in Latin America. Foreign investment in Peru has grown dramatically in recent years, from \$1.5 billion in 1992 to \$4.5 billion in 1995. The principal sources of foreign investment are Spain (47 percent), the United States (17 percent), and the United Kingdom (8 percent). The majority of foreign investment in Peru is in communications (44 percent), mining (21 percent), industry (12 percent), and energy (8 percent).<sup>39</sup>

Market-oriented economic reforms undertaken in Peru since 1992 have included implementing a legal framework to guarantee nondiscriminatory treatment and other rights to foreign investors.<sup>40</sup> Foreign investment does not require government approval, and there are no restrictions on remittances of profits, dividends, royalties, and capital flows.<sup>41</sup> One individual interviewed reported that a tax on assets—even those assets that do not turn a profit—is

<sup>37</sup> Representatives of export associations and agribusinesses, USITC staff interviews, Quito and Guayaquil, July 17-19, 1996.

<sup>38</sup> Representative of U.S. Embassy, Quito, and Government of Ecuador, Customs Bureau, USITC staff interviews, Quito and Guayaquil, July 17-19, 1996.

<sup>39</sup> U.S. Department of Commerce, International Trade Administration, "Country Commercial Guide, Peru," 1996, National Trade Data Bank.

<sup>40</sup> Ibid.

<sup>41</sup> U.S. Department of State telegram, "Investment Climate Statement for Peru," message reference No. 4048, prepared by the U.S. Embassy, Lima, May 13, 1996.

a disincentive to long-term investment in both traditional and nontraditional investment.<sup>42</sup>

New investment in the agricultural sector largely takes place in coastal areas, not in the Peruvian highlands or jungle regions where much of the illegal drug crop production occurs. Camu-camu, a citrus fruit with a very high vitamin C content, is an example of a nontraditional Peruvian export that has recently entered foreign markets. A major Peruvian fruit processor has spent several years developing the product for export, most recently marketing camu-camu in Japan as a fruit beverage. Another nontraditional agricultural project in Peru involves grape production, but exports are not anticipated for several years.<sup>43</sup>

One representative of a private sector association stated that most new investment in Peru is in the traditional industries, such as mining, fishing, and fishmeal. Investment and production in nontraditional products remain at low levels. At present, however, Peru remains most competitive for investment in traditional, low value-added products.<sup>44</sup>

A major Peruvian bottler of fruit beverages recently made a \$3 million investment to upgrade the quality and capacity of a juice processing plant. The new bottling capacity, which is scheduled to become operative in late 1996, will allow the firm to improve quality and expand exports to the United States. The firm has also recently invested in a new vegetable-canning plant. The new operation will allow the firm to increase exports of pigeon peas for export to the United States. Other vegetables the firm may export include broccoli, cauliflower, and mixed vegetables.<sup>45</sup>

### *Export Promotion*

The majority of products that enter the United States under ATPA provisions from Peru are gold jewelry, raw sugar, copper cathodes, lead, zinc, and mangos. Peruvian private-sector and government officials identified these and a variety of other products that could increase exports to the United

<sup>42</sup> Representative of Peruvian trade association, USITC staff interview, Lima, July 16, 1996.

<sup>43</sup> Representatives of Peruvian fruit processor and other agricultural export businesses, USITC staff interviews, Lima, July 16-17, 1996.

<sup>44</sup> Representative of Peruvian trade association, USITC staff interview, Lima, July 16, 1996.

<sup>45</sup> Representative of Peruvian fruit processor, USITC staff interview, Lima, July 16, 1996.

States under ATPA in the future. Other Peruvian products eligible for ATPA tariff preferences include cocoa products, dry beans, herbal teas and medicines, yellow potatoes, handicrafts, natural dyes such as carmine and achiote, mangos, lemons, garlic, onions, camu-camu, fruit juices, melons, bell peppers, palm hearts, palm oil, and naturally colored cotton. Export promotion officials interviewed noted that some of these products could fill niche markets in the United States, such as specialty coffee products, or be marketed in areas with high concentrations of Peruvian expatriates in the United States.<sup>46</sup>

Business and government officials interviewed reported that Peru's agricultural sector holds possibility for future growth in nontraditional exports to the United States. They noted that Peru's growing season for fresh fruits and vegetables generally is countercyclical to that of the United States.<sup>47</sup> Agricultural businesses centered in the coastal regions, such as asparagus and fishery products, operate in the region with the most well-developed social and economic infrastructure in Peru.<sup>48</sup>

Chapter 3 identified fresh or chilled asparagus and rope and chain for jewelry among the U.S. industries most likely affected by imports entered under ATPA in 1995.<sup>49</sup> Peru was the principal supplier of these items, with duty-free ATPA entries of asparagus valued at approximately \$11 million (accounting for 82 percent of all such ATPA entries) and duty-free ATPA entries of rope and chain for jewelry valued at \$67 million (accounting for 66 percent of all such ATPA entries).

## ***Constraints on Exports***

Several individuals interviewed noted that many of Peru's most promising export crops are grown in the highlands or other remote areas. Producers of such goods face logistical difficulties and high costs in transporting products to coastal markets and ports. In addition, some of the products in the highlands face

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<sup>46</sup> Representatives of Peruvian government and export promotion associations, USITC staff interviews, Lima, July 16-17, 1996.

<sup>47</sup> See the discussion of asparagus in ch. 3 for additional information on overlaps between the U.S. season and the Andean season.

<sup>48</sup> Representatives of the Peruvian agricultural export businesses and trade associations, USITC staff interviews, Lima, July 16-17, 1996.

<sup>49</sup> Imports of asparagus and rope and chain for jewelry entered under ATPA provisions are discussed in more detail in ch. 3.

other difficulties that inhibit profitability. For example, some officials noted that Peru's agricultural sector requires substantial, long term investment to develop a competitive export capacity. The sector, they pointed out, suffers from nearly two decades of neglect during the period of domestic instability, which has been curtailed only recently.<sup>50</sup>

U.S. phytosanitary requirements on imports of fresh fruit were cited as obstacles to Peru's exports to the United States. However, Peruvian Government representatives reported that Peru is improving its ability to meet those requirements. For example, they noted that Peru is creating pest-free growing areas for citrus, mangos, grapes, mandarins and other fresh agricultural products. In addition, they noted the encouraging sign that an APHIS inspector had recently been posted to Peru; the consensus was that the presence of the APHIS inspector will improve the ability of Peruvian exporters to meet U.S. phytosanitary import standards.<sup>51</sup>

The status of the legal regime for the agricultural sector is widely cited as an impediment to further investment in nontraditional products in Peru. As noted in the Commission's report on ATPA last year,<sup>52</sup> a legacy of land reform policies initiated by previous Peruvian administrations has been to leave a large share of land untitled or under conflicting land title claims. Several Peruvian business representatives stated that inadequate land titling contributed to the collapse of the agricultural export sector. They added that the legacy of the land policies now complicates the ability of Peru's agricultural sector to produce for the domestic and export markets.<sup>53</sup> Moreover, inadequate land titling limits access to credit by local farmers because banks often refuse to extend credit to farmers who do not hold clear title to their land.<sup>54</sup>

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<sup>50</sup> Representatives of Peruvian manufacturing and agricultural export businesses and export promotion associations, USITC staff interviews, Lima, July 16-17, 1996.

<sup>51</sup> Representatives of the Government of Peru, Ministry of Industry, Commerce, Tourism, and Integration, and Peruvian agricultural export businesses, USITC staff interviews, Lima, July 16-17, 1996.

<sup>52</sup> USITC, *Andean Trade Preference Act: Impact on U.S. Industries and Consumers and on Drug Crop Eradication and Crop Substitution, Second Report, 1994*, USITC publication 2926, pp. 34-35.

<sup>53</sup> Representatives of Peruvian agricultural export businesses and trade associations, USITC staff interviews, Lima, July 16-17, 1996.

<sup>54</sup> Representatives of Peruvian agricultural export businesses, USITC staff interviews, Lima, July 16-17, 1996.

Representatives of the Government of Peru reported that land titling problems are being addressed through recent legal changes and through efforts to resolve titling disputes and provide land titles in both the coastal and highland areas. They said that since 1994, 90 percent of the land in the coastal region has been titled. In addition, the Government of Peru reportedly plans to create an index of land holdings in the highlands and jungle regions over the next 5 years.<sup>55</sup>

Other constraints on developing export capacity for nontraditional products include an array of

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<sup>55</sup> Representatives of the Government of Peru, Ministry of Industry, Commerce, Tourism, and Integration, USITC staff interviews, Lima, July 16-17, 1996.

problems that make production both expensive and time-consuming. Infrastructure links to domestic and export markets are slowly being improved, but still pose difficulties for agribusiness centered outside of coastal areas. Limited access to credit, even in cases when potential borrowers hold undisputed land titles, inhibits the ability of farmers and agro-businesses alike to finance new or expanded operations. Finally, Peruvian firms generally lack expertise to be competitive in the U.S. market, such as an understanding of competitors in the U.S. market, how to establish marketing links, and how to meet U.S. labeling and other requirements.<sup>56</sup>

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<sup>56</sup> Representatives of Peruvian agricultural export businesses and trade associations, USITC staff interviews, Lima, July 16-17, 1996.



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# CHAPTER 5

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

This chapter assesses the impact of ATPA tariff preferences on drug-related crop eradication and crop substitution. The first part of this chapter describes the scope of the analysis and summarizes the findings pertaining to the Commission's reporting requirement on the impact of ATPA on drug crop eradication and crop substitution in the Andean region.<sup>1</sup> The second part describes ATPA-related efforts undertaken during 1995 by the ATPA beneficiaries to eradicate and create substitutes for drug crops.

Information used for this assessment was obtained primarily from factfinding travel to Bolivia, Ecuador, and Peru during July 1996 by Commission staff to conduct interviews with U.S. Government officials as well as with representatives of foreign governments and private sector interests. Supplemental information was obtained from periodic unclassified reports from U.S. Embassies in the Andean countries, interviews with officials of relevant U.S. Government agencies in Washington, DC, and other published reports.

### Overview

The Commission found that the overall effect of ATPA on crop eradication and substitution was small and indirect, but positive, during 1995. Sources contacted reported that ATPA is only one element of a much larger multilateral effort to combat the complex drug problem. The exact contributions of ATPA tariff preferences are both indirect and difficult to quantify, but most experts agree that more widespread economic growth and development in the Andean

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<sup>1</sup> The first report in this series included a brief history of coca cultivation in the Andean region as well as a survey of drug production trends in the four ATPA beneficiary countries. See USITC, *Annual Report on the Impact of the Andean Trade Preference Act on U.S. Industries and Consumers and on Drug Crop Eradication and Substitution, First Report, 1993*, USITC publication 2814, Sept. 1994, pp. 51-62.

countries is key to separating the region's economies from the drug trade—and that ATPA plays a small, but useful role in that effort.

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

According to the U.S. Department of State, cocaine poses "the most serious drug threat to the United States."<sup>2</sup> All of the world's coca production (coca is the raw material used to produce cocaine) takes place in the Andean region. Colombia is the world's largest supplier of cocaine and the source of virtually all the cocaine shipped into the United States. Peru is the world's largest supplier of coca leaf, most of which is shipped to Colombia for processing into cocaine. Bolivia also produces coca leaf and coca products. Ecuador is primarily a transit zone for both unrefined coca products and processed drugs.

### Cooperation With the United States

The degree to which ATPA beneficiaries cooperate with U.S. antinarcotics efforts is directly addressed in an annual report published by the U.S. State Department's Bureau for International Narcotics and Law Enforcement Affairs. In its annual report, the *International Narcotics Control Strategy Report (INCSR)*, the State Department evaluates the extent to which countries worldwide are meeting the goals and objectives of the 1988 United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (U.N. Convention). The

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<sup>2</sup> U.S. Department of State, *International Narcotics Control Strategy Report* (hereafter, *INCSR*), Mar. 1996, p. 8.

*INCSR* also provides the factual basis for Presidential determinations affecting foreign assistance and multilateral development bank assistance to drug-producing countries.<sup>3</sup> Consideration of whether a country has cooperated fully with the United States, or has taken adequate steps on its own, to achieve full compliance with the U.N. Convention underlies the required Presidential determination certifying compliance.<sup>4</sup>

The latest *INCSR* report, issued in March 1996, includes the four ATPA countries among those

<sup>3</sup> Section 490 of the FAA “requires that fifty percent of certain kinds of assistance be withheld at the start of each fiscal year from such countries, pending . . . certification. If a country is not certified, most foreign assistance is cut off and the United States is required to vote against multilateral development bank lending to that country.” U.S. Department of State, *INCSR*, Apr. 1994, p. 62.

<sup>4</sup> Two levels of certification are possible: full certification and national interest certification. The latter is used in the case where a country cannot be certified under the standards required for full compliance, and where “vital national interests of the United States require” that assistance be provided and that the United States not vote against multilateral development bank lending to that country.

determined to be major drug-producing and/or drug-transit countries. In 1996, based on information contained in the *INCSR* report, President Clinton fully certified Bolivia, Ecuador, and Peru as complying with the U.N. Convention.<sup>5</sup> A presidential determination on Colombia resulted in that country being denied certification.<sup>6</sup>

This was the first time that such a step was taken against an ATPA beneficiary.

## ***Eradication***

The limited drug crop eradication that took place in the Andean countries in 1995 occurred primarily in Bolivia and Colombia (table 5-1). The area eradicated as a share of cultivated coca land—6.2 percent—was larger in 1995 than at any time since ATPA provisions have been operative. However, during 1995, the amount of Andean land area under new coca cultivation increased—outpacing the decline lost

<sup>5</sup> *INCSR*, p. vi. In March of 1995, Bolivia, and Peru were certified with a national interest waiver. Presidential Determination 95-15 of Feb. 28, 1995. 1995 *INCSR*, p. vii.

<sup>6</sup> *INCSR*, p. xxvi.

**Table 5-1**  
**Coca cultivation and eradication in the Andean region, 1990-95**  
(In hectares)

Year	Bolivia	Colombia	Ecuador	Peru	Total
1990:					
Cultivated . . . . .	58,400	41,000	150	121,300	220,850
Eradicated . . . . .	8,100	900	30	0	9,030
Net . . . . .	50,300	40,100	120	121,300	211,820
1991:					
Cultivated . . . . .	53,386	38,472	120	120,800	212,778
Eradicated . . . . .	5,486	972	80	0	6,538
Net . . . . .	47,900	37,500	40	120,800	206,240
1992:					
Cultivated . . . . .	50,649	38,059	3	129,100	217,808
Eradicated . . . . .	5,149	959	3	0	6,108
Net . . . . .	45,500	37,100	0	129,100	211,700
1993:					
Cultivated . . . . .	49,600	40,493	5	108,800	198,893
Eradicated . . . . .	2,400	793	5	0	3,193
Net . . . . .	47,200	39,700	0	108,800	195,700
1994:					
Cultivated . . . . .	49,200	49,610	3	108,600	207,668
Eradicated . . . . .	1,100	4,910	3	0	5,968
Net . . . . .	48,100	44,700	0	108,600	201,700
1995:					
Cultivated . . . . .	54,093	59,650	( <sup>1</sup> )	115,300	229,043
Eradicated . . . . .	5,493	8,750	( <sup>1</sup> )	0	14,243
Net . . . . .	48,600	50,900	0	115,300	214,800

<sup>1</sup> Not available.

Source: U.S. Department of State, *International Narcotics Control Strategy Report*, Mar. 1996, p. 24, 72, 88, 94, and 105.

through eradication. The net result was that the total area of land under coca cultivation in the Andean region increased from 1994 to 1995, reaching a six-year high of 214,000 hectares. There was more land under cultivation in coca in 1995 than in 1990.<sup>7</sup>

Two basic types of drug crop eradication programs were identified for this report. “Forced” eradication compels farmers to uproot their drug crops, or the crops are forcibly uprooted without the farmers’ consent and without compensation. “Compensated” eradication provides funds and other assistance to farmers as payment for uprooting their crops. Compensated eradication may overlap with, or be an integral component of, crop substitution programs, described in more detail below.

There are no clear trends or patterns linking success in annual eradication with ATPA. Table 5-1 shows that between 1990 and 1993, eradication of land cultivated with coca declined in the Andean region overall. This decline preceded the inauguration of the ATPA program and continued during its first 2 years. Eradication increased in 1994, as nearly 6,000 hectares were eradicated, compared with 3,200 hectares in 1993. The increased eradication was entirely attributable to an upturn in eradication in Colombia. In 1995, the area of eradicated coca more than doubled to 14,243 hectares—the largest amount this decade.

## ***Substitution***

Crop substitution, while occurring in the region, is taking place on an extremely small scale. Among ATPA beneficiaries, only Bolivia, Colombia, and Peru were engaged in promoting substitution through alternative development programs in 1995. Improved access to the U.S. market offered by ATPA indeed appears to be an important incentive in Bolivia’s crop substitution programs. Peru appeared to make headway in further integrating ATPA provisions into that country’s crop substitution efforts during 1995.

In its narrowest sense, crop substitution means the one-for-one replacement of drug crops with a legal product. Official programs of this type may suggest

<sup>7</sup> The 1996 *INCSR* report points out the shortcomings in various time series and data elements concerning drug crop production. The numbers are used to examine trends and are to be considered as approximations, and not hard data. Generally, the most reliable information available is that on the amount of hectares under cultivation. Crop yields are more difficult to estimate; the methodology reports *potential* drug production, rather than actual final drug crop available for harvest. *INCSR*, p. 19.

specific replacement crops, and may even offer financial support for the exchange. In a broader sense, used by most of the individuals and sources contacted for this report, crop substitution involves an alternative development strategy for farmers who produce drug crops.<sup>8</sup> Alternative development encompasses direct substitution, but it also seeks to improve economic opportunities and to provide stable employment for farmers who produce drug crops.

Crop substitution programs must overcome several obstacles to be successful. One longstanding obstacle to successful crop substitution is the fact that coca plants are harvestable 3 to 4 times per year; few legal alternative crops are equally productive and lucrative. Moreover, this series of reports has noted the difficulty of identifying crops that will be readily accepted by growers as a substitute for coca, as well as the inadequate transportation infrastructure and access to finance capital throughout much of the Andean coca-growing regions.<sup>9</sup>

## **Country Profiles**

Highlights of drug crop eradication and crop substitution in each of the ATPA beneficiaries, as well as the extent to which each country appears to use ATPA provisions as part of its eradication and substitution efforts, follow.

### ***Bolivia***

In 1995, the Bolivian Government reinvigorated a stalled compensated eradication program and initiated a public awareness campaign to seek greater public support for anti-drug efforts.<sup>10</sup> These efforts followed a U.S. ultimatum and a deadline of June 30 for Bolivia to achieve improved results from its eradication program.<sup>11</sup> Bolivia eradicated 5,493

<sup>8</sup> At an experts’ meeting held in Berlin in April 1993, alternative development was defined as “a process to eliminate and prevent production of illicit drug crops through specifically designed rural development measures in the context of sustained national economic growth. It should include social and economic measures which take into account factors contributing to illicit production.” U.S. Embassy, Lima, *Coca Crop Reduction in the United States Bilateral Alternative Development Project in Peru*, working paper, Nov. 1995.

<sup>9</sup> USITC, *ATPA, First Report*, USITC publication 2814, Sept. 1994, p. 63.

<sup>10</sup> *INCSR*, p. xviii.

<sup>11</sup> “Drugs—Bolivia: Government Complies with U.S. Ultimatum,” *NewsEDGE/LAN*, June 21, 1996.

hectares of land in 1995, more than in any year since 1990; nevertheless, the total land area under coca cultivation in Bolivia actually increased slightly in 1995 (table 5-1).

Crop substitution programs in Bolivia have been relatively successful. In the Chapare region, a principal coca-growing area of Bolivia, legal export crops now occupy 60 percent of total cultivated land; prior to ATPA, coca was the dominant crop.<sup>12</sup> In the past, Bolivia compensated farmers whose coca crops were eradicated.<sup>13</sup> More recently, farmers have begun to negotiate with the Bolivian Government for financial assistance to plant other crops in exchange for eradicating cultivated coca.

Pineapples and palm hearts, both of which are eligible for ATPA tariff preferences, have been developed as alternative crops for Bolivian farmers. It has been reported that pineapples can earn \$5,000 per hectare, and palm hearts \$2,500 per hectare, compared to \$2,027 per hectare for coca.<sup>14</sup> Cashew nuts are being explored as a lucrative Bolivian export alternative to coca, but cashews require 4 years after planting to yield a crop. Another alternative to coca production, offering a more immediate payoff, is dairy farming.<sup>15</sup> Other alternative crops being produced in the Chapare region are bananas and plantains, passion fruit, citrus, and black pepper. The area planted in these agricultural crops has increased from 60,000 hectares in 1993 to 77,000 hectares in 1995.<sup>16</sup> Individuals interviewed generally agreed that the ATPA program was contributing to the process of opportunity substitution and job creation in Bolivia, but noted that the broad based development of alternate products would take some 10 years.<sup>17</sup>

## Colombia

Despite what the annual 1996 *INCSR* report termed “an ambitious crop eradication campaign,”<sup>18</sup> Colombia was not certified by the President of the United States as cooperating with U.S. antinarcotics efforts based on other factors, including the presence

<sup>12</sup> Information provided to USITC staff by U.S. Agency for International Development (USAID), Aug. 22, 1996.

<sup>13</sup> *INCSR*, p. 66.

<sup>14</sup> *Ibid.*

<sup>15</sup> USITC staff interview with U.S. Government representative, Cochabamba, July 24, 1996.

<sup>16</sup> *Ibid.*

<sup>17</sup> USITC staff interview with U.S. Embassy staff, LaPaz, July 23, 1996.

<sup>18</sup> *INCSR*, p. xxv.

of corruption in the country.<sup>19</sup> In 1994 the Government of Colombia pledged to eradicate all coca in the country within 2 years.<sup>20</sup> While eradication increased by 78 percent, from 4,910 hectares in 1994 to 8,750 hectares in 1995, net cultivation increased by 14 percent, from 44,700 hectares to 50,900 hectares in 1995 (table 5-1).<sup>21</sup> In a letter to the Commission, U.S. Congressman Tom Campbell (D-California), a sponsor of a House resolution to deny ATPA preferential tariff treatment to Colombian fresh flowers, argued that “[s]ince the ATPA, Colombia has cultivated *more* hectares of cocaine, instead of less.”<sup>22</sup>

The Colombian Government reportedly inaugurated a crop substitution program, the National Plan for Alternative Development (PLANTE),<sup>23</sup> in 1995. The program narrowly focused on areas of Colombia where the incidence of illegal crop cultivation is high. PLANTE is a complement to Colombia’s forced drug crop eradication efforts.<sup>24</sup>

## Ecuador

Ecuador is considered primarily a transit zone for drug-related products, while large amounts of drug money are laundered through the Ecuadorian banking system.<sup>25</sup> No illicit crop cultivation was reported in 1995, and therefore neither crop eradication nor crop substitution was an issue during the year.

<sup>19</sup> Allegations that Colombian President Ernesto Samper received campaign funds from drug cartels are discussed in the section on Colombia in ch. 4.

<sup>20</sup> Republic of Colombia, Counterdrugs National Council, “Report to the National Drugs Council on the Legal and Technical Aspects of the Eradication of Illicit Crops,” *Eradication Policies About Illicit Drugs*, Bogotá, Feb. 1995, and National Planning Department, *Alternative Development Programme*, Bogotá, Oct. 1994.

<sup>21</sup> According to the Government of Colombia, “1995 was a banner year for its illegal crop eradication efforts.” Colombian Government Trade Bureau, submission to the Commission, July 30, 1996.

<sup>22</sup> Tom Campbell, U.S. House of Representatives, submission to the Commission, Aug. 1, 1996.

<sup>23</sup> PLANTE is the Spanish acronym for *Plan Nacional de Desarrollo Alternativo*.

<sup>24</sup> Colombian Government Trade Bureau, submission to the Commission, July 30, 1996, p. 7.

<sup>25</sup> Money-laundering and control of chemicals in transit (used in the production of cocaine) are the significant concerns of the drug control authorities in Ecuador. USITC staff interview with representatives of CONSEP (*Consejo Nacional de Control de Sustancias Estupefacientes y Psicotrópicas*), Quito, July 17, 1996.

## Peru

The Peruvian Government has not actively participated in the eradication of mature coca plants since ATPA has been operative. In the past, the forced eradication of coca plants has led to public unrest.<sup>26</sup> Between 1994 and 1995 illicit growing of coca increased from 108,600 hectares to 115,300 hectares (table 5-1). The only eradication project carried out by Peruvian authorities in 1995, with minimal results, was the eradication of 253,673 square meters of coca seedbeds—the potential equivalent of 16,912 hectares of mature coca.<sup>27</sup>

The Government of Peru historically has placed a greater emphasis on crop substitution and alternative development programs than on eradication. Crop substitution efforts in Peru have achieved modest, but promising, results, according to the United Nations Drug Control Program (UNDCP) representatives, and a decline in the price of coca in 1995 bodes well for future endeavors.<sup>28</sup> In 1995, it was reported that some Peruvian farmers left coca growing for cotton or a medical plant called *uña de gato* (cat's claw), which is eligible for ATPA tariff preferences.<sup>29</sup> Until recently UNDCP was the only international organization offering Peruvian coca growers a

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<sup>26</sup> For the first time since 1989, the Peruvian Government implemented a comprehensive coca eradication program for plants older than seedlings in 1996. As of Feb. 23, 1996, the eradication of young coca will be allowed and endorsed. This includes coca up to two years in age. The Peruvian Government approved this new policy on their own initiative. Representative of the Peruvian Ministry of the Interior, USITC staff interview, Lima, July 16, 1996.

<sup>27</sup> *INCSR*, p. 101.

full-fledged crop substitution program. However, by 1995, a decrease of only 7,000 hectares in coca growth could be attributed to crop substitution in the eleven years that the program had been operative.<sup>30</sup>

On May 12, 1995, the United States and Peru signed a bilateral agreement to establish a crop substitution and alternative development program. This USAID-operated program, the Peru Alternative Development Project, is the major undertaking currently underway for coca reduction in Peru. It is a 5-year project, funded at \$44 million, that aims to reduce coca cultivation through the provision of alternative legal employment and income activities.<sup>31</sup> The project focuses on 5 coca-growing areas in Peru and has as its target a 50-percent reduction in coca cultivation, or some 20,000-30,000 hectares. USAID has an agreement with the Peruvian Association of Exporters to help small Peruvian businesses export alternative products to the U.S. market. Sweet yellow onions, yellow potatoes, and artisanry (craft products) are among the ATPA-eligible products identified with significant export potential.<sup>32</sup>

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<sup>28</sup> Zoraida Portillo, "Drugs-Peru: 'It's Now or Never' for Coca Substitution," *Inter Press Service English News Wire*, Sept. 4, 1995.

<sup>29</sup> Abraham Lama, "Peru-Drugs and Narco-Traffic Resumes," *Xinhua News Agency*, Jan. 17, 1996.

<sup>30</sup> *Ibid.*

<sup>31</sup> U.S. Department of State telegram, "The USG-Peru Alternative Development Project at One Year," message reference No. 6004, prepared by U.S. Embassy, Lima, July 15, 1996.

<sup>32</sup> U.S. Department of State telegram, "GOP Promulgates New Counternarcotics Law, Legislative Decree no. 824," message reference No. 3752, prepared by the U.S. Embassy, Lima, May 2, 1996.



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## **APPENDIX A**

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

# SUBMISSIONS FOR THE RECORD

## INVESTIGATION NO. 332-227

### **Tom Campbell, Congress of the United States, House of Representatives:<sup>1</sup>**

The submission from U.S. Congressman Tom Campbell (D-California) stated that “preferential tariff treatment [under ATPA] should no longer be given to Colombian cut flowers due to [Colombia’s] . . . lack of cooperation in the drug war and the devastating effect it has had on the domestic cut flower industry.” Congressman Campbell stated that the net effect of ATPA tariff preferences for Colombia has been to encourage increased production of fresh cut flowers, which “has nearly devastated California’s flower industry,” while doing little to halt coca growing and cocaine production in Colombia. Congressman Campbell is a sponsor of a House resolution (H.R. 452) which would call upon the President to deny ATPA preferential tariff treatment to Colombian fresh cut flowers.

### **American Chamber of Commerce, Bolivia:<sup>2</sup>**

The submission from the American Chamber of Commerce of Bolivia stated that ATPA has encouraged the production of nontraditional Bolivian exports such as jewelry, wood and wood manufactures, boric acid, and craft products.

### **Colombian American Chamber of Commerce:<sup>3</sup>**

Citing data showing that the fresh cut flower industry in Colombia directly employs over 75,000 individuals, the submission from the Colombian Chamber of Commerce stated that “the fact is that ATPA has been (and will be, as long as it is in effect for Colombia) an effective alternative to coca cultivation and cocaine production.”

### **Colombian Government Trade Bureau:<sup>4</sup>**

The submission from the Colombian Government Trade Bureau included extensive information on Colombia’s *Plan Nacional de Desarrollo Alternativo* (National Alternative Development Plan), a drug crop substitution program that was launched during 1995. The submission also included information on the economic impact of ATPA on the Colombian economy and on how increased trade has benefited both Colombia and the United States. The submission noted that, although ATPA encourages exports of fresh cut flowers, the United States continues to maintain an overall trade surplus with Colombia.

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<sup>1</sup> Submission to the Commission by Tom Campbell, U.S. House of Representatives, received Aug. 2, 1996.

<sup>2</sup> Submission to the Commission by Anna Maria Galindo de Paz, General Manager, American Chamber of Commerce of Bolivia, received July 23, 1996.

<sup>3</sup> Submission to the Commission by Joseph Finnin, Executive Director, Colombian American Chamber of Commerce, received July 30, 1996.

<sup>4</sup> Submission to the Commission by Nicolás Lloreda, Director, Colombian Government Trade Bureau, received July 30, 1996.



## **Asociación Colombiana de Exportadores de Flores (Association of Colombian Flower Exporters) (ASCOFLORES):<sup>5</sup>**

The submission from ASCOFLORES stated that ATPA has encouraged growth in the Colombian flower sector. Such economic expansion, in turn, directly supports approximately 75,000 jobs in Colombia and indirectly generates an additional 50,000 Colombian jobs. ASCOFLORES reported that the jobs created by Colombia's labor-intensive flower industry have played an important role in providing lawful employment opportunities to many individuals who might otherwise be drawn to employment in the illegal drug crop production.

ASCOFLORES also provided data showing the beneficial economic effects of Colombian flower exports on the economy of the United States. Specifically, ASCOFLORES stated:

- “Approximately 5,400 jobs have been created among the roughly 105 independent flower importers operating in Miami, the U.S. freight airlines that transport the flowers, the trucking companies that distribute the flowers throughout the United States, . . . the bouquet companies that add value in the United States . . . wholesalers, and retailers who distribute and sell flowers.”
- American consumers benefit by having improved access to “quality flowers at reasonable prices.” Moreover, “[b]ecause of their geography and climate, Colombian growers are also able to maintain high production during the U.S. winter, when U.S. production declines and U.S. demand increases due to the presence of major flower giving holidays such as St. Valentine’s Day. U.S. flower growers simply lack the capacity to supply the entire U.S. market.”
- ATPA did not cause the United States to experience a negative balance in trade in flowers. ASCOFLORES reported that the United States “has historically been a net importer of fresh cut flowers since U.S. production is insufficient to meet domestic demand, particularly during times of peak holiday demand including Valentine’s Day and Mothers Day.”
- The increase in exports of fresh cut flowers from Colombia is not the result of ATPA, but, instead, is the result of a more general increase in Colombian flower exports worldwide—which has made Colombia the world’s second largest flower exporter. According to ASCOFLORES, Colombian flower exports have increased due to their global competitiveness rather than to ATPA preferences.

## **Floral Trade Council (FTC):<sup>6</sup>**

According to the FTC, “the U.S. fresh cut flower industry continues to be adversely affected by duty-free treatment of fresh cut flowers under the ATPA.” The submission by the FTC made the following points:

- ATPA has encouraged increased imports of fresh cut flowers from the Andean countries. Such imports from Colombia and Ecuador “continue to ravage what is left of our domestic industry.” The FTC provided data showing a decline in the number of U.S. fresh cut flower producers since 1992.
- One key deficiency in ATPA provisions is the lack of competitive-need limitations comparable to GSP.<sup>7</sup>
- ATPA has done little to promote drug crop eradication and crop substitution in Colombia.

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<sup>5</sup> Submission to the Commission by Angela Maria Orozco, International Manager, ASCOFLORES, received July 30, 1996.

<sup>6</sup> Submission to the Commission by Terence P. Stewart et al., Stewart and Stewart, Special Counsel to the Floral Trade Council, received July 30, 1996.

<sup>7</sup> A more detailed discussion and comparison of ATPA and GSP provisions is provided in ch. 1.



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## **APPENDIX B**

### **TECHNICAL NOTES TO CHAPTER 3**

This section presents the methodology used to estimate the impact of ATPA on the U.S. economy in 1995. The economic effects of ATPA duty reductions<sup>1</sup> are evaluated using a comparative static analysis. Since ATPA tariff preferences were already in effect in 1995, the impact of the program is measured by comparing the market conditions currently present (duty-free entry, or staged 20-percent reduced-duty entry, for eligible products entered under ATPA provisions) with those that might have existed under full tariffs (i.e., no ATPA tariff preferences). Thus, the analysis provides an estimate of what the potential costs and benefits to the U.S. economy would have been if ATPA had not been in place during 1995. However, the material on welfare and displacement effects, in the section titled “Analytical Approach” in chapter 3 and in this appendix, discusses the impact of ATPA in terms of duty reductions, rather than the “removal” of duty reductions already in place.<sup>2</sup> The effects of a duty reduction and a duty increase are symmetrical and lead to results that are equivalent in magnitude but opposite in sign.<sup>3</sup> Thus, the discussion is framed with respect to the implementation of duty reductions simply for clarity.

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

The ATPA and non-ATPA import demand curves,  $D_a$  and  $D_n$ , and the demand curve for domestic output,  $D_d$ , are all assumed to be downward sloping with a constant elasticity of demand.<sup>4</sup> It is assumed that the

<sup>1</sup> Although the term “duty reduction” is used, the methodology employed in the analysis for this report applies equally to a duty elimination (which is a duty reduction in the full amount of the duty).

<sup>2</sup> Most comparative static analyses are used to evaluate the effects of an event that has not already happened—such as a proposed tariff reduction. This comparative analysis evaluates the effects of an event that has already happened—ATPA duty elimination and duty reduction has been in effect since 1992. The method described in this section can be used in either situation.

<sup>3</sup> This is technically true only if income effects are negligible. Given the small U.S. expenditure on goods from ATPA countries, income effects are likely to be negligible for the products under consideration. See R. Willig, “Consumer’s Surplus Without Apology,” *American Economic Review*, 66, pp. 589-597.

<sup>4</sup> The subscripts a, n, and d refer to ATPA imports, non-ATPA imports, and U.S. output, respectively.

ATPA import supply curve to the U.S. market, the non-ATPA import supply curve, and the domestic industry supply curve,  $S_a$ ,  $S_n$ , and  $S_d$ , are all horizontal, i.e., perfectly elastic. The assumption of perfectly elastic supply curves is made in order to obtain “upper bound” (i.e., maximum potential) estimates of the welfare and domestic displacement effects on the U.S. economy.<sup>5</sup>

The change from full tariffs to duty-free treatment for ATPA imports causes the import supply curve,  $S_a$ , in panel a to shift down to  $S_a'$  by the amount of the ad valorem tariff,  $t$ .<sup>6</sup> Thus, the equilibrium price in the U.S. market for ATPA imports decreases from  $P_a$  to  $P_a'$ ; whereas, the quantity imported increases from  $Q_a$  to  $Q_a'$ . The relationship between the price with the tariff ( $P_a$ ) and the tariff-free price ( $P_a'$ ) is  $P_a = P_a'(1 + t)$ .

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

The impact of ATPA on the U.S. economy is measured by examining the welfare effects of the tariff reduction in the market for ATPA imports and the domestic displacement effects of a decrease in demand in the competing U.S. market. The displacement of non-ATPA country imports because of ATPA tariff preferences is not estimated since the focus of the analysis is on the direct effects of ATPA provisions on the United States.

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

The net welfare effect of ATPA is equal to the increase in consumer surplus plus the decrease in tariff revenue—the trapezoid  $P_aabP_a'$  minus the rectangle

<sup>5</sup> Since ATPA imports account for a very small share of U.S. domestic consumption in most sectors, these upper bound estimates were minimal. Assuming upward sloping supply curves would have resulted in even lower estimates.

<sup>6</sup> Although the discussion focuses on the impact of duty eliminations, exactly the same analysis applies to imports with reduced-duty provisions under ATPA.

$P_a c P_a'$  in panel a, i.e., triangle abc.<sup>7</sup> The dollar amount by which ATPA imports displace U.S. output is measured by the rectangle  $Q_d' d e Q_d$  in panel c.

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

$$\begin{aligned} (1) \quad & (Q_a / Q_a') = (P_a / P_a')^{\epsilon_{aa}} \\ (2) \quad & (Q_n / Q_n') = (P_a / P_a')^{\epsilon_{na}} \\ (3) \quad & (Q_d / Q_d') = (P_a / P_a')^{\epsilon_{da}} \end{aligned}$$

Given  $P_a = P_a'(1+t)$ , these can be restated as:

$$\begin{aligned} (1)' \quad & (Q_a / Q_a') = (1+t)^{\epsilon_{aa}} \\ (2)' \quad & (Q_n / Q_n') = (1+t)^{\epsilon_{na}} \\ (3)' \quad & (Q_d / Q_d') = (1+t)^{\epsilon_{da}} \end{aligned}$$

The  $\epsilon_{ij}$  is the uncompensated elasticity of demand for good  $i$  with respect to price  $j$ . The values for the  $\epsilon_{aa}$ ,  $\epsilon_{na}$ , and  $\epsilon_{da}$  elasticities are derived from the following relations:

$$\begin{aligned} (4) \quad & \epsilon_{aa} = V_a \eta - V_n \sigma_{an} - V_d \sigma_{ad} \\ (5) \quad & \epsilon_{na} = V_a (\sigma_{na} + \eta) \\ (6) \quad & \epsilon_{da} = V_a (\sigma_{da} + \eta) \end{aligned}$$

where the  $V_i$ 's are market shares for ATPA imports, non-ATPA imports, and domestic output, respectively,  $\eta$  is the aggregate demand elasticity, and the  $\sigma_{ij}$ 's are the elasticities of substitution between the  $i$ th and  $j$ th products.<sup>8</sup> Estimates of the aggregate demand

<sup>7</sup> Welfare effects typically include a measure of the change in producer surplus. The change in producer surplus is not considered in this analysis because the assumption of perfectly elastic supply curves means U.S. domestic prices do not fall in response to ATPA.

<sup>8</sup> Equations (4) through (6) are derived from P.R.G. Layard and A.A. Walters, *Microeconomic Theory* (New York: McGraw-Hill, 1978).

elasticities were taken from the literature.<sup>9</sup> To obtain estimates of the maximum potential impact of ATPA, it is assumed that all of the elasticities of substitution are identical and high, in this case equal to 5.

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

**Consumer surplus** (where  $k$  is a constant)

$$\text{area of trapezoid } P_a a b P_a' = \int_{P_a'}^{P_a} k P_a^{\epsilon_{aa}} dP_a$$

**Tariff revenue from ATPA imports**

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

**Domestic output**

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

<sup>9</sup> The aggregate elasticities were taken from sources referenced in USITC, *Potential Impact on the U.S. Economy and Selected Industries of the North American Free-Trade Agreement*, USITC publication 2596, January 1993.

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

