

**Caribbean
Basin
Economic
Recovery
Act**

Twelfth Report 1996
Investigation No. 332-227

**Andean
Trade
Preference
Act**

Fourth Report 1996
Investigation No. 332-352

**Impact
on the
United
States**



U.S. International Trade Commission

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Impact on the United States

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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 on the impact of the Caribbean Basin Economic Recovery Act (CBERA) and the Andean Trade Preference Act (ATPA) on U.S. industries and consumers. In the interest of economy and efficiency, the Commission has combined the two separate reports into a single document.

CBERA, enacted on August 5, 1983 (Public Law 98-67, title II; 97 Stat. 384, 19 U.S.C. 2701 et seq.), authorized the President to proclaim duty-free treatment for eligible articles from designated Caribbean Basin countries and territories. Duty-free treatment became effective January 1, 1984. Section 215 of the act requires the Commission to assess both the actual and the future probable effects of CBERA on the U.S. economy generally, on U.S. consumers, and on U.S. industries producing like products or products directly competitive with those products imported from beneficiary countries. The Commission is required to submit its report to the President and the Congress by September 30 of each year.

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 this Act in promoting drug-related crop eradication and crop substitution efforts of beneficiary countries.” The Commission is to submit its report by September 30 of each year until ATPA benefits expire in 2001.

The current study fulfills the Commission’s reporting requirement under both statutes for calendar year 1996. Part I assesses CBERA impact, representing the 12th in the series of CBERA reports. Part II contains the Andean report, 4th in the Andean series.

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 as indicating what the Commission’s determination would be, should an investigation be conducted under another statutory authority.

Copies of this current report as well as the 1995 reports on CBERA and ATPA are available in electronic format on the Commission’s Internet Web site (<http://www.usitc.gov/>).

ABSTRACT

This report estimates the impact of CBERA and ATPA on U.S. industries and consumers in 1996. The effectiveness of ATPA in promoting drug-related crop eradication and crop substitution efforts in the beneficiary countries is also assessed.

The overall effect of CBERA- and ATPA-exclusive imports on the U.S. economy and consumers was negligible in 1996. However, U.S. imports from CBERA and ATPA partners were estimated to have potentially significant effects on domestic industries and consumers in a small number of sectors. "Upper bound" estimates were made of the probable welfare effects on the U.S. economy. Lower bound estimates were not calculated. In the case of CBERA, the potentially affected industries were seasonal cantaloupes and melons, higher-priced cigars, and fresh pineapples, whereas in the case of ATPA, the potentially affected industries were chrysanthemums, carnations, anthuriums, and orchids; fresh cut roses; asparagus; and miniature spray carnations. The future probable effect of CBERA and ATPA on the United States, as estimated by an examination of export-oriented investment in the beneficiary countries, is also expected to be minimal in most sectors. The Commission identified 31 investments in CBERA-eligible products and 12 investments in ATPA-eligible sectors. In addition, analysis of U.S. trade data for the 1991-96 period suggests that after the inception of NAFTA, U.S. imports increased from both the CBERA countries and the NAFTA partners, and imports declined from the rest-of-the-world.

ATPA appears to have had a slight positive effect on drug crop eradication and crop substitution in the Andean region in 1996. Eradication efforts contributed to an overall decline in the volume of land under coca cultivation, and alternative development efforts to introduce new products and expanded production into the region are beginning to show promising results.

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EXECUTIVE SUMMARY

This report covers the impact on the United States of the Caribbean Basin Economic Recovery Act (CBERA) and the Andean Trade Preference Act (ATPA) during calendar year 1996. Given the similarity in the reporting requirements for each of these statutes and their identical statutory reporting date, the Commission has combined the reports into a single document. Section 215 of the CBERA statute requires the Commission to prepare an annual report assessing both the actual and the future probable effects of CBERA on the U.S. economy generally, on U.S. industries, and on U.S. consumers. Similarly, section 206 of the ATPA requires the Commission to report annually on the program. The approach taken to determine the probable effect of CBERA and ATPA is the use of a partial-equilibrium analysis to produce “upper bound” estimates of these welfare effects on the U.S. economy, U.S. industries, and U.S. consumers. Lower bound estimates were not calculated. The future probable effect of CBERA and ATPA on the United States is estimated by an examination of export-related investment in the beneficiary countries. Data sources for the reports include travel, direct observation, interviews with other government agencies, and reports from U.S. embassies.

Part I. Caribbean Basin Economic Recovery Act: Impact of CBERA on the United States

The Caribbean Basin Economic Recovery Act has been operative since January 1, 1984. CBERA eliminates, or in some cases reduces, tariffs on eligible products of 24 designated Caribbean, Central American, and South American countries and territories. The primary goal of CBERA is to promote export-oriented growth in the Caribbean Basin countries and to diversify their economies away from traditional agricultural products and raw materials. CBERA applies to the same tariff categories covered by the more restrictive U.S. Generalized System of Preferences (GSP) program. CBERA benefits extend beyond those of GSP in that they apply to additional products and the product-qualifying rules are more liberal.

Main Commission findings

- The overall effect of CBERA-exclusive imports on the U.S. economy and on consumers continued to be negligible in 1996. In 1996, the value of duty-free U.S. imports under CBERA was around 0.035 percent of U.S. gross domestic product. The total value of U.S. imports from CBERA countries amounted to 1.8 percent of total U.S. imports.
- Ethyl alcohol provided the largest estimated gain in consumer surplus (\$17.2 million) resulting exclusively from CBERA tariff preferences in 1996. Seasonal cantaloupes provided the second largest estimated gain in consumer surplus (\$11.3 million).
- Industries were screened for potential effects of CBERA on U.S. production in 1996. Industries with potential displacement of 5 percent or more were selected for additional discussion. Industries selected were those producing seasonal cantaloupes, higher-priced cigars, certain seasonal melons, and fresh pineapples. Additional analysis was applied to these items that indicated that potential displacement may not be as high as that estimated in the screening process for some of the products. Commission analysis suggests that CBERA production often complements, rather than competes directly with, U.S. goods. For example, U.S. cigar imports from the CBERA region surged in 1996 under CBERA owing to a trend toward increased

premium cigar consumption. These cigars do not compete directly with the bulk of U.S. cigar production, which is machine manufactured. The small U.S. hand-rolled-cigar industry is operating at full capacity.

- Duty-free imports of the 25 leading CBERA-exclusive items, except for 2 sugar subheadings, produced net welfare gains for U.S. consumers in 1996. Ethyl alcohol yielded the largest such net gain, valued at \$8.0 million, followed by seasonal cantaloupes, frozen orange juice, methanol, and certain jewelry and parts.
- The probable future effect of CBERA on the United States is expected to be minimal in most economic sectors. However, the Commission was able to identify 31 discrete investments in export-oriented production of CBERA-eligible products, including electronic components, fruits, vegetables, and life rafts. Some of these investments were also made in textiles and apparel. Together, these investments amounted to over \$30 million in 1996.
- U.S. imports from the Caribbean Basin continued to grow after NAFTA's inception in 1994, but at a slower rate. In contrast, growth in the share of U.S. imports accounted for by the rest of the world declined. Commission analysis suggests, in general, that a higher degree of trade diversion occurred between imports from the rest-of-the-world and NAFTA countries than between CBERA and NAFTA countries.
- Of the sectors that were the focus of specific analysis, apparel accounted for the largest share of U.S. imports, or 40 percent. This sector also showed the most growth in U.S. imports from both Mexico and CBERA beneficiaries during the period 1991-96. As predicted prior to NAFTA, U.S. apparel imports from CBERA and NAFTA suppliers were most affected by shifts in sourcing and investment to Mexico. The devaluation of the Mexican peso, U.S. textile quotas on East Asian suppliers, and rising costs in certain Caribbean economies also appear to have been important factors affecting the growth in Mexico's share of U.S. apparel imports.

Trade-related activities in 1996

- The leading items entering the United States under CBERA provisions in 1996 were: raw sugar; certain leather footwear uppers; higher-priced cigars; jewelry made of precious metals; and medical, surgical, and dental instruments; all items were principally from the Dominican Republic.
- Of the \$2.8 billion in U.S. imports that entered under CBERA in 1996, imports amounting to \$2.3 billion could not have received tariff preferences under any other program. The five leading import items benefiting exclusively from CBERA in 1996 were raw sugar, leather footwear uppers, higher priced cigars, certain jewelry and parts, and methanol.
- The United States has consistently had a merchandise trade surplus with the CBERA countries collectively since 1987. In 1996, this surplus amounted to \$829.9 million, down from \$2.3 billion in 1995 and was the smallest since 1988.
- Apparel is the fastest growing category of U.S. imports from CBERA countries. Apparel imports grew from 5.5 percent of the value of overall U.S. imports from the region in 1984 to 41 percent in 1996. Most apparel is not eligible for CBERA tariff preferences, but it does benefit from reduced duties under HTS 9802 production-sharing provisions, as well as from preferential market access provided to CBERA suppliers.
- The absence of the GSP program for the first three quarters of 1996 depressed the share of total imports from CBERA countries entering duty free under GSP to 1.1 percent, the lowest since CBERA became operative.
- Since the inception of CBERA, beneficiaries have increasingly claimed CBERA duty-free status for their exports to the United States. In 1996, a record 18.9 percent of U.S. imports from CBERA

- countries entered under the program, compared with 17.7 percent in 1995 and 6.7 percent in 1984, the first year of CBERA.
- In 1996, the Dominican Republic and Costa Rica continued to lead in taking advantage of CBERA. These two countries combined have been responsible for more than one-half of overall annual U.S. imports under CBERA since 1989. In 1996, they provided 56.9 percent of the total.

Part II. Andean Trade Preference Act: Impact of ATPA on the United States

The Andean Trade Preference Act, which was signed into law in December 1991, eliminates or reduces tariffs on eligible products of four Andean mountain countries of South America—Bolivia, Colombia, Ecuador, and Peru. The primary goal of ATPA is to promote broad-based economic development in these Andean countries. The ATPA also aims to develop viable economic alternatives to coca cultivation and cocaine production by offering Andean products broader access to the U.S. market. ATPA applies to the same categories covered by the more restrictive U.S. GSP program, but offers broader product coverage and more liberal product-qualifying rules.

Main Commission findings

- The overall effect of ATPA-exclusive imports on the U.S. economy and on consumers continued to be negligible in 1996. In 1996, the value of duty-free U.S. imports under ATPA was around 0.015 percent of U.S. gross domestic product. The total value of U.S. imports from ATPA countries amounted to 1.0 percent of total U.S. imports.
- Chrysanthemums, carnations, anthuriums, and orchids provided the largest estimated gain in consumer surplus (\$10.7 million) resulting exclusively from ATPA tariff preferences in 1996. Fresh cut roses provided the second largest estimated gain in consumer surplus (\$10.6 million).
- Industries were screened for potential effects of ATPA on U.S. production in 1996. Industries with potential displacement of 5 percent or more were selected for additional discussion. Industries selected were those producing chrysanthemums, carnations, anthuriums, and orchids, fresh cut roses, asparagus, and miniature spray carnations.
- Imports of nearly all of the 25 leading ATPA-exclusive items produced net welfare gains for U.S. consumers in 1996. Fresh cut roses yielded the largest such net gain, valued at \$877,000, followed by asparagus; chrysanthemums, carnations, anthuriums, and orchids; ropes, chains, etc. of precious metals; and other cut flowers.
- The probable future effect of ATPA on the United States is expected to be minimal in most economic sectors. However, the Commission was able to identify 12 discrete investments in export-oriented production in several ATPA-eligible sectors, including flowers, fruits, vegetables, jewelry, wood products, and copper components. Together, these investments amounted to over \$15 million in 1996.
- ATPA appears to have had slight but positive effects on drug-crop eradication and crop substitution in the Andean region during 1996. To date, supply management efforts have not shown dramatic success. Moreover, the long-term nature of the requirements for establishing viable alternative crops and building necessary economic infrastructure means that a significant decline in drug-crop production may not be seen for some time. However, eradication efforts in 1996 did contribute to an overall decline in the volume of land under coca cultivation. Also, alternative development efforts to introduce new products and expanded production into the region are beginning to show promising results.

Trade-related activities in 1996

- A 12.9-percent growth in U.S. imports from ATPA countries collectively, and a 1.3-percent decline in U.S. exports to these countries in 1996 resulted in a small collective U.S. deficit of \$148.9 million in this trade, following years of a U.S. surplus.

- Apparel products accounted for 38.3 percent of U.S. imports from ATPA countries in 1996, down 5.8 percent from 1995. Colombia and Peru are the only significant suppliers. Although apparel imports from ATPA countries are not duty free under ATPA, the United States instituted a “Special Access Program” program for ATPA countries on August 24, 1994, when Colombia was accorded special regime quotas for apparel.
- The absence of the GSP program for the first three quarters of 1996 resulted in a decrease in the share of total imports from ATPA countries entering duty free under GSP to 1.7 percent, compared with 3.4 percent in 1995 and 5.8 percent in 1994.
- ATPA provisions accounted for an increasing portion of all U.S. imports from ATPA countries: 11.3 percent in 1994, 13.7 percent in 1995, and 15.8 percent in 1996.
- Flower products, mostly from Colombia and Ecuador, continued to dominate imports under ATPA in 1996. Four categories of cut flowers accounted for over one-third of all entries under ATPA provisions.
- Although the flower sector remained the principal beneficiary of ATPA, its relative importance in the program declined as imports in other categories increased. Flowers constituted 60 percent of all entries under ATPA in 1993, 44 percent in 1994, 40 percent in 1995, and 34.3 percent in 1996. Other products benefiting from ATPA in 1996 included certain jewelry articles, refined unwrought lead, cathodes of refined copper, tuna and skipjack not in airtight containers, unwrought metal products, and raw sugar.
- Of the \$1.3 billion in U.S. imports that entered under ATPA provisions in 1996, imports valued at \$1.0 billion could not have received tariff preferences under any other program. The five leading items benefiting exclusively from ATPA in 1996 were chrysanthemums, carnations, anthuriums, and orchids from Colombia; fresh cut roses; copper cathodes; other cut flowers; and ropes, chains, etc. of precious metals.
- Colombia continued to be the leading ATPA beneficiary country in 1996, providing 44.1 percent of all imports under ATPA. However, Colombia’s share of the total was down from 60.2 percent in 1994 and 53.2 percent in 1995 because its exports under ATPA provisions rose at the lowest rate. Peru ranked as the second ATPA beneficiary, with 30.4 percent of all U.S. imports under ATPA in 1996; Ecuador was the third, with 17.2 percent, and Bolivia was the fourth, with 8.3 percent of the total.

INTRODUCTION

The Caribbean Basin Economic Recovery Act (CBERA)¹ was implemented in 1984 to encourage economic growth and development in the Caribbean Basin countries by promoting increased production and exports of nontraditional products.² 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 production³ by fostering production and exports of non-traditional products. Both programs authorize the President to proclaim preferential rates of duty on many products entering the United States from these regions.

In two separate studies, the Commission has been reporting on the impact of CBERA and ATPA preferences on the U.S. economy for 12 and 4 years respectively. The reporting requirements for each of these programs are virtually identical, and the same methodology is employed by the Commission in responding to each statutory mandate. Specifically—

CBERA	ATPA
<p>Section 215(a) of the Caribbean Basin Economic Recovery Act (19 U.S.C. 2704(a)) calls for the Commission to “submit to the Congress and the President, a report regarding the economic impact of this Act on United States industries and consumers.” Section 215(b)(1) of CBERA requires that this report include an assessment by the Commission of—</p> <p>“(A) the actual effect . . . of this Act on the United States economy generally as well as on those specific domestic industries which produce articles that are like, or directly competitive with, articles being imported into the United States from beneficiary countries; and (B) the probable future effect which this Act will have on the United States economy generally, as well as on such domestic industries. . .”</p>	<p>Section 206(a) of the Andean Trade Preference Act (19 U.S.C. 3204(a)) calls for the Commission to “submit to the Congress a report regarding the economic impact of this Act on United States industries and consumers, and in conjunction with other agencies, the effectiveness of this Act in promoting drug-related crop eradication and crop substitution efforts of beneficiary countries.” Section (b) of ATPA requires that this report include an assessment by the Commission of—</p> <p>“(A) the actual effect . . . of this Act on the United States economy generally as well as on those specific domestic industries which produce articles that are like, or directly competitive with, articles being imported into the United States from beneficiary countries; (B) the probable future effect that this Act will have on the United States economy generally, as well as on such domestic industries; and (C) the estimated effect that this Act has had on the drug-related crop eradication and crop substitution efforts of the beneficiary countries.”</p>

¹ CBERA became effective January 1, 1984, as Public Law 98-67, title II; 97 Stat. 384, 19 U.S.C. 2701 et seq. Minor amendments to CBERA were made by Public Laws 98-573, 99-514, 99-570, and 100-418. CBERA beneficiary countries are listed in table I, below.

² Traditional products of the Caribbean Basin countries include bananas, bauxite and aluminum ores, coffee, and rum. Nontraditional products include apparel, seafood, winter vegetables, and wood furniture.

³ ATPA was passed by the Congress on November 26, 1991, and signed into law on December 4, 1991. Public Law 102-182, title II; 105 Stat. 1236, 19 U.S.C. 3201 et seq. Minor amendments to ATPA were made by Public Law 102-583.

The current report, covering calendar year 1996, combines the two reports; CBERA's effects are assessed in part I and ATPA's effects, in part II. CBERA and ATPA provisions are compared in table 1.

Analytical Approach

The effects of CBERA and ATPA (hereinafter, CBERA/ATPA) on the U.S. economy, industries, and consumers are assessed through an analysis of (1) imports entered under each program and trends in U.S. consumption of these imports; (2) estimates of potential gains to U.S. consumers, potential losses to the U.S. Treasury, and potential displacement in U.S. industries competing with the leading U.S. imports that benefited exclusively from the CBERA/ATPA programs in 1996;⁴ and (3) an

Table 1
Summary of CBERA/ATPA preferential provisions, yearend 1996

Item	CBERA	ATPA
Inception	Enacted 8/5/83 - CBERA Expanded 8/20/90 - CBEREA ¹	Enacted 12/4/91
Benefits	Duty-free entry and reduced-duty entry granted on a non-reciprocal, non-MFN basis.	Duty-free entry and reduced-duty entry granted on a non-reciprocal, non-MFN basis
Exclusions	Textiles, apparel, leather, canned tuna, petroleum and derivatives, certain footwear, certain watches/parts.	Textiles, apparel, leather, canned tuna, petroleum and derivatives, certain footwear, certain watches/parts, plus certain sugar products, and rum.
Duration	CBERA: 10 years, until 9/30/95 CBEREA: indefinite	10 years, expires 12/3/2001
Beneficiaries	24 Central American and Caribbean countries: Antigua, 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 and Nevis, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago	4 Andean countries: Bolivia, Colombia, Ecuador, and Peru.
Coverage (eligible items) ²	Approx. 6,900	Approx. 6,750
Value of imports under the program (million dollars)	\$2,791	\$1,270
Significance:		
U.S. imports from the region as a share of total U.S. imports (percent)	1.8	1.0
U.S. imports receiving preferences (percent)	19.2	16.1

¹ Caribbean Basin Economic Recovery Expansion Act of 1990.

² 8-digit HTS items.

⁴ That is, those that did not otherwise qualify for duty-free or reduced-duty treatment.

examination of trends in production and other economic factors in the industries identified as likely to be particularly affected by such imports. General economic and trade data come from official statistics of the U.S. Department of Commerce and from materials developed by country/regional and industry analysts of the Commission. Investment information was gathered during official travel to, as well as from reports by U.S. embassies in the Caribbean Basin and the Andean regions. The report also incorporates public comments received in response to the Commission's *Federal Register* notices regarding these investigations.⁵

The estimation of the actual effects of CBERA/ATPA duty reductions for 1996 is made using a standard economic methodology for measuring the impact of a change in the prices of one or more goods. Specifically, a computable partial-equilibrium model was used to estimate gains to consumers, losses in tariff revenues, and industry displacement.⁶ Without the duty reduction, full tariffs would have been in place in 1996 for U.S. imports from CBERA/ATPA countries. Since CBERA/ATPA have been in effect, previous reports in this series have shown that U.S. consumers have benefited from lower prices and higher consumption; competing U.S. producers have had lower sales; and tariff revenues to the U.S. Treasury have been lower.

In this report, the net welfare effect is measured by adding two components: (1) the gain in consumer surplus and (2) the decrease in tariff revenues to the U.S. Treasury resulting from the CBERA/ATPA duty reduction. Net welfare effects typically also include changes in producer surplus.⁷ Because the model used in this analysis assumes that the supply of U.S. domestic production is perfectly elastic, that is, that the U.S. domestic price does not fall in response to CBERA/ATPA, decreases in U.S. producer surplus are not captured in this analysis. Furthermore, it is expected that the effects of CBERA and ATPA duty reductions on most U.S. industries are small.

Two assumptions have been made that tend to produce "upper bound" estimates of probable effects of imports on U.S. production. The first assumption is that the substitutability of competing U.S. and CBERA/ATPA products is high. This is reflected in the use of an elasticity of substitution of 5.⁸ The second assumption is that the supply prices of imports and U.S. production are not

⁵ Copies of the notices are contained in appendix A.

⁶ A more detailed explanation of the approach can be found in appendix C.

For Vice Chairman Bragg's views on economic modeling, see U.S. International Trade Commission, *The Economic Effects of Antidumping and Countervailing Duty Orders and Suspension Agreements*, USITC publication 2900, 1995., p. xii, and the *Impact of the North American Free Trade Agreement on the U.S. Economy and Industries: A Three Year Review*, (USITC publication 3045), June 1997, p. F-1.

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 the Caribbean Basin Economic Recovery Act and the Andean Trade Preference Act.

⁷ Consumer surplus is a dollar measure of the total net gain to U.S. consumers from lower prices. It 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 a dollar measure of the total net loss to competing U.S. producers from increased competition with imports. It is defined as the return to entrepreneurs and owners of capital over and above what they would have earned in their next-best opportunities. See Walter Nicholson, *Microeconomic Theory: Basic Principles and Extensions* (New York: The Dryden Press, 1989), for further discussion of consumer and producer surplus.

The welfare effects do not include short-run adjustment costs to the economy from reallocating resources between different industries.

⁸ While there is no theoretical upper limit to elasticities of substitution, a substitution elasticity of 5 is consistent with the upper range of estimates in the economics literature. See, for example, Clinton R. Shiells, Robert M. Stern, and Alan V. Deardorff, "Estimates of the Elasticities of Substitution Between Imports and Home Goods for the United States," *Weltwirtschaftliches Archiv*, 122 (1986), pp. 497-519.

affected by CBERA/ATPA (that is, that supply is perfectly elastic over the relevant range for U.S. imports from CBERA/ATPA countries, from non-CBERA/non-ATPA countries, and for U.S. production). These assumptions ensure the identification of items that could be most affected by CBERA/ATPA. In many cases the reported displacement effects may overstate the actual displacement that may have occurred because of either low actual substitutability between Caribbean/Andean products and U.S. products, or upward-sloping supply curves (implying a less elastic production process).

The analysis was conducted on the 25 leading items that benefited exclusively from CBERA and ATPA (shown in tables 3-2 and 6-2, respectively).⁹ Estimates of welfare and potential U.S. industry displacement were made, and industries for which estimated potential displacement was over 5 percent of the value of U.S. production were selected for further analysis.

Probable future effects of CBERA/ATPA are discussed on the basis of a qualitative analysis of economic trends and investment patterns in beneficiary countries and in competing U.S. industries. The discussion employs both data on investment in CBERA/ATPA-related production facilities obtained from U.S. embassies in the regions, and information gathered during field work.

In the ATPA section, the impact of ATPA on drug crop eradication and crop substitution is analyzed 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 and Colombia, and information from other U.S. Government agencies such as the Department of State.

Organization

The current study is divided into two parts, each containing a full statutory report. Because of an additional reporting requirement for the ATPA program, part I, covering CBERA, has three chapters, and part II, which discusses ATPA, has four chapters. The first three chapters of each part correspond, and the methodology employed in each is the same.

Chapters 1 and 4 summarize the CBERA and the ATPA programs, respectively. Chapters 2 and 5 describe U.S. trade with CBERA/ATPA beneficiaries during 1996; the CBERA chapter report contains a special focus on NAFTA Parity, which addresses concerns expressed by countries of the Caribbean Basin on the effects of the North American Free Trade Agreement on their access to the U.S. market. Chapters 3 and 6 address the estimated effects of CBERA/ATPA in 1996 on the U.S. economy generally, as well as on U.S. industries and consumers; these chapters also examine the probable future effects of CBERA/ATPA. Chapter 7 considers the impact of ATPA on drug crop eradication and crop substitution efforts in the beneficiary countries.

Appendix A reproduces the *Federal Register* notices by which the Commission solicited public comment on the programs; appendix B contains a summary of those submissions received in response to the *Federal Register* notices. Appendix C explains the economic model used to derive the findings presented in chapters 3 and 6. Finally, appendix D provides some of the data underlying the analysis of NAFTA parity in chapter 2.

⁹ Commission industry analysts provided estimates of U.S. production and exports for the 25 leading items that benefited exclusively from CBERA and ATPA.

PART I
Caribbean Basin Economic Recovery Act:
Impact of CBERA on the United States

CHAPTER 1

Summary of the CBERA Program

CBERA authorizes the President to grant unilateral preferential trade benefits to Caribbean Basin countries and territories. The program permits shippers from designated beneficiaries to claim duty-free or reduced-duty treatment of eligible products imported into the customs territory of the United States. CBERA was initially scheduled to remain in effect until September 30, 1995; however, the Caribbean Basin Economic Recovery Expansion Act of 1990¹ repealed that termination date, made the program permanent, and expanded CBERA benefits in several respects.² In September 1995, the United States requested that the World Trade Organization (WTO) renew a prior waiver of U.S. obligations under article I of the General Agreement on Tariffs and Trade (GATT) (nondiscriminatory treatment) to allow the continuation of CBERA tariff preferences; that request was granted on November 15, 1995.³ A WTO waiver is required because CBERA tariff preferences are extended on a nonreciprocal basis to a limited number of countries, rather than to all WTO members.

The following sections summarize CBERA provisions concerning beneficiaries, trade benefits, and qualifying rules, and the relationship between CBERA and GSP.

Beneficiaries

Eligible imports from 24 countries received CBERA tariff preferences during 1996.⁴ Four other

¹ The Caribbean Basin Economic Recovery Expansion Act of 1990 was signed into law on August 20, 1990, as part of the Customs and Trade Act of 1990 (Public Law 101-382, title II, 104 Stat. 629, 19 U.S.C. 2101 note).

² Among other things, the 1990 act provided duty reductions or duty-free entry for certain products previously excluded from such treatment. For a comprehensive description of the 1990 act, see USITC, *Report on the Impact of the Caribbean Basin Economic Recovery Act, Sixth Report 1990*, USITC publication 2432, Sept. 1991, pp. 1-1 to 1-5.

³ Decision of the WTO General Council of Nov. 15, 1995 (WT/L/104).

⁴ Those countries were Antigua, Aruba, The Bahamas, Barbados, Belize, British Virgin Islands, Costa Rica, Dominica, Dominican Republic, El Salvador, Grenada,

countries—Anguilla, Cayman Islands, Suriname, and Turks and Caicos Islands—are potentially eligible for CBERA benefits but have not requested to be so designated.⁵ The President can terminate beneficiary status or suspend or limit a country's CBERA benefits at any time.⁶

To qualify for the program, each country must meet several criteria. CBERA beneficiaries are required to afford internationally recognized worker rights under the definition used in the U.S. Generalized System of Preferences (GSP) program⁷ and to provide effective protection of intellectual property rights (IPR), including copyrights for film and television material. The President may waive either 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.⁸ To date, CBERA benefits have not been withdrawn from any country on the basis of worker rights or U.S. copyright violations. However, during 1996, practices in Guatemala, Honduras, and Panama were the subject of active reviews by the United States based on petitions received by the Office of the United States Trade Representative (USTR)⁹ requesting that those countries' GSP benefits be removed because of alleged worker rights or IPR inadequacies.¹⁰ Owing to progress in protecting IPR

⁴—Continued

Guatemala, Guyana, Haiti, Honduras, Jamaica, Montserrat, Netherlands Antilles, Nicaragua, Panama, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago.

⁵ The Caribbean, Central American, and South American countries and territories potentially eligible for CBERA benefits are listed in 19 U.S.C. 2702(b).

⁶ 19 U.S.C. 2702(e).

⁷ Sec. 502(a)(4), Trade Act of 1974, and title V generally (Public Law 93-618, 88 Stat. 2066 and following), as amended.

⁸ 19 U.S.C. 2702(b).

⁹ Petitions were received from the AFL-CIO in the case of Guatemala, and from the International Intellectual Property Alliance in the cases of Honduras and Panama. USTR, *Generalized System of Preferences (GSP) 1997 Out-of-Cycle Country Eligibility Review*, Feb. 28, 1998, Fax.

¹⁰ The United States terminated the GSP worker rights review of Guatemala on May 2, 1997. USTR, "USTR Announces Termination of GSP Review of Guatemala and Initiation of Reviews of Belarus and Swaziland," press release, May 2, 1997.

in El Salvador, the GSP review of that country was terminated in 1996.¹¹ In addition, in April 1996 the 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, and placed 26 countries, including Costa Rica, El Salvador, and Guatemala, on the “watch list” of countries to be monitored for progress in implementing commitments with regards to IPR protection and for providing comparable market access for U.S. intellectual property products.¹² In April 1997¹³ the USTR placed 36 countries, including Costa Rica, Dominican Republic, Guatemala, Honduras, and Panama, on the watch list.¹⁴

Trade Benefits Under CBERA

Under CBERA, preferential rates of duty below the most-favored-nation (MFN) rates¹⁵ can be accorded to most products of Caribbean Basin countries; the general tariff rate is reduced either to free or, for a small group of products, by 2.5 percent ad valorem.¹⁶ In addition to basic preference eligibility rules, certain conditions apply to CBERA duty-free entries of sugar, beef,¹⁷ and ethyl alcohol.¹⁸

¹¹ U.S. Department of State telegram, “GSP Reauthorized Through May 31, 1997,” message reference No. 166692, Washington, DC, Aug. 12, 1996; and 61 F.R. 52078.

¹² USTR, “USTR Announces Two Decisions: Title VII and Special 301,” press release, Apr. 30, 1996.

¹³ USTR, “USTR Announces Results of Special 301 Annual Review,” press release, Apr. 30, 1997.

¹⁴ The International Intellectual Property Alliance estimates that copyright piracy in the Dominican Republic, Honduras, Guatemala, and Panama caused trade losses worth \$53.6 million in 1996. Submission to the Commission by Steven J. Metalitz, Vice President and General Counsel, and Maria Strong, Vice President and Associate General Counsel, International Intellectual Property Alliance, received June 30, 1997. (See appendix B.)

¹⁵ For some products, the MFN rate is free.

¹⁶ General note 3 (c) to the Harmonized Tariff Schedule (HTS) summarizes the special tariff treatment for eligible products of designated countries under various U.S. trade programs, including CBERA. General note 7 covers CBERA.

¹⁷ Sugar (including syrups and molasses) and beef (including veal) are eligible for duty-free entry only if the exporting CBERA country submits a “Stable Food Production Plan” to the United States, assuring that its agricultural exports do not interfere with its domestic food supply and its use and ownership of land. 19 U.S.C. 2703(c)(1)(B).

¹⁸ Ethyl alcohol produced from agricultural feedstock grown in a CBERA country is admitted free of duty; however, preferential treatment for alcohol produced from non-CBERA agricultural feedstock is restricted to

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.¹⁹

While not eligible for duty-free entry, certain leather handbags, luggage, flat goods (such as wallets and portfolios), work gloves, and leather wearing apparel from CBERA countries are eligible to enter at reduced rates of duty.²⁰ Excluded from all CBERA preferential duty treatment by law are most textiles and apparel, certain footwear, canned tuna, petroleum and petroleum derivatives, and certain watches and watch parts.²¹ As a limited exception to the textiles exclusion, eligible CBERA countries shipping apparel assembled entirely from fabric formed and cut in the United States may qualify for liberal import quotas.²²

Qualifying Rules

CBERA generally provides that eligible products must either be wholly grown, produced, or manufactured in a CBERA country or be “new or

¹⁸—Continued

60 million gallons (227.1 million liters) or 7 percent of the U.S. domestic ethanol market, whichever is greater. 19 U.S.C. 2703(a)(1). See also, section 423 of the Tax Reform Act of 1986, as amended by section 7 of the Steel Trade Liberalization Program Implementation Act of 1989 (19 U.S.C. 203 nt; Public Law 99-514 as amended by Public Law 101-221).

¹⁹ These U.S. measures include tariff-rate quotas on imports of sugar and beef, established pursuant to sections 401 and 404 of the Uruguay Round Agreements Act (URAA). These provisions abolished former absolute quotas on imports of agricultural products of WTO members; U.S. quotas had been created under section 22 of the Agricultural Adjustment Act of 1933 (7 U.S.C. 624) and under the Meat Import Act of 1979 (Public Law 88-482). URAA also amended CBERA by excluding from tariff preferences any imports from beneficiary countries in quantities exceeding the new tariff-rate quotas’ global trigger levels. Imports of agricultural products from beneficiary countries remain subject to sanitary and phytosanitary restrictions, such as those administered by the U.S. Animal and Plant Health Inspection Service.

²⁰ Applies to articles that were not designated for GSP duty-free entry as of August 5, 1983. Under CBERA, beginning in 1992, duties on these goods were reduced slightly in five equal annual stages. 19 U.S.C. 2703(h).

²¹ 19 U.S.C. 2703(b). For discussions of products originally excluded from CBERA and subsequent modifications to the list of excluded products, see U.S. International Trade Commission, *Impact of the Caribbean Basin Economic Recovery Act on U.S. Industries and Consumers: The First Ten Years of CBERA, Ninth Report 1993*, USITC publication 2813, Sept. 1994, pp. 2-9, and *Caribbean Basin Economic Recovery Act: Impact on U.S. Industries and Consumers, Tenth Report 1994*, USITC publication 2927, Sept. 1995, pp. 3-4.

²² These apparel quotas are discussed in chapter 2.

different” articles made from substantially transformed non-CBERA inputs in order to receive duty-free entry into the United States.²³ The cost or value of the local (CBERA region) materials and the direct cost of processing in one or more CBERA countries must total at least 35 percent of the appraised customs value of the product at the time of entry. These rules of preference allow CBERA countries to pool their resources to meet the local-value-content requirement on an aggregated basis; also, inputs from Puerto Rico and the U.S. Virgin Islands may count in full toward the value threshold. In addition, the local-value-content requirement is met when the CBERA content is 20 percent of the customs value and the remaining 15 percent is attributable to U.S.-made (excluding Puerto Rican) materials or components.²⁴ To encourage production sharing between Puerto Rico and CBERA countries, CBERA allows duty-free entry for articles produced in Puerto Rico and “by any means advanced in value or improved in condition” in a CBERA country.²⁵

CBERA and GSP

The CBERA beneficiaries (except The Bahamas and Nicaragua) are also GSP beneficiaries.²⁶ CBERA

²³ 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. 2703(a)(2). Articles, other than textiles and apparel or petroleum and petroleum products, that are assembled or processed in CBERA countries wholly from U.S. components or materials also are eligible for duty-free entry pursuant to note 2 to subchapter II, chapter 98, of the HTS. Articles produced through operations such as enameling, simple assembly or finishing, and certain repairs or alterations may qualify for CBERA duty-free entry pursuant to changes made in 1990. For a more detailed discussion, see USITC, *Report on the Impact of the Caribbean Basin Economic Recovery Act, Seventh Report 1991*, USITC publication 2553, Sept. 1992, p. 1-4.

²⁴ 19 U.S.C. 2703(a)(1).

²⁵ Any materials added to such Puerto Rican articles must be of U.S. or CBERA-country origin. The final product must be imported directly into the customs territory of the United States from the CBERA country. 19 U.S.C. 2703(a)(5).

²⁶ 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 at midnight on July 4, 1993, but was retroactively extended until September 30, 1994, as part of the Omnibus Budget Reconciliation Act of 1993 on August 4, 1993. It was renewed retroactively through July 31, 1995, by the Uruguay Round Agreements Act; subsequently extended through May 31, 1997; and most

and GSP are similar in many ways, and many products may enter the United States free of duty under either program. Both programs offer increased access to the U.S. market. Like CBERA, GSP requires that eligible imports (1) be imported directly from beneficiaries into the customs territory of the United States; (2) meet the substantial transformation (ST) requirement for any foreign inputs (in the GSP program, a “double ST” test is used²⁷); and (3) contain a minimum of 35 percent local-value content. The documentation requirements necessary to claim either CBERA 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.

However, the programs differ in several ways that tend to make Caribbean Basin producers prefer the more liberal CBERA. First, CBERA covers more tariff categories than GSP: unless specifically excluded, all products entering the United States under CBERA receive a tariff preference, including some textile and apparel goods ineligible for GSP treatment. Second, U.S. imports under CBERA are not subject to GSP “competitive need” and country income restrictions. Under GSP, products that achieve a specified market penetration in the United States (the “competitive need” limit) may be excluded from GSP eligibility; products so restricted may continue to enter free of duty under CBERA. Countries may lose all GSP privileges once their national income grows to exceed a specified amount.²⁸ Third, CBERA qualifying rules for individual products are more liberal than those of GSP. 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,²⁹ whereas CBERA allows regional aggregation plus U.S. content.

The U.S. GSP program has not been in continuous effect in recent years. It expired at midnight on July 31, 1995; the provisions of the program were renewed beginning October 1, 1996, through May 31, 1997, with retroactive effect to August 1, 1995.³⁰ All

²⁶—Continued

recently renewed retroactively through June 30, 1998, by the Taxpayer Relief Act of 1997 (section 981). GSP expiration and renewal issues are discussed further later in this section.

²⁷ “Double substantial transformation” involves transforming foreign material into a new or different product that, in turn, becomes the constituent material used to produce a second new or different article.

²⁸ 19 U.S.C. 2464(c)-(f).

²⁹ 19 U.S.C. 2463(b)(1)(B).

³⁰ On August 20, 1996, the President signed the Small Business Job Protection Act of 1996 (Public Law 104-188, 110 Stat. 1755), Subtitle J, Title I, of that law contains provisions entitled the GSP Renewal Act of 1996 (110 Stat. 1917).

imports claiming the GSP tariff preference that entered from August 1, 1995, through September 30, 1996, were subject to ordinary MFN duties at the time of entry unless other preferential treatment—such as CBERA—was claimed. Duties paid on such articles were eligible for refund once the GSP became operative again on October 1.³¹ During the hiatus, however, importers could not anticipate the duration of the lapse in the GSP

³¹ Procedures for refunds were announced in U.S. Customs Service, “Delayed Processing of Renewed Generalized System of Preferences Duty-Free Claims,” 61 F.R. 49528.

program and whether—or when—duties paid for articles denied GSP duty-free entry would be refunded. Thus, during the period of August 1, 1995, through September 30, 1996, suppliers in the Caribbean Basin could be sure only that the preferential tariff provisions of the CBERA were in force. As a result, Caribbean Basin suppliers using GSP continued to switch to CBERA during 1996 and continued to enter goods under CBERA even after GSP was reauthorized.³²

³² This trend has been underway for a number of years, as documented in this series of reports. It is discussed in more detail in chapter 2.

CHAPTER 2

U.S. Trade With the Caribbean Basin

This chapter provides a description of overall imports from the 24 designated CBERA beneficiaries, although the focus is on those which entered under CBERA preferential tariff provisions.¹ Such imports were valued at \$2.8 billion in 1996, or 0.4 percent of total U.S. imports valued at \$790.5 billion.²

Three key trends are highlighted. First, beneficiaries continued to take greater advantage of available CBERA privileges for their exports to the United States. Second, the duty-free value of U.S. imports from the region increased, with such imports accounting for more than two-thirds of total U.S. imports from CBERA countries in 1996 and duty-free imports under CBERA reaching record levels. Third, although the average rate of U.S. duty on imports from beneficiaries has increased since CBERA was enacted, owing largely to the rapid rise in dutiable imports of apparel from the region, in 1996 it declined for the first time in many years. The cause was a diminished share of higher-duty apparel products in overall dutiable imports from CBERA countries, and an increased share of lower-duty petroleum products in the total; there has been a slowing of the growth in CBERA country exports of apparel since the North American Free Trade Agreement (NAFTA) went into effect in 1994.

The chapter concludes with a discussion of NAFTA parity, a concept that would extend the benefits of NAFTA to CBERA beneficiaries. The discussion includes a review of relevant economic literature and legislative developments as well as a trend analysis of pertinent changes in U.S. imports and market shares between 1991 and 1996.

Two-Way Trade

The United States has had a merchandise trade surplus with the CBERA countries collectively in every year since 1987. The surplus amounted to \$829.9 million in 1996, down from \$2.3 billion in 1995, and was the smallest U.S. surplus with these

¹ See chapter 1 for a list of the CBERA countries.

² Official statistics of the U.S. Department of Commerce.

countries since 1988.³ In 1996, U.S. imports from CBERA countries grew faster than U.S. exports to CBERA countries (table 2-1). Such exports as a share of total U.S. exports decreased slightly in 1996, to 2.6 percent from 2.7 percent in 1995. Meanwhile, U.S. imports from the region in 1996 increased as a share of total U.S. imports, amounting to 1.8-percent.

U.S. exports to CBERA countries totaled \$15.4 billion in 1996, rising 3.4 percent over the 1995 level. CBERA countries combined ranked ninth as an export market for the United States, ahead of such national markets as Singapore and France but behind Taiwan and the Netherlands.⁴ CBERA was also a more important regional market than MERCOSUR, the common market among Argentina, Brazil, Paraguay, and Uruguay.

Overview of Total Imports

Total U.S. imports from CBERA countries amounted to \$14.5 billion in 1996, up by 15.9 percent from 1995. The combined share of total U.S. imports accounted for by CBERA countries in 1996 established them collectively as the 12th largest U.S. supplier in the year—ahead of Venezuela and Thailand but behind France and Malaysia.

Product Composition

U.S. imports from CBERA countries have traditionally consisted of agricultural products, raw materials, and their derivatives—namely, petroleum

³ For provisions of the original CBERA, subsequent provisions pertaining to CBERA, and statistical information for 1984-93, see U.S. International Trade Commission, *Impact of the Caribbean Basin Economic Recovery Act on U.S. Industries and Consumers: The First Ten Years of CBERA, Ninth Report 1993*, USITC publication 2813, Sept. 1994.

⁴ U.S. exports to CBERA countries are not discussed in the remainder of this report. For more on the subject of exports to CBERA, see *Ninth Report 1993*, ch. 1. See p. 9 of that report for an explanation of why U.S. exports to CBERA countries rose faster than U.S. imports from these countries in the first years of the program, even though CBERA is a program designed to provide preferential access to CBERA-country exports to the U.S. market.

Table 2-1
U.S. trade with CBERA countries, 1984, 1988, and 1992-96

Year	U.S. exports ¹	Share of total U.S. exports	U.S. imports ²	Share of total U.S. imports	U.S. trade balance
	Million dollars	Percent	Million dollars	Percent	Million dollars
1984	5,952.9	2.8	8,649.2	2.7	-2,696.4
1988	7,421.8	2.4	6,061.1	1.4	1,360.7
1992	10,901.7	2.6	9,425.6	1.8	1,476.1
1994	12,822.0	2.7	11,200.3	1.7	1,621.7
1995	14,870.3	2.7	12,550.1	1.7	2,320.2
1996	15,374.7	2.6	14,544.8	1.8	829.9

¹ Domestic exports, f.a.s. basis.

² Imports for consumption, customs value.

Note.—For complete data series prior to 1992, see USITC, *Impact of the Caribbean Basin Economic Recovery Act on U.S. Industries and Consumers: The First Ten Years of CBERA, Ninth Report 1993*, USITC publication 2813, Sept. 1994.

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

products, sugar cane, coffee, cocoa, bananas, and aluminum ores and concentrates. The deterioration in the terms of trade for these export items and a quest for economic growth prompted CBERA countries to seek diversification in their export profile. The encouragement of such diversification was one of the goals of the United States in implementing the CBERA program.

Light manufactures, principally apparel but also footwear, instruments, and jewelry, account for an increasing share of U.S. imports from the region, and constitute the fastest growing sectors for new investment in CBERA countries. However, traditional agricultural and raw material products continue to play a significant role in the region's economies. Figure 2-1 shows the composition of imports from CBERA beneficiaries in 1996.

Table 2-2 shows the 35 leading U.S. imports from CBERA countries during 1995-96 on an 8-digit Harmonized Tariff Schedule of the United States (HTS) subheading basis, ranked by their 1996 import value. Only a few of these leading import items—such as distillate and residual fuel oils, and apparel—are dutiable on an MFN basis. Others, specifically major U.S. import items from the region such as bananas and coffee, are MFN-duty-free goods. Still other items listed, while MFN-dutiable, are eligible for CBERA tariff preferences.⁵

Total U.S. imports of fresh and dried bananas from CBERA countries—principally Costa Rica, Honduras, Guatemala, and Panama—increased 11.6 percent in 1996. Imports rose in both quantity and value. However, U.S. imports of bananas from other CBERA countries, and from major non-CBERA

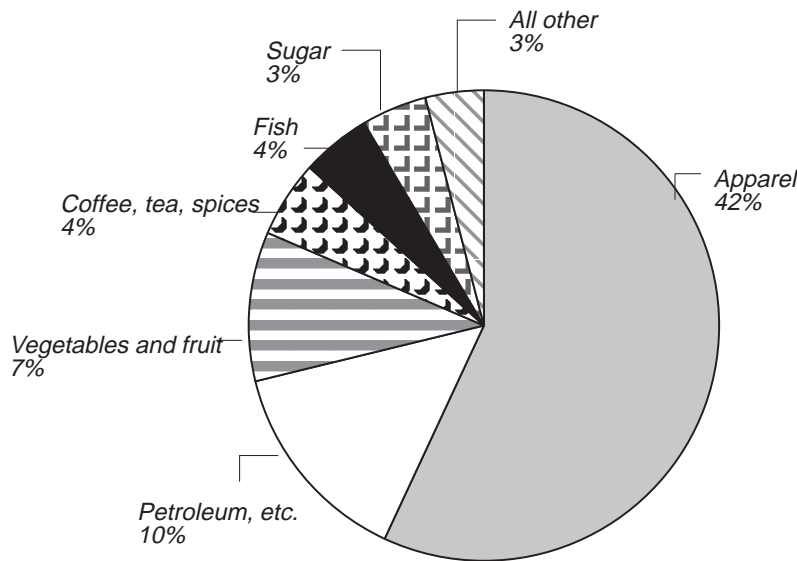
sources, generally declined. The explanation may be the expansion of large U.S.-based banana production and distribution companies in the Central American part of the region. Also, a larger supply may have been available for the United States from the Central American countries as a result of the import quotas and distribution restrictions the European Union (EU) imposed as part of its preferential system for former European colonies in Africa, the Caribbean, and the Pacific (ACP countries).⁶

The value of U.S. imports of crude petroleum and refined petroleum products from CBERA countries—Aruba, Netherlands Antilles, and Guatemala—surged in 1996, principally because of significant increases in the price of crude oil late in the year. Imports from Trinidad and Tobago, the largest CBERA petroleum product exporter and the only CBERA country with economically recoverable

⁶ Although bananas from CBERA countries enter the United States free of duty, they are controversial in U.S.-Caribbean relations. Certain CBERA countries—Belize, Jamaica, St. Lucia, St. Vincent and the Grenadines, Dominica, and Grenada—benefit from the banana regime of the EU, which entered into force on July 1, 1993, favoring bananas from former European colonies in ACP countries over cheaper “dollar bananas” from Central and South America. The EU regime also limited the amount of bananas that could be distributed from non-ACP sources by traditional operators, mainly U.S. companies. Caribbean beneficiaries of the EU preferences claim that, if such preferences cease, they cannot maintain their world market share in open competition with cheaper fruit from other sources. For more about WTO dispute-settlement procedures that took place in this matter, see USITC, *The Year in Trade: OTAP, 1996*, USITC publication 3024, Apr. 1997, p. 93.

⁵ See also table 2-5.

Figure 2-1
Composition of imports from CBERA countries, 1996



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

resources, rebounded in 1996, following a sharp decline in 1995.⁷

The value of U.S. green coffee imports from CBERA countries—including Guatemala and Honduras—declined in 1996 by 17.8 percent, reflecting lower world prices of coffee.⁸ The total quantity of imports increased from marketing year 1994/95 to marketing year 1995/96.⁹ Imports of coffee from Haiti and Panama fell, but these countries accounted for only a small portion of U.S. coffee imports from CBERA countries.

Many of the leading imports, including the top item (men's or boys' cotton trousers, breeches, and

shorts), were apparel articles. Others included raw sugar not containing added flavoring or color (hereinafter raw sugar); medical, surgical, or dental instruments and appliances (medical instruments); shrimps and prawns; anhydrous ammonia; footwear uppers other than formed, of leather (leather footwear uppers); cigars, cheroots, and cigarillos, each valued 23¢ or over (higher priced cigars); jewelry and parts of precious metal except silver (jewelry of precious metal); aluminum ores, concentrates, and oxides; and fish. The import value of most leading items increased in 1996.

Apparel

Apparel is the fastest growing category of U.S. imports from CBERA countries. Most apparel is not eligible for CBERA tariff preferences, but it does benefit from reduced duties under HTS 9802 production-sharing provisions,¹⁰ as well as from

⁷ USITC, *Caribbean Basin Economic Recovery Act: Impact on U.S. Industries and Consumers, Eleventh Report 1995*, USITC publication 2994, Sept. 1996, p. 8, and interview with industry representatives, May 21, 1997.

⁸ U.S. Department of Agriculture, *Tropical Products: World Markets and Trade*, December 1996, p. 22; and Economist Intelligence Unit, "Central American Market Prospects," *Business Latin America*, Apr. 14, 1997.

⁹ The marketing year for coffee is October through September in most countries.

¹⁰ The 9802 provision of the HTS provides a partial duty exemption for products assembled abroad of U.S.-fabricated components. In general, duty is assessed only on the value added abroad (essentially the cost of stitching the apparel parts together).

Table 2-2
Leading U.S. imports for consumption from CBERA countries, 1995-96
(1,000 dollars, customs value)

HTS item	Description	1995	1996
6203.42.40	Men's or boys' trousers, breeches and shorts, not knitted, of cotton	823,333	788,478
0803.00.20	Bananas, fresh or dried	630,059	703,234
2710.00.05	Distillate and residual fuel oils (including blends), testing under 25 degrees API	247,072	625,607
6109.10.00	T-shirts, singlets, tank tops and similar garments, of cotton	459,249	604,434
0901.11.00	Coffee, not roasted, not decaffeinated	568,608	467,563
6205.20.20	Men's or boys' shirts, not knitted or crocheted, of cotton	452,395	384,304
9801.00.10	U.S. goods returned without having been advanced in value or improved in condition while abroad	304,656	348,930
6110.20.20	Sweaters, pullovers, and vests, knitted or crocheted, of cotton	287,750	346,565
6204.62.40	Women's or girls' trousers, breeches and shorts, of cotton	281,014	339,420
1701.11.10 ¹	Raw sugar not containing added flavoring or color	185,460	330,775
9018.90.80	Medical, surgical, or dental instruments and appliances	302,434	327,302
6212.10.90 ²	Brassieres, not of lace or silk	346,610	293,135
0306.13.00	Shrimps and prawns, cooked in shell or uncooked, live, fresh, chilled, frozen, dried, or salted in brine	257,892	273,638
2814.10.00	Anhydrous ammonia	293,301	264,321
2710.00.10	Distillate and residual fuel oils (including blends), testing over 25 degrees API	173,835	250,040
6105.10.00	Men's or boys' shirts, knitted or crocheted, of cotton	163,845	239,503
6406.10.65	Footwear uppers, other than formed, of leather	191,759	202,005
6108.21.00	Women's or girls' briefs and panties, knitted or crocheted, of cotton	182,342	200,940
6107.11.00	Men's or boys' underpants and briefs, knitted or crocheted, of cotton	112,957	172,684
2402.10.80	Cigars, cheroots, and cigarillos, each valued 23¢ or over	76,445	159,468
2710.00.25	Naphthas (except motor fuel or motor fuel blending stock)	130,589	151,394
6203.43.40	Men's or boys' trousers, breeches and shorts, not knitted, synthetic fibers	140,541	146,157
2709.00.20	Petroleum oils and oils from bituminous minerals, crude, testing under 25 degrees API	264,236	142,396
7113.19.50	Jewelry and parts of precious metal except silver, except necklaces and clasps	148,478	140,386
6204.31.20	Women's or girls' suit type jackets and blazers, of wool	94,283	126,124
6115.11.00	Panty hose and tights, knitted or crocheted	119,020	123,987
2606.00.00	Aluminum ores and concentrates	119,079	120,945
2710.00.15	Motor fuel derived from bituminous minerals	18,431	108,692
6108.22.90 ³	Women's or girls' briefs and panties of manmade fibers, not disposable	126,225	105,523
0306.11.00	Rock lobster and other sea crawfish, cooked in shell, frozen	108,115	98,741
2818.20.00	Aluminum oxide, except artificial corundum	78,153	91,017
1707.11.20	Other sugar to be used for the production (other than distillation) of polyhydric alcohols	19,048	89,533
6110.30.30	Sweaters, pullovers, and vests, knitted or crocheted, of manmade fibers	58,337	88,848
6104.62.20	Women's or girls' trousers, breeches and shorts, knitted or crocheted, of cotton	82,858	85,960
2709.00.10	Petroleum oils and oils from bituminous minerals	38,540	83,123
	Total of above items	7,886,951	9,025,186
	Total all commodities	12,550,118	14,544,809

¹ Prior to Jan. 1, 1995, reported under statistical annotations under HTS subheading 1701.11.01.

² Prior to Jan. 1, 1995, reported under HTS items 6212.10.20.10/20/40.

³ Prior to Jan. 1, 1995, reported under HTS items 6108.22.00.20/30.

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

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

preferential market access under “guaranteed access levels” (GALs) for CBERA suppliers.¹¹ Apparel imports grew from 5.5 percent of overall U.S. imports from the region in 1984 to 41 percent in 1996, valued at \$6 billion. Over 80 percent of apparel imports from CBERA countries in 1996 entered under the HTS 9802 tariff provision. During 1987-96, apparel shipments from CBERA countries more than quadrupled, increasing at an average rate of 21 percent per year—the fastest among all suppliers.¹²

CBERA countries compete with one another and with Mexico for assembly work from U.S. apparel firms. Both CBERA countries and Mexico offer competitively priced labor to perform labor-intensive sewing operations, and their proximity to the United States provides U.S. firms with greater management and quality control over production, shorter lead times, and lower transportation costs than would Asian operations. The proximity of the Caribbean and Mexico also enables U.S. firms to use Quick Response (QR) programs¹³ that they have developed with their retail customers.

U.S. apparel firms shipped garment parts valued at \$5.3 billion to these countries for sewing in 1996, nearly double the amount in 1993 and \$810 million more than in the previous year.¹⁴ The principal garments assembled in production-sharing operations are trousers and shorts, shirts and blouses, foundation garments, underwear, coats and jackets, and babies’ apparel.

Competition between CBERA countries and Mexico in the U.S. market has changed since NAFTA went into force in 1994. In the 3 years before NAFTA became effective, U.S. apparel imports from CBERA

countries and Mexico rose at similar rates of around 26 percent per year. However, during the 3-year period after NAFTA went into force (1994-96), apparel imports from CBERA countries grew by just 15 percent per year, while imports from Mexico increased by 44 percent per year.¹⁵ In 1996, U.S. apparel imports from the CBERA countries rose by 11 percent, representing the smallest increase since 1990.

Although most CBERA countries separately are small suppliers of apparel, as a group they are the second largest U.S. source, accounting for 14.6 percent of the total value of such imports in 1996. Individually, China led all countries in 1996, supplying 15.3 percent of total U.S. imports of apparel, followed by Hong Kong (9.6 percent) and Mexico (8.8 percent).¹⁶

The accelerated growth of Mexican apparel shipments to the United States during 1994-96 compared with those of CBERA countries is generally attributed to the preferential tariff treatment accorded under NAFTA to Mexican goods. Apparel assembled in Mexico from “fabric wholly formed and cut in the United States” enters free of duty and quota under NAFTA (under the so-called “fabric forward” NAFTA rule of origin). In 1996, such apparel represented 88 percent of the total value of imports of apparel from Mexico. Meanwhile, such garments from CBERA countries enter under GALs, but they are subject to duty on the value added offshore.¹⁷ Growth of imports from Mexico was also facilitated by the significant depreciation of the Mexican peso beginning in December 1994, which effectively reduced assembly costs of garments in Mexico and, in turn, reduced the price of Mexican goods in the U.S. market.¹⁸

U.S. apparel firms have achieved a high level of efficiency in assembling basic garments in Mexico and CBERA countries under production-sharing provisions.¹⁹ Imports of underwear from the CBERA

¹¹ The rapid growth of Caribbean apparel shipments to the United States followed the institution of the special access program for CBERA countries in 1986. Although not a part of CBERA, this program provides CBERA countries with guaranteed access to the U.S. market for apparel assembled in participating countries from “fabric wholly formed and cut in the United States.”

¹² Data shown are for imports of apparel and textiles as published by the Office of Textiles and Apparel, U.S. Department of Commerce, in their monthly report, *Major Shippers Textiles and Apparel, by Category and by Country*. Apparel represents over 98 percent of the value of U.S. imports of textiles and apparel from the Caribbean countries.

¹³ QR programs use computers to speed the flow of goods, services, and information between segments of the industry chain, linking apparel producers with textile suppliers and retailers. Adoption of innovative technology by U.S. apparel firms underscores the growing importance of QR as a competitive tool to lower costs and improve services. For further information on QR, see USITC, *Industry & Trade Summary: Apparel*, USITC publication 2853, Jan. 1995.

¹⁴ Compiled by USITC staff from official statistics of the U.S. Department of Commerce.

¹⁵ Ibid.

¹⁶ Ibid.

¹⁷ For every \$10 f.o.b. value, a typical CBERA garment entered under the HTS 9802 provisions contains \$6.40 in duty-free U.S. components and \$3.60 in dutiable foreign value-added. Applying the 1996 trade-weighted tariff for apparel of 16.7 percent to the foreign value-added yields an average duty of \$0.60, or an ad valorem equivalent of 6.0 percent for CBERA garments.

¹⁸ See separate section on NAFTA parity, below. Legislation was introduced in the 104th Congress to provide NAFTA parity for textiles and apparel from CBERA countries, as well as for other articles presently not eligible for preferential treatment under CBERA, however, no action was taken during the 104th Congress.

The 105th Congress is considering legislation in 1997 to provide NAFTA parity to CBERA countries.

¹⁹ U.S. imports of apparel from Mexico and CBERA countries under the production-sharing provisions have increased significantly in several product categories. Approximately two-thirds of the volume of U.S.

countries and Mexico under HTS 9802 have shown the greatest growth. As a result, the administration issued “calls”²⁰ to Costa Rica, the Dominican Republic, El Salvador, Honduras, Colombia, Thailand, and Turkey in March 1995 for the purpose of establishing quotas on imports of their underwear products.

The administration subsequently dropped the case against Thailand and reached agreements with all other countries, except Costa Rica. The United States and Costa Rica held consultations, but the consultations did not result in a mutually agreeable solution. The United States referred the matter to the Textile Monitoring Body (TMB), a special body established under the World Trade Organization (WTO) Agreement on Textiles and Clothing (ATC) to supervise implementation of the ATC and examine measures taken under the ATC. The TMB could not reach a consensus on the dispute, and after further consultations that failed to resolve the matter, Costa Rica invoked the dispute settlement provisions of the WTO Understanding on Rules and Procedures Governing the Settlement of Disputes. This was the first textile dispute brought before the WTO.²¹ A WTO dispute settlement panel was formed, and the panel recommended that the United States immediately remove the import quota it placed on Costa Rican underwear in March 1995 because it found that the United States had failed to demonstrate that the U.S. industry had suffered, or was threatened

¹⁹—Continued

producers’ shipments of foundation garments and underwear in 1996 consisted of articles assembled offshore and entered under those provisions. In addition, imports under these provisions in 1996 accounted for a growing share of domestic shipments of trousers (46 percent), shirts and blouses (31 percent), and babies’ apparel (57 percent).

²⁰ Calls are issued by the Committee for the Implementation of Textile Agreements (CITA) requesting consultation with the exporting country through diplomatic note to impose a quota. In issuing a call, CITA relies heavily on the Office of Textiles and Apparel’s recommendation, which is based primarily on two factors: a surge in imports and a decline in domestic production. Once the exporting country receives the note, the two governments have 60 days to consult. No quota is put in place during the consultation period.

²¹ World trade in textiles and apparel is now governed by the WTO Agreement on Textiles and Clothing (ATC), which entered into force on January 1, 1995. The ATC replaced the Multifiber Arrangement (MFA), which had governed world textile and apparel trade since 1974. The MFA permitted the use of quotas without compensation, contrary to the general prohibition against their use under the General Agreement on Tariffs and Trade (GATT). Under the ATC, textiles and apparel will be “integrated” into the GATT regime over a 10-year period in three stages.

with, serious damage caused by those imports.²² This recommendation was affirmed by the WTO Appellate Body.²³ The unilateral quotas imposed on Costa Rican underwear in early 1995 were in effect for 2 years while the dispute was being investigated. With the decision of the WTO dispute settlement panel, unilateral restraint levels established on Costa Rican underwear were allowed to expire in March 1997.

Dutiability

Table 2-3 shows that U.S. tariff revenue from imports from CBERA countries (calculated duties) amounted to \$530.1 million in 1996, compared with \$484.7 million in 1995; such revenue was seven times as high as in 1984, the first CBERA year. In addition, the average rate of duty has increased since CBERA has been operative from 1.6 percent ad valorem in 1984 to 11.6 percent ad valorem in 1996.

This series of reports has consistently documented the increase in U.S. tariff revenue from imports from CBERA countries, and the rise in the average effective rate of duty from the region. These developments are attributed to the shift in the product mix away from lower duty items such as petroleum products and toward higher duty goods such as apparel.²⁴ However, in 1996 the average rate of duty dipped slightly for the first time in many years, from 12.3 percent in 1995 to 11.6 percent, as the share of higher duty apparel products declined and the share of lower duty petroleum products increased.

Since 1986, the dutiable share of annual U.S. imports from CBERA countries has been about one-third of the total.²⁵ Table 2-4 breaks down total U.S. imports from CBERA countries between 1994 and 1996 into their dutiable and duty-free portions; figure 2-2 illustrates the distinction graphically. In 1996, at 31.4 percent, the dutiable share was somewhat higher than in 1995, reflecting, in part, the absence of GSP through three quarters of the year. However, it was lower than in 1994, even though imports entering under reduced-duty CBERA provisions were unchanged at 0.3 percent,²⁶ and those under production-sharing provisions declined.

²² United States, *Restrictions on Imports of Cotton and Man-made Fibre Underwear, Report of the Panel*, WT/DS 24/R, Nov. 1996.

²³ United States, *Restrictions on Imports of Cotton and Man-made Fibre Underwear, AB-1996-3, Report of the Appellate Body*, WT/DS 24/AB/R, Feb. 1997.

²⁴ See more on this trend in USITC, *Impact of the Caribbean Basin Economic Recovery Act on U.S. Industries and Consumers: The First Ten Years of CBERA, Ninth Report 1993*, USITC publication 2813, Sept. 1994.

²⁵ *Ibid.*, table 1-6, p. 16.

²⁶ Handbags, luggage, flat goods, work gloves, and leather apparel are available for a staged 20-percent duty reduction, as explained in chapter 1.

Table 2-3
Dutiable value, calculated duties, and average duty on U.S. imports for consumption from CBERA countries, 1984 and 1994-96

Item	1984	1994	1995	1996
Dutiable value ¹ (1,000 dollars)	4,567,416	3,730,777	3,911,365	4,568,539
Dutiable value as a share of total imports (percent)	52.8	33.3	31.2	31.4
Calculated duties ¹ (1,000 dollars)	75,293	429,491	484,650	530,118
Average duty ² (percent)	1.6	11.5	12.3	11.6

¹ Dutiable value and calculated duties exclude the U.S. content entering under HTS heading 9802.00.80 and subheading 9802.00.60. Data based on product eligibility corresponding to each year.

² 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 CBERA countries, by duty treatment, 1994-96

Item	1994	1995	1996
	<i>1,000 dollars, customs value</i>		
Total	11,200,280	12,550,118	14,544,989
Dutiable value ¹	3,730,777	3,911,365	4,568,539
Production sharing ²	1,347,019	1,671,731	1,878,840
CBERA reduced duty ³	31,938	37,385	43,373
Other dutiable	2,351,820	2,202,248	2,646,326
Duty-free value ⁴	7,469,503	8,638,753	9,976,450
MFN ⁵	2,514,726	3,107,980	3,065,042
Production sharing ⁶	2,391,420	2,954,177	3,304,510
CBERA ⁷	2,018,220	2,224,022	2,747,682
GSP ⁸	375,686	260,110	163,659
Other duty free ⁹	169,451	92,464	695,557
	<i>Percent of total</i>		
Total	100.0	100.0	100.0
Dutiable value ¹	33.3	31.2	31.4
Production sharing ²	12.0	13.3	12.9
CBERA reduced duty ³	0.3	0.3	0.3
Other dutiable	21.0	17.6	18.2
Duty-free value ⁴	66.7	68.8	68.6
MFN ⁵	22.4	24.8	21.1
Production sharing ⁶	21.3	23.5	22.7
CBERA ⁷	18.0	17.7	18.9
GSP ⁸	3.4	2.1	1.1
Other duty free ⁹	1.5	0.7	4.8

¹ Dutiable value excludes the U.S. content entering under HTS heading 9802.00.80 and subheading 9802.00.60.

² Value of Caribbean Basin-origin value added, under HTS heading 9802.00.80 and subheading 9802.00.60.

³ Value of imports of handbags, luggage, flat goods, work gloves, and leather apparel subject to 20-percent duty reductions under CBERA between 1992 and 1996.

⁴ Calculated as total imports less dutiable value.

⁵ Value of imports which have a col. 1 general duty rate of free.

⁶ Value of nondutiable exported and returned U.S.-origin products or components, under HTS heading 9802.00.80 and subheading 9802.00.60.

⁷ Reduced by the value of MFN duty-free imports and ineligible items and the value of reduced-duty items (handbags, luggage, flat goods, work gloves, and leather wearing apparel) reported separately above as dutiable.

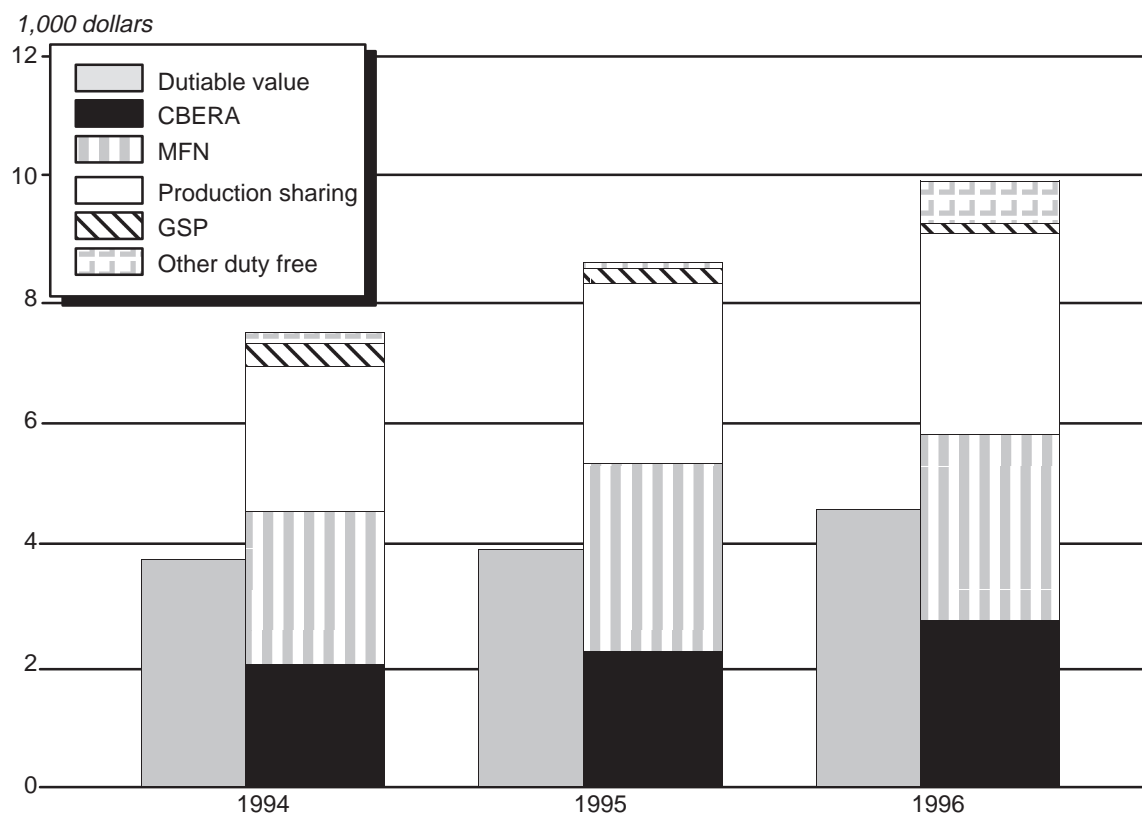
⁸ Reduced by the value of MFN duty-free imports and ineligible items.

⁹ Calculated as a remainder, and represents imports entering free of duty under special rate provisions.

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

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

Figure 2-2
U.S. imports for consumption from CBERA countries, by categories of duty treatment, 1994-96



Source: Based on data contained in table 2-4.

Duty-Free Imports

As table 2-4 shows, more than two-thirds of total U.S. imports from CBERA countries entered in 1996 free of duty under one of the following provisions: (1) unconditionally free under MFN (column 1 general tariff rates) (21.1 percent of total imports); (2) conditionally free under GSP (1.1 percent); (3) conditionally free under chapter 98 of the HTS, i.e., under production-sharing provisions (22.7 percent); (4) conditionally free under CBERA (18.9 percent); or (5) under other provisions (4.8 percent).

The 1.1-percent GSP share in 1996, down from 2.1 percent in 1995, was the lowest since CBERA was implemented. This share has been declining through the years because products eligible for duty-free entry under either GSP or CBERA increasingly have entered under CBERA. The total absence of the GSP program for the first three quarters of 1996 further depressed the share of entries under GSP during the year under review.²⁷

²⁷ GSP was reinstated on October 1, 1996, but lapsed again on May 31, 1997. See chapter 1.

Prior to 1996, the U.S. content portion in total duty-free imports from CBERA countries reentering U.S. customs territory under production-sharing provisions showed a continued long-term increase, paralleling that in total dutiable imports from these countries. However, in 1996 for the first time, both the dutiable portion and the returning duty-free U.S. content declined. This development appears to reflect an apparent diversion of CBERA production-sharing textile and apparel operations to U.S.-Mexican production sharing.²⁸

Imports Under CBERA

Another important duty-free category in 1996 was CBERA itself. U.S. imports afforded duty-free entry under CBERA amounted to \$2.7 billion in 1996. The share of total imports from CBERA countries that entered duty free under CBERA reached a record 18.9

²⁸ See earlier section on apparel. For more detail on U.S.-Caribbean production sharing prior to 1996, see USITC, *Production Sharing: Use of U.S. Components and Materials in Foreign Assembly Operations, 1992-1995*, USITC publication 3032, Apr. 1997, pp. 2-5 through 2-9.

percent, at least partly because the absence of GSP for the better part of 1996 prompted exporters to step up claims for duty-free treatment under CBERA.²⁹ The duty-free CBERA portion of total imports was 17.7 percent in 1995, 18.5 percent in 1993 (the previous record), and just 6.7 percent in the first year of the program.³⁰

Leading Items

Table 2-5 shows the 20 leading items that entered under CBERA provisions in 1995 and 1996, ranked by their 1996 import value. The table also shows the principal CBERA supplier of each product in 1996.³¹ Raw sugar became the number one item on the list, replacing footwear uppers of leather, which moved to second. Miscellaneous manufactured products and nontraditional agricultural items dominated the list, indicating the success of Caribbean nations in diversifying their exports in accordance with the objectives of CBERA.

Imports of several items increased in 1996, especially imports of raw sugar and other sugar products.³² Entries of raw sugar under CBERA almost doubled, accounting for almost three-fourths of all 1996 raw sugar imports from CBERA countries. The surge was in response to increased U.S. demand for sugar, which translated into larger quotas. Supplying CBERA countries included the Dominican Republic (the leading Caribbean source), Belize, Guatemala, Guyana, El Salvador, Jamaica, and Panama. Raw sugar was the number one CBERA item from Jamaica, Panama, and Belize. Sugar to be used in the production of polyhydric alcohols (Costa Rica, El Salvador, Guatemala, and Nicaragua) and cane molasses (Guatemala, El Salvador) were also important entries under CBERA in 1996.

Other Caribbean items posting significant gains under CBERA in 1996 included higher-priced cigars, methanol (methyl alcohol), cantaloupes and other melons, pineapples, parts for use with switches for electrical apparatus, and printed circuit assemblies for telephonic apparatus.³³ Following years of

considerable growth, imports of leather footwear uppers, which were the leading import item under CBERA in 1995, edged up by only 4.3 percent in 1996.³⁴ Some previously leading imports under CBERA provisions declined in 1996, including jewelry, medical and surgical instruments, fresh and frozen beef, and electrothermic hair dryers.

The CBERA utilization ratio, calculated as the ratio of duty-free imports entered under CBERA to the CBERA-eligible portion of total imports (i.e., imports not excluded from CBERA benefits or not already eligible for MFN duty-free entry), provides an estimate of the extent to which the CBERA provisions have been used. This ratio, which was 33.6 percent in the first year of the program³⁵ and has been increasing steadily ever since, was 66.4 percent in 1996 (table 2-6).

U.S. Imports under CBERA by Countries

In 1996, the Dominican Republic and Costa Rica continued to be the leading CBERA suppliers, as they have been virtually each year since the program became effective (table 2-7 and figure 2-3). These two countries combined have been responsible for more than one-half of total annual U.S. imports under CBERA since 1989;³⁶ in 1996, they provided 56.9 percent of the total. They were the leading source of 15 out of the 20 top items entering under CBERA provisions shown in table 2-5. Guatemala ranked as the third leading CBERA supplier in 1996, as it has each year since 1989.³⁷ Honduras ranked fourth in both 1995 and 1996, followed by Trinidad and Tobago.

The ranking of other CBERA beneficiaries changed in 1996. Nicaragua became the sixth largest CBERA supplier as its exports under CBERA of gold articles and sugar rose, moving Jamaica to seventh place. Guyana moved to 10th place in 1996 from 14th in 1995 because of increased entries of sugar and plywood products, and Belize moved to 12th place from 15th in 1995 as its exports of sugar products and orange juice rose. The Bahamas, which had been fourth as recently as 1993, ranked consistently lower each year; it was 14th in 1996.

Table 2-8 lists the leading U.S. imports entered under CBERA from each of the beneficiaries in

²⁹ Only in the last quarter of 1996 could some of these imports have entered duty free under GSP. Imports that benefited exclusively under CBERA are discussed in chapter 3.

³⁰ USITC, *CBERA, Ninth Report 1993*, p. 18.

³¹ Total imports from CBERA countries of several of these products also appear in table 2-2.

³² For a detailed discussion of imports of raw sugar entered under CBERA provisions and their impact on the U.S. industry, see USITC, *CBERA, Ninth Report 1993*, pp. 48-49.

³³ Imports of higher-priced cigars, cantaloupes and other melons, and pineapples entered under CBERA provisions and their impact on the U.S. industry are discussed in chapter 3 of this report.

³⁴ For additional discussion of imports of this product entered under CBERA provisions and their impact on the U.S. industry, see USITC, *CBERA, Ninth Report 1993*.

³⁵ For data concerning the earlier years of CBERA, see USITC, *CBERA, Ninth Report 1993*, table 1-10, p. 19.

³⁶ *Ibid.*, table 1-14, p. 27.

³⁷ *Ibid.*

Table 2-5
Leading U.S. imports for consumption entered under CBERA, 1995-96

HTS item	Description	1995		1996		Leading CBERA source ²
		Entries under CBERA	Share of total imports ¹	Entries under CBERA	Share of total imports ¹	
		<i>1,000 dollars³</i>	<i>Percent</i>	<i>1,000 dollars³</i>	<i>Percent</i>	
1701.11.10	Raw sugar not containing added flavoring or color	127,475	68.7	240,394	72.6	Dominican Republic
6406.10.65	Footwear uppers, other than formed, of leather	186,753	97.4	194,789	96.4	Dominican Republic
2402.10.80	Cigars, cheroots, and cigarillos, each valued 23¢ or over	74,815	97.9	154,950	97.1	Dominican Republic
7113.19.50	Jewelry and parts of precious metal except silver, except necklaces and clasps	142,386	95.9	134,610	95.8	Dominican Republic
9018.90.80	Medical, surgical, or dental instruments and appliances	119,831	39.6	80,475	24.5	Dominican Republic
1701.11.20	Other sugar to be used for the production (other than distillation) of polyhydric alcohols	9,289	48.7	76,022	84.9	Guatemala
2905.11.20	Methanol (methyl alcohol), except for use in synthetic natural gas or for direct use as fuel	40,849	57.7	67,144	99.4	Trinidad and Tobago
0807.19.20	Cantaloupes if entered during the period from Sept. 16 through July 31	(4)	(4)	62,912	98.7	Costa Rica
7213.91.30	Bars and rods hot-rolled, not tempered or treated	(5)	(5)	60,491	93.6	Trinidad and Tobago
2207.10.60	Undenatured ethyl alcohol for nonbeverage purposes	54,139	89.6	59,905	100.0	Jamaica
0302.69.40	Fresh or chilled fish, including sable, ocean perch, snapper, grouper, and monkfish	34,963	95.8	45,738	98.5	Costa Rica
0804.30.40	Pineapples, fresh or dried, not reduced in size, in crates or other packages	35,240	94.3	43,017	97.2	Costa Rica
8538.90.80	Other parts for use solely with electrical switching apparatus of HTS headings 8535, 8536, or 8537	37,201	89.9	41,320	91.1	Dominican Republic
0202.30.50	Frozen boneless beef, except processed	45,293	99.0	37,359	98.1	Costa Rica
8516.31.00	Electrothermic hair dryers	42,923	86.3	36,829	85.2	Costa Rica
8517.90.36	Printed circuit assemblies for telephonic apparatus for switching or terminal apparatus nesi.	0	0.0	35,938	95.7	Costa Rica
8536.20.00	Automatic circuit breakers, for a voltage not exceeding 1,000 V ..	34,725	90.6	33,975	88.8	Dominican Republic
1703.10.50	Cane molasses nesi	14,936	58.6	33,886	86.4	Guatemala
0201.30.50	Fresh or chilled boneless beef except processed	51,598	99.9	33,403	99.8	Costa Rica
8536.50.80	Switches for electrical apparatus for voltage not exceeding 1,000 V, excluding motor starter	31,892	91.9	32,236	91.5	Dominican Republic
	Total of above items	1,084,307	76.6	1,505,393	78.9	
	Total, all items entered under CBERA	2,261,407	18.0	2,791,055	19.1	

¹ Value of imports entered under CBERA provisions as a share of total imports of this item from all CBERA beneficiaries. A share of 100.0 percent indicates that all of the imports of an item entered under CBERA provisions. As indicated in the text, a portion of some items may have entered under other provisions.

² Based on total U.S. imports for consumption from the region during 1996.

³ Customs value.

⁴ Prior to Jan. 1, 1996, reported under statistical annotations under HTS subheading 0807.10.20.

⁵ Prior to Jan. 1, 1996, reported under statistical annotations under HTS subheading 7213.30.30.

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 2-6
CBERA eligibility and utilization regarding U.S. imports for consumption, 1992-96

Item	1992	1993	1994	1995	1996
Eligible duty-free under CBERA ¹ (1,000 dollars)	2,819,213	3,033,597	3,250,004	3,476,025	4,136,293
Duty-free under CBERA ² (1,000 dollars)	1,498,556	1,865,544	2,018,220	2,224,022	2,747,682
CBERA utilization ratio ³ (percent)	53.15	61.49	62.09	63.98	66.42

¹ Calculated as total imports from CBERA countries (table 2-1) minus imports not eligible for CBERA duty-free entry minus MFN duty-free imports (table 2-4).

² From table 2-4.

³ Utilization ratio = (duty-free entries/eligible entries) * 100.

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

Table 2-7
U.S. imports for consumption under CBERA provisions, by sources, 1994-96

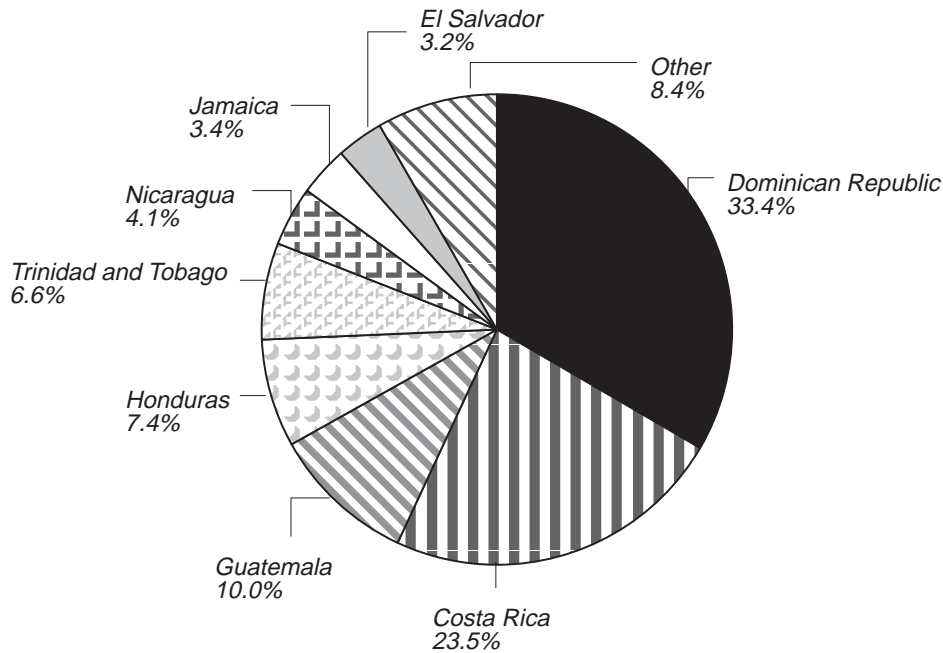
Rank	Source	1994	1995	1996	1996 share of total
		———— 1,000 dollars, customs value ————			Percent
1	Dominican Republic	751,028	845,356	932,413	33.4
2	Costa Rica	478,109	527,715	657,127	23.5
3	Guatemala	171,381	168,466	279,768	10.0
4	Honduras	139,838	156,839	207,289	7.4
5	Trinidad and Tobago	142,901	144,247	184,895	6.6
6	Nicaragua	80,554	78,543	116,007	4.1
7	Jamaica	69,316	87,329	95,965	3.4
8	El Salvador	41,126	68,550	91,254	3.2
9	Panama	35,141	39,357	51,352	1.8
10	Guyana	13,100	17,409	32,285	1.1
11	Haiti	15,770	26,521	30,223	1.0
12	Belize	13,112	16,676	24,760	(1)
13	Barbados	21,313	23,042	23,089	(1)
14	The Bahamas	45,062	22,854	20,765	(1)
15	St. Kitts and Nevis	17,220	18,776	19,241	(1)
16	St. Lucia	6,077	6,503	7,129	(1)
17	Netherlands Antilles	3,214	4,468	4,357	(1)
18	Montserrat	886	1,488	3,962	(1)
19	St. Vincent and the Grenadines	1,299	2,527	3,580	(1)
20	Dominica	2,112	2,200	2,204	(1)
21	Antigua	809	1,683	1,615	(1)
22	Grenada	768	724	1,007	(1)
23	British Virgin Islands	11	12	631	(1)
24	Aruba	12	114	138	(1)
	Total	2,050,158	2,261,407	2,791,055	100.0

¹ Less than 1.0 percent.

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

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

Figure 2-3
U.S. imports for consumption under CBERA, by principal sources, 1996



Source: Based on data in table 2-7.

1996.³⁸ Imports from the Dominican Republic increased by 10.3 percent to \$932.4 million in 1996 as greatly increased imports of sugar and cigars offset lower imports of many other leading items. Imports of sugar almost doubled and imports of cigars did double in 1996, making these items the second largest and third largest entries, respectively, under CBERA. Major sugar imports from the Dominican Republic in the last 2 years were in response to greater U.S. demand and expanded quotas.

Imports of leather footwear uppers, consistently the leading item entered under CBERA from the Dominican Republic, increased slightly in 1996 to \$176.2 million, after a drop in 1995 from their peak level of \$206.0 million in 1994.³⁹ The Dominican

Republic also ships non-CBERA-eligible, higher-value-added finished footwear to the United States. Imports of jewelry made from precious metal, the fourth leading import item, also stopped rising after 1994. Imports dropped somewhat during the year under review, as have entries of medical instruments under CBERA. The Dominican Republic was the leading CBERA supplier for all items mentioned above.

In Costa Rica, the benefits conferred by the program are widely recognized: CBERA is considered an important investment and export incentive for nontraditional items and, indeed,

³⁹—Continued
 information, see USITC, *CBERA, Ninth Report 1993*, p. 7. According to the Statement of the Rubber and Plastic Footwear Manufacturers Association of April 21, 1997, “The effect of the CBI duty-free treatment on rubber footwear and slippers is best illustrated by import figures compiled by the ITC. The ITC’s Non-Rubber Footwear Statistical Report for the year 1990 showed total imports from the Caribbean of fabric-upper footwear with rubber or plastic soles of approximately 200,000 pairs. The comparable report for 1996 shows an increase in that volume to 12,800,000 pairs.”

Table 2-8
Leading U.S. imports for consumption entered under CBERA, by sources, 1996

Source	HTS item	Description	Imports	
			1,000 dollars	Share of source's total CBERA imports Percent
Antigua	9114.90.30	Assemblies and subassemblies for clock movements	1,299	80.4
	0302.69.40	Fish, nesi, excluding fillets, livers and roes, fresh	275	17.0
		Total	1,574	97.4
Aruba	3305.90.00	Preparations for use on hair, nesi	62	45.1
	4818.40.40	Sanitary napkins and tampons, diapers and diaper linings	59	43.1
		Total	121	88.2
The Bahamas	3812.30.60	Antioxidizing preparations and other compound stabilizers from rubber or plastic nesi	15,795	76.1
	0805.40.80	Grapefruit, fresh or dried	1,107	5.3
	0509.00.00	Natural sponges of animal origin	1,077	5.2
	Total	17,980	86.6	
Barbados	8533.31.00	Electrical wirewound variable resistors	9,233	40.0
	9032.89.60	Automatic regulating or controlling instruments	5,531	23.9
	9030.90.85	Instruments, apparatus for measuring or checking electrical quantities nesi	1,757	7.6
	2208.40.00	Rum and tafia	1,221	5.3
	6306.31.00	Sails for boats, sailboards or landcraft	1,184	5.1
	Total	18,928	81.9	
Belize	2009.11.00	Orange juice, frozen, unfermented	11,690	47.2
	1701.11.10	Raw sugar not containing added flavoring or color, pursuant to provisions	4,293	17.3
	1702.90.35	Invert molasses	4,080	16.5
	Total	20,063	81.0	
British Virgin Islands	1703.90.50	Molasses nesi	391	62.0
	8511.90.60	Parts nesi of electrical ignition or starting equipment	116	18.4
	Total	507	80.4	
Costa Rica	7113.19.50	Articles of jewelry and parts of precious metal, nesi	43,984	6.7
	8516.31.00	Electrothermic hair dryers	36,829	5.6
	8517.90.36	Printed circuit assemblies for telephonic apparatus nesi	35,906	5.4
	9018.90.80	Instruments and appliances for electro-medical, surgical, dental and other, nesi	35,661	5.4
	0804.30.40	Pineapples, fresh or dried, not reduced in size, in crates	33,886	5.2
	0807.19.20	Cantaloupes if entered during the period from Sept. 16 through July 31	27,720	4.2
	4016.93.50	Articles of vulcanized rubber other than hard rubber	25,839	3.9
	2207.10.60	Undenatured ethyl alcohol, of 80%	18,724	2.8
	0201.30.50	Meat of bovine animals fresh or chilled, boneless	18,504	2.8
	0202.30.50	Meat of bovine animals frozen, boneless	18,460	2.8
	0302.69.40	Fish, nesi, excluding fillets, livers and roes, fresh	17,664	2.8
	1701.11.20	Sugar to be used in the production (except distillation) of polyhydric alcohols	16,796	2.7
	9506.69.20	Baseballs and softballs	13,956	2.6
	8533.40.80	Variable resistors, incl. rheostats, potentiometers nesi	12,591	2.1
	0714.10.20	Cassava (manioc) other than frozen	12,132	1.9
	4202.21.90	Handbags, with or without shoulder straps valued over \$20 ¹	10,986	1.8
	2009.11.00	Orange juice, frozen, unfermented	10,840	1.7
	0714.90.10	Fresh dasheens, whether or not sliced	9,434	1.6
	9018.39.00	Medical and dental instruments and appliances nesi	9,017	1.4
	0603.10.80	Cut flowers and flower buds	8,914	1.3
	0709.90.10	Chayote, fresh or chilled	8,293	1.3
	3926.90.98	Unrooted cuttings and slips of live plants	7,847	1.2
	0714.90.20	Fresh yams, whether or not sliced	7,359	1.2
	0602.10.00	Unrooted cuttings and slips of live plants	7,321	1.1
	0807.19.70	Ogen and galia melons if entered from Dec. 1 to the following May 31	7,225	1.1

Table 2-8-Continued
Leading U.S. imports for consumption entered under CBERA, by sources, 1996

Source	HTS item	Description	Imports	
			1,000 dollars	Share of source's total CBERA imports Percent
Costa Rica—Continued				
	2008.99.13	... Banana pulp, otherwise prepared or preserved, nesi ..	7,079	1.1
	9113.10.00	... Watch straps, watch bands and watch bracelets	6,703	1.0
	0603.10.70	... Chrysanthemums, standard carnations, anthuriums ...	6,022	0.9
	4418.20.80	... Wooden doors and their frames and thresholds, nesi ..	6,016	0.9
	8505.19.00	... Permanent magnets nesi	5,840	0.9
	9403.70.40	... Furniture of reinforced or laminated plastics	5,743	0.9
		Total	493,306	75.1
Dominica	3401.11.50	... Soap, nesoi, organic surface active products	1,784	80.9
	6406.10.65	... Footwear uppers, other than formed, of leathers	155	7.1
	0709.60.40	... Fruits of the genus capsicum (peppers), nesi	99	4.5
		Total	2,038	92.5
Dominican Republic	6406.10.65	... Footwear uppers, other than formed, of leather	176,208	18.9
	1701.11.10	... Raw sugar not containing added flavoring or color, pursuant to provisions	103,807	11.1
	2402.10.80	... Cigars, cheroots, and cigarillos	100,726	10.8
	7113.19.50	... Articles of jewelry and parts of precious metal, nesi ...	87,124	9.3
	9018.90.80	... Instruments and appliances for electro-medical, surgical, dental and other, nesi	43,981	4.7
	8538.90.80	... Molded parts nesi	40,416	4.3
	8536.20.00	... Automatic circuit breakers	33,975	3.6
	3924.90.55	... Curtains and drapes including panels and valences, nesi	15,326	1.6
	8536.50.80	... Electrical apparatus for switching or protecting circuits	14,769	1.6
	8531.90.80	... Parts for electric sound or visual signaling apparatus ..	14,386	1.5
	8531.80.80	... Paging alert devices nesi	13,005	1.4
	4202.12.80 ¹	... Trunks, suitcases, occupational luggage	12,848	1.4
	8305.20.00	... Staples in strips	11,816	1.3
	8536.90.00	... Electrical apparatus nesi, for switching	11,504	1.2
	2106.90.99	... Food preparations, nesi	10,183	1.1
	6210.10.20	... Garments not knitted or crocheted	9,980	1.0
		Total	699,882	75.1
El Salvador	1701.11.10	... Raw sugar not containing added flavoring or color	24,654	27.0
	2207.10.60	... Undenatured ethyl alcohol, of 80% alcohol, nonbeverage use	14,932	16.3
	8534.24.00	... Ceramic dielectric fixed capacitors, multilayer	5,965	6.5
	4819.40.00	... Sacks and bags, nesoi, including cones, of paper	5,382	5.9
	1701.11.20	... Sugar used in production of polyhydric alcohols	4,480	4.9
	6204.69.90	... Women's or girls' trousers, bib and brace overalls	2,892	3.2
	1703.10.50	... Cane molasses nesi	2,735	3.0
	1701.99.10	... Cane or beet sugar and chemically pure sucrose in solid form nesi	2,469	2.7
	8504.31.40	... Electrical transformers, nesi	2,420	2.6
	7615.19.70	... Cooking and kitchen ware, not enameled or glazed nesi	1,996	2.2
	0807.19.70	... Ogen and galia melons if entered from Dec. 1 to the following May 31	1,496	1.6
		Total	69,425	76.0
Grenada	9018.90.80	... Instruments and appliances for electro-medical, surgical, dental and other, nesi	603	59.9
	0809.40.40	... Plums, prunes and sloes, fresh	121	12.0
		Total	724	71.9
Guatemala	1701.11.10	... Raw sugar not containing added flavoring or color, pursuant to provisions	51,645	18.4
	1701.11.20	... Sugar used in production of polyhydric alcohols	39,129	14.0
	0710.80.97	... Other frozen vegetables reduced in size	17,086	6.1
	0807.19.20	... Cantaloupes if entered during the period from Sept. 16 through July 31	14,830	5.3

Table 2-8—Continued
Leading U.S. imports for consumption entered under CBERA, by sources, 1996

Source	HTS item	Description	Imports	
			1,000 dollars	Share of source's total CBERA imports Percent
Guatemala—Continued				
	3401.11.50	... Soap, nesi; organic surface-active products	13,448	4.8
	1703.10.50	... Cane molasses nesi	11,506	4.1
	2401.20.85	... Unmanufactured tobacco, threshed or similarly processed	10,868	3.9
	6910.10.00	... Ceramic sanitary fixtures, of porcelain or china	8,897	3.1
	2921.43.15	... Trifluralin	8,147	2.9
	4203.30.00	... Belts and bandoliers with or without buckles, of leather	8,037	2.9
	1209.30.00	... Seeds of herbaceous plants	6,878	2.5
	0603.10.60	... Roses, fresh cut	6,256	2.2
	0807.19.70	... Ogen and galia melons if entered from Dec. 1 to the following May 31	4,071	1.5
	0708.10.40	... Peas, fresh or chilled, shelled or unshelled	3,527	1.3
	2106.90.83	... Food preparations nesi	3,489	1.2
	0802.90.90	... Nuts, nesi, shelled or unshelled	3,409	1.2
		Total	211,223	75.5
Guyana	4412.13.30	... Plywood with at least one outer ply of tropical wood nesi	9,420	29.2
	1701.11.10	... Raw sugar not containing added flavoring or color, pursuant to provisions	6,627	20.5
	4412.14.30	... Plywood with at least one outer ply of nonconiferous wood, kalopanax, mahogany	5,602	17.3
	4412.29.35	... Plywood with at least one outer ply of nonconiferous wood, spanish cedar, walnut	3,627	11.2
		Total	25,277	78.2
Haiti	0804.50.40	... Guavas, mangoes, and mangosteens, fresh, if entered 9/1-5/31	3,626	12.0
	4106.19.20	... Goat or kidskin leather, wet blues	2,751	9.1
	6116.10.44 ¹	... Gloves, mittens and mitts (excl. ski/snowmobile)	2,566	8.4
	4203.30.00	... Belts and bandoliers with or without buckles, of leather	1,970	6.5
	4104.31.50	... Upper and sole leather of bovine except buffalo	1,893	6.3
	9506.69.20	... Baseballs and softballs	1,872	6.2
	6210.10.50	... Nonwoven disposable apparel designed for hospital use	1,824	6.0
	7326.90.85	... Articles of iron or steel, nesi	1,731	5.7
	0804.50.60	... Guavas, mangoes, and mangosteens, fresh, if entered any other time	1,399	4.6
	8504.90.95	... Printed circuit assemblies, ferrites nesi	1,180	3.9
	8544.51.80	... Insulated electric conductors nesi	975	3.2
	4420.10.00	... Wooden statuettes and other wood ornaments	489	1.6
	7013.99.50	... Glassware used for toilet, office, indoor decoration	469	1.5
		Total	22,248	75.3
Honduras	2402.10.80	... Cigars, cheroots, and cigarillos	36,048	17.3
	6210.10.50	... Nonwoven disposable apparel designed for hospital use	18,876	9.1
	6406.10.65	... Footwear uppers, other than formed, of leather	15,736	7.6
	0807.19.20	... Cantaloupes if entered during the period from Sept. 16 through July 31	13,247	6.3
	9403.60.80	... Wooden (except bent-wood) furniture other than seats	8,198	4.0
	4421.90.98	... Articles of wood, pencil slats nesi	7,053	3.4
	3923.21.00	... Sacks and bags (including cones)	6,891	3.3
	9403.50.90	... Wooden furniture other than seats	6,866	3.3
	2009.11.00	... Orange juice, frozen, unfermented	6,661	3.2
	9603.90.80	... Brooms and brushes nesi, mops, hand-operated	6,611	3.2
	0804.30.40	... Pineapples, fresh or dried, not reduced in size, in crates	6,350	3.0
	0201.30.50	... Meat of bovine animals fresh or chilled, boneless	5,698	2.7
	9506.69.20	... Baseballs and softballs	5,523	2.7
	1701.11.10	... Raw sugar not containing added flavoring or color, pursuant to provisions	5,223	2.5

Table 2-8-Continued
Leading U.S. imports for consumption entered under CBERA, by sources, 1996

Source	HTS item	Description	Imports		Share of source's total CBERA imports
			1,000 dollars	Percent	
Honduras—Continued					
	0202.30.50	... Meat of bovine animals frozen, boneless	5,164		2.5
	0807.19.70	... Ogen and galia melons if entered from Dec. 1 to the following May 31	5,126		2.4
		Total	159,278		76.8
Jamaica	2207.10.60	... Undenatured ethyl alcohol, 80% alcohol, nonbeverage use	26,249		27.3
	1701.11.10	... Raw sugar not containing added flavoring or color, pursuant to provisions	10,661		11.1
	2402.10.80	... Cigars, cheroots, and cigarillos	8,676		9.0
	0714.90.20	... Fresh yams, whether or not sliced	6,880		7.2
	2203.00.00	... Beer made from malt	5,476		5.7
	2208.40.00	... Rum and tafia	4,366		4.5
	2208.70.00	... Liqueurs and cordials	3,735		3.9
	0807.20.00	... Papayas (papaws), fresh	3,673		3.8
	8536.90.00	... Electrical apparatus nesi, for switching	3,481		3.6
		Total	73,198		76.3
Montserrat	8535.90.80	... Terminals, electrical splices and couplings	3,108		78.4
	8538.90.80	... Molded parts nesi	848		21.4
		Total	3,956		99.8
Netherlands Antilles					
	8524.51.30	... Magnetic tapes, width <4 mm, sound recordings nesi	901		20.7
	4818.10.00	... Toilet paper	790		18.1
	8544.60.20	... Electric conductors voltage > 1000 with connectors	705		16.1
	3507.90.70	... Enzymes; prepared enzymes nesi, excluding rennet	637		14.6
	8504.31.40	... Electrical transformers, nesi	330		7.6
		Total	3,364		77.2
Nicaragua	7115.90.10	... Articles of jewelry and parts of precious metal, nesi	15,230		13.1
	1701.11.20	... Sugar used in production of polyhydric alcohols	15,074		13.0
	0202.30.50	... Meat of bovine animals frozen, boneless	13,121		11.3
	7113.19.10	... Rope, curb, etc. continuous lengths, of precious metal	13,120		11.3
	1701.11.10	... Raw sugar not containing added flavoring or color, pursuant to provisions	13,059		11.3
	7115.90.30	... Articles of gold including metal clad with gold nesi	8,836		7.6
	2402.10.80	... Cigarettes containing tobacco, paper wrapped	8,836		7.6
		Total	87,278		75.2
Panama	1701.11.10	... Raw sugar not containing added flavoring or color, pursuant to provisions	11,891		23.1
	0302.69.40	... Fish, nesi, excluding fillets, livers and roes, fresh	11,730		22.8
	9603.90.80	... Brooms and brushes nesi, mops, hand-operated	3,321		6.5
	2402.20.80	... Cigarettes containing tobacco, paper wrapped	3,003		5.8
	2924.29.62	... Aromatic pesticides of cyclic amides, drugs nesi	2,770		5.4
	0807.19.70	... Ogen and galia melons if entered from Dec. 1 to the following May 31	2,670		5.2
	2402.20.10	... Cigarettes containing tobacco and clove	2,204		4.2
	0709.90.05	... Jicamas, pumpkins and breadfruit, fresh or chilled	1,695		3.3
		Total	39,284		76.5
St. Kitts and Nevis					
	8536.50.80	... Assemblies and subassemblies for clock movements	10,839		56.3
	8503.00.35	... Parts for motors under 18.65 W	2,122		11.0
	8503.00.95	... Fish, nesi, excluding fillets, livers and roes, fresh	1,341		7.0
	8529.90.39	... Printed circuits, without elements	1,340		7.0
		Total	15,643		81.3
St. Lucia	3926.90.98	... Unrooted cuttings and slips of live plants	1,555		21.8
	8533.21.00	... Electrical fixed resistors	1,300		18.2
	8525.10.20	... Transmission apparatus for television	1,258		17.6

Table 2-8—Continued
Leading U.S. imports for consumption entered under CBERA, by sources, 1996

Source	HTS item	Description	Imports	
			1,000 dollars	Share of source's total CBERA imports Percent
St. Lucia—Continued				
	8532.29.00	... Fixed electrical capacitors, nesi	1,109	15.6
	6307.90.40	... Cords and tassels made up of textile materials	464	6.5
		Total	5,688	79.7
St. Vincent and the Grenadines				
	7113.19.50	... Articles of jewelry and parts of precious metal, nesi	3,334	93.1
		Total	3,334	93.1
Trinidad and Tobago				
	2905.11.20	... Methanol (methyl alcohol)	67,143	36.3
	7213.31.30	... Bars and rods, hot-rolled, or iron or nonalloy steel	60,491	32.7
	2849.90.50	... Carbides, nesi	11,261	6.1
		Total	138,897	75.1

¹ Indicated articles are subject to the CBERA staged 20-percent duty reduction.

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

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

high-technology production and exports have increased sharply in recent years.⁴⁰ CBERA entries from Costa Rica were up by 24.5 percent in 1996, amounting to \$657.1 million. Printed circuit assemblies for telephonic apparatus, a new product of a highly automated process, became the third leading item during the year.⁴¹ Imports of medical instruments, the fourth leading item in both 1995 and 1996, also rose.

Other imports from Costa Rica that increased in 1996 included pineapples, the fifth leading item, as the Del Monte Co. developed a new type of very sweet and yellow pineapple in that country;⁴² and cantaloupes, the sixth leading item.⁴³ Costa Rica is the principal supplier under CBERA provisions of six items shown in table 2-5, including printed circuit assemblies, pineapples, cantaloupes, and fish.

Imports of some other leading Costa Rican items decreased during 1996. Jewelry of precious metal continued to be the leading CBERA import from Costa Rica in 1996, even though the value of such

entries declined somewhat from the levels in 1994 and 1995. Electrothermic hair dryers remained the second leading item despite a decrease in value from 1995. In addition, imports of fresh, chilled, and frozen beef were down, reflecting, in part, downward price adjustments Costa Rica (and other CBERA suppliers) made in competition with lower U.S. beef prices. Another reason was a decline in Costa Rican cattle inventories—a result of animal losses from floods during the summer.⁴⁴ Costa Rica is the leading CBERA supplier of beef.

Entries under CBERA from Guatemala surged to \$279.8 million, or by 66.1 percent, in 1996, following 2 consecutive years of decline. The principal cause was the increase in imports of two sugar products, of which Guatemala was the leading CBERA supplier (table 2-5), and of seasonal cantaloupes.

U.S. imports under CBERA from Honduras, at \$207.3 million, were up 32.2 percent, in large part because entries of higher-priced cigars—the leading import item—doubled in 1996. Cantaloupes, the fourth leading CBERA item, was the other major contributor to the growth of CBERA entries from Honduras during the year. Such imports of nonwoven disposable apparel designed for hospital use and footwear uppers also rose in 1996. By contrast, beef imports, once the leading CBERA item from Honduras, remained at a depressed level in 1996.

⁴⁰ Representatives of the public and private sectors, USITC staff interviews, San Jose, Costa Rica, May 19-20, 1997.

⁴¹ The producer, DSC Communications from Texas, began production in 1996.

⁴² For a detailed discussion of CBERA imports of pineapples and their impact on the U.S. industry, see USITC, *CBERA, Tenth Report 1994*, p. 35; and in chapter 3 below.

⁴³ Imports of cantaloupes and other melons entered under CBERA provisions and their impact on the U.S. industry are discussed in chapter 3 of this report.

⁴⁴ USDA, Foreign Agricultural Service (FAS), *Livestock Annual Situation*, CS6022, Aug. 6, 1996, p. 1.

Honduras had fewer animals to slaughter, and low beef prices in the Miami area—generally the principal market for Honduran beef—reduced the incentive to export.⁴⁵

CBERA entries from Trinidad and Tobago, which tripled in 1994 and edged up in 1995, rose in 1996 to \$184.9 million, or by 28.2 percent. Shipments of methanol (methyl alcohol), the first leading item, were up, accounting for 36.3 percent of total imports under CBERA from that country. Entries of hot-rolled bars and rods of iron or nonalloyed steel accounted for another 32.7 percent of the total. Trinidad and Tobago is one of the major producers of methanol in the world, and the leading CBERA source of both items (table 2-5). Carbides were responsible for most of the remainder.

U.S. imports under CBERA from other beneficiaries were up considerably in 1996, including Guyana (85.6 percent), Belize (48.4 percent), El Salvador (33.1 percent), and Panama (30.2 percent). Imports under CBERA from Guyana soared, owing principally to entries of plywood and sugar products. In 1996, sugar products played an important role in raising overall shipments under CBERA from Belize, El Salvador, and Panama. The increases in imports of orange juice from Belize and ethyl alcohol imports from El Salvador⁴⁶ are also worthy of note.

The shrinking of CBERA entries from The Bahamas continued in 1996, after a sharp drop both in 1994 and 1995. Declining shipments of aromatic drugs, as the producer shifted operations to Mexico, were the cause.⁴⁷

NAFTA Parity

Fearing that their economies stand to suffer from Mexico's preferred access to the U.S. market under NAFTA, leaders in the CBERA region have long urged passage of U.S. legislation providing CBERA countries treatment comparable to that accorded Mexico under the North American Free Trade Agreement. The concern over trade diversion was particularly acute in sectors, such as textiles and apparel and sugar, that remain subject to U.S. quotas and/or are ineligible for duty-free treatment under

⁴⁵ USDA, *Agricultural Situation Annual—Costa Rica* (Agr. No. CS5018), Sept. 3, 1995, p. 8, and Agr. No. HO5025, Sept. 29, 1995, p. 10.

⁴⁶ Imports of ethyl alcohol entered under CBERA provisions and their impact on the U.S. industry are discussed in chapter 3 of this report.

⁴⁷ For a detailed discussion of imports of certain aromatic drugs entered under CBERA provisions and their impact on the U.S. industry, see USITC, *CBERA, Ninth Report 1993*, pp. 46-47.

CBERA.⁴⁸ Shortly after passage of NAFTA implementing legislation in November 1993, President Clinton pledged to provide short-term relief to CBERA countries suffering fallout from NAFTA's implementation.

With recent years showing a slowing in CBERA export growth to the United States (see next section for details), attaining "NAFTA parity" has assumed greater urgency for Central American and Caribbean economies. Prior to NAFTA's entry into force, 30 percent of Costa Rica's export revenues were derived from exports of textiles and apparel, with a significant share (86 percent) destined for the U.S. market; since NAFTA's entry into force in 1994, new investments in the sector have "dropped off almost completely."⁴⁹ The fact that total net private capital inflows into the country fell by 52 percent from 1995 to 1996 has convinced some Costa Rican leaders that NAFTA parity is vital to the country's continued competitiveness.⁵⁰ Jamaica attributes the loss of 15 factories and 700 jobs in the apparel sector during 1996 to NAFTA, though rising costs, crime, and infrastructure bottlenecks may also have been factors.⁵¹ In El Salvador, virtually all of the apparel companies contacted in connection with this investigation reported that they had observed problems in exporting to the United States that they attributed to NAFTA.⁵² Commercial ties between the United States and Nicaragua since the 1990 lifting of the U.S. trade embargo have been crucial to that country's hopes of economic recovery, yet lack of NAFTA parity is seen as dampening their fast-growing expansion.⁵³

Indeed, Central American and Caribbean leaders argue that, despite the end of the Cold War, the United

⁴⁸ See, for example, "Central American Sugar Producers Worried About Mexico," *North American Free Trade and Investment Report*, Feb. 25, 1997, p. 13. Mexico recently became a net exporter of sugar, triggering NAFTA provisions that give it preferred access to the U.S. market.

⁴⁹ U.S. Department of State telegram, "Input for 1996 Report to Congress on CBERA: Costa Rica," message reference No. 3556, prepared by U.S. Embassy, San Jose, Aug. 29, 1996.

⁵⁰ U.S. Department of State telegram, "USITC Annual Caribbean Basic Investment Survey," message reference No. 1593, prepared by U.S. Embassy, San Jose, May 23, 1997.

⁵¹ U.S. Department of State telegram, "Economic/Political Week in Review: March 15-28, 1997," message reference No. 1519, prepared by U.S. Embassy, Kingston, Apr. 11, 1997.

⁵² U.S. Department of State telegram, "USITC Annual Caribbean Basin Investment Survey," message reference No. 2805, prepared by U.S. Embassy, San Salvador, July 2, 1997.

⁵³ U.S. Department of State telegram, "NAFTA Parity for CBI Nations - Nicaragua," message reference No. 3177, prepared by U.S. Embassy, Managua, Sept. 3, 1996.

States continues to have a vital interest in ensuring the economic viability of the region.⁵⁴ Most CBERA countries have seen some success in strengthening democratic governance and economic performance in recent years. U.S. involvement—in the form of trade preferences, private direct investment, aid, technical support, and diplomatic and military intervention—has been critical to these advances but has been diminishing in recent years.⁵⁵ The United States is by far the most important customer for most Central American and Caribbean exports, and the region's growth has underpinned rising sales of U.S. goods.⁵⁶ Moreover, much of the U.S. investment in and trade with the region represents coproduction by U.S. firms seeking to retain their edge in an increasingly competitive global market.

President Clinton has made improved hemispheric relations a priority in his second term, traveling to Central America, the Caribbean, and Mexico to meet with regional leaders during May 1997. In official statements released during those meetings—known as the Declaration of San Jose⁵⁷ and the Barbados Declaration of Principles and Plan of Action⁵⁸—President Clinton pledged to introduce legislation that would extend tariff preferences essentially equivalent to those Mexico receives under

⁵⁴ See, for example, “Caribbean Important to U.S.—Mullings,” *The Jamaica Gleaner*, June 19, 1997, which summarizes remarks by Jamaica's Deputy Prime Minister and Minister of Foreign Affairs and Foreign Trade, Seymour Mullings, before the West-Indian American Association in Detroit, Mich.

⁵⁵ See, for example, statement by Jamaican Ambassador Richard L. Bernal, submitted in connection with this investigation by Stephen Lamar, Director, Jefferson Waterman International, received June 30, 1997 and summarized in Appendix B. In his submission for the record, Ambassador Bernal stated that the single most important issue facing the Caribbean Basin countries is the lack of U.S. market access parity with Mexico for apparel articles. Additional views of Ambassador Bernal also appear in “From NAFTA to Hemispheric Free Trade,” *The Columbia Journal of World Business*, vol. 29, Fall 1994, pp. 22-31.

⁵⁶ For details see, USITC, *CBERA, Ninth Report 1993*.

⁵⁷ Issued at the summit of leaders from Central America, the Dominican Republic, and the United States in San Jose, Costa Rica, on May 8, 1997. U.S. Information Agency, Foreign Press Center, July 9, 1997. It included pledges to work jointly to intensify economic relationships among the participating nations—for example, by working towards reciprocal trade agreements and treaties on investment and intellectual property rights. “Open Skies” Agreements between the United States and Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua were also signed during the meeting.

⁵⁸ Issued at the May 10, 1997, conclusion of the first summit between a U.S. President and Caribbean heads of state.

NAFTA to all products that are currently excluded from the Caribbean Basin Initiative (CBI) program.⁵⁹ In doing so, he was responding to what has been termed a “clarion call” by Caribbean Basin leaders on the urgency of upgrading CBI benefits to NAFTA-equivalent levels.⁶⁰

The Clinton Administration Proposal

President Clinton submitted to Congress legislation to provide Caribbean Basin nations NAFTA parity. The administration's proposed legislation, transmitted on June 18, 1997,⁶¹ and introduced in the House and Senate several days later,⁶² would provide to CBERA beneficiaries treatment comparable to that accorded to Mexico under NAFTA in two stages. Beneficiaries deemed to be implementing their WTO obligations and participating in the process for concluding a Free Trade Agreement of the Americas (FTAA) would immediately become eligible for a 50-percent reduction in applicable duty rates for all products currently ineligible for CBERA duty-free treatment. In addition, quotas would no longer apply to textiles and apparel meeting rules of origin modeled on those found in NAFTA.

⁵⁹ Among other things, the Bridgetown Declaration also commits the United States to provide technical assistance toward implementation of Uruguay Round commitments and participation in the FTAA process; to create a mechanism for rapid consultation on trade-related issues; to establish plans for promoting bilateral trade, particularly in agriculture and services sectors; and to work with all concerned parties to achieve mutually satisfactory marketing arrangements for Caribbean bananas while ensuring establishment of a WTO-consistent European Union banana regime. The declarations, which also address matters such as fostering democracy, strengthening law enforcement, and improving environmental protection, create several followup mechanisms. Notably, there will be annual meetings among foreign ministers of the United States and the two regions as well as meetings among trade ministers. Both were billed by participants as the launch of a new U.S. partnership with the regions. Caribbean/United States Summit Plan of Action, Bridgetown, Barbados, May 10, 1997, at sections 1.1 to 1.11. The Plan of Action is summarized in “Partnership for A Prosperous and Secure Caribbean,” Fact Sheet issued by the White House, May 10, 1997. Both documents are available on the U.S. Information Agency's web site (<http://www.usia.gov>).

⁶⁰ NewsEDGE/IPS (Port of Spain), “Caribbean Politics: Time for Action in Caribbean,” May 12, 1997.

⁶¹ USTR, “Administration Submits CBI, GSP and Shipbuilding Trade Legislation to Congress,” press release 97-55, June 18, 1997.

⁶² The proposed legislation, entitled the United States-Caribbean Basin Trade Enhancement Act, was introduced in the House by Rep. Charles Rangel (D-NY) as H.R. 2096 on June 26, 1997, and introduced in the Senate by Sen. Bob Graham (D-FL) as S. 984 on June 27, 1997.

After 3 years, the President would be permitted to offer full NAFTA parity to CBERA partners, taking into consideration their performance on 11 aspects of trade, investment, and social policy. The criteria to be considered include market access, intellectual property rights protection, openness to foreign investment, respect for worker rights, protection of the environment, and cooperation with counternarcotics and anticorruption efforts. Progress in these areas would, the administration stated, better prepare these countries for participation in the FTAA, which is slated to be negotiated by 2005. The so-called CBERA Enhancement Program, as proposed, would remain in effect through 2005.

The House Ways and Means Proposal

The administration formally transmitted its bill to Congress after the Chairman of the House Ways and Means Committee, Bill Archer (R-TX), had included NAFTA-parity legislation in the tax portion of the budget reconciliation package passed by the House on June 26, 1997.⁶³ The Archer proposal provided for immediate extension of full NAFTA parity to CBERA beneficiaries without conditions but was initially limited to 1 year in duration (calendar year 1998). Like the administration proposal, it covered all textile and apparel products covered by NAFTA as well as all other products excluded from CBERA duty-free treatment. The NAFTA parity provision was not included in the Senate version of the bill nor the final legislation (H.R. 2014) signed into law by the President.

Reaction to the Proposals

The textile and apparel industries in the United States have been very vocal on NAFTA parity. NAFTA parity is seen by most major producer associations as a way to boost their sourcing options and competitiveness, particularly with the ongoing phaseout of textile and apparel quotas under the WTO Agreement on Textiles and Clothing set to be completed by 2005. However, some segments of the apparel industry, such as knitwear, oppose NAFTA parity in any form, fearing it will contribute to ongoing import-related declines in production and employment. Meanwhile, even supporters have found it difficult to agree on the details of a NAFTA parity plan. The American Apparel Manufacturers Association wants improved access for CBERA

⁶³ The NAFTA parity legislation was found at subtitle H of H.R. 2014 and was entitled the United States-Caribbean Trade Partnership Act of June 8.

suppliers to be largely modeled on NAFTA, whereas the American Textile Manufacturers Institute (ATMI) will only support NAFTA parity if the plan exempts from tariffs and quotas only those goods made from fabric cut and formed in the United States and of yarn spun in the United States. ATMI notes that CBERA and NAFTA parity are unilateral U.S. preferences. Thus, unlike Mexico under NAFTA, CBERA suppliers are not being required to provide anything in return for such improved U.S. market access.⁶⁴ Also, the two associations have disagreed over whether articles not meeting the rules of origin (e.g., goods made with foreign fabric) should be permitted to enter at reduced duties through so-called tariff-preference levels, as may NAFTA imports. ATMI claims that this will open the door to greater use of materials from the Far East.⁶⁵

The introduction of NAFTA parity legislation in 1997 raised hopes by Central American and Caribbean leaders that this enhancement of unilateral CBERA preferences would soon be acted upon. Even so, many acknowledged the need to move toward a more reciprocal commercial relationship⁶⁶ and recognized that passage of NAFTA parity is far from guaranteed.⁶⁷ Countries such as Barbados see NAFTA parity involving progressive domestic policy reform as a workable bridge to creation of an FTAA involving reciprocal liberalization throughout the hemisphere.⁶⁸ Even countries that consider themselves ready for NAFTA accession now, such as Costa Rica⁶⁹ and Trinidad and Tobago,⁷⁰ support NAFTA parity for its symbolic value in underlining U.S. commitment to the region.

⁶⁴ Under NAFTA, the “yarn forward” rule only applies to a limited number of products; generally the less stringent “fabric-forward” rule applies.

⁶⁵ Letter to the Honorable Bill Archer regarding CBI Parity/Budget Reconciliation from John C. Adams, President, American Textile Manufacturers Institute, June 13, 1997.

⁶⁶ Declaration of San Jose, p. 3.

⁶⁷ U.S. Information Agency, Office of Research and Media Reaction, “Foreign Media Reaction: Clinton in Central America, May 14, 1997.”

⁶⁸ See, for example, U.S. Department of State telegram, “Barbados Decides Against Pursuing NAFTA Style Agreement,” message reference No. 3266, prepared by U.S. Embassy, Bridgetown, Sept. 6, 1996.

⁶⁹ U.S. Department of State, “Input for 1996 Report to Congress on CBERA: Costa Rica,” message reference No. 3556, prepared by U.S. Embassy, San Jose, Aug. 29, 1996.

⁷⁰ U.S. Department of State, “Presidential Visit: Economic and Trade Agenda,” message reference No. 499, prepared by U.S. Embassy, Port of Spain, Mar. 25, 1997.

U.S. Imports from NAFTA and CBERA Partners

The Commission examined changes in the market shares of U.S. imports from CBERA, NAFTA, and the rest-of-the-world between 1991 and 1996. The import data showed that for those leading items⁷¹ where U.S. imports from CBERA partners and Mexico competed in the U.S. market prior to the agreement, the NAFTA share of U.S. imports increased after the agreement came into force on Jan. 1, 1994. The CBERA share of selected U.S. imports also increased, but by a smaller amount. The rest-of-the world share declined.⁷² (See figure 2-4.) For trade in all items, the trends between 1991 and 1996 showed that the annual growth, or percentage change, in the U.S. import share from CBERA countries remained positive but slowed, the growth in the NAFTA import share increased, and the growth in the rest-of-the-world import share became negative.

In 1993, 35 leading items accounted for approximately 83 percent of total U.S. imports from CBERA beneficiaries (table 2-9); in 1996, this group of products accounted for 82 percent. The value of U.S. imports from CBERA suppliers rose between 1993 and 1996 for all but 7 of the top 35 items. These 35 SIC categories ranged from fruits and tree nuts (SIC 0179), accounting for 10.9 percent of total U.S. imports from CBERA countries in 1993, to electric housewares and fans (SIC 3634), accounting for 0.46 percent. Of these 35 items, 13 were apparel products constituting approximately 40 percent of total U.S. imports from CBERA countries. Annual data on the value and share of total U.S. imports for these 35 items between 1991 and 1996 from CBERA, NAFTA, and the rest-of-the-world are shown in appendix D.

⁷¹ This analysis focused on U.S. import items from CBERA partners aggregated at the four-digit SIC level. The four-digit items selected for analysis accounted for a large portion of U.S. imports from CBERA countries prior to NAFTA's implementation. The Standard Industrial Classification (SIC) is the statistical classification standard used by the U.S. Government to report all establishment-based statistics categorized by industry. The system is intended to promote comparability of economic data across various U.S. sectors.

⁷² The 1993 and 1996 shares for these leading items were also examined by focusing solely on CBERA, Canadian, and Mexican shares of U.S. imports (i.e., non-rest-of-world sources). For this subset of import sources, the change in U.S. import shares between 1993 and 1996 showed a 3.5- and a 2-percentage-point decline in both the Canadian and CBERA shares, respectively. These declines were relative to a 5.5-percentage-point increase in the Mexican share.

Changes in U.S. Import Market Shares

The total U.S. import market shares for the selected 35 4-digit items during the period from 1991 to 1996 are shown in table 2-10. After 1992, the share of imports from the CBERA region and Mexico increased steadily, while Canada's share fluctuated. However, focusing on the rate of change, Mexico's share increased at a faster rate after NAFTA's inception than it had prior to its entry into force, while the rate of increase for U.S. imports from CBERA declined.⁷³ (See figure 2-5.) The total rest-of-the-world share of U.S. imports continually decreased over the 6-year period, from approximately 74 percent to about 69 percent, or by 7.2 percent.

The analysis also grouped the 35 items into three broad categories: apparel, agricultural, and other manufacturing items.⁷⁴ While the direction of share changes for the apparel and agricultural items is similar to the total trade trends in table 2-10, the trends in apparel are more pronounced (table 2-11 and figure 2-6; and table 2-12 and figure 2-7). In contrast, U.S. import shares of other manufacturing items showed more fluctuation, with CBERA and Canadian shares declining and Mexican and the rest-of-the-world shares increasing (table 2-13 and figure 2-8).

The rate of increase in U.S. import shares for CBERA and NAFTA sources was much higher for the apparel items than for overall imports. Similarly, U.S. imports of apparel from the rest-of-the-world declined at much higher rates than the overall trend. During the first 3 years of the NAFTA, CBERA's share of U.S. apparel imports did not decline. However, the rates of increase in U.S. imports from Mexico were

⁷³ A 1993 study by economists at the World Bank found that Caribbean countries could be categorized into two groups according to these countries' major export market: either the United States or Europe. The study projected that most of the NAFTA effects on CBERA exports to the United States would be concentrated to those Caribbean countries whose exports were primarily directed towards the United States. See Carlos Primo Braga, Geoffrey Bannister, and Alexander J. Yeats, "The Impact of NAFTA on U.S. Preferences Towards Latin American and the Caribbean," mimeo, World Bank, Washington, DC, Dec. 22, 1993. Using a similar approach, the Commission staff also separated U.S. imports from CBERA countries into three groups: (1) Caribbean countries with exports oriented towards the U.S. market; (2) Caribbean countries with exports oriented towards the European market; and (3) Central American countries with exports oriented towards the U.S. market. An examination of the three groups' U.S. import shares between 1991 and 1996 showed an increase in the Central American shares and a decline in the Caribbean shares.

⁷⁴ The three broad categories do not include the 2 mining items listed in table 2-9, crude petroleum and natural gas (SIC 1311) and metallic ores, n.e.c. (SIC 1099).

Figure 2-4
U.S. import shares of CBERA-competitive items¹ from NAFTA, CBERA, and the Rest-of-the-World, 1993 and 1996

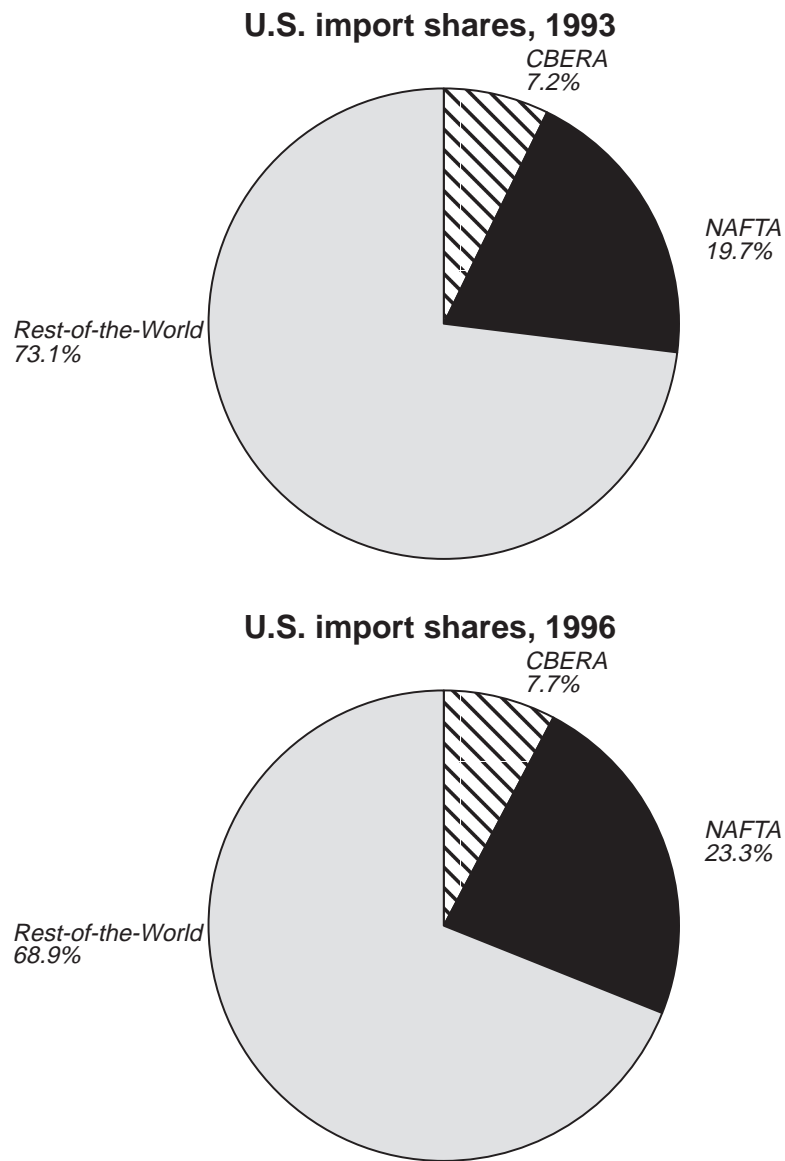


Table 2-9
Leading U.S. imports from CBERA countries, by four-digit SIC commodities , 1993 and 1996

SIC no.	Commodity	Customs value	
		1993	1996
		1,000 dollars	
	Total selected commodities	8,448,248	11,863,452
0179	Fruits and tree nuts, n.e.c.	919,038	1,264,135
2911	Petroleum refinery products	874,932	1,314,625
2325	Men's and boys' separate trousers and casual slacks	809,056	1,082,666
2369	Children's outerwear, n.e.c.	746,267	1,036,126
2321	Men's and boys' shirts	602,446	1,112,223
1311	Crude petroleum and natural gas	397,300	225,520
2337	Women's and misses' suits, skirts, and coats	333,819	412,953
2341	Women's, girls', and infants' underwear and nightwear	286,540	458,473
2342	Brassieres and allied garments	284,281	364,562
0913	Shellfish	281,926	386,467
2062	Beet and cane sugar, molasses, and byproducts	280,384	474,781
2322	Men's and boys' underwear and nightwear	240,924	660,643
3131	Boot and shoe cut stock and findings	213,265	214,984
2331	Women's and misses' blouses and shirts	210,726	235,485
2011	Meat products and meat packing products, except poultry	195,371	78,979
2833	Medicinals and botanicals	178,897	46,736
2819	Industrial inorganic chemicals, n.e.c.	175,391	378,443
1099	Metallic ores, n.e.c.	163,947	121,126
3841	Surgical and medical instruments and apparatus, n.e.c.	154,527	338,285
3911	Jewelry of precious metal	151,779	185,879
2311	Men's and boys' suits and coats, except raincoats	108,022	156,353
0161	Vegetables and melons	103,449	118,706
2252	Hosiery, except women's full and knee length hosiery	86,645	144,939
2869	Industrial organic chemicals, n.e.c.	73,621	156,710
2353	Hats, caps, and millinery	68,616	55,753
2037	Frozen fruits, fruit juices, and vegetables	64,854	82,443
0132	Tobacco	61,103	47,518
0912	Finfish	56,052	118,347
0139	Field crops, except cash grains, n.e.c.	51,402	92,876
2335	Women's and misses' dresses	50,800	121,153
2329	Men's and boys' clothing, n.e.c.	47,911	84,699
3678	Connectors for electronic applications	47,061	17,064
2121	Cigars	44,947	166,436
0181	Ornamental floriculture and nursery products	43,777	58,144
3634	Electric housewares and fans, n.e.c.	39,170	49,218

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

¹ Includes items listed in table 2-9.

Source: Compiled by USITC staff.

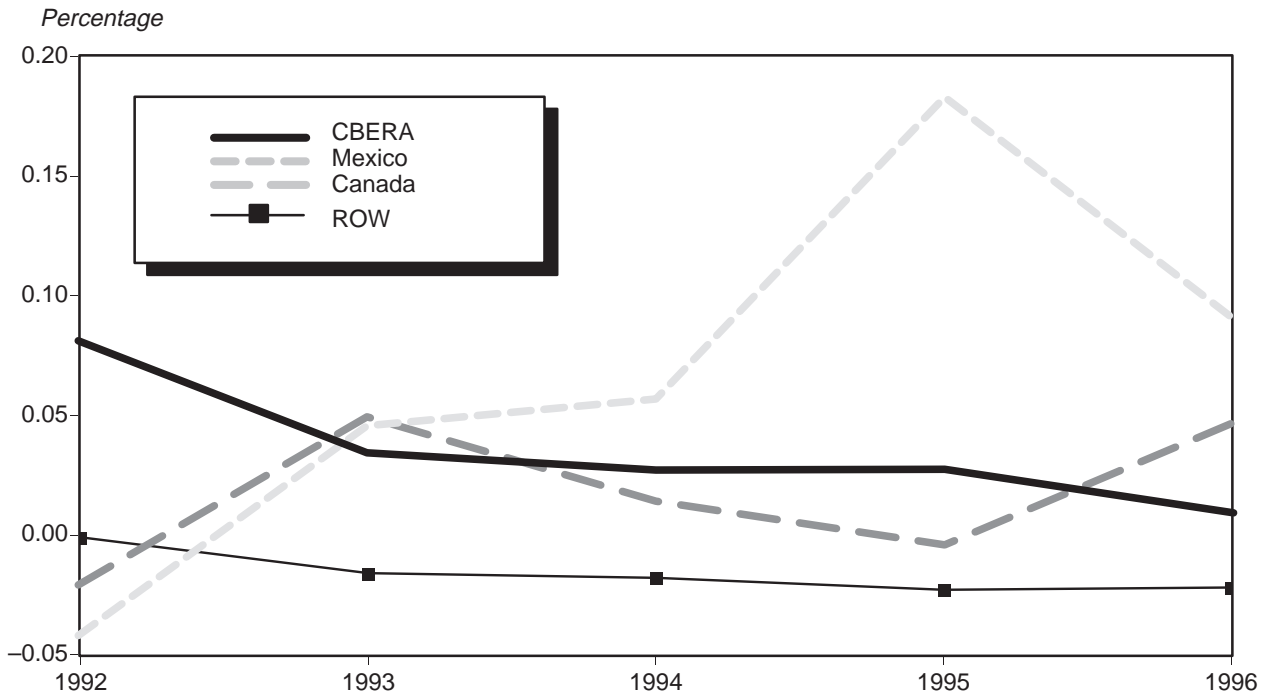
Table 2-10
Total U.S. import shares for 35 leading commodities from CBERA countries, NAFTA, and the Rest-of-the-World (ROW), 1991-96

Year	CBERA	Mexico	Canada	NAFTA	ROW
Import share (percent)					
1991	6.41	7.59	11.69	19.28	74.31
1992	6.95	7.28	11.46	18.74	74.30
1993	7.21	7.63	12.06	19.69	73.10
1994	7.42	8.09	12.25	20.34	72.24
1995	7.64	9.61	12.23	21.83	70.53
1996	7.73	10.50	12.83	23.34	68.94
Change in import share (percent)¹					
1991	NA	NA	NA	NA	NA
1992	8.43	-4.09	-1.94	-2.79	-0.01
1993	3.67	4.82	5.20	5.05	-1.62
1994	2.94	5.96	1.62	3.31	-1.18
1995	2.97	18.78	-0.24	7.32	-2.37
1996	1.12	9.36	4.96	6.90	-2.26

¹ Percentage change in import share from the previous year.

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

Figure 2-5
Percentage change in U.S. import shares¹ for leading commodities from CBERA countries, Mexico, Canada, and the rest-of-world, 1992-1996



¹ Percentage change in import share from the previous year.

Source: Based on data in table 2-10.

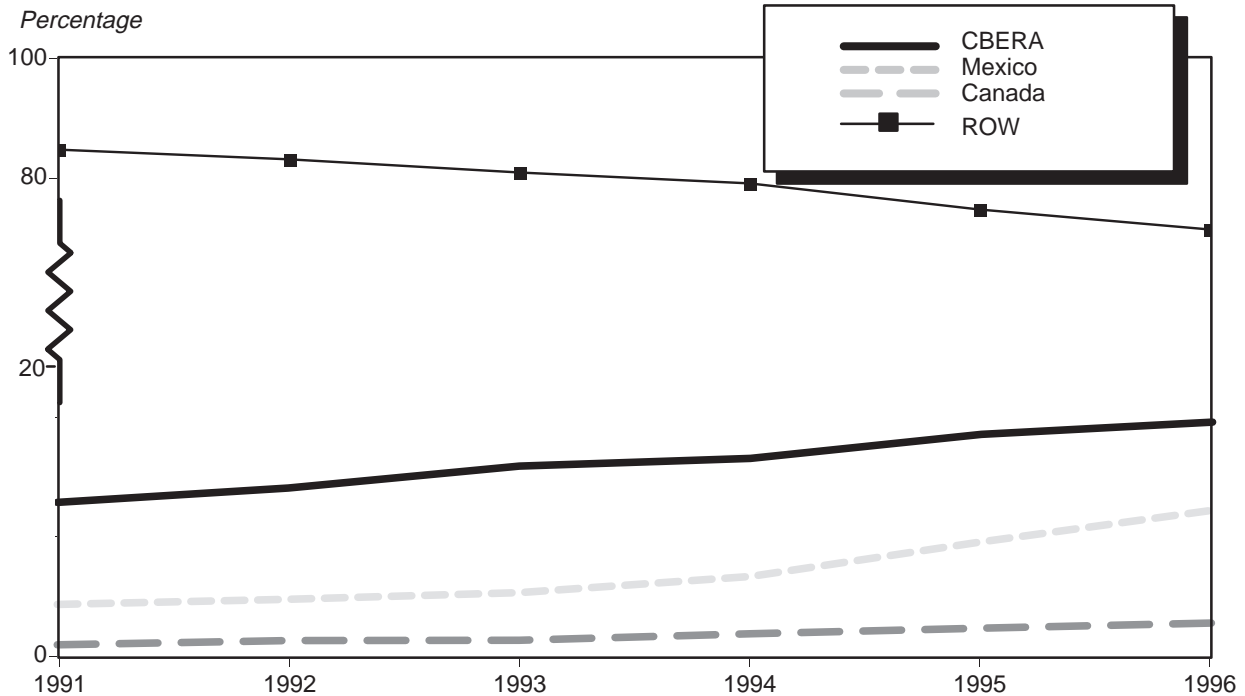
Table 2-11
Leading U.S. imports of apparel from CBERA, NAFTA, and the Rest-of-the-World (ROW), 1991-96

Year	CBERA	Mexico	Canada	ROW	Total
<i>Value (1,000 dollars)</i>					
1991	2,429,082	842,678	216,899	19,365,957	22,854,616
1992	3,169,340	1,103,830	337,509	22,691,796	27,302,475
1993	3,876,053	1,332,676	432,572	23,945,669	29,586,970
1994	4,387,104	1,801,783	547,339	25,483,677	32,219,903
1995	5,334,962	2,780,378	726,454	26,138,196	34,979,990
1996	5,926,028	3,714,914	893,487	26,288,275	36,822,704
<i>Import share (percent)</i>					
1991	10.63	3.69	0.95	84.74	100.0
1992	11.61	4.04	1.24	83.11	100.0
1993	13.10	4.50	1.46	80.93	100.0
1994	13.62	5.59	1.70	79.09	100.0
1995	15.25	7.95	2.08	74.72	100.0
1996	16.09	10.09	2.43	71.39	100.0
<i>Changes in share (percent)¹</i>					
1991	NA	NA	NA	NA	NA
1992	9.22	9.65	30.26	-1.92	NA
1993	12.86	11.41	18.27	-2.62	NA
1994	3.94	24.15	16.19	-2.27	NA
1995	12.01	42.14	22.25	-5.52	NA
1996	5.52	26.93	16.84	-4.46	NA

¹ Percentage change in import share from the previous year.

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

Figure 2-6
Import share of leading U.S. imports of apparel from CBERA, NAFTA, and the Rest-of-the- World, (ROW), 1991-96



Source: Based on data in table 2-11.

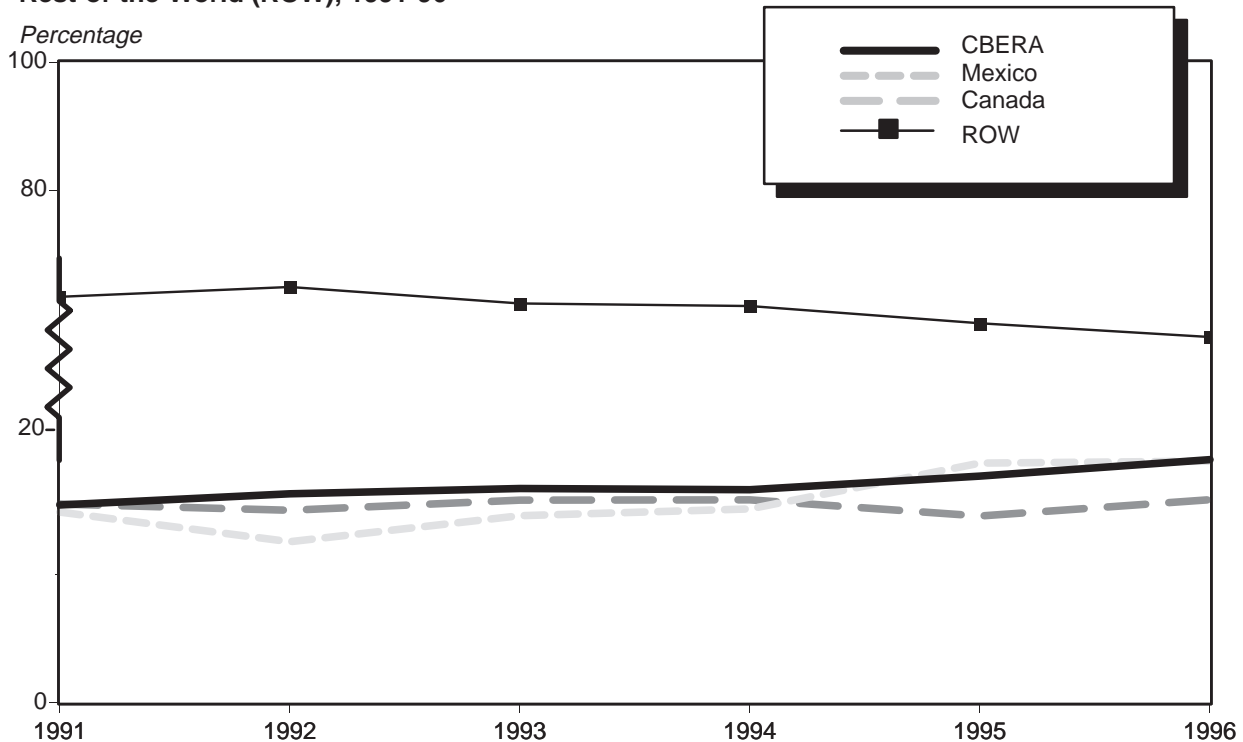
Table 2-12
Leading U.S. imports of agricultural products from CBERA, NAFTA, and the Rest-of-the-World (ROW), 1991-96

Year	CBERA	Mexico	Canada	ROW	Total
<i>Value (1,000 dollars)</i>					
1991	1,865,470	1,799,935	1,875,532	9,579,738	15,120,675
1992	2,028,583	1,563,594	1,867,737	10,095,095	15,555,009
1993	2,102,303	1,834,597	1,988,727	9,796,690	15,722,317
1994	2,243,773	2,041,550	2,136,146	10,445,501	16,866,970
1995	2,533,096	2,678,571	2,085,919	10,602,866	17,900,452
1996	2,888,832	2,870,187	2,411,189	10,866,214	19,036,422
<i>Import share (percent)</i>					
1991	12.34	11.90	12.40	63.36	100.00
1992	13.04	10.05	12.01	64.90	100.00
1993	13.37	11.67	12.65	62.31	100.00
1994	13.30	12.10	12.66	61.93	100.00
1995	14.15	14.96	11.65	59.23	100.00
1996	15.18	15.08	12.67	57.08	100.00
<i>Changes in share (percent)¹</i>					
1991	NA	NA	NA	NA	NA
1992	5.71	-15.56	-3.20	2.44	NA
1993	2.53	16.08	5.34	-3.99	NA
1994	-0.51	3.73	0.12	-0.61	NA
1995	6.38	23.63	-7.99	-4.35	NA
1996	7.24	0.76	8.70	-3.63	NA

¹ Percentage change in import share from the previous year.

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

Figure 2-7
Import share of leading U.S. imports of agricultural products from CBERA, NAFTA, and the Rest-of-the-World (ROW), 1991-96



Source: Based on data in table 2-12.

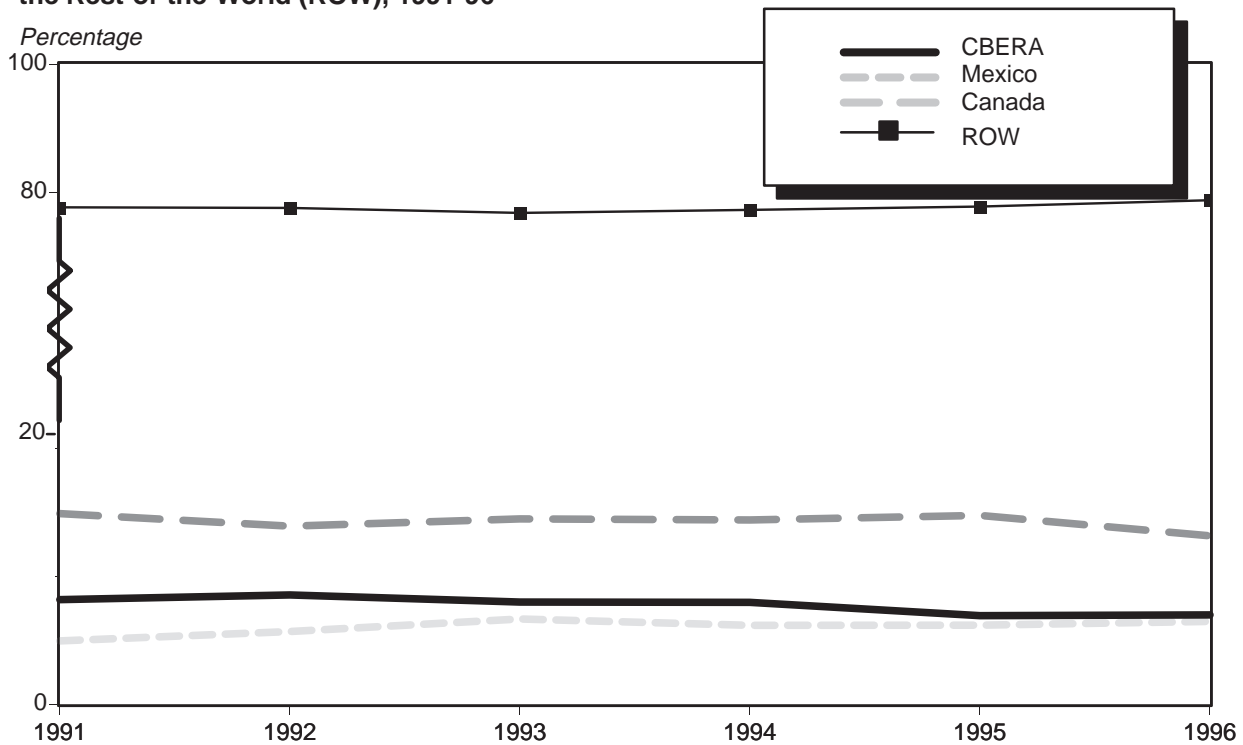
Table 2-13
Leading U.S. imports of other manufacturing products from CBERA, NAFTA, and the Rest-of-the-World (ROW), 1991-96

Year	CBERA	Mexico	Canada	ROW	Total
<i>Value (1,000 dollars)</i>					
1991	1,887,309	1,143,194	3,435,554	22,370,354	28,836,411
1992	2,025,195	1,348,299	3,298,658	22,969,650	29,641,802
1993	1,908,643	1,591,677	3,459,359	22,920,817	29,880,496
1994	2,040,652	1,579,643	3,687,070	24,716,377	32,023,742
1995	1,970,947	1,757,757	4,201,064	27,659,710	35,589,478
1996	2,701,944	2,508,540	5,093,907	38,106,828	48,411,219
<i>Import share (percent)</i>					
1991	6.54	3.96	11.91	77.58	100.00
1992	6.83	4.55	11.13	77.49	100.00
1993	6.39	5.33	11.58	76.71	100.00
1994	6.37	4.93	11.51	77.18	100.00
1995	5.54	4.94	11.80	77.72	100.00
1996	5.58	5.18	10.52	78.71	100.00
<i>Changes in share (percent)¹</i>					
1991	NA	NA	NA	NA	NA
1992	4.39	14.74	-6.59	-0.11	NA
1993	-6.51	17.11	4.03	-1.01	NA
1994	-0.24	-7.40	-0.55	0.62	NA
1995	-13.09	0.13	2.52	0.70	NA
1996	0.78	4.92	-10.86	1.28	NA

¹ Percentage change in import share from the previous year.

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

Figure 2-8
Import share of leading U.S. imports of other manufacturing products from CBERA, NAFTA, and the Rest-of-the-World (ROW), 1991-96



Source: Based on data in table 2-13.

from 3.5 to 6 times faster than in imports from CBERA partners. Nonetheless, CBERA beneficiaries continued to account for a greater share of U.S. apparel imports than did Mexico. U.S. import shares of apparel items experienced greater rates of change than agricultural or other manufacturing items during this period.

These results are consistent with those estimated in an earlier USITC report. In a 1992 USITC study,⁷⁵ the Commission conducted a partial-equilibrium simulation predicting the effects of NAFTA on U.S. consumption of six apparel products⁷⁶ from three different import sources: five CBERA countries as an aggregate,⁷⁷ Mexico, and the rest-of-the-world. Using

⁷⁵ USITC, *Potential Effects of a North American Free Trade Agreement on Apparel Investment in CBERA Countries*, USITC publication 2541, July 1992.

⁷⁶ (1) Men's and boys' cotton trousers, not knit; (2) men's and boys' cotton T-shirts, all white; (3) men's and boys' cotton knit shirts; (4) brassieres of manmade fibers, woven; (5) women's blouses of manmade fibers, woven; and (6) women's, girl's, and infants' suit-type jackets of manmade fibers, not knit.

⁷⁷ Costa Rica, Dominican Republic, Guatemala, Honduras, and Jamaica.

1991 as a base year, the NAFTA liberalization scenarios examined the effects of eliminating the effective U.S. tariffs (which ranged from 4.8 to 13.6 percent ad valorem) on each of the six Mexican products separately. The economic model estimated the potential trade shifts among Mexico, the combined CBERA countries, and the rest-of-the-world. The report provided two sets of estimates, low and high ranges, based on differing assumptions about domestic supply responses. In general, the trade diversion effects estimated for the selected CBERA countries were very small in percentage terms, with the largest decline equaling 1.4 percent of that product's exports to the United States.⁷⁸ In addition, the analysis found that, in volume terms, more trade was diverted from the rest of the world than from the selected CBERA countries for all but one of the six apparel items.⁷⁹

⁷⁸ The trade-diversion effects are proportionally related to the size of the tariff reductions and the U.S. market share of imports. Consequently, when these factors are small, the estimated changes will also be small. Since the estimates were prepared, both the value of U.S. imports of textiles and apparel from CBERA suppliers and the share of CBERA suppliers in the U.S. import market have risen sharply.

⁷⁹ The one item was men's and boys' cotton T-shirts.

CHAPTER 3

Impact of CBERA on the United States and Probable Future Effects

This chapter assesses two issues: the impact of the CBERA preference program on the United States in 1996 and the probable future effect of the program. In the impact analysis, items most affected by the CBERA preferences were identified and specific U.S. industries were examined. Information on investment in beneficiary countries was the main basis for the probable future effects section. Commission staff traveled to Costa Rica as part of this study.

Impact of CBERA on the United States in 1996

Since it was implemented in 1984, CBERA has had a minimal effect on the overall economy of the United States. In each year from 1984 through 1996, the value of CBERA duty-free U.S. imports has been around 0.035 percent or less of U.S. gross domestic product. As pointed out in chapter 2, the total value of U.S. imports from CBERA countries remained small in 1996, amounting to 1.8 percent of total U.S. imports.

Because most U.S. imports from CBERA countries can enter the United States free of duty at MFN rates or under GSP or are excluded from the program, the Commission focuses its analysis of the impact of CBERA on products that can enter free of duty or at reduced duties only under CBERA provisions. The material that follows in this section defines products that benefit exclusively from CBERA; presents quantitative estimates of the impact of CBERA on U.S. consumers, the U.S. Treasury, and U.S. industries whose goods compete with CBERA imports; and describes the U.S. imports that benefited exclusively from CBERA in 1996 and had the largest potential impact on competing U.S. industries. It also includes a separate discussion of those U.S. industries most affected by CBERA preferential treatment, both in 1996 and over the life of the CBERA program.

Products That Benefited Exclusively From CBERA in 1996

U.S. imports of products benefiting exclusively from CBERA are defined as those that enter under either CBERA duty-free or CBERA reduced-duty provisions and are not eligible to enter free of duty under MFN rates or under other provisions, such as GSP. Consistent with this definition, GSP-eligible items imported from CBERA countries that entered under CBERA provisions are considered to benefit exclusively from CBERA only (1) if they originated in a country that is not currently a designated GSP beneficiary, (2) if imports of the item from a certain country exceeded GSP competitive-need limits,¹ or (3) under circumstances described below.

During 1996 the U.S. GSP program was not operative from January 1 through September 30.² Consequently, articles eligible for GSP duty-free entry were subject to ordinary MFN duties during this period unless the articles were eligible to enter under another preferential program, such as CBERA, and were entered under that program. 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; therefore, products normally

¹ In 1996, Nicaragua and The Bahamas were the only CBERA countries that were not designated GSP-beneficiary countries.

A beneficiary developing country loses GSP benefits for an eligible product when U.S. imports of the product exceed either a specific annually adjusted value or 50 percent of the value of total U.S. imports of the product in the preceding calendar year—the so-called competitive-need limits. Sec. 504(c)(1) of the Trade Act of 1974, as amended. CBERA has no competitive-need limits. Thus, eligible products that are excluded from duty-free entry under GSP because their competitive-need limits have been exceeded can still receive duty-free entry under CBERA.

² The GSP program is discussed in more detail in chapter 1.

eligible for GSP that entered the United States under CBERA provisions during this period are assumed to have benefited exclusively from CBERA. Hence, the effects of duty-free entry of these otherwise GSP-eligible products are attributed to CBERA for the period January 1 through September 30, 1996, which results in higher estimates of the effects of CBERA than would have been the case if the GSP program been operative during that period.³

Since the inception of the CBERA program, U.S. imports that benefit exclusively from CBERA have accounted for a relatively small portion of total U.S. imports from CBERA countries; this portion has risen substantially in recent years, with the exception of 1994. However, almost all of the increased share in

³ 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; such a survey is beyond the scope of this study.

The alternative approach would have excluded GSP-eligible items that entered from January 1 through September 30 from this analysis. 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 CBERA. The staff used the approach that overstates the estimates, in line with the approach to analysis in this chapter, which seeks to report the upper bound effects of the CBERA on the U.S. economy.

1995 and 1996 is attributable to the lapse in the GSP program from August 1, 1995, through September 30, 1996.

The value of U.S. imports that benefited exclusively from CBERA increased from \$1.4 billion in 1995 to \$2.3 billion in 1996, or 65 percent (table 3-1).⁴ Such imports accounted for 16.0 percent of total U.S. imports from CBERA countries in 1996, compared with 11.2 percent in 1995. The large increase was due mainly to the continued lapse of the GSP program for three reasons. First, the length of the lapse in the GSP program in 1996 was 9 months, as opposed to 5 months in 1995. Second, there was an increase in CBERA utilization for several items that are normally eligible for duty-free entry under the GSP program. Third, there was a large increase in the U.S. sugar import tariff-rate quota and a consequent increase in the quotas assigned to CBERA beneficiary countries, sugar imports being generally GSP eligible.

The increase in raw sugar (HTS subheading 1701.11.10⁵) benefiting exclusively from CBERA

⁴ 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.

⁵ The full HTS description for subheading 1701.11.10 includes “Described in additional U.S. note 5 to this chapter and entered pursuant to its provisions.” The referenced note sets out rules for the tariff-rate quota system for U.S. sugar imports. Within-quota imports are subject to relatively low tariff rates and are eligible for preferences under GSP, CBERA, ATPA, NAFTA, and the U.S.-Israel Free Trade Agreement. Overquota imports are subject to much higher tariffs and are not eligible for the aforementioned preferences, except for a slight reduction from the over-quota MFN rate for overquota imports from Mexico.

Table 3-1
Total imports from CBERA beneficiaries, imports entered under CBERA provisions, and imports that benefited exclusively from CBERA provisions, 1994-96

Item	1994	1995	1996
Total imports from CBERA beneficiaries:			
Value (<i>million dollars</i>) ¹	11,200	12,550	14,545
Imports entered under CBERA provisions: ²			
Value (<i>million dollars</i>) ¹	2,050	2,261	2,791
Percent of total	18.3	18.0	19.2
Imports that benefited exclusively from CBERA provisions:			
Value (<i>million dollars</i>) ¹	943	1,405	2,324
Percent of total	8.4	11.2	16.0

¹ Customs value.

² Includes articles entered free of duty and at reduced duties under CBERA provisions (table 2-4). Those provisions are discussed in chapter 1.

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

accounted for roughly 20 percent of the total increase in the value of goods benefiting exclusively. Other normally GSP-eligible products registering large increases in CBERA-exclusive imports include cantaloupes entered from Sept. 16 through July 31 (HTS subheading 0807.19.20), certain jewelry and parts of precious metals (HTS subheading 7113.19.50), and certain fresh and chilled fish (HTS subheading 0302.69.40).

Large increases in CBERA-exclusive imports also occurred for several items that were not GSP eligible. These include sugar for processing and re-export (HTS subheading 1701.11.20⁶) from Guatemala and Nicaragua, higher priced cigars (HTS subheading 2402.10.80) from the Dominican Republic and Nicaragua,⁷ and frozen concentrated orange juice (HTS subheading 2009.11.00).

Leading imports that were identified in previous annual CBERA reports as benefiting exclusively from CBERA between 1984 and 1995 continued to rank among the leading U.S. imports in 1996. These are beef, pineapples, and frozen concentrated orange juice, which have consistently ranked among the leading items benefiting exclusively from CBERA since the inception of the program. Fuel-grade ethyl alcohol (HTS subheading 2207.10.60) has ranked as one of the leading items benefiting exclusively from CBERA since 1985.

Welfare and Displacement Effects of CBERA on U.S. Industries and Consumers in 1996

The analytical approach for estimating the welfare and displacement effects of CBERA is described in the introduction to this report, and is discussed in more detail in appendix C.

The analysis was conducted on the 25 leading items that benefited exclusively from CBERA shown

⁶ The full HTS description for subheading 1701.11.20 is "Other sugar to be used for the production (other than by distillation) of polyhydric alcohols, except polyhydric alcohols for use as a substitute for sugar in human food consumption, or to be refined and re-exported in refined form or in sugar-containing products, or to be substituted for domestically produced raw cane sugar that has been or will be exported." Imports under this subheading are not subject to tariff-rate quotas.

⁷ Increases in CBERA-exclusive imports of sugar for processing and re-export and higher priced cigars also occurred for the normally GSP-eligible portion of imports of these articles.

in table 3-2.⁸ Estimates of welfare and U.S. potential industry displacement effects were made, and industries that experienced estimated potential displacement of over 5 percent of the value of U.S. production were selected for further analysis.

Items Analyzed

Although a large number of products are eligible for duty-free or reduced-duty entry under CBERA provisions, a relatively small group of products accounts for most of the imports that benefit exclusively from CBERA. Table 3-2 presents the 25 leading items that are shown to have benefited exclusively from CBERA in 1996 on the basis of their c.i.f. import values.⁹ The upper portion of the table shows imports that benefited exclusively from CBERA during the entire calendar year (i.e., imports that at no time during 1996 were also GSP eligible). The lower portion of the table shows imports that were also eligible for GSP duty-free entry after GSP was reinstated;¹⁰ from January 1 through September 30, 1996, these items also benefited exclusively from CBERA. Combined, these products represented 59 percent of the \$2.3 billion in imports that benefited exclusively from CBERA during 1996.¹¹ The five leading CBERA-exclusive imports in 1996 were (1) raw sugar, (2) leather footwear uppers (HTS subheading 6406.10.65) from the Dominican Republic, (3) higher-priced cigars from the Dominican Republic and Nicaragua, (4) certain jewelry and parts (HTS subheading 7113.19.50), and (5) methanol (HTS

⁸ USITC industry analysts provided estimates of U.S. production and exports for the 25 leading items that benefited exclusively from CBERA.

⁹ 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 CBERA 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.

¹⁰ Several items appear in both portions of the table. For these GSP-eligible items, imports reported in the upper portion come from countries that exceed the competitive need limit and from countries that are not designated GSP beneficiaries (The Bahamas and Nicaragua), and those reported in the lower portion of the table come from other CBERA countries. The two reporting groups are mutually exclusive.

¹¹ The import values reported in tables 3-2 and 3-3 reflect only that portion of each HTS subheading that entered duty-free or at reduced duty under CBERA. Even though all of these items were eligible for CBERA tariff preferences, full duties were paid on a certain portion of imports under each HTS subheading for a variety of reasons such as failure to claim preferences or insufficient documentation.

Table 3-2
Value of leading imports that benefited exclusively from CBERA duty provisions in 1996

(1,000 dollars)

HTS item	Description	Customs value	C.i.f. value	Rank
Benefited Jan. 1 - Dec. 31				
6406.10.65 ¹	Footwear uppers, other than formed, of leather	176,029	177,684	2
2402.10.80 ²	Cigars, cheroots, and cigarillos, each valued 23¢ or over	109,563	111,215	3
2905.11.20 ³	Methanol (methyl alcohol), except for use in synthetic natural gas or for direct use as fuel	67,144	77,132	5
7213.91.30	Bars and rods hot-rolled, not tempered or treated	60,491	67,358	7
2207.10.60	Undenatured ethyl alcohol for nonbeverage purposes	59,905	64,612	8
1701.11.20 ⁴	Other sugar to be used for the production (other than distillation) of polyhydric alcohols	54,205	59,818	9
0804.30.40	Pineapples, fresh or dried, not reduced in size, in crates or other packages	43,017	51,393	10
9018.90.80 ¹	Medical, surgical, or dental instruments and appliances	43,984	44,299	11
0202.30.50	Frozen boneless beef, except processed	37,359	40,946	12
0201.30.50	Fresh or chilled boneless beef, except processed	33,403	35,776	14
2009.11.00	Orange juice, frozen, unfermented	31,571	33,915	15
6210.10.50	Nonwoven disposable apparel for use in hospitals, laboratories, etc	21,001	22,031	25
Benefited Jan. 1—Sept. 30⁵				
1701.11.10	Raw sugar not containing added flavoring or color	224,671	241,123	1
7113.19.50	Jewelry and parts of precious metal except silver, except necklaces and clasps	90,023	90,205	4
0807.19.20	Cantaloupes if entered during the period from September 16 through July 31	55,146	71,635	6
0302.69.40	Fresh or chilled fish, including sable, ocean perch, snapper, grouper, and monkfish	32,632	37,175	13
1703.10.50	Cane molasses nesi	28,222	33,849	16
2402.10.80 ⁶	Cigars, cheroots, and cigarillos, each valued 23¢ or over	29,393	29,938	17
9018.90.80 ⁷	Medical, surgical, or dental instruments and appliances	28,604	29,156	18
8516.31.00	Electrothermic hair dryers	28,227	28,979	19
8538.90.80	Other parts for use solely with electrical switching apparatus of HTS headings 8535, 8536, or 8537	27,062	27,596	20
0807.19.70	Melons, other, if entered during the period from Dec. 1 through May 31	19,854	26,968	21
8536.20.00	Automatic circuit breakers, for a voltage not exceeding 1,000 V	25,408	25,700	22
8536.50.80	Switches for electrical apparatus for voltage not exceeding 1,000 V, excluding motor starter	23,435	24,093	23
1701.11.20 ⁸	Other sugar to be used for the production (other than distillation) of polyhydric alcohols	21,277	24,057	24

¹ Includes only imports from the Dominican Republic. Item is GSP eligible, but imports from the Dominican Republic exceeded the competitive-need limit and thus were eligible for duty-free entry only under CBERA.

² Includes only imports from the Dominican Republic and Nicaragua. Item is GSP eligible, but imports from the Dominican Republic exceeded the competitive-need limit and thus were eligible for duty-free entry only under CBERA. Imports from Nicaragua, another supplier of this item, were included because that country was not a designated GSP beneficiary in 1996.

³ Includes only imports from Trinidad and Tobago. Item is GSP eligible, but imports from Trinidad and Tobago exceeded the competitive-need limit and thus were eligible for duty-free entry only under CBERA.

⁴ Includes only imports from Guatemala and Nicaragua. Item is GSP eligible, but imports from Guatemala exceeded the competitive-need limit and thus were eligible for duty-free entry only under CBERA. Imports from Nicaragua, another supplier of this item, were included because that country was not a designated GSP beneficiary in 1996.

⁵ Items listed were eligible for GSP duty-free entry after that program was reinstated Oct. 1, 1996. The import values reported are only for items entered Jan. 1-Sept. 30, 1996.

⁶ Includes only imports from CBERA countries other than the Dominican Republic and Nicaragua.

⁷ Includes only imports from CBERA countries other than the Dominican Republic.

⁸ Includes only imports from CBERA countries other than Guatemala and Nicaragua.

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

subheading 2905.11.20) from Trinidad and Tobago. The Dominican Republic was the leading supplier of each of these top five items except methanol, which came exclusively from Trinidad and Tobago.¹² Raw sugar and leather footwear uppers ranked tenth and first, respectively, in 1995. Raw sugar and certain jewelry and parts benefited exclusively from CBERA only because of the lapse in GSP.

For any particular item, the size of the market share accounted for by CBERA-exclusive imports (value of imports benefiting exclusively from CBERA relative to apparent consumption) is a major factor in determining the estimated impact on competing domestic producers;¹³ market shares varied considerably in 1996 (table 3-3). For instance, the market share of CBERA-exclusive imports of higher-priced cigars was approximately 46 percent, while the market share of CBERA-exclusive imports of other parts for use with electrical switching apparatus (HTS subheading 8538.90.80) was under 1 percent.

Estimated Effects on Consumers and Producers

Table 3-4 presents the estimated impact of CBERA tariff preferences on the U.S. economy in 1996.¹⁴ Estimates of the gains in consumer surplus and the losses in tariff revenue, as well as measures of the potential displacement of U.S. production, are discussed below.

Effects on U.S. consumers

Ethyl alcohol provided the largest estimated gain in consumer surplus (\$17.2 million) resulting exclusively from CBERA tariff preferences in 1996 (table 3-4). The price U.S. consumers would have paid for imports of ethyl alcohol from CBERA countries would have been 45 percent higher (the ad valorem tariff rate adjusted for freight and insurance charges) without CBERA. Cantaloupes entered from September 16 through July 31 provided the second largest estimated gain in consumer surplus (\$11.3 million). Without CBERA, the price of cantaloupes from CBERA countries would have been 25 percent higher. In general, items providing the largest gains in consumer surplus also have (1) the highest MFN tariff rates and/or (2) the largest volumes of imports.

¹² Leading CBERA suppliers are shown in table 2-5.

¹³ Other factors include the ad valorem equivalent tariff rate; the substitutability among beneficiary imports, nonbeneficiary imports, and domestic production; and the overall demand elasticity for the product category.

¹⁴ The methodology used is described in appendix C.

CBERA preferences also reduced U.S. tariff revenues. For example, for ethyl alcohol, lower tariff revenues offset 57 percent of the gain in consumer surplus; for cantaloupes, the offset was 60 percent. For many of the other items listed in table 3-4, lower tariff revenues offset nearly all of the gain in consumer surplus.

Overall, the estimated net welfare effects of CBERA were small. 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 for which data were available except for two sugar items: (1) raw sugar (HTS subheading 1701.11.10), which does not provide a gain in consumer surplus because it is subject to a tariff-rate quota, and (2) sugar for processing and re-export (HTS subheading 1701.11.20), which very likely does not provide a gain to consumers because of restrictions inherent in the HTS category.¹⁵ Of the resulting estimated net welfare gains, the largest were for ethyl alcohol (\$7.3 million), cantaloupes (\$4.5 million), frozen concentrated orange juice (\$2.4 million), and methanol (\$1.8 million). Ethyl alcohol and frozen concentrated orange juice had the largest net welfare gains in 1995.¹⁶

Effects on U.S. producers

Estimates of the potential displacement of domestic production were small for most of the individual sectors.¹⁷ Because of the assumptions

¹⁵ Tariff-rate quotas that apply to HTS subheading 1701.11.10 set maximum sugar import levels at lower tariff rates both globally and for imports from individual countries. Overquota imports are charged much higher tariffs, which tend to be prohibitive. 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, and there was no consequent gain in consumer surplus, even after CBERA tariff reductions on sugar were implemented.

Imports of sugar under HTS subheading 1701.11.20 are believed to be re-exported after being refined and/or included in other products for export. These imports have no direct effect on U.S. consumers, and there is no revenue loss to the Treasury, given U.S. law on sugar imported for processing and re-export. The U.S. refining industry benefits from these imports because it allows the use of excess refinery capacity, and U.S. consumers may benefit indirectly because of added efficiency in the refining industry. Sugar imported under this provision that is processed and re-exported qualifies for duty drawbacks—i.e., most duties paid are refunded.

¹⁶ See USITC, *CBERA, Eleventh Report, 1995*, table 3-4, p. 29.

¹⁷ U.S. market share and ad valorem equivalent tariff rate are the main factors that affect the estimated displacement of U.S. domestic shipments, given the assumption of identical high substitution elasticities. In general, the larger the CBERA share of the U.S. market and ad valorem equivalent tariff rate, the larger the displacement of domestic shipments.

Table 3-3
Leading imports that benefited exclusively from CBERA, apparent U.S. consumption, and market shares, 1996

HTS item	Description	CBERA imports (c.i.f value) (A)	Apparent U.S. consumption (B) ¹	Market share (A/B)
		— 1,000 dollars —		Percent
Benefited Jan. 1—Dec. 1				
6406.10.65	Footwear uppers, other than formed, of leather	177,684	1,019,265	17.43
2402.10.80 ²	Cigars, cheroots, and cigarillos, each valued 23¢ or over	111,215	305,854	46.15
2905.11.20	Methanol (methyl alcohol), except for use in synthetic natural gas or for direct use as fuel	77,132	990,031	7.79
7213.91.30	Bars and rods hot-rolled, not tempered or treated	67,358	2,500,111	2.69
2207.10.60	Undenatured ethyl alcohol for nonbeverage purposes	64,612	1,556,707	4.15
1701.11.20	Other sugar to be used for the production (other than distillation) of polyhydric alcohols	59,818	(³)	(³)
0804.30.40	Pineapples, fresh or dried, not reduced in size, in crates or other packages	51,393	119,847	42.88
9018.90.80 ⁴	Medical, surgical, or dental instruments and appliances	44,299	5,118,442	1.44
0202.30.50 ⁵	Frozen boneless beef, except processed	40,946	4,243,817	1.81
0201.30.50 ⁵	Fresh or chilled boneless beef, except processed	35,776	-	-
2009.11.00	Orange juice, frozen, unfermented	33,915	1,462,473	2.32
6210.10.50	Nonwoven disposable apparel for use in hospitals, laboratories, etc	22,031	(⁶)	(⁶)
Benefited Jan. 1—Sept. 30⁷				
1701.11.10	Raw sugar not containing added flavoring or color	241,123	4,265,582	5.65
7113.19.50	Jewelry and parts of precious metal except silver, except necklaces and clasps	90,205	4,183,136	2.16
0807.19.20	Cantaloupes if entered during the period from Sept. 16 through July 31	71,635	516,239	13.88
0302.69.40	Fresh or chilled fish, including sable, ocean perch, snapper, grouper, and monkfish	37,175	192,941	19.27
1703.10.50	Cane molasses nesi	33,849	(⁶)	(⁶)
2402.10.80 ²	Cigars, cheroots, and cigarillos, each valued 23¢ or over	29,938	-	-
9018.90.80 ⁴	Medical, surgical, or dental instruments and appliances	29,156	-	-
8516.31.00	Electrothermic hair dryers	28,979	617,696	4.69
8538.90.80	Other parts for use solely with electrical switching apparatus of HTS headings 8535, 8536, or 8537	27,596	3,532,013	0.78
0807.19.70	Melons, other, if entered during the period from Dec. 1 through May 31	26,968	108,940	24.75
8536.20.00	Automatic circuit breakers, for a voltage not exceeding 1,000 V	25,700	1,525,358	1.68
8536.50.80	Switches for electrical apparatus for voltage not exceeding 1,000 V, excluding motor starter	24,093	1,786,030	1.35
1701.11.20	Other sugar to be used for the production (other than distillation) of polyhydric alcohols	24,057	(³)	(³)

¹ Apparent U.S. consumption defined as U.S. production plus total imports (landed, duty-paid basis) minus exports.

² Apparent consumption for HTS subheading 2402.10.80 is aggregated and reported under items that benefited Jan. 1- Dec. 31.

³ 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. Comparable domestic production does not exist.

⁴ Apparent consumption for HTS subheading 9018.90.80 is aggregated and reported under items that benefited Jan. 1- Dec. 31.

⁵ Apparent consumption for HTS subheadings 0201.30.50 and 0202.30.50 is aggregated and reported under HTS subheading 0202.30.50.

⁶ U.S. production data not available.

⁷ Items listed were eligible for GSP duty-free entry after that program was reinstated Oct. 1, 1996. The import values reported are only for items entered Jan. 1-Sept. 30, 1996.

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.

Table 3-4

Estimated welfare and displacement effects on the United States of leading imports that benefited exclusively from CBERA, 1996

HTS item	Description	Welfare effects			Displacement effects		
		Gain in consumer surplus (A)	Loss in tariff revenue effect (B)	Net welfare effect (A-B)	U.S. domestic shipments (C)	Value (D)	Share (D/C)
		<i>1,000 dollars</i>			<i>Percent</i>		
Benefited Jan. 1—Dec. 31							
6406.10.65	Footwear uppers, other than formed, of leather	2,555	2,472	83	707,558	5,479	0.77
2402.10.80 ¹	Cigars, cheroots and cigarillos, each valued 23¢ or over	5,142	4,878	264	126,554	10,967	8.67
2905.11.20	Methanol (methyl alcohol), except for use in synthetic natural gas or for direct use as fuel	7,312	5,530	1,783	734,435	28,411	3.87
7213.91.30	Bars and rods hot-rolled, not tempered or treated	764	743	21	1,983,300	2,600	0.13
2207.10.60	Undenatured ethyl alcohol for nonbeverage purposes	17,170	9,843	7,328	1,492,095	47,896	3.21
1701.11.20 ²	Other sugar to be used for the production (other than distillation) of polyhydric alcohols	-	-	-	-	-	-
0804.30.40	Pineapples, fresh or dried, not reduced in size, in crates or other packages	1,324	1,273	51	63,672	3,530	5.54
9018.90.80 ³	Medical, surgical, or dental instruments and appliances	2,152	1,992	160	4,221,449	8,496	0.20
0202.30.50 ⁴	Frozen boneless beef, except processed	1,482	1,410	72	3,284,427	5,228	0.16
0201.30.50 ⁴	Fresh or chilled boneless beef, except processed	-	-	-	-	-	-
2009.11.00	Orange juice, frozen, unfermented	5,270	2,836	2,434	1,102,597	25,653	2.33
6210.10.50	Nonwoven disposable apparel for use in hospitals, laboratories, etc	(⁵)	(⁵)	(⁵)	(⁵)	(⁵)	(⁵)
Benefited Jan.1—Sept. 31⁶							
1701.11.10 ⁷	Raw cane sugar not containing added flavoring or color	0	8,617	-8,617	3,198,800	0	0
7113.19.50	Jewelry and parts of precious metal except silver, except necklaces and clasps	4,621	4,005	616	1,780,000	6,600	0.37
0807.19.20	Cantaloupes if entered during the period from Sept. 16 through July 31	11,254	6,798	4,455	379,143	60,076	15.85
0302.69.40	Fresh or chilled fish, including sable, ocean perch, snapper, grouper, and monkfish	33	33	(⁸)	16,000	13	0.08
1703.10.50	Cane molasses nesi	(⁵)	(⁵)	(⁵)	(⁵)	(⁵)	(⁵)
2402.10.80 ¹	Cigars, cheroots and cigarillos, each valued 23¢ or over	-	-	-	-	-	-
9018.90.80 ³	Medical, surgical, or dental instruments and appliances	-	-	-	-	-	-
8516.31.00	Electrothermic hair dryers	1,007	920	87	438,952	2,951	0.67
8538.90.80	Other parts for use solely with electrical switching apparatus of HTS headings 8535, 8536, or 8537	1,029	930	99	2,800,000	3,534	0.13

See footnotes at end of table.

Table 3-4—Continued

Estimated welfare and displacement effects on the United States of leading imports that benefited exclusively from CBERA, 1996

HTS item	Description	Welfare effects			Displacement effects			
		Gain in consumer surplus (A)	Loss in tariff revenue (B)	Net welfare effect (A-B)	U.S. domestic shipments (C)	Reduction in domestic shipments		
					Value (D)	Share (D/C)		
		1,000 dollars					Percent	
Benefited Jan.1—Sept. 31⁶—Continued								
0807.19.70	Melons, other, if entered during the period from Dec. 1 through May 31	1,263	1,147	117	55,960	3,414	6.10	
8536.20.00	Automatic circuit breakers, for a voltage not exceeding 1,000 V	861	787	74	1,215,000	2,945	0.24	
8536.50.80	Switches for electrical apparatus for voltage not exceeding 1,000 V, excluding motor starter	795	728	67	550,000	1,050	0.19	
1701.11.20 ²	Other sugar to be used for the production (other than distillation) of polyhydric alcohols	-	-	-	-	-	-	

¹ Analysis for HTS subheading 2402.10.80 is combined and reported under items that benefited Jan.1-Dec.31.

² 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. Therefore, there is no effect on U.S. consumers and no loss of tariff revenues, and there is no comparable domestic production to be displaced.

³ Analysis for HTS subheading 9018.90.80 is combined and reported under items that benefited Jan.1-Dec.31.

⁴ Analysis for HTS subheadings 0201.30.50 and 0202.30.50 is combined and reported under HTS subheadings 0202.30.50.

⁵ Welfare and displacement effects were not calculated because of the unavailability of U.S. production data.

⁶ Items listed were eligible for GSP duty-free entry after that program was reinstated Oct. 1, 1996. The import values reported are only for items entered Jan. 1-Sept. 30, 1996.

⁷ Raw sugar imports in this category are subject to U.S. tariff-rate quotas; therefore, the net welfare effect 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.

⁸ Less than \$500.

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

of high substitutability and no capacity constraints on production, the effects actually experienced by producers are likely to be lower than the estimated effects. The analysis indicates that the largest potential displacement effects were for certain cantaloupes (an estimated 15.8 percent of U.S. domestic shipments displaced, valued at \$60 million), higher priced cigars (8.7 percent displaced, valued at \$11 million), other melons (6.1 percent displaced, valued at \$3 million), and pineapples (5.5 percent displaced, valued at \$3.5 million). However, the estimated displacement share for the majority of the products benefiting exclusively from CBERA was less than 1.0 percent.

Highlights of U.S. Industries Most Affected by CBERA

Industries having estimated displacement of 5 percent or more were chosen for further analysis. In 1996, only a few products that benefited exclusively from CBERA met this criterion: certain cantaloupes, higher priced cigars, ethyl alcohol,¹⁸ other melons, and pineapples. In addition, past reports in this series were reviewed to identify items that have frequently met the 5-percent displacement criterion. Two CBERA items appear with a certain consistency—pineapples and higher priced cigars. Industry-by-industry analysis of the items significant in 1996 follows, as does a discussion of the impact of the CBERA program over time on the U.S. producers of the consistently occurring items.

Pineapples

U.S. imports of fresh pineapples in crates and packages (HTS subheading 0804.30.40) from CBERA countries increased 4 percent in quantity and 23 percent in value from 1995 to 1996. Imports rose from 113,000 metric tons, valued at \$35 million, in 1995 to 118,100 metric tons, valued at \$43 million in 1996. Pineapples are not eligible for GSP.

Overall, the CBERA countries' import market share of all fresh pineapples, including fresh pineapples in bulk (HTS subheading 0804.30.20), was 90 percent in 1996, unchanged from 1995. Costa Rica remained the dominant supplier, accounting for 71 percent of imports from CBERA. In 1995, imports from Costa Rica amounted to \$27 million, compared with \$34 million in 1996. Imports of pineapples from Costa Rica averaged \$30 million annually during 1992-96. Honduras is the second largest CBERA

¹⁸ Preliminary analysis indicated potential displacement of more than 5 percent for ethyl alcohol, but subsequent analysis indicated a lower estimate.

exporter of pineapples to the United States; alone, it supplied 18 percent of U.S. imports under CBERA. Together, Honduras and Costa Rica account for 89 percent of pineapple imports under CBERA and 86 percent of pineapple imports from all sources.

Hawaii is the primary location for U.S. domestic production of pineapples, although there is limited cultivation in Puerto Rico. The industry is comprised of three companies: Dole Fresh Foods, PPI Del Monte, and the Maui Land & Pineapple Company.¹⁹ Approximately half of the pineapple production goes into canning done by the Maui Land and Pineapple Company,²⁰ the only pineapple cannery remaining in the United States. Del Monte closed its cannery in 1982, and Dole closed its cannery in 1992, at which point all of their production became destined for the fresh market. Both Dole and Del Monte are multinational companies with operations world wide, including production facilities in the CBERA countries.

The value of domestic fresh-market pineapple production doubled between 1973 and 1993, rising from \$39.6 million in 1973 to \$79.8 million;²¹ in 1996 the value of U.S. fresh-market pineapple had risen to \$96 million.²² Production technology has increased pineapple yields significantly; gross yields per acre increased by 58 percent between 1960 and 1990.²³

U.S. domestic production of pineapples for the fresh market increased less than 1 percent from 1995 to 1996, from 313,000 metric tons to 315,000 metric tons in 1996. Bearing acreage increased in 1996 to 20,000 acres from the 1995 level of 19,900 acres.²⁴ Domestic consumption of fresh pineapples has remained more or less steady at around 2 pounds per capita per year in recent years.

Typically, pineapples imported from CBERA countries are marketed in the Eastern and Midwestern areas of the United States, while most of the pineapples sold in the Western part of the United States are from Hawaii. Generally, this is because of freight charges. However, some consumers in the

¹⁹ There are three independent growers remaining in Hawaii, accounting for less than 1 percent of total production. Two of the three sell only to the fresh market in Hawaii, and the remaining farmer contracts to one of the companies.

²⁰ Industry official of the Maui Land & Pineapple Company, interview with USITC staff, July 18, 1997.

²¹ USDA, National Agricultural Statistical Service, Noncitrus Fruits and Nuts, 1996 Summary, July 1997, and the Hawaiian Department of Agriculture.

²² USDA, National Agricultural Statistical Service, Noncitrus Fruits and Nuts, 1966 Summary, July 1997.

²³ Hawaiian Department of Agriculture, summary agriculture sheet, 1996.

²⁴ USDA, Economic Research Service, Situation and Outlook Report, Fruit and Tree Nuts, Mar. 1997.

East are willing to pay a premium for the Hawaiian pineapples because of perceived quality differences. Pineapples from both Hawaii and the CBERA countries are sold in the Midwestern States. In addition, fresh pineapples from Mexico are sold in the Southern and Midwestern areas of the United States. Pineapples produced in Hawaii are steadily available throughout the year, as are pineapples from Mexico. Imports from Costa Rica are generally not available in September and October. Imports from Honduras are most readily available January through July, with some quantity entering throughout the year.

The long-term impact of CBERA on the pineapple industry in the United States is perceived by some industry officials as negligible or nonexistent.²⁵ One official stated, "CBI-produced fruit may have diminished demand for the Hawaiian product shipped to the East Coast via air. CBI fruit seldom makes it to our primary market which is California/West Coast."²⁶ However, PINDECO, owned by Del Monte, is the dominant producer of pineapple in Costa Rica and supplies approximately 60 percent of the markets on the East Coast of the United States.²⁷ In Honduras, pineapple production is dominated by Dole Foods.

Cantaloupes

U.S. imports of cantaloupes entering between September 16 and July 31 (HTS subheading 0807.19.20) from CBERA countries increased 8 percent in quantity and 19 percent in value from 1995 to 1996, amounting to \$65 million in 1996. Imports from all sources increased 21 percent in quantity and 33 percent in value between 1995 and 1996; in 1995, cantaloupe imports in this category totaled \$83 million compared with \$110 million in 1996. CBERA countries collectively accounted for nearly 60 percent of the total value of U.S. imports in 1996. Mexico is the only non-CBERA supplier to the United States, accounting for \$46 million in imports in 1996, and \$29 million in imports in 1995. Cantaloupes entering under this subheading are normally eligible for duty-free entry under GSP.

The leading CBERA suppliers of cantaloupes in 1996 were Costa Rica, Guatemala, and Honduras. Imports from Costa Rica increased from \$20 million in 1995 to \$28 million in 1996 or by 36 percent, and by 29 percent in quantity. Imports from Guatemala increased 11 percent in value and 12 percent in quantity between 1995 and 1996. U.S. imports of

cantaloupes from Honduras remained the same in both years.

U.S. cantaloupe production is highly seasonal, with peak output occurring from May to September. During May, the first domestic shipments of the season originate from south Texas, California (the Imperial Valley), and Arizona. By the first week of June, Georgia and other Southern, Central, and Eastern States begin to ship cantaloupes. The Central and Eastern States ship mostly during July and August. Production of cantaloupes has steadily increased during the 1990s. In 1995, U.S. production was 19.1 million hundredweight; it increased 15 percent, to 22.1 million hundredweight, in 1996.²⁸ In terms of value, production rose from \$350.7 million in 1995 to \$400.8 million in 1996, or by 14 percent.

Per capita consumption increased by 15 percent in 1996, from 9.2 pounds in 1995 to 10.6 pounds.²⁹ The rise in cantaloupe consumption is due partly to the increased availability of imported cantaloupes during the winter and spring months, which are considered to be the U.S. off-season.³⁰

According to shippers, growers, importers, and distributors,³¹ of cantaloupes and other melons,³² the impact of CBERA has been positive for everyone involved.³³ One individual who had been involved in multiple aspects of the produce industry stated "[CBERA] melons do not compete with production in the U.S. because there is no production in the U.S. during November through May."³⁴ He added that, "CBERA has improved and encouraged good trade relations with various Caribbean countries." Another distributor of cantaloupes and other melons said that he always buys the CBERA produce because it is readily available during the U.S. off-season. He always sources according to quality and cost, and at times both aspects of the CBERA product are superior to those of the U.S. product. However, he also said

²⁸ USDA, National Agricultural Statistics Service, Noncitrus fruits and Nuts, 1996 Summary, July 97.

²⁹ USDA, Economic Research Service, Situation and Outlook, Vegetables and Specialty Crops, Mar. 1997.

³⁰ USDA, Risk Assessment Agency, An Economic Assessment of Cantaloupe, 1995.

³¹ Anecdotal information; there is no cantaloupe industry, per se; cantaloupes are generally considered to be a subset of the fruit and vegetable industry in the United States. Unlike many other fruits, there are no trade associations or national representative organizations.

³² Other melons, defined by HTS subheading 0807.19.70, follow the same patterns as cantaloupe, but data are not available in the aggregate, and for some of the melon varieties in this category data are generally not available. Melons in this category include, but are not limited to; honeydew, casaba, crenshaw, calabasa, and so forth. Watermelons are not included in the grouping.

³³ Industry officials, interviews with USITC staff, June and July 1997.

³⁴ Ibid.

²⁵ Industry officials of the Maui Land & Pineapple Company and Dole Fresh Foods, interview with USITC staff and Del Monte, June and July, 1997.

²⁶ Ibid.

²⁷ Industry official, interview with USITC staff, July 28, 1997.

there is rarely overlap in product availability.³⁵ One individual said that it is the U.S. consumer who benefits the most from CBERA because the trade agreement has enabled quality melons to be available year round at no increased cost for the consumer.³⁶

Ethyl Alcohol

U.S. imports of undenatured ethyl alcohol for nonbeverage uses (HTS subheading 2207.10.60) under CBERA amounted to \$59.9 million in 1996, representing a 10.7-percent increase over 1995 imports of \$54.1 million. Imports decreased 9.4 percent in quantity, from 213 million liters in 1995 to 193 million liters in 1996. Imports under CBERA in 1996 accounted for just under 38 percent of the value of total U.S. ethyl alcohol imports under this HTS subheading. Virtually all of these imports consist of ethyl alcohol (also referred to as ethanol) intended for use in the preparation of a blend of gasoline and ethyl alcohol.³⁷ Such imports under HTS subheading 9901.00.50 are subject to an additional duty of 14.27 cents per liter to offset the Federal fuel excise tax exemption on certain ethyl-alcohol-containing motor fuels. Proceeds from the additional duties go into the Federal Highway Trust Fund. Ethanol, when blended with gasoline, enhances combustion, reducing carbon monoxide exhaust emissions by 17 to 33 percent, depending on the particular engine model. Approximately 11 percent of domestic fuel consumption is blended gasoline and alcohol.³⁸

In 1996, Jamaica, Costa Rica, and El Salvador accounted for all of the imports of ethyl alcohol under CBERA. Imports from Jamaica declined from 1995 to 1996, from \$32.5 million to \$26.2 million. Imports from Costa Rica increased from \$13.7 million to \$18.7 million, and those from El Salvador increased from \$14.2 million to \$14.9 million.

Special criteria have been established for the duty-free entry of ethanol under the CBERA program. Owing to concerns raised by dominant U.S. producers of ethanol about the use of fermented feedstock entering the Caribbean countries for processing into ethyl alcohol, Congress adopted certain changes. The Tax Reform Act of 1986³⁹ amended the 1983 CBERA

legislation to require increasing amounts of indigenous CBERA feedstock in order for ethanol to qualify for duty-free treatment on a graduated basis, rising to 75 percent in 1989 and subsequent years. A number of companies in CBERA countries, either producing at that time or with production facilities under construction, were permitted to continue benefitting from duty-free treatment under the pre-1986 criteria through 1989. Legislation approved in 1988⁴⁰ imposed an import cap of 20 million gallons annually, per facility. This legislation also requested studies from the General Accounting Office and the USITC to determine the competitiveness of using indigenous feedstock rather than the fermented feedstock. Both reports concluded that CBERA ethanol production would not be economically feasible under 75-percent-local (indigenous) feedstock requirements.⁴¹

The Steel Trade Liberalization Program Implementation Act of 1989⁴² established new local feedstock requirements for 1990 and 1991. The Customs and Trade Act of 1990 extended these provisions through 1992, and the Omnibus Budget Reconciliation Act of 1990 extended them through September 30, 2000. No feedstock requirement is imposed on imports up to a level of 60 million gallons, or 7 percent of U.S. consumption, whichever is greater. The legislation establishes requirements for local feedstock imports in excess of the greater of these amounts: the next 35 million gallons requires a 30-percent-local feedstock requirement, and in excess of this amount, a 50-percent local feedstock requirement. Imports from beneficiary countries have never exceeded the initial level. In 1996, the total U.S. market was determined to be 1,137 million gallons of ethanol with a 7 percent base of 79.6 million gallons.⁴³

Ethyl alcohol produced entirely with indigenous feedstock continues to be eligible for duty-free entry in unlimited quantities. Sugar cane is the primary indigenous feedstock used in the production of Caribbean Basin ethanol; in the United States, corn is the primary feedstock.⁴⁴ Production is influenced by sugar production, the world price of sugar, and, to a lesser extent, corn production and prices of corn.

⁴⁰ Public Law 100-418, sect. 1910, approved Aug. 23, 1988.

⁴¹ See USITC, *Ethyl Alcohol and Mixtures Thereof: Assessment Regarding the Indigenous Percentage Requirements for Imports in Section 423 of the Tax Reform Act of 1986*, USITC publication 2161, Feb. 1989.

⁴² Public Law 101-221, sect. 7, approved Dec 12, 1989.

⁴³ This amount is determined using the DOE, Energy Information Administration figures. (Production plus imports of ethanol).

⁴⁴ Nearly any organic biomass can be used in the fermentation process to make ethyl alcohol.

³⁵ Ibid.

³⁶ Ibid.

³⁷ Ethyl alcohol for fuel use is the same compound as ethyl alcohol used for industrial purposes (such as cosmetics and syrups) or ethyl alcohol used in beverages (grain alcohol). Distilled ethyl alcohol typically is not pure, but contains small quantities of water in solution. Fuel grade ethyl alcohol has been dehydrated.

³⁸ IRI Fuels Information Service, June 1997.

³⁹ Public Law 99-514, sect. 423, approved Oct. 22, 1986.

Relatively inexpensive feedstock, such as wine-based, partially distilled hydrous ethyl alcohol, is available to the CBERA countries, predominantly from the European Union. However, the local feedstock requirements on duty-free imports of ethyl alcohol from CBERA countries limit the use of wine-based feedstock.

Expanding production of ethanol in the United States is heavily dependent on corn production⁴⁵ and Federal legislation mandating cleaner fuel. The Clean Air Act Amendments of 1990 (CAA) target automobile fuel emissions as a major source of air pollution. The act mandates the use of cleaner burning fuels in the smoggiest U.S. cities. The CAA spurred a market for oxygenates and created new market opportunities for ethanol use in the United States. There are approximately 60 commercial facilities producing fuel ethanol in more than 20 States. Midwestern State governments have created fleets of vehicles using E85, E90, and E100, which blend 85 or 90 percent ethanol with conventional gasoline. E100 ethanol is not blended, but used at full strength. Commercially available vehicles using ethanol are increasing in the United States. Ethanol is available at commercial gas stations in about 14 States and the District of Columbia.

The fuel ethanol industry in the United States was created through a mix of Federal and State subsidies, loan programs, and incentives. While the creation of the industry was predicated on the need for alternative energy sources and an attempt to achieve some sort of energy independence, energy security is but one of three policy areas to which ethanol production and use relate. The stabilization of agricultural income and environmental quality are two additional policy areas intertwined in the issues surrounding the industry.

The domestic ethanol industry includes a complex set of players. Corn producers and agribusiness firms dominate the feedstock and actual production of ethyl alcohol. However, an alternative use of corn in the corn wet milling process is the production of high fructose corn syrup, an important consideration in the final disposition of corn. Wet milling accounts for less than half of the ethanol production facilities in the United States, but for a greater share of the total production.⁴⁶ This segment of the industry opposed imports of ethanol from CBERA countries and

⁴⁵ In 1996, 9.293 billion bushels of corn were produced, compared with 7.374 billion bushels in 1995. In 1995, 396 million bushels were used in the production of ethanol for fuel use; in 1996, the quantity used was 440 million bushels, or an increase of 11 percent, although production increased by 26 percent.

⁴⁶ This is not quantifiable information because information in and of the industry is typically not made public.

remains opposed to importation because of the use of feedstock imported from European countries.

The alcohol fuel income tax credit and its associated excise tax credit were initially implemented in the early 1980s. The income tax credit was initially 40 cents per gallon minus the amount of excise tax exemption, which was 4 cents per gallon. Some changes have been made since that time. In 1990 the Omnibus Budget Reconciliation Act reduced the income tax credit from 60 cents per gallon to 54 cents per gallon. The excise tax credit was also reduced, from 6 cents per gallon to 5.4 cents per gallon, where it currently stands. Motor fuels composed of at least 10 percent alcohol are exempt from 5.4 cents of the per gallon Federal excise tax on gasoline, diesel fuel, and other motor fuels. The income tax credit is granted to producers of alcohol fuels—distributors which blend the alcohol and motor fuels. The credit may be less than 54 cents according to the proof of the alcohol. Blenders support the industry and are unlikely to be opposed to importation of ethanol regardless of the origin.

Because of the complex Government regulations and incentives affecting the U.S. ethanol industries, the impact of CBERA imports on the U.S. industry is unclear, but likely to have little or no effect.

Cigars

The trend toward increased cigar consumption in the United States during the 1990s has popularized cigars in general and is fueling the growth of the overall cigar industry. This trend is also causing a surge in imports of cigars, largely of hand-rolled, premium-priced cigars from CBERA countries. Despite the low degree of substitutability between hand-rolled and machine-made cigars, both types of industries are benefiting from this trend.

From 1995 to 1996, U.S. imports of cigars, cheroots, and cigarillos with a unit value of \$0.23 or more (higher priced cigars) under HTS subheading 2402.10.80 from CBERA countries more than doubled in value, increasing from \$74.8 million to \$155.0 million, and rose by 77 percent in quantity from 123.3 million to 218.7 million cigars. In 1996, about 88 percent of the value and 89 percent of the quantity of total U.S. imports of cigars from the world under this heading entered under the CBERA program.⁴⁷ Major suppliers were the Dominican Republic and Honduras.⁴⁸

⁴⁷ Without the duty-free trade preference, the 1996 rate of duty would have been \$1.03/kilogram plus 2.5 percent ad valorem, amounting to an average ad valorem equivalent duty of approximately 4 percent.

⁴⁸ CBERA imports from the Dominican Republic and Honduras represented about 65 percent and 23 percent of the total value and 55 percent and 31 percent of the total quantity, respectively, of U.S. cigar imports from CBERA countries in 1996.

Imports from almost all CBERA suppliers entered under and benefited exclusively from CBERA in 1996. Cigars from the Dominican Republic and Nicaragua benefited exclusively from CBERA for the full year. The Dominican Republic did not have GSP benefits in 1996 because U.S. imports under HTS subheading 2402.10.80 from the Dominican Republic exceeded the competitive-need limit. Nicaragua is not currently a designated GSP beneficiary country. Cigars from Barbados, Costa Rica, Dominica, El Salvador, Guatemala, Honduras, Jamaica, and Panama, which normally have GSP eligibility for the product, benefited exclusively from CBERA when GSP was not in effect during January 1 to September 30, 1996.

The overwhelming majority of large cigars manufactured in the United States, including class H cigars,⁴⁹ are machine manufactured, and do not usually compete with the hand-rolled cigars benefiting from CBERA duty-free treatment. Class H cigars manufactured in the United States usually consist of short-filler tobacco and manufactured, homogenized binder and wrapper. These cigars retail for \$0.15 to \$0.85 each (\$0.85 to \$1.25 each with natural wrappers). Hand-rolled cigars produced in the United States are generally perceived as lower quality than those made in the Dominican Republic and other CBERA countries. However, owing to the high demand and supply constraints, retail prices for U.S. hand-rolled cigars are similar to those for imported hand-rolled cigars.

U.S. industry representatives estimate that imports supply about 99 percent of hand-rolled cigars consumed in the United States.⁵⁰ Higher priced cigars imported from the CBERA region are hand-rolled, all-natural tobacco cigars. In the United States, they retail for \$1.50 to over \$25 each (the average price is around \$8).⁵¹ Because of the increased demand for these cigars, tobacco and cigar producers are not able

⁴⁹ Class H cigars are defined for statistical purposes by the Bureau of Alcohol, Tobacco and Firearms as large cigars with a value of \$235 or more per 1,000 cigars. The Cigar Association of America, Inc., uses the aggregate total of imports in HTS 2402.10.30.90 and 2402.10.80.00 to determine U.S. imports of class H cigars. Certain imports under 2402.10.30.90 may not be valued at \$0.23 or over, but because the importer plans to sell them as Class H cigars, she/he will report them as such and pay the \$30 per 1,000 cigars Federal excise tax accordingly.

⁵⁰ U.S. industry representatives, telephone conversations and interviews with USITC staff, Washington, DC, June 4, 1997, and Miami, June 17, 1997.

⁵¹ In 1994, hand-rolled cigars retailed for \$1 to \$20 each.

to keep up, and prices are rising accordingly.⁵² Hand-rolled cigars from CBERA countries have a high-quality reputation and are in great demand by U.S. consumers.

There are three main types of firms producing cigars in the CBERA region. Some firms left Cuba after the U.S. market was closed to Cuban cigars in 1962. A second type consists of subsidiaries of U.S. firms that shifted their cigar production to the Caribbean, prior to the enactment of CBERA, because of the highly trained, low-cost labor in the region, and GSP eligibility for most cigars. A third group consists of relatively new U.S. and CBERA investors hoping to take advantage of the booming cigar industry. There has been some significant investment in tobacco farms and factories in the CBERA region (particularly in the duty-free zones in the Dominican Republic) by both U.S. and CBERA firms to gain access to the tobacco and the skilled labor pool.⁵³ In response to the high demand for cigars, such U.S. and CBERA firms are expanding.

U.S. industry representatives estimate that there are less than a dozen U.S. companies (actual figures are not known), located primarily in Florida, that make small quantities of hand-rolled cigars. Most of these producers are small and opened up fairly recently to take advantage of the growth trend. However, these domestic producers are competing for the few experienced, highly skilled rollers, driving labor rates even higher and forcing U.S. producers to look offshore and/or develop relations with foreign producers.⁵⁴ Several U.S. hand-rolled and machine-made cigar companies are distributors for CBERA hand-rolled cigar firms, have various types of business arrangements with CBERA firms to make hand-rolled cigars for them, and/or own operations in the CBERA region.⁵⁵ Thus, the expansion of CBERA production benefits such U.S. business interests. The chief advantage of the U.S. firms is their close proximity to the U.S. market. By developing relationships with U.S. firms, CBERA firms are able to gain access to an already developed customer base and distribution system. U.S. firms also benefit from these relationships and gain competitive advantages by acquiring access to the tight tobacco and cigar

⁵² See USITC, *CBERA, Tenth Report, 1994*.

⁵³ For more information, see the section on Central America later in this chapter.

⁵⁴ Training takes approximately 6 to 24 months, and this kind of labor pool (skilled hand-laborers who are willing to do apprenticeships for this amount of time and for apprenticeship wages) is readily available in the CBERA region, whereas there is no comparable body of labor available in the United States.

⁵⁵ Although the current cigar trend is mainly associated with the hand-rolled cigar industry, the U.S. machine-manufactured, large-cigar industry, which fills the demand for lower priced cigars, has also grown.

supplies and experienced rollers; being associated with cigar companies of high reputation; and attaining cigar business knowledge.

Supply constraints affect both U.S. and CBERA producers. Limited tobacco supplies and time needed to age the tobacco and cigars also inhibit the expansion of older companies and the entrance of new companies.⁵⁶ Because of these supply constraints, many U.S. and CBERA cigar firms are only servicing their current customers and no longer accept new accounts. However, many of the CBERA cigar producers already had business relations with tobacco suppliers in place and/or own tobacco farms, and thus are in a better position to compete. For these reasons, imported hand-rolled cigars from CBERA countries dominate the U.S. market for hand-rolled cigars.

U.S. industry representatives generally conclude that the impact of the CBERA program on the small U.S. hand-rolled cigar industry is insignificant because (1) hand-rolled cigars from the CBERA region are highly appealing to U.S. consumers because of their particular characteristics and high-quality reputation, thereby making U.S. hand-rolled cigars less substitutable, and (2) the close foreign relationships make the U.S. and CBERA firms dependent on each other.⁵⁷ Importers generally claim that the impact of CBERA on the CBERA countries themselves is significant because they benefit from the high investment in the CBERA region, growth of tobacco farms and cigar factories, and creation of jobs in both the CBERA region and the United States.⁵⁸

Probable Future Effects of CBERA

This section describes the probable future effects of CBERA on the U.S. economy through an analysis of CBERA-related investments⁵⁹ as well as overall investment trends in the CBERA countries during 1996. Information in this section was obtained from a field visit to Costa Rica, from U.S. embassies in the Caribbean Basin, 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 CBERA occurred within 2 years of the program's inception in

⁵⁶ Tobacco is often aged for a minimum of 12 months, and cigars are aged from 2 weeks to several months, depending on the manufacturer.

⁵⁷ U.S. cigar industry representatives, USITC staff interviews, Tampa and Miami, June 16-17, 1997.

⁵⁸ U.S. cigar industry representative, USITC staff interview, Miami, June 17, 1997.

⁵⁹ The term is meant to refer to investment expenditures motivated by the preferences extended under CBERA.

1984. 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 CBERA tariff preferences. Since CBERA-related investment expenditures are assumed to be a barometer for future trade flows under the program, increased investment in a certain CBERA sector could lead to increased exports to the United States from that sector. Therefore, the report continues to monitor CBERA-related investment in the Caribbean Basin, using investment expenditures as a proxy for future trade effects of CBERA on the United States.

CBERA-Related Investment During 1996

Nine U.S. embassies in CBERA beneficiary countries responded to the Commission's request for information regarding new or expansion investments in CBERA-eligible products. Of these nine, three cited specific investment projects that could result in new or increased exports to the United States under CBERA. This information is provided below, along with general information on investment activity in Central America and the Caribbean.

Central America

Costa Rica has an attractive investment climate. During 1996, major new investments in high-technology products were announced.⁶⁰ The U.S. Embassy reported \$15.6 million in new or expansion investment by companies producing various electronic components, apparel, and life rafts. One company, which produces acoustic wave filters, reported \$13 million invested to move from one foreign trade zone to another.⁶¹

The U.S. Embassy in Panama reported that seven new companies began exporting to the United States under CBERA in 1996. All of these companies are engaged in the production of fruits and vegetables. Together, their investments totaled \$1.5 million in 1996.⁶² In addition, the Interoceanic Regional Authority announced nearly \$700 million in investments committed to developing the Canal Zone once it reverts to Panamanian control. Of this

⁶⁰ For more information, see the country profile of Costa Rica, the site of field work, later in this chapter.

⁶¹ U.S. Department of State telegram, "USITC Annual Caribbean Basin Investment Survey," message reference No. 1593, prepared by U.S. Embassy, San Jose, May 23, 1997.

⁶² U.S. Department of State telegram, "USITC Annual Caribbean Basin Investment Survey for Panama," message reference No. 2596, prepared by U.S. Embassy, Panama, June 6, 1997.

amount, \$300 million is directed to the tourism sector. Also, Taiwanese and Korean firms are investing in the creation of export processing zones.⁶³

The U.S. Embassy in El Salvador reported that 16 firms producing nontraditional products and textiles and apparel responded to their survey. Of the 16 firms, 13 produced apparel and made \$11 million in new and expansion investments during 1996. The remaining three companies, which produce capacitors, cartons, plastic bags, and wooden and metal boxes to package gifts, reported \$2.6 million in new and expansion investments. Of the \$13.6 million in investments reported by all companies, \$4.0 million represented new investment and \$9.6 million was expansion investment.⁶⁴

Total private investment in Nicaragua increased 20 percent in 1996 to \$281.1 million, which included \$85.1 million in foreign investment. (However, because investors are not required to register with the Government of Nicaragua, total investment is probably understated.) According to the U.S. Embassy in Nicaragua, small-scale investments were made in the gold jewelry and sugar sectors during 1996. More significant investments were made in cigars; production by the 10 Nicaraguan cigar producers was estimated to have increased 100 to 150 percent over the past year or so.⁶⁵ Likewise, substantial new investments were recorded in the production of nontraditional agricultural products. In 1996, exports of nontraditional agricultural products increased 27 percent to \$75 million, of which an estimated 80 percent are directed to the U.S. market. These exports exceeded those of traditional agricultural products (coffee, sugar, meat, and cotton) for the first time. The new investment in nontraditional agriculture during 1996 came primarily from Venezuela, Colombia, and the Caribbean.⁶⁶

In 1997, the Government of Nicaragua has projected \$2.5 million in new Nicaraguan investment in agricultural equipment and irrigation projects. The Government has also projected \$10 million in foreign investment for shrimp ponds and \$3.6 million in foreign investment to improve fish-processing plants

⁶³ Business Monitor International Ltd., *Latin America Monitor—Central America*, Dec. 1996, p. 6, and Mar. 1997, p. 6.

⁶⁴ U.S. Department of State telegram, "USITC Annual Caribbean Basin Investment Survey," message reference No. 2805, prepared by U.S. Embassy, San Salvador, July 2, 1997.

⁶⁵ For more information, see section on cigars earlier in this chapter.

⁶⁶ U.S. Department of State telegram, "USITC Caribbean Basin Investment Survey: Nicaragua," message reference No. 2008, prepared by U.S. Embassy, Managua, May 30, 1997.

and the fishing fleet. Significant new investment in fish-processing plants is required to meet new U.S. phytosanitary requirements. The Government also anticipates new investments in mining and industry, although there were no new investments related to the production of non-maquila exports during 1996 in the Mercedes Industrial Free Zone, and none are expected in 1997.⁶⁷

The U.S. embassies in both Honduras and Guatemala reported strong growth in the production of nontraditional agricultural products, which rely heavily on CBERA.⁶⁸ During 1996, 36 percent of Guatemala's exports to the United States entered under CBERA or the GSP, of which 57 percent were nontraditional products.⁶⁹ Also, whereas Guatemala experienced declines in the number of apparel assembly operations (although the value of such exports increased during 1996), apparel assembly operations in Honduras showed "dramatic growth."⁷⁰

According to the U.S. Embassy in Belize, there were no investments in CBERA-eligible products in 1996, although investment in tourism increased. However, in 1997, investments have already been made in the textile, aquaculture, and agriculture sectors. For example, 10 farmers have recently organized to produce exotic tropical fruits, e.g., mangoes.⁷¹

The Caribbean

In the Dominican Republic, historically the largest source of duty-free imports into the United States under CBERA, economic growth and investment activity were limited during 1996 owing to the uncertainties associated with the Presidential election. Investors chose to postpone new outlays until the new administration's policies were clear. In addition to the Presidential election, other factors hindering investment in 1996 were ongoing severe electricity

⁶⁷ Ibid.

⁶⁸ U.S. Department of State telegram, "Guatemala: 1996 Caribbean Basin Economic Recovery Act (CBERA) Related Investment Activity," message reference No. 3108, prepared by U.S. Embassy, Guatemala, June 2, 1997; and U.S. Department of State telegram, "USITC Caribbean Basin Investment Survey: Honduras," message reference No. 2852, prepared by U.S. Embassy, Tegucigalpa, June 6, 1997.

⁶⁹ Association Gremial de Exportadores de Productos no Tradicionales, Guatemala, memo, May 15, 1997.

⁷⁰ U.S. Department of State telegram, "Guatemala: 1996 Caribbean Basin Economic Recovery Act (CBERA) Related Investment Activity," message reference No. 3108, prepared by U.S. Embassy, Guatemala, June 2, 1997; and U.S. Department of State telegram, "USITC Caribbean Basin Investment Survey: Honduras," message reference No. 2852, prepared by U.S. Embassy, Tegucigalpa, June 6, 1997.

⁷¹ U.S. Embassy, Belize, Fax, May 30, 1997.

shortages, increasing competition from other Caribbean countries, as well as Mexico under NAFTA, and an antiquated industrial base. The new President, who entered office in August 1996, promises economic reforms, including improvements in the energy sector.⁷² Indeed, in late 1996, the new President proposed legislation to sell off a 50-percent stake in a variety of state-run enterprises and also signed the Foreign Investment Act, which codifies regulations for investors.⁷³ It is now anticipated that growth and investment will improve in 1997.⁷⁴

The Dominican Republic's free trade zones received major new investment in 1995: 49 new companies registered investment worth \$72 million, 30 of the companies were in textiles. However, in 1996, investments in the free trade zones declined to \$26 million (of which over 70 percent was foreign),⁷⁵ as a result of declining competitiveness, electricity shortages, political uncertainties, and postponements of expansion while businesses wait for NAFTA parity.⁷⁶ In early 1997, the Corporacion de Fomento Industrial, which operates the export processing zones, opened an office in Miami to attract foreign investment to the Dominican Republic. However, potential investors have continued to complain about bureaucratic obstacles and poor infrastructure.⁷⁷

Trinidad and Tobago, the second largest exporter of CBERA-eligible products to the United States from the Caribbean, has one of the healthiest economies in the region. Foreign direct investment was strong in 1996, particularly in petrochemicals (ammonia and methanol), fertilizer, oil, and natural gas.⁷⁸ Trinidad

⁷² Economist Intelligence Unit, *Business Latin America*, June 10, 1996, and Jan. 6, 1997; and Regional Commercial Counselor, U.S. Embassy, the Dominican Republic, telephone conversation with USITC staff, Mar. 6, 1997.

⁷³ Business Monitor International Ltd., *Latin America Monitor—Caribbean*, Nov. 1996, p. 9.

⁷⁴ Economist Intelligence Unit, *Business Latin America*, Jan. 6, 1997; and Regional Commercial Counselor, U.S. Embassy, the Dominican Republic, telephone conversation with USITC staff, Mar. 6, 1997.

⁷⁵ U.S. Department of State telegram, "Investment Climate Statement: Dominican Republic," message reference No. 3623, prepared by U.S. Embassy, Santo Domingo, June 27, 1997.

⁷⁶ Economist Intelligence Unit, *Business Latin America*, Jan. 6, 1997, and June 10, 1996; and Regional Commercial Counselor, U.S. Embassy, the Dominican Republic, telephone conversation with USITC staff, Mar. 6, 1997.

⁷⁷ Business Monitor International Ltd., *Latin America Monitor—Caribbean*, June 1997, p. 5.

⁷⁸ Economist Intelligence Unit, *Business Latin America*, Jan. 6, 1997, and Mar. 3, 1997.

and Tobago's Free Zone Company said that manufacturing enterprises in free zones generated an estimated \$34 million in exports in 1996 compared with \$24 million in 1995. In addition, in November 1996, Trinidad and Tobago signed a bilateral investment treaty with the United States, which should attract new investment.⁷⁹

Jamaica, one of the leading CBERA country exporters to the United States from the Caribbean, experienced negative 1.7 percent growth of Gross Domestic Product (GDP) in 1996, owing to high interest rates, an overvalued exchange rate that reduced export competitiveness, and falling export prices. This fragile economy, with growing trade and fiscal imbalances, attracted low levels of foreign investment. Also, the Government postponed the privatization of the electricity utility after companies spent large sums to submit bids; this action increased the level of uncertainty about government policies and hurt the investment climate.⁸⁰ The U.S. Embassy in Jamaica reported that no data were available on CBERA-related investment during 1996.⁸¹

Country Profile: Costa Rica

The following is an in-depth discussion of the climate for CBERA exports and CBERA-related investment in Costa Rica. Costa Rica was visited during the course of this investigation because the level of investment activity occurring there during 1996 appeared to be higher than in most other CBERA beneficiaries.

Economic and Trade Performance

The economic slowdown that began in Costa Rica in 1995 continued in 1996. GDP contracted by 0.9 percent, following 2.4-percent growth in 1995. Inflation averaged 17.5 percent in 1996, compared with 23 percent in 1995. Government efforts to curb inflation and cut public expenditures constrained consumption and investment in 1995, hurting GDP, which did not rebound in 1996 owing to mushrooming debt-servicing outlays.⁸²

⁷⁹ Business Monitor International Ltd., *Latin America Monitor—Caribbean*, Jan. 1997, p. 6.

⁸⁰ Economist Intelligence Unit, *Business Latin America*, Mar. 3, 1997; Business Monitor International Ltd., *Latin America Monitor—Caribbean*, June 1997, p. 3; and Regional Commercial Counselor, U.S. Embassy, the Dominican Republic, telephone conversation with USITC staff, Mar. 6, 1997.

⁸¹ U.S. Department of State telegram, "CBERA Related Investment Activity 1996," message reference No. 2483, prepared by U.S. Embassy, Kingston, June 3, 1997.

⁸² U.S. Department of State telegram, "Country Commercial Guide - Costa Rica," message reference No. 1917, prepared by U.S. Embassy, San Jose, June 24, 1997; Economist Intelligence Unit, *Country Profiles*, Apr. 1, 1997; and Inter-American Development Bank, internet site (www.iadb.org), July 1997.

Costa Rican exports grew 4.1 percent in 1996 to an estimated \$2.7 billion, fueled by a 15-percent increase in nontraditional exports. Most noteworthy was a 69-percent increase in exports of fisheries products. Nontraditional products accounted for more than 50 percent of Costa Rica's exports in 1996. Costa Rica's imports grew 5.5 percent to \$3.4 billion, expanding the country's overall trade deficit to \$763 million. The United States remained Costa Rica's largest trading partner.⁸³

Investment Climate and Export Promotion

Costa Rica offers investors a long history of political stability, adequate infrastructure, important export incentives, and a relatively open, nondiscriminatory foreign investment regime. Costa Rica generally accords national treatment to foreign investments, and allows unrestricted remittances, free currency conversion, and binding international arbitration of investment disputes. Costa Rica also offers investors a skilled, well-educated, and productive workforce. Indeed, the country's high wage rate compared with rates in the rest of the region precludes it as a good source for low-priced, unskilled workers.⁸⁴

There are few significant barriers to investment in Costa Rica. Some sectors remain reserved to the state, e.g., electricity, telecommunications, petroleum, and insurance. However, efforts are underway to allow the private sector a greater role in the remaining state-run monopolies.⁸⁵ Another problem identified is inadequate protection of intellectual property. Costa Rica is listed on USTR's "watch list" of countries to be monitored for IPR protection because of its alleged inadequate patent protection for pharmaceuticals. A number of pending expropriation cases, as well as problems related to organized and often violent squatters' invading property, are also concerns. Negotiations to conclude a bilateral investment treaty

⁸³ U.S. Department of State telegram, "Country Commercial Guide - Costa Rica," message reference No. 1917, prepared by U.S. Embassy, San Jose, June 24, 1997.

⁸⁴ U.S. Department of State telegram, "Country Commercial Guide - Costa Rica," message reference No. 1917, prepared by U.S. Embassy, San Jose, June 24, 1997; U.S. Department of State telegram, "1997 Trade Act Report for Costa Rica," message reference No. 4610, prepared by U.S. Embassy, San Jose, Nov. 15, 1996; Procomer, *Costa Rican Export and Import Directory, 1997*, pp. 8-13; and U.S. Embassy representative, USITC staff interview, San Jose, May 19, 1997.

⁸⁵ Representative from the Union de Camera, USITC staff interview, May 20, 1997; and Economist Intelligence Unit, *Financing Foreign Operations*, Nov. 1, 1996.

with the United States are currently stalled over the issues of IPR protection and expropriation.⁸⁶

Procomer, the Costa Rican Foreign Trade Corporation, is the official entity responsible for the promotion of both exports and investment in Costa Rica. Procomer is anxious to portray Costa Rica as a high-technology destination for investment. Procomer promotes exports through commercial fairs and missions, marketing support, and reports on trade-related matters. It operates a one-stop-shop for both exporters and importers, providing information and advice on the procedures and documents related to exporting and importing. Procomer promotes investment in Costa Rica through promotion efforts abroad and by advising foreign investors on specific projects. It also coordinates with the government to improve the "supporting infrastructure to the external sector."⁸⁷

Procomer administers Costa Rica's three major export incentive programs: free trade zones, temporary admission (or maquila), and export contract. Under the export contract system, exporters receive tax credits equivalent to 15 percent of the value of exports. However, this program is being phased out by 1999 and was closed to new companies in 1996. Companies already operating under the program can continue to receive the tax credit, although they are now averaging a 7-percent rebate. A new customs law passed in 1996 is partly compensating for the loss of this export incentive. The new law provides for a tax rebate on imports of inputs for products that are exported.⁸⁸

In addition to Procomer, CINDE (Costa Rica Investment and Trade Development Board), is dedicated to promoting investment in Costa Rica. CINDE, a private, nonprofit organization, advises foreign investors regarding operations in Costa Rica.⁸⁹

Investment Activity

According to the Central Bank, net private capital inflows into Costa Rica fell 48 percent in 1996, to \$263.3 million, from \$503.5 million in 1995, largely because of the poor performance of the economy.

⁸⁶ U.S. Department of State telegram, "1997 Trade Act Report for Costa Rica," message reference No. 4610, prepared by U.S. Embassy, San Jose, Nov. 15, 1996; and U.S. Embassy representative, USITC staff interviews, San Jose, May 19-20, 1997.

⁸⁷ Procomer, *Costa Rican Export and Import Directory, 1997*, pp. 8-21; and Representatives of Procomer, USITC staff interview, San Jose, May 19, 1997.

⁸⁸ Representatives of Procomer, USITC staff interview, San Jose, May 19, 1997; Procomer, *Costa Rican Export and Import Directory, 1997*, pp. 9, 13; and Economist Intelligence Unit, *Country Profiles*, Apr. 1, 1997.

⁸⁹ CINDE, "Information on CINDE's Services," internet site (www.cinde.or.cr).

According to CINDE, new foreign direct investment in the foreign trade zones and in tourism fell 15 percent from \$60 million to \$51 million. However, CINDE certified \$31.6 million in expansion investment in 1996, up from \$20.1 million in 1995.⁹⁰

According to the Government of Costa Rica, there are 191 companies in Costa Rica's eight free trade zones, of which about 160 are operational; the remaining companies are in the process of setting up or closing down. Also, about 800 export companies are established outside the free trade zones; 721 are operating under the export contract incentive, and 70 are maquilas.⁹¹ Approximately 80 percent of maquilas assemble apparel; the remainder are engaged in the production of such items as jewelry, footwear, and electronics.⁹² During 1996, exports from the free trade zones grew by an estimated 19 percent, whereas maquila exports declined by 23 percent, in part reflecting the shift away from apparel assembly to more complex operations located in the free trade zones.⁹³ Indeed, Government officials confirmed a loss of apparel jobs to Mexico and other lower cost Central American countries (e.g., Nicaragua and Honduras), although Costa Rica remains a competitive producer of higher quality clothing.⁹⁴

CBERA has played an important role in promoting investment and exports of nontraditional products in Costa Rica. Despite the poor economy in 1996, a number of investments were made or announced that will take advantage of the program. Most important, in November 1996, Intel announced that it would make a \$300 million to \$500 million investment in Costa Rica, the largest ever by a foreign firm.⁹⁵ Construction of the facilities began in 1997, and production and exports are expected to begin in early 1998. An initial workforce of 2,000 (rising to 3,500 in 5 years) is planned, which will initially generate over \$300 million in exports of Intel's

⁹⁰ Representative from CINDE, USITC staff interview, San Jose, May 19, 1997, and memo from CINDE, May 16, 1997. CINDE's figures are limited to those companies registered with CINDE.

⁹¹ Representatives of Procomer and Comex (Ministry of Foreign Trade), USITC staff interviews, San Jose, May 19, 1997.

⁹² Economist Intelligence Unit, *Country Profiles*, Apr. 1, 1997.

⁹³ Economist Intelligence Unit, *Country Reports*, Feb. 28, 1997.

⁹⁴ Representatives of Procomer and the Chamber of Exporters, USITC staff interviews, San Jose, May 19, 1997.

⁹⁵ Intel's investment will appear in 1997 investment statistics.

Pentium line of microprocessors to the United States and European Union, as well as regionally. The local technical college in San Jose has adjusted its curriculum to educate employees in computer technology for Intel. It is expected that Intel's move will lead a number of other high-technology companies to invest in Costa Rica. Indeed, IBM and Seagate are reportedly considering opening establishments there.⁹⁶

Motorola also announced a major new investment in Costa Rica in November 1996. The new investment, worth \$3 million, will employ an additional 750 workers. The expansion involves shifting the production and testing of ceramic filters from a New Mexico facility to Costa Rica. Exports are currently directed to the United States and other destinations for further assembly. The new expansion follows \$7.5 million invested over the past 3 years.⁹⁷

DSC Communications opened a \$9 million facility in Costa Rica in April 1996 to manufacture telecommunications equipment for export. The company was reportedly the source for the third largest U.S. import under CBERA from Costa Rica in 1996—printed circuit assemblies for telephones. DSC employs 200 workers and is expanding rapidly.⁹⁸

Conair, which currently employs about 2,000 workers at its facilities in the Cartago free trade zone, exports nearly all of its production of hair dryers and curling irons under CBERA to the United States. The company recently won a bid to construct a new free trade zone in Turrialba; the new Conair facility will employ an additional 800 people in about 2 years. Conair officials credited CBERA and free-trade-zone incentives with the company's success in Costa Rica.⁹⁹

Other examples of high-technology companies' operating in Costa Rica and considering future expansion include Baxter Healthcare, which moved some of its production from Singapore to Costa Rica in 1994,¹⁰⁰ and Reliability, a manufacturer of voltage regulators.¹⁰¹ In the services area, Acer Computer

⁹⁶ Representatives of the public sector, the private sector, and the U.S. Embassy, USITC staff interviews, San Jose, May 19-20, 1997.

⁹⁷ Representatives of Motorola and the Costa Rican-American Chamber of Commerce, USITC staff interviews, San Jose, May 19-20, 1997; and Economist Intelligence Unit, *Country Reports*, Feb. 28, 1997.

⁹⁸ Representatives of the Costa Rican-American Chamber of Commerce and Procomer, USITC staff interviews, San Jose, May 19, 1997.

⁹⁹ Representatives of Conair, USITC staff interview, Cartago, May 20, 1997.

¹⁰⁰ Representative of Baxter, USITC staff interview, Cartago, May 20, 1997.

¹⁰¹ U.S. Department of State telegram, "USITC Annual Caribbean Basin Investment Survey," message reference No. 1593, prepared by U.S. Embassy, San Jose, May 23, 1997.

Co. established a call-in help line in 1995 to serve its U.S. customers. This customer service center is also now taking calls from Microsoft customers located in Central America.¹⁰²

Examples of new and growing agricultural exports include macadamia nuts, organic products like herbal tea, miniature vegetables, berries, gourmet coffee, a new type of pineapple developed by Del Monte, which is very sweet and yellow, and new ornamental plants being developed in vitro. Seafood exports are growing rapidly in terms of both volume and value, including shark cartilage, an important new export.¹⁰³ In 1996, the largest beer producer in Costa Rica (Cerveceria Costarricense) began exporting beer to the United States. This company expects to export

¹⁰² Representatives of the private sector, USITC staff interviews, San Jose, May 19-20, 1997.

¹⁰³ Representatives of the Chamber of Exporters, USITC staff interview, San Jose, May 19, 1997.

500,000 boxes annually to the United States by the year 2001.¹⁰⁴

During the course of this investigation, U.S. investors indicated that they considered CBERA preferences fundamental to their decision to invest and to their success in Costa Rica. Many also credited the extension of CBERA indefinitely with supporting growth in nontraditional exports, especially in light of the lapse of GSP preferences in 1995 and 1996. However, textile and apparel companies unanimously agreed that NAFTA parity¹⁰⁵ is essential for future growth in Costa Rica.¹⁰⁶

¹⁰⁴ Economist Intelligence Unit, *Country Reports*, Feb. 28, 1997.

¹⁰⁵ For more information on NAFTA parity, see chapter 2.

¹⁰⁶ U.S. Department of State telegram, "USITC Annual Caribbean Basin Investment Survey," message reference No. 1593, prepared by U.S. Embassy, San Jose, May 23, 1997; and representatives of the private sector, USITC staff interviews, San Jose, May 19-20, 1997.

PART II
Andean Trade Preference Act: Impact of
ATPA on the United States

CHAPTER 4

Summary of the ATPA Program

ATPA authorizes the President to grant certain unilateral preferential trade benefits to Bolivia, Colombia, Ecuador, and Peru in the form of reduced-duty or duty-free treatment of eligible products imported into the customs territory of the United States. ATPA preferential tariffs are scheduled to remain in effect through December 3, 2001, 10 years after the date of enactment. The World Trade Organization (WTO) renewed the United States' temporary waiver for the program on October 14, 1996.¹ The following sections summarize ATPA provisions concerning beneficiaries, trade benefits, and qualifying rules, and the relationship between ATPA and GSP.

Beneficiaries

Colombia, Bolivia, Peru, and Ecuador are eligible to be designated by the President for ATPA benefits;² the President can terminate such designations or suspend or limit a country's ATPA benefits at any time.³ 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.⁴ By 1993, all four countries had been designated for full ATPA benefits.

ATPA beneficiaries are required, among other things, to afford internationally recognized worker rights as defined under the Generalized System of Preferences (GSP) program and to provide effective protection of intellectual property rights (IPR), including copyrights for film and television material.⁵ To date, ATPA benefits have not been withdrawn from any country on the basis of worker rights, inadequate protection of IPR, or lack of U.S. certification for cooperation on narcotics.⁶ None of the ATPA

beneficiaries was the subject of a GSP review in 1996. However, in April 1996 the United States Trade Representative (USTR) placed 26 countries, including Colombia, Ecuador, and Peru, on the "watch list" of countries to be monitored for progress in implementing commitments with regard to IPR protection and for providing comparable market access for U.S. intellectual property products.⁷ In April 1997 the USTR placed 36 countries, including Bolivia, Colombia, and Peru, on the watch list. In addition, the USTR put Ecuador on the "priority watch list" and announced that she would initiate "WTO dispute settlement actions" against Ecuador for failure to comply with the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights.⁸

Trade Benefits Under ATPA

ATPA affords preferential rates of duty below the MFN rates⁹ to most products of Andean countries by reducing the general tariff rate either to free or, for a small group of products, by 2.5 percent ad valorem.¹⁰ 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.¹¹ While not

¹ A waiver is required because benefits are not extended on a most-favored-nation (MFN) basis. Decision of the WTO General Council of Oct. 14, 1996 (WT/L/184).

² 19 U.S.C. 3202(b).

³ 19 U.S.C. 3202(e).

⁴ 19 U.S.C. 3202(d)(11). These criteria are set forth in section 2291(h)(2)(A) of title 22.

⁵ 19 U.S.C. 3202(c). For more details, see chapter 1.

⁶ See chapter 7 below for a discussion of U.S. certification for ATPA beneficiaries in 1997.

⁷ USTR, "USTR Announces Two Decisions: Title VII and Special 301," press release, Apr. 30, 1996.

⁸ USTR, "USTR Announces Results of Special 301 Annual Review," press release, Apr. 30, 1997.

⁹ For some products, the MFN rate is free.

¹⁰ 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.

¹¹ These U.S. measures include tariff-rate quotas on imports of sugar and beef, established pursuant to sections 401 and 404 of the Uruguay Round Agreements Act (URAA). These provisions abolished former absolute quotas on imports of agricultural products of WTO members; U.S. quotas had been created under

eligible for duty-free entry, certain leather handbags, luggage, flat goods (such as wallets and portfolios), work gloves, and leather wearing apparel from ATPA countries are eligible to enter at reduced rates of duty.¹² Not eligible for any ATPA preferential duty treatment by law are most textiles and apparel, certain footwear, canned tuna, petroleum and petroleum derivatives, certain watches and watch parts, certain sugar products, and rum.¹³

Qualifying Rules

In order to be eligible for ATPA treatment, ATPA products must either be wholly grown, produced, or manufactured in a designated ATPA country or be “new or different” articles made from substantially transformed non-ATPA inputs.¹⁴ The cost or value of the local (ATPA region) materials and the 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. ATPA countries are permitted to pool their resources to meet the local-value-content requirement, and to count inputs from Puerto Rico, the U.S. Virgin Islands, and countries designated under the Caribbean Basin Economic Recovery Act¹⁵ in full toward the value threshold. In addition, goods with an ATPA content of 20 percent of the customs value and the remaining 15 percent attributable to U.S.-made (excluding Puerto Rican) materials or components¹⁶ and those undergoing “double substantial transformation” are

deemed to meet the 35-percent local-value-content requirement.¹⁷

ATPA and GSP

The four ATPA beneficiaries are also GSP beneficiaries. As are CBERA and GSP, ATPA and GSP are similar in many ways, and many products may enter the United States free of duty under either program. However, the two programs differ in several ways that tend to make Andean producers prefer the more liberal ATPA; the reasons are identical to those described in the section on CBERA and GSP in chapter 1. First ATPA covers more tariff categories than GSP: unless specifically excluded, all products entering the United States under ATPA receive a tariff preference. Second, ATPA imports are not subject to GSP “competitive need” and country income restrictions. Under GSP, products that achieve a specified market penetration in the United States (the “competitive need” limit) may be excluded from GSP eligibility; products so restricted may continue to enter free of duty under ATPA. Countries may lose all GSP privileges once their national income grows to exceed a specified amount. Third, ATPA qualifying rules for individual products are more liberal than those of GSP. 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, whereas ATPA allows regional aggregation plus U.S. content.

As documented in this series of reports, the decline in imports from ATPA countries entering under GSP provisions in 1996 continues a trend that began when ATPA became operative. In addition to the many benefits of using ATPA over GSP, suppliers have increasingly come to make use of ATPA to avoid any risk of losing duty-free access to the U.S. market when GSP is not in effect, most recently, from August 1, 1995, to September 30, 1996.¹⁸

¹¹—*Continued*
section 22 of the Agricultural Adjustment Act of 1933 (7 U.S.C. 624) and under the Meat Import Act of 1979 (Public Law 88-482). URAA also amended ATPA by excluding from tariff preferences any imports from beneficiary countries in quantities exceeding the new tariff-rate quotas’ global trigger levels. Imports of agricultural products from beneficiary countries remain subject to sanitary and phytosanitary restrictions, such as those administered by the U.S. Animal and Plant Health Inspection Service.

¹² Applies to articles that were not designated for GSP duty-free entry as of August 5, 1983. Under ATPA provisions, beginning in 1992, duties on these goods were reduced slightly in five equal annual stages. 19 U.S.C. 3203(c).

¹³ 19 U.S.C. 3203(b).

¹⁴ 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).

¹⁵ CBERA beneficiaries are listed in chapter 1.

¹⁶ 19 U.S.C. 3203(a).

¹⁷ “Double substantial transformation” involves transforming foreign material into a new or different product that, in turn, becomes the constituent material used to produce a second new or different article. Thus, ATPA countries may import inputs from non-ATPA countries, transform the inputs into intermediate material, and transform the intermediate material 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.

¹⁸ See chapter 1 for details on GSP’s expiration.

CHAPTER 5

U.S. Trade With the Andean Region

This chapter provides a description of overall imports from the four designated ATPA beneficiaries—Bolivia, Colombia, Ecuador, and Peru—although the focus is on those imports which entered under ATPA preferential tariff provisions. Such imports were valued at \$1.3 billion in 1996, or 0.16 percent of total U.S. imports, valued at \$790.5 billion.¹ Although ATPA was implemented in 1992, 1996 marked only the third full year in which eligible imports from all four countries received ATPA tariff preferences. Thus, 1994 is the effective base year for long-term comparative analysis in this chapter.²

Two-way Trade

The significance of the four designated ATPA beneficiaries in U.S. foreign trade is minor. ATPA countries combined accounted for 1.3 percent of total U.S. exports and 1.0 percent of total U.S. imports in 1996 (table 5-1). However, the United States

continued to be the single largest trading partner for each ATPA country. U.S. exports to ATPA countries totaled \$7.7 billion in 1996, 1.3 percent less than in 1995 (table 5-1). ATPA countries together ranked 18th as an export market for the United States, which placed them ahead of such countries as Switzerland and Saudi Arabia but behind Italy and Malaysia. Total U.S. imports from ATPA countries (both the ATPA preferential portion and all other imports) amounted to \$7.9 billion in 1996, or 12.9 percent more than in 1995; collectively they were the 20th largest supplier of U.S. imports from the world—ahead of Switzerland and Sweden but behind the Philippines and Indonesia. The growth in imports and the decline in exports resulted in a small U.S. deficit of \$148.9 million in 1996, following years of a collective U.S. surplus in this trade.³

Overview of Total Imports

Colombia, the largest ATPA economy and by far the largest ATPA trading partner of the United States, accounted for 56.2 percent of combined U.S. imports from ATPA countries in 1996. Imports from Colombia were up 16.1 percent, and imports from Peru, by 24.6 percent. The increase in U.S. imports from both Ecuador and Bolivia was negligible (table 5-2).

³ First Report 1993, table 1-2, p. 19.

¹ Official statistics of the U.S. Department of Commerce.

² For more detailed data on trade during the first 2 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, Sep. 1994; for 1994, see *Second Report 1994*, for 1995, see *Third Report 1995*.

Table 5-1
U.S. trade with ATPA countries, 1992-96

Year	U.S. exports ¹	Share of total U.S. exports	U.S. imports ²	Share of total U.S. imports	U.S. trade balance
	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
1996	7,718.7	1.3	7,867.6	1.0	-148.9

¹ Domestic exports, f.a.s. basis.

² Imports for consumption, customs value.

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

Table 5-2
U.S. imports for consumption from ATPA countries, by sources, 1994-96

(1,000 dollars, customs value)

Source	1994	1995	1996
Colombia	3,132,398	3,807,348	4,421,492
Ecuador	1,709,790	1,939,218	1,975,027
Peru	779,945	965,370	1,202,788
Bolivia	257,373	256,795	268,338
Total	5,879,505	6,968,729	7,867,645

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

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

Product Composition

Figure 5-1 shows the composition of U.S. imports under ATPA. Table 5-3 shows the value of the 35 top U.S. import items from ATPA countries in 1995-96 on an 8-digit Harmonized Tariff Schedule of the United States (HTS) subheading basis, ranked by their import value in 1996.⁴ Only a few of these leading import items—petroleum oils, distillate and residual fuel oils, and apparel items—are dutiable on an MFN basis. Other items listed, while MFN-dutiable, are eligible for ATPA tariff preferences. The remaining items in table 5-3 are MFN-duty-free goods, including coffee, shrimp and prawns, bananas and plantains, unwrought gold bullion, rubies, sapphires, emeralds, bituminous coal, unwrought silver and tin, cocoa beans, and tropical woods. Colombia was the principal supplier

of some top items—MFN-dutiable petroleum products and men’s and boys’ trousers, breeches and shorts not knitted, of cotton; and duty-free coffee. Ecuador was the principal supplier of duty-free shrimp and bananas.

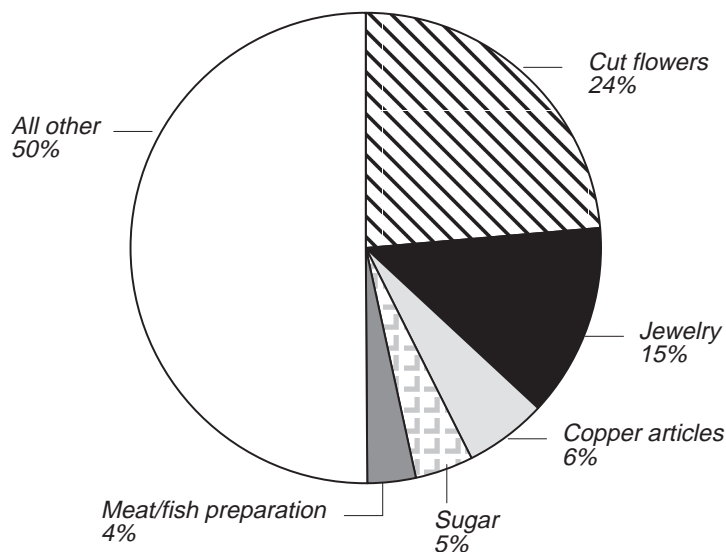
U.S. imports of petroleum products from ATPA countries were up by 27.8 percent in 1996, accounting for 38.0 percent of all U.S. imports from these countries compared with 34.4 percent in 1995.⁵ The value of such imports increased in part because of larger volume and in part because the price of crude oil increased significantly late in the year.⁶ The

⁴ Some of these are leading import items entering fully, or in part, under ATPA provisions.

⁵ Based on 2-digit SITC revision 3 classification #33.

⁶ 1997 Economic Intelligence Unit Limited, *Country Reports: Ecuador*, Apr. 11, 1997.

Figure 5-1
Composition of imports under ATPA provisions, 1996



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

Table 5-3
Leading U.S. imports for consumption from ATPA countries, 1995-96
(1,000 dollars, customs value)

HTS item	Description	1995	1996
2709.00.20	Petroleum oils and oils from bituminous minerals testing 25 degrees API or more	1,978,628	2,053,061
0901.11.00	Coffee, not roasted, not decaffeinated	651,639	554,779
0306.13.00	Shrimps and prawns, cooked in shell or uncooked, live, fresh, chilled, frozen, dried, or salted in brine	491,989	414,207
2710.00.05	Distillate and residual fuel oils (including blends) testing under 25 degrees API	155,468	372,704
0803.00.20	Bananas, fresh or dried	387,065	352,399
7108.12.10	Unwrought gold bullion and dore, nonmonetary	165,418	238,177
2709.00.10	Petroleum oils and oils from bituminous minerals testing under 25 degrees API	167,916	183,458
0603.10.70	Chrysanthemums, standard carnations, anthuriums, and orchids	147,966	162,300
0603.10.60	Roses, fresh cut	127,817	156,485
9999.95.00	Informal entries under \$1,251 each	120,760	138,082
2713.11.00	Petroleum coke, not calcined	19,692	129,890
7403.11.00	Cathodes and sections of cathodes of refined copper	26,603	121,681
7113.19.10	Rope and chain for jewelry, of precious metal except silver	127,863	103,528
2710.00.10	Distillate and residual fuel oils (including blends) testing 25 degrees API or more	3,658	93,513
1701.11.10	Raw sugar not containing added flavoring or color	57,618	90,440
0603.10.80	Fresh cut flowers and flower buds suitable for bouquets, not elsewhere specified	64,592	81,505
2701.12.00	Bituminous coal, whether or not pulverized	84,561	79,903
2711.29.00	Petroleum gases and other gaseous hydrocarbons, nesi	9,346	76,122
7103.91.00	Rubies, sapphires and emeralds, worked or graded	94,200	74,522
9801.00.10	U.S. goods returned, not advanced in value or improved in condition while abroad	56,697	74,475
0901.12.00	Coffee, not roasted, decaffeinated	95,902	73,756
7106.91.10	Unwrought silver bullion and dore	70,900	69,399
1604.14.40	Tuna and skipjack, not in airtight containers	56,183	64,576
7113.19.50	Jewelry and parts of precious metal except silver, except necklaces and clasps.	57,550	63,429
6203.42.40	Men's or boys' trousers, breeches and shorts, not knitted, of cotton	42,809	59,374
1801.00.00	Cocoa beans, whole or broken, raw or roasted	50,050	56,469
2710.00.25	Naphthas (except motor fuel or motor fuel blending stock)	11,379	54,801
6105.10.00	Men's or boys' shirts, knitted or crocheted, of cotton	38,206	54,226
6110.20.20	Sweaters and pullovers, of cotton, knitted or crocheted	55,634	49,615
4407.24.00	Virola, mahogany, imbuia and balsa tropical woods	0	47,259
8001.10.00	Unwrought tin, not alloyed	40,256	42,010
2713.20.00	Petroleum bitumen	0	40,372
0803.00.30	Plantains, fresh	38,939	39,929
0603.10.30	Miniature (spray) carnations, fresh cut	32,362	36,074
3921.12.11	Nonadhesive plates, sheets, film, foil, strip, cellular, of 70 percent by weight of plastics	29,966	33,709
	Total of above items	5,559,635	6,336,237
	Total all commodities	6,968,729	7,867,645

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

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

unusually harsh winter of early 1996 raised U.S. demand for distillate and residual fuel oils used as heating fuels. Among the ATPA countries, Colombia and Ecuador have economically recoverable reserves of petroleum. Colombia contributed 60 percent and Ecuador 25 percent of the volume of total U.S. crude oil imports from ATPA countries during 1996.

After having soared in 1994 and 1995, coffee imports from ATPA countries were down by 11.2 percent in 1996,⁷ presumably showing the delayed effect of a drop in prices during the 1994/95 marketing year.⁸ Coffee accounted for 9.4 percent of total U.S. imports from ATPA countries in 1996.⁹ Imports of shrimp and prawns (5.3 percent of total imports), whose prices declined during the period, and bananas (4.5 percent of total imports), continued their downward trend in 1996 (table 5-3).

Apparel

Apparel products accounted for 6.2 percent of U.S. imports from ATPA countries in 1996.¹⁰ Some apparel items—men's and boys' trousers and shorts; men's and boys' cotton knit shirts; and cotton sweaters and pullovers—appear among the leading imports from ATPA countries in table 5-3. Several additional apparel items of smaller amounts are not shown in the table. ATPA countries combined accounted for 1.4 percent of U.S. apparel imports from all countries.

Apparel imports from ATPA countries amounted to \$486.3 million in 1996, down 5.8 percent. Colombia and Peru are the only significant Andean apparel suppliers to the United States.¹¹ In 1996, Colombia ranked 25th among all U.S. suppliers, with shipments totaling \$315.5 million, and Peru ranked 32d at \$148.4 million.¹²

Colombia is the only ATPA country currently subject to U.S. import quotas for textiles and apparel. Although apparel imports from ATPA countries are not eligible for preferential tariffs under ATPA, the United States instituted a special access program for

ATPA countries on August 24, 1994, when Colombia was accorded special regime quotas for apparel.¹³ Since such quotas apply only to countries already subject to quotas, the other Andean countries were not affected.

Apparel imports from Colombia declined in 1996 by 14.7 percent¹⁴ after having made significant gains during 1992-94. The decline may be explained in part by tensions in U.S.-Colombian political and economic relations during the year under review, and the revaluation of the Colombian peso, which had a negative impact on Colombian exports to all partners. Nearly three-fourths of 1996 apparel imports from Colombia entered under the HTS 9802 production-sharing provisions, two-thirds of which were attributed to reentering U.S. components. Men's and women's trousers were the leading import items; they were responsible for some 28 percent of Colombia's total apparel shipments to the United States. Other apparel imported from Colombia included babies' garments, men's sport coats of wool, and cotton underwear.

U.S. apparel imports from Peru more than doubled during 1992-96, rising 17.5 percent in 1996 alone. More than two thirds of these imports consisted of men's and women's cotton knit shirts and blouses. Less than 3 percent of Peruvian apparel entered the United States under production-sharing provisions.

Dutiability

Table 5-4 shows that in 1996 the dutiable share of U.S. imports from ATPA countries (42.9 percent) and the duty revenues from such imports (calculated duties) (\$87.1 million) increased, mostly because of the larger share of petroleum products, which are dutiable, in total imports from ATPA countries. Meanwhile, the shift in the composition of dutiable imports toward lower duty petroleum products and away from higher duty apparel products contributed to reducing the average rate of duty slightly from 3.01 percent in 1995 to 2.57 percent in 1996.

Less than 1 percent of imports from the ATPA countries (0.3 percent) entered under duties reduced by ATPA in the last 3 years (table 5-5). Products eligible for these reduced duties are limited to leather luggage, handbags, work gloves, flat goods, and leather wearing apparel.

¹³ Also referred to as "807A," this program provides for participating governments to negotiate bilateral textile and apparel agreements with the United States that include guaranteed access levels (GALs) for apparel assembled from "fabric wholly formed and cut in the United States."

¹⁴ Based on 2-digit SITC revision 3 classification #84.

⁷ Based on 2-digit SITC revision 3 classification #07.

⁸ Representatives of the public and private sectors, USITC staff interviews, Bogota, Colombia, May 8-9, 1997, and U.S. Department of Agriculture, *Tropical Products: World Markets and Trade*, Dec. 1996, pp. 20-22.

⁹ Based on 2-digit SITC revision 3 classification #07.

¹⁰ Based on 2-digit SITC revision 3 classification #84.

¹¹ Colombia is the only ATPA country currently subject to U.S. import quotas on textiles and apparel.

¹² Based on 2-digit SITC revision 3 classification #84.

Table 5-4
Dutiable value, calculated duties, and average duty on U.S. imports for consumption from ATPA countries, 1995-96

Item	1995	1996
Dutiable value ¹ (1,000 dollars)	2,863,078	3,379,043
Dutiable value as a share of total imports (percent)	41.1	42.9
Calculated duties ¹ (1,000 dollars)	86,325	87,124
Average duty ² (percent)	3.01	2.57

¹ Dutiable value and calculated duties exclude the U.S. content entering under HTS heading 9802.00.80 and subheading 9802.00.60. Data based on product eligibility corresponding to each year.

² Average duty = (calculated duty/dutiable value) * 100.

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

Table 5-5
U.S. imports for consumption from Bolivia, Colombia, Ecuador, and Peru, by duty treatment, 1994-96

Year and item	Bolivia	Colombia	Ecuador	Peru	ATPA total	Percent of total
1994:						
Total imports	257,373	3,132,398	1,709,790	779,945	5,879,505	100.0
Dutiable value ¹	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 ²	244,948	1,820,294	1,118,452	569,753	3,753,446	63.8
MFN ³	115,185	1,070,386	1,007,929	270,876	2,464,376	41.9
GSP ⁴	37,418	88,754	37,267	176,012	339,451	5.8
ATPA ⁴	91,156	392,007	72,803	107,420	663,386	11.3
Production sharing ⁵	853	145,550	254	9,013	155,670	2.6
Other duty free ⁶	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 ¹	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 ²	237,821	2,090,350	1,172,653	604,829	4,105,653	58.9
MFN ³	137,083	1,330,470	1,000,602	273,575	2,741,730	39.3
GSP ⁴	15,470	75,737	23,125	113,908	228,240	3.3
ATPA ⁴	82,783	477,546	147,721	207,563	915,613	13.1
Production sharing ⁵	2,106	169,028	907	185	172,226	2.5
Other duty free ⁶	379	37,569	298	9,598	47,844	0.7
1996:						
Total imports	268,338	4,421,492	1,975,027	1,202,788	7,867,645	100.0
Dutiable value ¹	30,656	2,108,721	783,551	456,115	3,379,043	42.9
ATPA reduced duty	1,468	23,489	226	22	25,205	0.3
Duty-free value ²	237,682	2,312,771	1,191,476	746,673	4,488,602	57.1
MFN ³	126,128	1,520,542	941,542	277,798	2,866,010	36.4
GSP ⁴	2,446	45,538	17,837	64,788	130,609	1.7
ATPA ⁴	104,323	537,057	218,193	385,276	1,244,849	15.8
Production sharing ⁵	2,102	126,148	1,676	1,018	130,944	1.7
Other duty free ⁶	2,683	83,486	12,228	17,793	116,190	1.5

¹ Dutiable value excludes the U.S. content entering under HTS subheading 9802.00.80 and subheading 9802.00.60.

² Calculated as total imports less dutiable value.

³ Value of imports that have a col. 1 general duty rate of free.

⁴ Reduced by the value of MFN duty-free imports and ineligible items.

⁵ Value of nondutiable exported and returned U.S.-origin products or components, under HTS items 9802.00.60 and 9802.00.80.

⁶ 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.

Duty-Free Imports

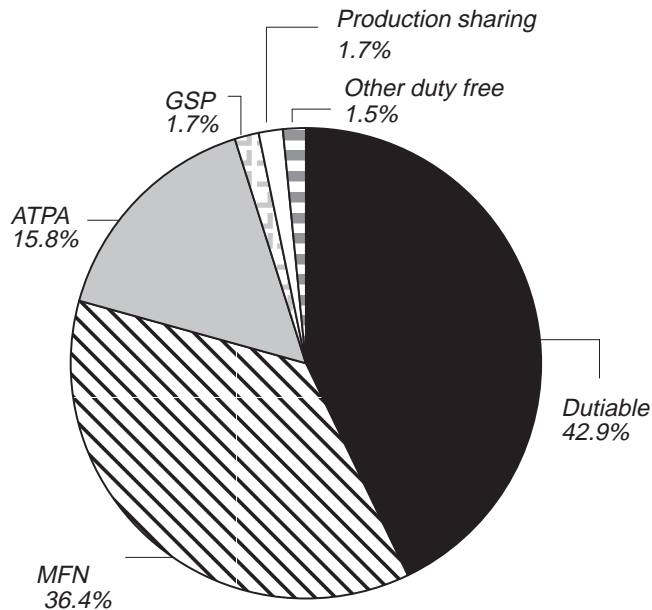
As the dutiable portion of U.S. imports from ATPA countries edged upward, the duty-free portion decreased from 58.9 percent in 1995 to 57.1 percent in 1996. Duty-free imports entered under one of the following provisions: (1) unconditionally free under MFN (column 1 general tariff rates) (35.2 percent); (2) conditionally free under GSP (1.7 percent); (3) conditionally free under "production sharing", i.e. chapter 98 of the HTS (1.7 percent); (4) conditionally free under ATPA (15.8 percent); or (5) under other provisions (2.7 percent).

Two categories of entries were responsible for the decrease in the duty-free portion of U.S. imports from ATPA countries: MFN-duty-free and GSP-duty-free entries. The MFN-duty-free portion of U.S. imports

from ATPA countries accounted for 41.9 percent of the total in 1994, 39.3 percent in 1995, and 36.4 percent in 1996, as imports from ATPA countries of major MFN-duty-free commodities—coffee, shrimps and prawns, and bananas—declined (figure 5-2). The decline in the significance of the GSP program for ATPA countries, which began with the implementation of ATPA, continued in 1996. The portion of GSP-duty-free imports in the total decreased from 5.8 percent in 1994 to 3.3 percent in 1995 and to 1.7 percent in 1996, owing to the GSP program's hiatus from August 1, 1995, through the first three quarters of 1996.¹⁵ On the other hand, the significance of imports under ATPA provisions has increased steadily since the program has been in effect.

¹⁵ GSP is discussed in *First Report 1993*, p. 8, and in chapter 1 of this report.

Figure 5-2
Share of total U.S. imports for consumption from ATPA countries accounted for by categories of duty treatment, 1996



Source: Based on data in table 5-5.

Imports Under ATPA

U.S. imports afforded duty-free entry under ATPA¹⁶ continued to increase in 1996, amounting to \$1.2 billion, up 36.0 percent from 1995 (table 5-5). The share of total imports accounted for by the program rose from 1.8 percent in 1992 to 7.3 percent in 1993, 11.3 percent in 1994, 13.7 percent in 1995, and 15.8 percent in 1996.¹⁷ With respect to certain products eligible for duty-free entry under either GSP or ATPA, suppliers gradually came to prefer applying ATPA for several reasons: to avoid GSP competitive-need restrictions,¹⁸ to use ATPA's more liberal rules of origin, or to avoid any risk of losing duty-free access to the U.S. market should GSP not be renewed. Even after GSP became available once again, they preferred to stay with ATPA preferences, citing the uncertain prospects of GSP.¹⁹

Leading Items

Table 5-6 shows the 20 leading items afforded entry under ATPA provisions in 1995 and 1996. These imports are ranked in terms of their 1996 value, and show the principal ATPA supplier of each product that year.²⁰ Also shown for each item is its share of total U.S. imports under ATPA. Although table 5-6 is dedicated to imports which are leading items only under the ATPA program, all but two gold items in table 5-6 were also entered under duty-free provisions

¹⁶ Data in this chapter on imports under ATPA provisions show the value of products entered free of duty less MFN duty-free imports, if entered under ATPA. However, some of these imports were also eligible for duty-free entry under GSP. The data are disaggregated further in chapter 6.

¹⁷ Imports under ATPA provisions surged in 1993 in part because additional countries became eligible for these benefits. In 1992, Colombia and Bolivia were the only countries designated under ATPA. In 1993, Ecuador and Peru also became eligible, adding their own shipments free of duty under ATPA. However, imports under ATPA provisions continued to rise even after 1994, when the data on entries under ATPA became fully comparable.

¹⁸ For a definition of GSP competitive-need restrictions, see *First Report, 1993*, p. 8.

¹⁹ Representatives of the public and private sectors, USITC staff interviews, Bogota, Colombia, May 8-9, 1997.

²⁰ Total imports of some of these products also appear in table 5-3.

other than ATPA.²¹ Those items whose exclusive ATPA duty-free treatment had a measurable impact on the U.S. industry in 1996 (three flower products and asparagus), are discussed in chapter 6.

The Andean fresh cut flower sector, located predominantly in Colombia and to some extent in Ecuador, continued to be the principal beneficiary industry of the program. Over one-third of overall U.S. imports under ATPA accounted for by four categories of cut flowers, combined imports of which amounted to \$435.4 million in 1996.²² Even though this combined import value increased through the ATPA years, its share of total ATPA entries declined, from 60 percent in 1993 to 44 percent in 1994, 40 percent in 1995, and 34 percent in 1996. The decrease in the importance of flowers reflects the comparatively faster growth of other import categories entered under ATPA, including certain jewelry articles, refined unwrought lead, cathodes of refined copper, tuna and skipjack not in airtight containers (tuna not in cans), unwrought metal products, and raw sugar.

Imports in the jewelry category, all of which were eligible for duty-free entry under either ATPA or GSP, were up in both 1995 and 1996, owing to increased U.S. demand and a shift of former GSP entries to ATPA. Imports of rope and chain of precious metal other than silver, the leading jewelry item entered under ATPA provisions and originating mostly in Peru and Bolivia, amounted to \$100.8 million in 1996. This was slightly less than in 1995, when such imports were more than three times the 1994 level. Imports of most other jewelry items continued to rise in 1996.

Imports of refined unwrought lead and copper cathodes (solely from Peru) under ATPA provisions amounted to \$91.7 million in 1996, nearly eight times their value in 1995. Imports under ATPA of tuna not in cans soared again in 1996, increasing by 58.6 percent to \$57.9 million, after having more than doubled in both 1995 and 1994. This steep increase was triggered by market forces and ATPA eligibility;

²¹ Imports of gold products in table 5-6, including gold plated with platinum, etc. and gold unwrought or in semimanufactured form, entered exclusively under ATPA provisions. At least 80 to 90 percent of most other leading ATPA items shown on table 5-6 entered under ATPA provisions, seven of them in excess of 99 percent. However, only 60.4 percent of raw sugar entered under ATPA.

²² For 1996, three of these four flower categories—chrysanthemums, standard carnations, anthuriums, and orchids; fresh cut roses; and miniature (spray) carnations—have been identified as benefiting from ATPA exclusively to the extent that their imports under the program have had an impact on the U.S. economy. These effects are discussed in chapter 6 of this report.

Table 5-6
Leading U.S. imports for consumption entered under ATPA, 1995-96

HTS item	Description	1995		1996		Leading ATPA supplier ²
		Entries under ATPA	Share of total imports ¹	Entries under ATPA	Share of total imports ¹	
		<i>1,000 dollars³</i>	<i>Percent</i>	<i>1,000 dollars³</i>	<i>Percent</i>	
0603.10.70	Chrysanthemums, standard carnations, anthuriums and orchids	147,875	99.9	161,918	99.8	Colombia
0603.10.60	Roses, fresh cut	126,897	99.2	156,039	99.7	Colombia
7113.19.10	Rope and chain for jewelry, of precious metal except silver	101,574	79.4	100,840	97.4	Peru
7403.11.00	Cathodes and sections of cathodes of refined copper	11,995	45.0	91,749	75.4	Peru
0603.10.80	Cut flowers and flower buds suitable for bouquets, not elsewhere specified.	64,388	99.6	81,386	99.8	Colombia
1604.14.40	Tuna and skipjack, not in airtight containers	36,524	65.0	57,933	89.7	Ecuador
7113.19.50	Jewelry and parts of precious metal except silver, except necklaces and clasps	46,810	81.3	57,383	90.5	Bolivia
1701.11.10	Raw sugar not containing added flavoring or color	31,860	55.2	54,635	60.4	Peru
0603.10.30	Miniature (spray) carnations, fresh cut	32,360	99.9	36,035	99.8	Colombia
3921.12.11	Cellular plastic plates and sheets with manmade textile components, over 70% by weight of polymers of vinyl chloride	29,967	100.0	33,598	99.7	Colombia
7113.19.21	Gold rope necklaces and neck chains	13,966	51.6	29,033	98.8	Peru
7901.11.00	Zinc not alloyed, containing by weight 99.99 percent or more of zinc	7,028	36.4	21,893	86.6	Peru
7108.13.50 ⁵	Gold (including gold plated with platinum) unwrought or in semimanufactured forms nesi	328	100.0	18,654	100.0	Peru
0709.20.90	Asparagus, fresh or chilled, not reduced in size, not entered Sept. 15-Nov. 15	12,868	99.7	15,284	99.9	Peru
7905.00.00	Zinc plates, sheets, strip and foil	0	0.0	15,112	89.2	Peru
0302.69.40	Fresh or chilled fish, including sable, ocean perch, snapper, grouper, and monkfish	19,174	90.9	14,471	85.6	Ecuador
7113.19.29	Gold necklaces and neck chains, other than rope or mixed link	10,926	96.2	11,676	99.0	Bolivia
7801.10.00	Refined lead, unwrought.	12,982	88.8	11,335	82.7	Peru
4202.91.00	Leather golf bags, travel bags, sports bags, and cases ⁴	9,272	89.4	11,249	95.5	Colombia
7108.13.70 ⁵	Gold (including gold plated with platinum) unwrought or in semimanufactured forms nesi	0	0.0	10,875	100.0	Peru
	Total of above items	716,796	9.1	991,100	12.6	
	Total, all items entered under ATPA	938,789	13.4	1,270,054	15.8	

¹ Value of imports entered under ATPA provisions as a share 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.

² Based on total U.S. imports for consumption from the region during 1996.

³ Customs value.

⁴ Subject to the ATPA staged 20-percent reduced duty provision.

⁵ HTS 7108.13.50 was discontinued and new HTS 7108.13.55 and 7108.13.70 were established effective on October 26, 1996, as a result of congressional legislation. HTS 7108.13.55 was established as MFN free and 7108.13.70 took any staging originally proclaimed for 7108.13.50.

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

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

tuna is not eligible for GSP preferences. Ecuador was the largest Andean supplier.

Increased demand for sugar in the U.S. market, which translated into larger quotas, contributed to a 71.5-percent surge in raw sugar imports under ATPA in 1996, mostly from Ecuador and Peru. Cellular plastic plates and sheets, principally of vinyl chloride (hereafter nonadhesive tapes) from Colombia, were another item with rising imports under ATPA; in 1996, such imports amounted to \$33.6 million, up 12.1 percent. In addition, imports of asparagus, mainly from Peru, continued to rise during the year under review; they were up 18.8 percent, amounting to \$15.2 million. Virtually all asparagus imported from ATPA countries entered under ATPA provisions.

ATPA Utilization Ratio

The ATPA utilization ratio provides a quantitative benchmark to assess the extent to which ATPA has been used (table 5-7). 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 1996, the ATPA utilization ratio rose from 69.6 percent in 1995 to 89.7 percent.²³ Higher utilization of the program reflected an increased familiarity with ATPA in Andean countries as a less restrictive alternative to GSP, but also the fact that imports had to claim duty-free access under ATPA because of the continued absence of the GSP program in the first three quarters of 1996.

U.S. Imports under ATPA by Countries

Table 5-8 shows U.S. imports under ATPA provisions by countries. The order of the countries here differs from their ranking in table 5-2, which is based on their overall shipments to the United States. While Colombia is first on each table, and Bolivia is fourth on each, the positions of Ecuador and Peru are reversed. Ecuador is the second overall U.S.

²³ As calculated, a higher ATPA utilization ratio does not necessarily represent increased duty-free access to the U.S. market because the numerator also includes those ATPA items that previously entered duty free under GSP.

Table 5-7
ATPA eligibility and utilization regarding U.S. imports for consumption, 1994-96

Item	1994	1995	1996
Eligible duty-free under ATPA ¹ (1,000 dollars)	1,198,576	1,315,691	1,386,956
Duty-free under ATPA ² (1,000 dollars)	663,386	915,613	1,244,849
ATPA utilization ratio ³ (percent)	55.3	69.6	89.7

¹ Calculated as total imports from ATPA countries (table 5-1) minus imports not eligible for ATPA duty-free entry minus MFN duty-free imports (table 5-5).

² From table 5-5.

³ Utilization ratio = (duty-free entries/eligible entries) * 100.

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

Table 5-8
U.S. imports for consumption under ATPA provisions, by sources, 1994-96

Rank	Source	1994	1995	1996	1996 share of total
		— 1,000 dollars, customs value —			Percent
1	Colombia	411,642	499,261	560,546	44.1
2	Peru	107,430	207,568	385,298	30.4
3	Ecuador	72,905	147,859	218,419	17.2
4	Bolivia	91,840	84,099	105,791	8.3
	Total	683,817	938,789	1,270,054	100.0

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

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

supplier owing to its relatively major shipments of non-ATPA-eligible items, especially petroleum products, and the third U.S. supplier under ATPA provisions; Peru is the second source of items under ATPA and the third overall supplier.

Colombia, the leading Andean supplier of entries outside ATPA provisions (petroleum oils, shrimp, bananas, coffee, and apparel) is also the leading ATPA beneficiary, providing 44.1 percent of all imports under ATPA in 1996. This share was down from 60.2 percent in 1994 and 53.2 percent in 1995 because the increase in Colombia's entries under ATPA provisions was the lowest among the Andean countries. In 1996, Colombia's ATPA exports rose only 12.3 percent, reflecting in part the decline in the importance of flowers compared with other U.S. imports under ATPA, but also the negative performance of the country's exports, caused apparently by the appreciation of the Colombian peso during the year.²⁴ In general, 1996 was marked by political and economic instability in Colombia and a worsening of U.S.-Colombian relations.²⁵

In 1996, Colombia was the leading or sole supplier of 6 of the top 20 U.S. imports under ATPA listed in table 5-6, including 4 flower products. Owing to the still impressive share accounted for by flowers, and because flowers are not eligible for GSP, Colombians appreciate the economic benefits they derive from the program.²⁶

Table 5-9 shows the leading U.S. imports entered under ATPA provisions from each Andean country in 1996. In addition to flower products, Colombia was the leading ATPA source of nonadhesive tapes and leather bags and cases for golf, travel, and sports. All 1995 leading imports under ATPA from Colombia increased in 1996, except for sugar.²⁷ Imports under ATPA of sugar used to produce polyhydric alcohols fell to less than one-third of their 1995 value during 1996, and this item was replaced by raw sugar not containing added flavoring or color on Colombia's list of leading ATPA entries. The net effect was a decline in overall sugar imports from Colombia under ATPA.

Peru's significance as an ATPA beneficiary has grown steadily since the country's first full year of eligibility under the program in 1994. Peru was the second-ranking ATPA beneficiary in 1996, accounting for 30.4 percent of U.S. imports under the program.

²⁴ Uncertainties surrounding Colombia's decertification for inadequate antinarcotics efforts in March 1996 may also have contributed to this result. See chapters 6 and 7 of this report.

²⁵ Representatives of the public and private sectors, USITC staff interviews, Bogota, Colombia, May 8-9, 1997.

²⁶ Ibid.

²⁷ Third Report 1995, table 2-8, p. 16.

It was the leading provider of 10 of the 20 top ATPA import items shown in table 5-6, including rope and chain for jewelry, other precious metal items, cathodes and sections of cathodes of refined copper, raw sugar, other metal products, and fresh asparagus. The combined value of Peruvian entries under ATPA was up 85.6 percent during the year. Imports of several Peruvian jewelry items under ATPA soared, and there were also new leading imports from Peru under the program: gold, unwrought or in semimanufactured forms; and zinc plates, sheets, strip and foil.

With a 17.2-percent share of total entries under ATPA in 1996, Ecuador ranked third; it was the leading supplier of two ATPA items during the year: tuna not in containers and fresh or chilled fish. Tuna not in containers was the leading ATPA entry from Ecuador in both 1995 and 1996, with imports rising 57.7 percent during the year under review. Imports of roses and of cut flowers for bouquets also rose significantly in 1996.

Bolivia's share of the combined ATPA entries in 1996 was 8.3 percent. U.S. imports from Bolivia under ATPA were up 25.8 percent following a decline in 1995. All major imports were in the jewelry category. In 1996, Bolivia was the leading ATPA supplier of two jewelry items in table 5-6. Continuous ropes made from precious metal were the leading item, although Bolivia followed Peru in supplying it. Bolivia's total precious metal rope exports to the United States declined in 1996, although those that entered under ATPA were up.

Imports of Bolivian jewelry under ATPA generally rose in 1996. Miscellaneous articles of gold, of which Bolivia was the sole Andean supplier, contributed significantly to the increase. Officials interviewed by USITC staff in Bolivia perceived 1996 (and also the first months of 1997) as an unfavorable period for the country's jewelry exports. They attribute this to a tax on domestic gold imposed at 3 percent in 1995. This tax, according to Bolivians questioned by USITC staff, caused jewelry makers to shift to imported gold as an input for jewelry, which adversely affected exports.²⁸ Government officials and jewelry producers look favorably at ATPA, suggesting that this program should be applied more widely in terms of product coverage and its duration should be extended.²⁹

²⁸ This tax was raised to 4 percent in March 1997. According to the Chamber of Exporters, gold jewelry exports (to all countries) from the La Paz area declined from \$124 million in 1995 to \$103 million in 1996. (Representatives of the public and private sectors, USITC staff interviews, La Paz, Bolivia, May 15, 1997.) For more information on Bolivia's exports of jewelry to the United States, see chapter 6.

²⁹ Representatives of the public and private sectors, USITC staff interviews, La Paz, Bolivia, May 15, 1997.

Table 5-9
Leading U.S. imports for consumption entered under ATPA, by sources, 1996

Source	HTS item	Description	Imports	Share of source's total ATPA imports
			1,000 dollars ¹	Percent
Bolivia	7113.19.10	Rope and chain for jewelry, of precious metal except silver	41,568	39.3
	7113.19.50	Jewelry and parts of precious metal except silver, except necklaces and clasps.	30,897	29.2
	7115.90.10	Other articles of gold, including metal clad with gold	9,115	8.6
		Total	81,581	77.1
Colombia	0603.10.70	Chrysanthemums, standard carnations, anthuriums and orchids	158,382	28.2
	0603.10.60	Roses, fresh cut	119,581	21.3
	0603.10.80	Cut flowers and flower buds suitable for bouquets, not elsewhere specified.	53,066	9.5
	0603.10.30	Miniature (spray) carnations, fresh cut	34,824	6.2
	3921.12.11	Cellular plastic plates and sheets with manmade textile components, over 70% by weight of polymers of vinyl chloride	33,597	6.0
	1701.11.10	Raw sugar not containing added flavoring or color	11,216	2.0
	4202.91.00	Leather golf bags, travel bags, sports bags and cases ²	10,635	1.9
		Total	421,304	75.1
Ecuador . . .	1604.14.40	Tuna and skipjack, not in airtight containers	56,341	25.8
	0603.10.60	Roses, fresh cut	36,119	16.6
	0603.10.80	Cut flowers and flower buds suitable for bouquets, not elsewhere specified.	27,032	12.4
	0302.69.40	Fresh or chilled fish, including sable, ocean perch, snapper, grouper, and monkfish	12,744	5.8
	1701.11.10	Raw sugar not containing added flavoring or color	10,556	4.8
	4421.90.98	Articles of wood, including pencil slats and others	10,127	4.6
	2009.80.60	Fruit juices including cherry, berry, and others, unfermented	4,108	1.9
	4412.14.30	Plywood, veneered panels and similar laminated wood with at least one outer ply of nonconiferous wood nesi	3,956	1.8
	7113.19.29	Gold necklaces and neck chains, other than rope or mixed link	3,532	1.6
		Total	164,515	75.3
Peru	7403.11.00	Cathodes and sections of cathodes of refined copper	91,749	23.8
	7113.19.10	Rope and chain for jewelry, of precious metal except silver	59,272	15.4
	1701.11.10	Raw sugar not containing added flavoring or color	30,010	7.8
	7113.19.21	Gold rope necklaces and neck chains	28,459	7.4
	7901.11.00	Zinc not alloyed, containing by weight 99.99 percent or more of zinc	21,893	5.7
	7113.19.50	Jewelry and parts of precious metal except silver, except necklaces and clasps	20,658	5.3
	7108.13.50	Gold (including gold plated with platinum) unwrought or in semimanufactured forms nesi	17,576	4.6
	7905.00.00	Zinc plates, sheets, strip and foil	15,112	3.9
	0709.20.90	Asparagus, fresh or chilled, not entered Sept. 15-Nov. 15	12,541	3.2
		Total	297,270	77.1

¹ Customs value.

² Indicated articles are subject to the ATPA staged 20-percent duty reduction.

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 6

Impact of ATPA on the United States and Probable Future Effects

This chapter assesses two issues: the impact of the ATPA preference program on the United States in 1996 and the probable future effects of the program. In the impact analysis, items most affected by the ATPA preferences were identified and specific U.S. industries were examined. Information on investment in beneficiary countries was the main basis for the probable future effects section.

Impact of ATPA on the United States in 1996

Since it was implemented in 1992, ATPA has had a minimal effect on the overall economy of the United States. In each year from 1992 through 1996, the value of ATPA duty-free U.S. imports has been around 0.015 percent or less of U.S. gross domestic product. As pointed out in chapter 5, the total value of U.S. imports from ATPA countries remained small in 1996, amounting to 1.0 percent of total U.S. imports.

Because most U.S. imports from ATPA countries can enter the United States free of duty at MFN rates or under GSP or are excluded from the program, the Commission focuses its analysis of the impact of ATPA on products that can enter free of duty or at reduced duties only under ATPA provisions. The material that follows in this section defines products that benefit exclusively from ATPA; presents quantitative estimates of the impact of ATPA on U.S. consumers, the U.S. Treasury, and U.S. industries whose goods compete with U.S. imports under ATPA; and describes the U.S. imports that benefited exclusively from ATPA in 1996 and had the largest potential impact on competing U.S. industries. It also includes a separate discussion of those U.S. industries most affected by ATPA preferential treatment, both in 1996 and over the life of the ATPA program.

Products That Benefited Exclusively From ATPA in 1996

U.S. imports of products benefiting exclusively from ATPA are defined as those that enter under either ATPA duty-free or ATPA reduced-duty provisions and are not eligible to enter free of duty under MFN rates or under other provisions such as GSP. Consistent with this definition, GSP-eligible items imported from ATPA countries that entered under ATPA provisions are considered to benefit exclusively from ATPA only if imports of the item from a certain country exceeded GSP competitive-need limits,¹ or under circumstances described below.

In 1996 the U.S. GSP program was not operative from January 1 through September 30.² Consequently, articles eligible for GSP duty-free entry were subject to ordinary MFN duties during this period unless the articles were eligible to enter under another preferential program, such as ATPA, and were entered under that program. 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; therefore, products normally eligible for GSP that entered the United States under ATPA provisions during this period are assumed to have benefited exclusively from ATPA. Hence, the effects of duty-free entry of these otherwise GSP-eligible products are attributed to ATPA for the period January

¹ A beneficiary developing country loses GSP benefits for an eligible product when U.S. imports of the product exceed either a specific annually adjusted value or 50 percent of the value of total U.S. imports of the product in the preceding calendar year—the so-called competitive-need limits. Sec. 504(c)(1) of the Trade Act of 1974, as amended. ATPA has no competitive-need limits. Thus, eligible products that are excluded from duty-free entry under GSP because their competitive-need limits have been exceeded can still receive duty-free entry under ATPA.

² The GSP program is discussed in more detail in chapters 2 and 4.

1 through September 30, 1996, which results in higher estimates of the effects of ATPA than would have been the case if the GSP program been operative during that period.³

Since the inception of the ATPA program, U.S. imports that benefit exclusively from ATPA have accounted for a relatively small portion of total U.S. imports from ATPA countries; this portion has risen substantially in the last 2 years. However, almost all of the increased share in 1995 and 1996 is attributable to the lapse in the GSP program from August 1, 1995, through September 30, 1996.

The value of U.S. imports that benefited exclusively from ATPA increased from \$699 million

³ 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 GSP-eligible items that entered from January 1 through September 30 from this analysis. 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 report the upper bound effects of the ATPA on the U.S. economy.

in 1995 to \$1.0 billion in 1996, or 48 percent (table 6-1).⁴ Such imports accounted for 13.1 percent of total U.S. imports from ATPA countries in 1996, compared with 10.0 percent in 1995. The large increase is due mainly to the continued lapse of the GSP program for three main reasons. First, the length of the lapse in the GSP program in 1996 was 9 months, as opposed to 5 months in 1995. Second, there was an increase in ATPA utilization for several items that are normally eligible for duty-free entry under the GSP program. Third, there were large increases in overall imports of several GSP-eligible products.

The increase in imports of copper cathodes (HTS subheading 7403.11.00) benefiting exclusively from ATPA accounted for about 22 percent of the total increase in the value of all goods benefiting exclusively. Total imports of copper cathodes in full-year 1996 were about 4.5 times the value of imports of the item in 1995. Other normally GSP-eligible products registering large increases in ATPA-exclusive imports include cut flowers (HTS subheading 0603.10.80) and certain jewelry and parts of precious metals (HTS subheading 7113.19.50).

Large increases in ATPA-exclusive imports also occurred for several items that were not GSP eligible. These include fresh-cut roses (HTS subheading 0603.10.60), and tuna and skipjack (HTS subheading 1604.14.40).

⁴ 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.

Table 6-1
Total imports from ATPA beneficiaries, imports entered under ATPA provisions, and imports that benefited exclusively from ATPA provisions, 1994-96

Item	1994	1995	1996
Total imports from ATPA beneficiaries:			
Value (<i>million dollars</i>) ¹	5,880	6,969	7,868
Imports entered under ATPA provisions: ²			
Value (<i>million dollars</i>) ¹	684	939	1,270
Percent of total	11.6	13.5	16.1
Imports that benefited exclusively from ATPA provisions:			
Value (<i>million dollars</i>) ²	288	699	1,033
Percent of total imports from ATPA beneficiaries	4.9	10.0	13.1

¹ Customs value.

² Includes articles entered free of duty and at reduced duties under ATPA provisions (table 5-5). Those provisions are discussed in chapter 4.

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

Leading imports that were identified in previous annual ATPA reports as benefiting exclusively from ATPA between 1992 and 1995 continued to rank among the leading U.S. imports in 1996. These are chrysanthemums, etc. (HTS subheading 0603.10.70), and fresh cut roses, which have consistently ranked among the leading items benefiting exclusively from ATPA since the inception of the program.

Welfare and Displacement Effects of ATPA on U.S. Industries and Consumers in 1996

The analytical approach for estimating the welfare and displacement effects for ATPA is described in the introduction to this report, and is discussed in more detail in appendix C.

The analysis was conducted on the 25 leading items that benefited exclusively from ATPA shown in table 6-2.⁵ Estimates of welfare and U.S. potential industry displacement effects were made, and industries that experienced estimated potential displacement of over 5 percent of the value of U.S. production were selected for further analysis.

Items Analyzed

Although a large number of products are eligible for duty-free or reduced-duty entry under ATPA provisions, a relatively small group of products accounts for most of the imports that benefit exclusively from ATPA. Table 6-2 presents the 25 leading items that are shown to have benefited exclusively from ATPA in 1996 on the basis of their c.i.f. import values.⁶ 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 1996 were also GSP eligible). The lower portion of the table shows imports that were also eligible for GSP duty-free entry after GSP was

⁵ USITC industry analysts provided estimates of U.S. production and exports for the 25 leading items that benefited exclusively from ATPA.

⁶ 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.

reinstated; from January 1 through September 30, 1996, these items also benefited exclusively from ATPA. Combined, these products represented 85 percent of the \$1.0 billion in imports that benefited exclusively from ATPA during 1996.⁷ The five leading ATPA-exclusive imports in 1996 were (1) chrysanthemums, etc., from Colombia, (2) fresh cut roses, (3) copper cathodes, (4) cut flowers, and (5) rope and chain for jewelry of precious metals (HTS subheading 7113.19.10). Colombia was the leading supplier of each of the three flower subheadings, and Peru was the leading supplier of the other two.⁸ Chrysanthemums, etc., and fresh cut roses also ranked first and second, respectively, in 1995. Copper cathodes and cut flowers benefited exclusively from ATPA only because of the lapse in GSP.

For any particular item, the size of the market share accounted for by ATPA-exclusive imports (value of imports benefiting exclusively from ATPA relative to apparent consumption) is a major factor in determining the estimated impact on competing domestic producers;⁹ market shares varied considerably in 1996 (table 6-3). For instance, the market share of ATPA-exclusive imports of chrysanthemums, etc. was approximately 75 percent, while the market share of ATPA-exclusive imports of certain articles of wood (HTS subheading 4421.90.98) was just over 0.25 percent.

Estimated Effects on Consumers and Producers

Table 6-4 presents the estimated impact of ATPA tariff preferences on the U.S. economy in 1996.¹⁰ Estimates of the gains in consumer surplus and the losses in tariff revenue, as well as measures of the potential displacement of U.S. production, are discussed below.

Effects on U.S. consumers

Chrysanthemums, etc., provided the largest estimated gain in consumer surplus (\$10.7 million) resulting exclusively from ATPA tariff preferences in

⁷ The import values reported in tables 6-2 and 6-3 reflect only that portion of imports under each HTS subheading that entered duty-free or at reduced duty under ATPA. Even though all of these items were eligible for ATPA tariff preferences, full duties were paid on a certain portion of imports under each HTS subheading for a variety of reasons such as failure to claim preferences or insufficient documentation.

⁸ Leading ATPA suppliers are shown in table 5-6.

⁹ Other factors include the ad valorem equivalent tariff rate; the substitutability among beneficiary imports, nonbeneficiary imports, and domestic production; and the overall demand elasticity for the product category.

¹⁰ The methodology used is described in appendix C.

Table 6-2
Value of leading imports that benefited exclusively from ATPA duty provisions in 1996
(1,000 dollars)

HTS item	Description	Customs value	C.i.f. value	Rank
Benefited Jan. 1—Dec. 31				
0603.10.70 ¹	Chrysanthemums, standard carnations, anthuriums and orchids	158,383	188,762	1
0603.10.60	Roses, fresh cut	156,039	184,101	2
1604.14.40	Tuna and skipjack, not in airtight containers	57,933	60,602	6
0709.20.90 ²	Asparagus, fresh or chilled, not reduced in size, not entered Sept. 15-Nov. 15	21,379	31,511	10
4202.91.00 ³	Leather golf bags, travel bags, sports bags, and cases	11,249	11,701	15
7108.13.70	Gold (including gold plated with platinum) unwrought or in semimanufactured forms nesi	10,875	10,884	17
0709.20.10	Asparagus, entered Nov. 16-Sept. 14	6,095	9,197	19
4202.11.00 ³	Leather trunks, suitcases, etc	7,497	7,822	21
0703.10.40	Onions and shallots, except onion sets and pearl onions, fresh or chilled	4,780	6,733	24
6908.90.00	Glazed ceramic flags and tiles	5,549	6,446	25
Benefited Jan. 1—Sept. 30⁴				
7403.11.00	Cathodes and sections of cathodes of refined copper	85,328	87,257	3
0603.10.80	Cut flowers and flower buds suitable for bouquets, not elsewhere specified	65,309	77,119	4
7113.19.10	Rope and chain for jewelry, of precious metal except silver	67,127	67,385	5
1701.11.10	Raw sugar not containing added flavoring or color	38,317	41,580	7
7113.19.50	Jewelry and parts of precious metal except silver, except necklaces and clasps	38,777	38,893	8
0603.10.30	Miniature (spray) carnations, fresh cut	28,139	32,548	9
3921.12.11	Cellular plastic plates and sheets with manmade textile components, over 70% by weight of polymers of vinyl chloride	25,894	26,442	11
7901.11.00	Unwrought zinc, not alloyed	21,491	22,561	12
7113.19.21	Gold rope necklaces and neck chains	17,584	17,611	13
0302.69.40	Fresh or chilled fish, including sable, ocean perch, snapper, grouper, and monkfish	12,900	15,590	14
7801.10.00	Refined lead, unwrought	10,259	10,940	16
7905.00.00	Zinc plates, sheets, strip and foil	10,218	10,711	18
4421.90.98	Articles of wood, including pencil slats	7,395	8,382	20
1704.90.35	Sugar confections or sweetmeats, other than candied nuts or cough drops	6,719	7,256	22
7113.19.29	Gold necklaces and neck chains, other than rope or mixed link	7,078	7,091	23

¹ Includes only imports from Colombia. Item is GSP eligible, but imports from Colombia exceeded the competitive-need limit and thus were eligible for duty-free entry only under ATPA.

² Includes only imports from Peru. Item is GSP eligible, but imports from Peru exceeded the competitive-need limit and thus were eligible for duty-free entry only under ATPA.

³ Subject to reduced duties under ATPA provisions.

⁴ Items listed were eligible for GSP duty-free entry after that program was reinstated Oct. 1, 1996. The import values reported are only for items entered Jan. 1-Sept. 30, 1996.

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

Table 6-3
Leading imports that benefited exclusively from ATPA, apparent U.S. consumption, and market shares, 1996

HTS item	Description	ATPA imports	Apparent U.S. consumption	Market share
		(c.i.f. value) (A)	(B) ¹	(A/B)
		1,000 dollars		Percent
Benefited Jan.1—Dec. 31				
0603.10.70	Chrysanthemums, standard carnations, anthuriums and orchids	188,762	251,919	74.93
0603.10.60	Roses, fresh cut	184,101	321,786	57.21
1604.14.40	Tuna and skipjack, not in airtight containers	60,602	107,132	56.57
0709.20.90 ²	Asparagus, fresh or chilled, not reduced in size, not entered Sept. 15-Nov. 15	31,511	184,294	17.10
4202.91.00	Leather golf bags, travel bags, sports bags, and cases	11,701	191,415	6.32
7108.13.70	Gold (including gold plated with platinum) unwrought or in semimanufactured forms			
	nesi	10,884	483,098	2.25
0709.20.10 ²	Asparagus, entered Nov. 16-Sept. 14	9,197	-	-
4202.11.00	Leather trunks, suitcases, etc	7,822	204,274	4.06
0703.10.40	Onions and shallots, except onion sets and pearl onions, fresh or chilled	6,733	635,805	1.06
6908.90.00	Glazed ceramic flags and tiles	6,446	902,610	0.71
Benefited Jan.1—Sept. 30³				
7403.11.00	Cathodes and sections of cathodes of refined copper	87,257	6,278,130	1.39
0603.10.80	Cut flowers and flower buds suitable for bouquets, not elsewhere specified	77,119	478,286	16.12
7113.19.10	Rope and chain for jewelry, of precious metal except silver	67,385	680,871	9.90
1701.11.10	Raw sugar not containing added flavoring or color	41,580	4,176,767	1.00
7113.19.50	Articles of jewelry and parts	38,893	4,183,136	0.93
0603.10.30	Miniature (spray) carnations, fresh cut	32,548	50,220	64.81
3921.12.11	Cellular plastic plates and sheets with manmade textile components, over 70% by weight of polymers of vinyl chloride	26,442	387,044	6.83
7901.11.00	Zinc not alloyed, containing by weight 99.99 percent or more of zinc	22,561	1,099,467	2.05
7113.19.21	Gold rope necklaces and neck chains	17,611	176,076	10.00
0302.69.40	Fresh or chilled fish, including sable, ocean perch, snapper, grouper, and monkfish	15,590	196,541	7.93
7801.10.00	Refined lead, unwrought	10,940	1,573,364	0.70
7905.00.00	Zinc plates, sheets, strip and foil	10,711	173,781	6.16
4421.90.98	Articles of wood, including pencil slats	8,382	3,033,624	0.28
1704.90.35	Sugar confections or sweetmeats, other than candied nuts or cough drops	7,256	(⁴)	(⁴)
7113.19.29	Gold necklaces and neck chains, other than rope or mixed link	7,091	1,229,144	0.58

¹ Apparent U.S. consumption defined as U.S. production plus total imports (landed, duty-basis) minus exports.

² Apparent consumption for HTS subheadings 0709.20.10 and 0709.20.90 is aggregated and reported under HTS subheading 0709.20.90.

³ Apparent U.S. consumption defined as U.S. production plus total imports (landed, duty-basis) minus exports.

⁴ Items listed were eligible for GSP duty-free entry after that program was reinstated Oct. 1, 1996. The import values reported are only for items entered Jan. 1-Sept. 30, 1996.

⁵ U.S. production data not available.

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.

Table 6-4

Estimated welfare and displacement effects on the United States of leading imports that benefited exclusively from ATPA, 1996

HTS item	Description	Welfare effects			Displacement effects		
		Gain in consumer surplus (A)	Loss in tariff revenue (B)	Net welfare effect (A-B)	U.S. domestic shipments (C)	Value (D)	Share (D/C)
	Benefited Jan. 1—Dec. 31						
0603.10.70	Chrysanthemums, standard carnations, anthuriums and orchids	10,706	10,051	656	38,719	7,038	18.18
0603.10.60	Roses, fresh cut	10,600	9,723	877	111,107	15,710	14.14
1604.14.40	Tuna and skipjack, not in airtight containers	231	230	1	5	(¹)	1.02
0709.20.90 ²	Asparagus, fresh or chilled, not reduced in size, not entered Sept. 15-Nov. 15	3,040	2,377	663	104,912	10,383	9.90
4202.91.00	Leather golf bags, travel bags, sports bags, and cases	256	242	14	23,100	103	0.45
7108.13.70	Gold (including gold plated with platinum) unwrought or in semimanufactured forms nesi	542	472	70	468,691	1,817	0.39
0709.20.10 ²	Asparagus, entered Nov. 16-Sept. 14	-	-	-	-	-	-
4202.11.00	Leather trunks, suitcases, etc	116	111	4	62,733	117	0.19
0703.10.40	Onions and shallots, except onion sets and pearl onions, fresh or chilled . . .	305	269	36	469,923	1,192	0.25
6908.90.00	Glazed ceramic flags and tiles	645	465	180	324,441	1,332	0.41
	Benefited Jan. 1—Sept. 30³						
7403.11.00	Cathodes and sections of cathodes of refined copper	833	813	20	5,114,907	3,114	0.06
0603.10.80	Cut flowers and flower buds suitable for bouquets, not elsewhere specified	4,136	3,627	509	259,972	9,601	3.69
7113.19.10	Rope and chain for jewelry, of precious metal except silver	4,021	3,425	596	535,000	11,180	2.09
1701.11.10 ⁴	Raw sugar not containing added flavoring or color	0	1,062	-1,062	3,198,800	0	0
7113.19.50	Articles of jewelry and parts	1,989	1,722	267	1,780,000	2,840	0.16
0603.10.30	Miniature (spray) carnations, fresh cut	974	937	37	7,300	572	7.84
3921.12.11	Cellular plastic plates and sheets with manmade textile components, over 70% by weight of polymers of vinyl chloride	990	900	90	313,488	3,909	1.25
7901.11.00	Zinc not alloyed, containing by weight 99.99 percent or more of zinc	311	301	11	403,858	529	0.13
7113.19.21	Gold rope necklaces and neck chains	868	763	105	120,000	2,042	1.70
0302.69.40	Fresh or chilled fish, including sable,ocean perch, snapper, grouper, and monkfish	1	1	(¹)	19,600	1	(⁵)
7801.10.00	Refined lead, unwrought	278	260	18	1,403,579	1,179	0.08
7905.00.00	Zinc plates, sheets, strip and foil	322	299	24	154,655	1,375	0.89
4421.90.98	Articles of wood, including pencil slats	272	249	23	2,640,917	1,190	0.05
1704.90.35	Sugar confections or sweetmeats, other than candied nuts or cough drops	(⁶)	(⁶)	(⁶)	(⁶)	(⁶)	(⁶)
7113.19.29	Gold necklaces and neck chains, other than rope or mixed link	363	314	49	535,000	548	0.10

¹ Less than \$500.² Analysis for HTS subheadings 0709.20.10 and 0709.20.90 is combined and reported under HTS subheading 0709.20.90.³ Items listed were eligible for GSP duty-free entry after that program was reinstated Oct. 1, 1996. The import values reported are only for items entered Jan. 1-Sept. 30, 1996.⁴ Raw sugar imports in this category are subject to U.S. tariff-rate quotas; therefore, the net welfare effect 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.⁵ Less than 0.005 percent.⁶ Welfare and displacement effects were not calculated because of the unavailability of U.S. production data.

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

1996 (table 6-4). The price U.S. consumers would have paid for imports of chrysanthemums, etc., from ATPA countries would have been 6.0 percent higher (the ad valorem tariff rate adjusted for freight and insurance charges) without ATPA. Fresh cut roses provided the second largest estimated gain in consumer surplus (\$10.6 million). Without ATPA, the price of fresh cut roses from ATPA countries would have been 6.3 percent higher. In general, items providing the largest gains in consumer surplus also have (1) the highest MFN tariff rates and/or (2) the largest volumes of imports.

ATPA preferences also reduced U.S. tariff revenues. For example, for chrysanthemums, etc., lower tariff revenues offset nearly 94 percent of the gain in consumer surplus; for fresh cut roses, the offset was about 92 percent. For most of the other items listed in table 6-4, lower tariff revenues offset nearly all of the gain in consumer surplus; this typically occurs when tariff rates are relatively low, as with most ATPA-exclusive items.

Overall, the estimated net welfare effects of ATPA were small. The gain in consumer surplus (column A of table 6-4) was greater than the corresponding decline in tariff revenue (column B) for all of the products analyzed for which data were available except raw sugar (HTS subheading 1701.11.10), which does not provide a gain in consumer surplus because it is subject to a tariff-rate quota.¹¹ Of the resulting estimated net welfare gains, the largest were for fresh cut roses (\$877,000), asparagus (HTS subheadings 0709.20.10 and 0709.20.90) (\$663,000), and chrysanthemums, etc., (\$656,000). Fresh cut roses and asparagus also had the largest net welfare gains in 1995.¹²

Effects on U.S. producers

Estimates of the potential displacement of domestic production were small for most of the individual sectors.¹³ Because of the assumptions of

¹¹ Tariff-rate quotas that apply to HTS subheading 1701.11.10 set maximum sugar import levels at lower tariff rates both globally and for imports from individual countries. Over-quota imports are charged much higher tariffs, which tend to be prohibitive. 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, and there was no consequent gain in consumer surplus, even after ATPA tariff reductions on sugar were implemented.

¹² See USITC, *ATPA, Third Annual Report, 1995*, table 3-4, p. 23.

¹³ U.S. market share and ad valorem equivalent tariff rate are the main factors that affect the estimated displacement of U.S. domestic shipments, given the assumption of identical high substitution elasticities. In general, the larger the ATPA share of the U.S. market and

high substitutability and no capacity constraints to production, the effects actually experienced by producers are likely to be lower than the estimated effects. The analysis indicates that the largest potential displacement effects were for chrysanthemums, etc. (an estimate of 18.2 percent of U.S. domestic shipments displaced, valued at \$7.0 million), fresh cut roses (14.1 percent displaced, valued at \$16 million), asparagus (9.9 percent displaced, valued at \$10 million), and miniature carnations (HTS subheading 0603.10.30) (7.8 percent displaced, valued at \$572,000). However, the estimated displacement share for the majority of the products benefiting exclusively from ATPA was less than 1.0 percent.

Highlights of U.S. Industries Most Affected by ATPA

Industries having estimated displacement of 5 percent or more were chosen for further analysis. In 1996, only a few products that benefited exclusively from ATPA met this criterion: chrysanthemums, etc., fresh cut roses, asparagus, and miniature carnations. In addition, past reports in this series were reviewed to identify items that have frequently met the 5-percent displacement criterion. Two ATPA items appear with a certain consistency: chrysanthemums, etc., and fresh cut roses. Industry-by-industry analysis of the items significant in 1996 follows, as does a discussion of the impact of the ATPA program over time on the U.S. producers of the consistently occurring items.

Cut Flowers

Colombia is one of the leading producers and exporters of fresh cut flowers. Colombia's flower industry is one of its most important agricultural export industries, and was active prior to the enactment of ATPA.¹⁴ The United States is Colombia's most important export market and the bulk of Colombian flowers are exported to the United States.¹⁵ Colombian cut flower producers hold about 70 percent of the U.S. fresh cut flower market.¹⁶

¹³—*Continued*
ad valorem equivalent tariff rate, the larger the displacement of domestic shipments.

¹⁴ See the section on ATPA-related investment during 1996 later in this chapter for further discussion on investment.

¹⁵ USDA, Foreign Agriculture Service, "Production and Trade of Fresh Cut Flowers in Selected Countries," *World Horticultural Trade & U.S. Export Opportunities*, Oct. 1996, pp. 22-38.

¹⁶ U.S. House of Rep., Committee on Ways and Means, Subcommittee on Trade, Hearing on the Free Trade of the Americas, "Statement of Congressman Sam Farr," 105th Cong., 1st sess., July 22, 1997.

U.S. imports of fresh cut chrysanthemums, standard carnations, anthuriums and orchids (chrysanthemums, etc.) under HTS subheading 0603.10.70, fresh cut roses (roses) under HTS subheading 0603.10.60, and fresh cut miniature (spray) carnations (miniature carnations) under HTS subheading 0603.10.30 are supplied primarily by ATPA countries (mainly Colombia).

In 1996, of these three categories, chrysanthemums, etc. accounted for approximately 51 percent of the value of U.S. flower imports from Colombia under the ATPA program, followed by roses (38 percent), and miniature carnations (11 percent). Of the three, the most important sector (in value terms) in the U.S. fresh cut flower industry was roses, followed by chrysanthemums, etc. and miniature carnations.¹⁷

Together, U.S. production of these three flower groups totaled about \$173.8 million and accounted for almost 39 percent of the total U.S. cut flower industry in 1996. After falling 4 percent from 1994 to 1995, the value of sales at the wholesale level of all U.S.-grown cut flowers increased 5 percent to \$446.5 million in 1996.¹⁸ However, the wholesale sales value of certain individual flower groups was down. From 1995 to 1996, the value of sales at the wholesale level for chrysanthemums, etc. decreased 6 percent to about \$48.0 million, roses fell almost 6 percent to about \$118.2 million, and miniature chrysanthemums fell almost 32 percent to about \$7.6 million.¹⁹ At the same time that domestic wholesale sales values were decreasing, imports were increasing. U.S. legislators, industry representatives, and growers blame the decline of the U.S. cut flower industry on Andean flower imports.²⁰

The U.S. flower industry has taken a number of actions in response to import competition. The industry has automated growing operations; developed new hybrid varieties that provide higher production, longer stems, longer plant and vase life, less fragile blooms, and new colors demanded by consumers;

¹⁷ The wholesale sales value of roses grown in the United States totaled approximately \$118.2 million; chrysanthemums, etc. totaled \$48.0 million; and miniature carnations totaled \$7.6 million. USDA, National Agricultural Statistical Service, "Floriculture Crops 1996 Summary," found at Internet: http://usda.mannlib.cornell.edu/reports/nassr/other/zfc-bb/floriculture_crops_04.25.97, retrieved May 28, 1997.

¹⁸ Ibid.

¹⁹ Ibid.

²⁰ U.S. House of Rep., "Statement of Congressman Sam Farr;" and U.S. House of Rep., Committee on Ways and Means, Subcommittee on Trade, Hearing on the Free Trade of the Americas, "Testimony of Arthur L. Heyl, President, Heyl Roses, Inc., President, Roses, Inc., on Behalf of the Floral Trade Council," 105th Cong., 1st sess., July 22, 1997.

increased generic flower industry promotion; and marketed flowers at grocery stores and other mass marketers (where imports are actively being positioned because sales are increasing owing to higher impulse buying).

The U.S. industry has also filed several antidumping and countervailing duty cases. Table 6-5 outlines investigations that resulted in affirmative determinations, and for which antidumping or countervailing duty orders are in effect.

On January 7, 1997, a bill was introduced in the House of Representatives to remove flowers from preferential status under ATPA (H.R. 54).²¹ The bill's sponsor stated that ATPA has "given one-sided trade benefits to several South American countries," caused a "steady weakening of the American flower industry," and has not reduced the drug trade.²² The sponsor attributes the large decline in the number of U.S. growers since the enactment of ATPA in 1991 to competition from ATPA countries.²³ The Floral Trade Council²⁴ claimed that 42 percent of U.S. standard carnation growers, 36 percent of U.S. miniature carnation growers, 26 percent of U.S. standard chrysanthemum growers, 32 percent of U.S. pompon chrysanthemum growers, and 26 percent of U.S. rose growers have gone out of business since the enactment of ATPA.²⁵ They also claimed that U.S. producers are being "crowded out" by Andean flower imports, stating that from 1991 to 1996 the total number of imported stems of leading cut flowers increased by almost 80 percent to 2.4 billion stems, and Andean nations' share of these stems increased from 92 percent to 93 percent.²⁶ Additionally, per capita annual consumer spending for leading cut flowers fell slightly from \$12.90 in 1992 to \$12.21 in 1996.²⁷

A U.S. rose industry representative and grower stated that Andean flower imports have been negatively impacting the U.S. industry and eroding the U.S. rose market share since 1979. She also claimed that from 1985 to 1988, "domestic rose growers were losing market shares in a steadily growing market," and "domestic growers' share of the

²¹ 105th Cong., 1st sess., H.R. 54 introduced by Congressman Sam Farr (D-CA), Jan. 7, 1997.

²² U.S. House of Rep., "Statement of Congressman Sam Farr;" and Miles Popmer, LEGI-SLATE News Service, "Colombian Flowers Don't Smell Sweet to California Representatives," Feb. 26, 1997.

²³ Ibid; and U.S. industry representative, USITC telephone interview, Haslett, Michigan, June 26, 1997.

²⁴ The Floral Trade Council represents the interests of U.S. cut flower growers in matters of trade and government relations.

²⁵ U.S. House of Rep., "Testimony of Arthur L. Heyl."

²⁶ Ibid.

²⁷ Ibid.

Table 6-5
Open status cut flower antidumping and countervailing duty cases with affirmative determinations

Case/ ITA Case #	Country	HTS item	Current cash deposit rate for AD or CVD margin/range of margins (percentage ad valorem)	Effective date of the deposit rate
CVD (ITA Case # C-333-601)	Peru	0603.10.70.10 (Pompon chrysanthemums)	17.53	10/27/89
AD (ITA Case # A-331-601)	Ecuador	0603.10.70.10 (Pompon chrysanthemums) 0603.10.70.20 (Other chrysanthemums) 0603.10.70.30 (Standard carnations)	0 - 20.73 (13 farms), 5.89 (all other)	7/16/96
AD (ITA Case # A-301-602)	Colombia	0603.10.70.10 (Pompon chrysanthemums) 0603.10.70.20 (Other chrysanthemums) 0603.10.70.30 (Standard carnations) 0603.10.30 (Miniature carnations)	0 - 83.14 (465 farms), 3.1 (all other)	Rates vary based on period of time as well as grower/exporter

Note.—Owing to periodic fluctuations in the number of farms and estimated deposit rates, the data may no longer be current.

Source: Compiled by staff of the U.S. International Trade Commission from data supplied by the U.S. Customs Service.

market declined from 73 percent to 69 percent, whereas consumption increased by 29 percent” while at the same time “imported roses increased by 86 percent and domestic production by nine percent.”²⁸

U.S. growers generally contend that ATPA countries did not need the incentive to export to the U.S. market since they already were strong competitors.²⁹ U.S. growers reason that ATPA countries, particularly Colombia, have competitive advantages, such as lower employee expenses, no heating costs, and few environmental regulations or expenses. Furthermore, ATPA producers do not have the added regulatory costs imposed by U. S. agencies (e.g., OSHA and EPA) and thus have significant cost advantages over U.S. growers.³⁰ For example, new rose varieties from European hybridizers brought into the United States must be quarantined for 2 years, *while Colombia has no such restrictions.³¹ Imported

flower sales are also greatly aided by the speedy and reliable air freight service from Colombia, the sophisticated flower-receiving infrastructure at the Miami International Airport which was in place prior to the enactment of ATPA, and the large and continually modernized central distribution warehouses in Miami. Furthermore, the water table level around Bogota has returned to normal and water supplies are no longer a problem, as was the case reported in the second and third ATPA reports.³²

U.S. growers also generally claim that ATPA has not accomplished its main goal of diverting farmers away from the drug trade.³³ Additionally, a legislator stated that since ATPA began, the number of hectares of coca cultivated in Colombia nearly tripled.³⁴

In sharp contrast, importers and foreign industry representatives argue that the ATPA duty-free

²⁸ U.S. House of Rep., Committee on Ways and Means, Subcommittee on Trade, Hearing on the Free Trade of the Americas, “Written Testimony of Lina Aebi Hale Representing California Floral Council, California Cut Flower Commission, California Rose Growers and Aebi Nursery,” 105th Cong., 1st sess., July 22, 1997.

²⁹ U.S. industry representative, USITC telephone interview, Haslett, Michigan, June 26, 1997.

³⁰ Ibid.

³¹ U.S. House of Rep., “Written Testimony of Lina Aebi Hale.”

³² Flower importer, USITC staff interview, June 17, 1997. For further discussion, see USITC, *ATPA Third Report, 1995*, p. 25 and *ATPA Second Report, 1994*, p. 24.

³³ U.S. industry representative, USITC telephone interview, Haslett, Michigan, June 26, 1997; and U.S. House of Rep., “Statement of Congressman Sam Farr.” For more information, see chapter 7, “Impact of ATPA on Drug-Related Crop Eradication and Crop Substitution,” and appendix B of this report for summaries of submissions in response to *Federal Register* notices.

³⁴ U.S. House of Rep., “Statement of Congressman Sam Farr.”

preference has greatly helped Andean growers and importers by supplying jobs and diverting farmers from the drug trade.³⁵ They also generally claim that if the trade preference were removed, U.S. prices would not be raised and ATPA growers would have to absorb the cost of the import duty in order to keep prices low and remain competitive,³⁶ causing growers to suffer and making the drug trade the likely alternative.³⁷ Bolivia and Peru have expressed particular concern about the pending bill, and claim it would cause considerable harm to their growing flower sectors.³⁸

Trade trends in and other details of the three main flower groups are outlined below. They are chrysanthemums, etc., roses, and miniature carnations. U.S. legislators, industry representatives, and growers of the three flower main groups generally conclude that ATPA had a negative impact on the U.S. flower industry.

Chrysanthemums, etc.

In 1996, U.S. imports of chrysanthemums, etc. were primarily supplied by ATPA countries. In that year, about 92 percent of the value of total U.S. imports of chrysanthemums, etc. from the world entered under the ATPA program. From 1995 to 1996, the value of such imports from ATPA countries increased almost 10 percent from \$147.9 million to \$161.9 million.

Chrysanthemums, etc. are normally eligible for GSP duty-free treatment. However, such imports from Colombia in 1996 were not GSP eligible because they exceeded the competitive-need limit. Without the duty-free trade preference or antidumping duties, the 1996 duty would have been 7.5 percent ad valorem.³⁹

U.S. imports of chrysanthemums, etc. from ATPA countries come primarily from Colombia. ATPA duty-free imports of chrysanthemums, etc. from Colombia accounted for nearly 99 percent and 98 percent of the value of such U.S. imports from ATPA countries in 1995 and 1996, respectively, and about 90

³⁵ Importer and foreign grower representative, USITC staff interview, Miami, June 17, 1997; and U.S. industry representative, USITC staff interview, Haslett, Michigan, June 26, 1997.

³⁶ Since a large percentage of South American flowers are sold on consignment, any increase in import duties would be charged back to the grower as an added expense. Importer, USITC staff interview, Miami, June 17, 1997.

³⁷ See appendix B for summary of submission by the Floral Trade Council in response to *Federal Register* notice.

³⁸ U.S. Department of State cables, message reference No. 02622, prepared by U.S. Embassy, La Paz, Bolivia, May 23, 1997; and message reference No. 05479, prepared by U.S. Embassy, Lima, Peru, June 25, 1997.

³⁹ General column 1 rate of duty.

percent of the total value of such U.S. imports from the world in both 1995 and 1996. These flowers from ATPA countries supplied an estimated 75 percent of the U.S. market in 1996.⁴⁰

In 1996, standard carnations accounted for roughly 55 percent of imports from ATPA countries under this subheading; standard chrysanthemums accounted for only 7 percent of such imports; pompon chrysanthemums accounted for 39 percent; orchids were negligible; and there were no anthurium imports. However, of the chrysanthemums, etc. components, in terms of value, imports of standard chrysanthemums increased the most (by 31 percent) from \$8.1 million in 1995 to \$10.6 million in 1996.

The performance of the U.S. industry in this category in 1996 was mixed. The wholesale sales value increased for standard chrysanthemums, anthuriums, and orchids, but decreased for pompon chrysanthemums and standard carnations. From 1995 to 1996, the total wholesale value of U.S. sales of chrysanthemums, etc. fell almost 9 percent from \$52.8 million to approximately \$48.0 million.⁴¹ The domestic value fell by 9 percent, while imports increased in value by 10 percent.

Roses

In 1996, U.S. imports of roses were primarily supplied by ATPA countries. About 87 percent of the value of total U.S. rose imports from the world entered under the ATPA program in 1996. From 1995 to 1996, U.S. imports of roses from ATPA countries increased by 23 percent from \$126.8 million to \$156.0 million.

Roses benefited exclusively from ATPA because roses were not eligible under the GSP in 1996. Without the ATPA duty-free preference, the 1996 duty would have been 7.6 percent ad valorem.⁴² Colombia is the primary supplier of imported roses from ATPA countries. In 1995 and 1996, ATPA duty-free rose imports from Colombia accounted for about 78 percent and 77 percent, respectively, of the value of U.S. rose imports from ATPA countries, and about 65 percent and 67 percent, respectively, of the total value of U.S. rose imports from the world. Imported roses from ATPA countries supplied an estimated 57 percent of the U.S. market in 1996.⁴³

The performance of the U.S. rose industry in 1996 was mixed. The wholesale value of U.S. hybrid tea rose sales fell, but that of sweetheart roses increased.

⁴⁰ Estimated by staff of the U.S. International Trade Commission, based on c.i.f. value.

⁴¹ USDA, National Agricultural Statistical Service, "Floriculture Crops 1996 Summary."

⁴² General column 1 rate of duty.

⁴³ Estimated by staff of the U.S. International Trade Commission, based on c.i.f. value.

From 1995 to 1996, the wholesale value of U.S. rose sales fell almost 6 percent from \$125.7 million to approximately \$118.2 million.⁴⁴ The domestic value fell by 6 percent, while imports increased in value by 23 percent.

Miniature carnations

In 1996, U.S. imports of miniature carnations were primarily supplied by ATPA countries. About 99 percent of the value of total U.S. miniature carnation imports from the world in 1996 entered under the ATPA program. From 1995 to 1996, U.S. imports of miniature carnations from ATPA countries increased by 11 percent, from \$32.4 million to \$36.0 million.

Miniature carnations which normally have GSP eligibility, benefited exclusively from ATPA when GSP was not in effect from January 1 to September 30, 1996. Without the duty-free trade preference or antidumping duties, the 1996 duty would have been 3.7 percent ad valorem.⁴⁵

Imported miniature carnations from ATPA countries are primarily supplied by Colombia. ATPA duty-free imports of miniature carnations from Colombia represented nearly 97 percent of the value of U.S. miniature carnation imports from ATPA countries in both 1995 and 1996, and about 94 percent and 95 percent of the total value of U.S. imports of miniature carnations from the world in these years, respectively. Miniature carnation imports from ATPA countries supplied an estimated 65 percent of the U.S. market in 1996.⁴⁶

Performance indicators for the U.S. miniature carnation industry were down in 1996. From 1995 to 1996, the wholesale value of U.S. miniature carnation sales fell approximately 31 percent from \$11.1 million to \$7.6 million.⁴⁷ The domestic value fell by 31 percent, while imports increased in value by 11 percent.

Fresh or Chilled Asparagus

U.S. imports of fresh or chilled asparagus (HTS subheadings 0709.20.10 and 0709.20.90⁴⁸) from the ATPA countries rose 13 percent in value, from \$19 million in 1995 to \$21 million in 1996, with a

corresponding 14 percent rise in quantity, from 10.5 million metric tons in 1995 to 12.0 million metric tons in 1996.

Total U.S. imports of fresh or chilled asparagus from all countries remained effectively unchanged at \$59.7 million in 1996 compared to \$59.8 million in 1995. Peru remained the leading Andean source, supplying about 31 percent of the total value of U.S. fresh asparagus imports in 1996, compared with 28 percent of the total in 1995. Besides duty-free entry under ATPA provisions, fresh or chilled asparagus is also 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. Tariffs under NAFTA are being phased out over 5 and 15 years according to the season. Mexico is the largest supplier of fresh or chilled asparagus to the United States, Mexico and Peru together supplied 88 percent of total U.S. imports of asparagus in 1996.

U.S. production of fresh asparagus increased by 2 percent in volume (acreage planted) but decreased in value, from \$124 million in 1995 to \$103 million in 1996.⁴⁹ The leading States producing fresh asparagus are California, Washington, and Michigan. Virtually all of the California production is for the fresh market. Washington State is the largest producer of asparagus for the processed market, but contributes to the fresh market as well. Michigan accounts for most of the remaining asparagus grown for processing, with a limited amount sold to the fresh market. The bulk of U.S. production occurs mainly in southern California during February-June. This creates limited overlap between the peak U.S. asparagus season and the peak shipping period for fresh or chilled asparagus entered duty free under ATPA provisions. Acreage planted has declined in the Southern California region because the return on alternative crops is higher than the return on asparagus. However, it is anticipated that the acreage planted in the central region of the state will increase in coming years.⁵⁰

U.S. consumption of asparagus has remained steady in the 1990s at just 1 pound per capita⁵¹ annually; slightly more than half of the consumption is fresh asparagus. However, the extent to which fresh asparagus becomes available in retail markets throughout the year could potentially eliminate the early-season price premium, and fresh consumption may increase.⁵²

⁴⁹ According to industry officials, while acreage planted was up, the quantity of asparagus harvested was down owing to drought in California.

⁵⁰ USDA, Economic Research Service, Agricultural Outlook, Apr. 1997.

⁵¹ USDA, Economic Research Service, Vegetables and Specialty Outlook, Jan. 1997.

⁵² Ibid.

⁴⁴ USDA, National Agricultural Statistical Service, "Floriculture Crops 1996 Summary."

⁴⁵ General column 1 rate of duty.

⁴⁶ Estimated by staff of the U.S. International Trade Commission, based on c.i.f. value.

⁴⁷ USDA, National Agricultural Statistical Service, "Floriculture Crops 1996 Summary."

⁴⁸ The products entering under these two HTS numbers are identical; however, the product entering under 0709.20.10 is restricted to airfreighted asparagus entered from September 15 to November 15.

Industry representatives⁵³ have mixed views on the impact of ATPA. Much of the Peruvian asparagus enters the United States at times when U.S. fresh asparagus is not available or not at peak production. This is essentially viewed as a positive outcome of the agreement. According to industry views, having fresh asparagus in the marketplace longer tends to promote the consumption of asparagus. However, industry representatives from Washington stated that the fresh and processed asparagus industries are not separable, and that the importation of frozen Peruvian asparagus has killed the frozen asparagus segment of the industry in Washington and will take its toll in Michigan in the coming years. The Peruvian product is considered to be of quality comparable to that of the U.S. product, and while Peru does not produce for the frozen market, Peru will freeze excess product to keep it off of the domestic market and subsequently export it to the United States. Producers in Washington State are looking for Federal assistance with import relief as a result of what they perceive to be the negative impact of ATPA on the Washington asparagus growers.⁵⁴

Probable Future Effects of ATPA

Like previous reports in this series, 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.⁵⁵ Since ATPA-related investment expenditures are assumed to be a barometer for future trade flows under the program, increased investment in a certain ATPA sector could lead to increased exports to the United States from that sector. This section 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.⁵⁶ Information in this section was

⁵³ Industry officials of the Washington Asparagus Commission, the California Asparagus Commission, and Asparagus USA, an umbrella group of Washington, California, and Michigan growers constituted for the purpose of promoting exports in foreign markets. Interviews with USITC staff, June and July 1997.

⁵⁴ Ibid.

⁵⁵ 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 1907, Sept. 1986, p. 4-1.

⁵⁶ The term "ATPA-related" refers to investment and export promotion expenditures that are directed toward the production, or the encouragement of the production, of goods that may qualify for ATPA tariff preferences.

obtained from field visits to Bolivia and Colombia, from U.S. embassies in the Andean region, and from various published sources.

ATPA-Related Investment During 1996

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 level in 1996. However, investments were made in several sectors eligible for ATPA treatment: flowers, fruits and vegetables, jewelry, wood products, and copper articles. In addition to the typical constraints on investment and trade, such as poor infrastructure, officials interviewed during the field work cited the lack of knowledge of the program on the part of both local businessmen and U.S. importers as a barrier to investment. In Bolivia, the distance to and sophistication of the U.S. market were considered major obstacles to ATPA-related trade and investment. In Colombia, the uncertain trading relationship with the United States resulting from the U.S. antinarcotics certification process was cited as a major deterrent. Interviewees also said that ATPA incentives would be enhanced if ATPA was expanded to cover textiles and apparel, and extended beyond its current expiration date of 2001 until 2005, when a Free Trade Area of the Americas is scheduled to enter into effect.⁵⁷

Bolivia

Economic and Trade Performance

Bolivia's economy has registered moderate growth over the past 10 years. In 1996, the economy grew by just under 4 percent, an increase lower than expected but greater than that in 1995. Inflation fell from nearly 13 percent in 1995 to just below 8 percent in 1996. The budget deficit accounted for 2.1 percent of GDP.⁵⁸

The cornerstone of the Bolivian Government's economic policy has been the capitalization⁵⁹(or privatization) program. Four of the six largest state enterprises were capitalized by the end of 1995. In 1996, the largest—the state oil and gas company, YPFB—was successfully capitalized. The privatization program has already spurred economic

⁵⁷ Representatives of government and businesses, USITC staff interviews, La Paz, Bolivia, and Bogota, Colombia, May 8-15, 1997.

⁵⁸ U.S. Department of State telegram, "Bolivian Economy: 1996 in Review, Outlook for 1997," message reference No. 938, prepared by U.S. Embassy, La Paz, Feb. 25, 1997.

growth, as illustrated by the strong growth registered in 1996 in the first two sectors to be capitalized—10.4 percent in telecommunications and 8.7 percent in electricity.⁶⁰

During 1996, Bolivia's total exports increased 12 percent to an estimated \$1.3 billion, fueled by a 34-percent increase in exports of nontraditional products, including soybeans and derivatives, Brazil nuts, timber, and wood manufactures.⁶¹ Despite this increase, Bolivia's overall trade deficit expanded to \$309 million. In 1996, Bolivia's bilateral trade surplus declined with the United States, Bolivia's major trading partner and the destination for over 20 percent of its exports.⁶²

Investment Climate and Export Promotion

Foreign investment receives nondiscriminatory treatment in Bolivia and is not subject to screening or registration requirements. Bolivian law guarantees all investors national treatment, free currency conversion, unrestricted remittances, and binding international arbitration in all sectors. The Government does not provide special incentives for investment, other than new tax systems for hydrocarbon and mining companies. Legislation on intellectual property rights is considered weak, and enforcement, inconsistent.⁶³

During 1996, negotiations to conclude a United States-Bolivia bilateral investment treaty progressed; they are expected to result in a treaty in 1997. The last major obstacle had been access to international arbitration in the hydrocarbons sector, but it was successfully removed by the passage of the 1996 hydrocarbons law and its implementing regulations.⁶⁴

⁵⁹ Capitalization is a variant of privatization under which an investor acquires a 50-percent share and long-term control of the enterprise in exchange for pledged investment.

⁶⁰ U.S. Department of State telegram, "Bolivian Economy: 1996 in Review, Outlook for 1997," message reference No. 938, prepared by U.S. Embassy, La Paz, Feb. 25, 1997.

⁶¹ *Ibid.*; and INPEX (National Institute for the Promotion of Exports), Secretaria Nacional de Industria y Comercio (Ministry of Commerce), *Memoria 1996*, p. 10.

⁶² U.S. Department of State telegram, "Bolivian Economy: 1996 in Review, Outlook for 1997," message reference No. 938, prepared by U.S. Embassy, La Paz, Feb. 25, 1997; and data compiled from official statistics of the U.S. Department of Commerce.

⁶³ U.S. Department of State telegram, "FY 98 Investment Climate Statement for Bolivia," message reference No. 3080, prepared by U.S. Embassy, La Paz, June 18, 1997. For more information on IPR, see chapter 4.

⁶⁴ U.S. Department of State telegram, "Time to Re-open BIT Talks," message reference No. 156, prepared by U.S. Embassy, La Paz, Jan. 10, 1997.

Efforts to promote Bolivian exports are growing. The Government of Bolivia has proposed a plan that has three major objectives: (1) to promote exports by Bolivian businesses; (2) to promote Bolivian products abroad; and (3) to establish a centralized information center and library for exporters. To promote exports by Bolivians, the program would provide technical assistance and training for exporters to improve product quality and build a capacity to export. For example, small- and medium-sized companies would be organized to help them meet these export requirements. Also, the plan would establish several committees to develop exports; for example, to resolve specific problems that limit exports and to conduct market studies. To promote Bolivian products internationally, the plan calls for setting up offices in the United States, Argentina, Germany, Peru, and Chile during the first 3 years of the program's operation. The Government has identified five sectors to target initially: agroindustry, textiles, wood, leather, and jewelry.⁶⁵

During its first year of operation, the La Paz Chamber of Exporters organized small artisans and farmers into cooperatives to promote exports. The chamber is working in five sectors: quinoa, leather, handicrafts, alpaca, and furniture. The cooperatives help producers to meet strict export standards by promoting quality improvements and uniformity of product quality. Now, during the second year of operation, the chamber is offering technical and marketing advice to these producers.⁶⁶

The goal of the Bolivia Exports Foundation is to increase and diversify nontraditional exports in the areas of livestock and agroindustry. This nonprofit organization, financed initially by the World Bank and several European countries, invests in companies for a temporary period to build their export capacity. Once the company has "reached a self-sustainable development," the foundation pulls out. The foundation has identified seven areas to promote: Brazil nuts, flowers, vegetables (e.g., fava beans and garlic), wood products (e.g., doors, window frames, and furniture), cochineal, alpaca and wool, and handicrafts. They also have a pilot research program on stevia, a natural sugar substitute, to examine its production and marketing feasibility.⁶⁷

Currently, the Inter-American Development Bank (IDB) is financing a program to promote Bolivian exports to the United States and the European Union,

⁶⁵ Representatives of INPEX, USITC staff interview, La Paz, May 15, 1997.

⁶⁶ Representatives of CAMEX (the La Paz Chamber of Exporters), USITC staff interview, La Paz, May 15, 1997.

⁶⁷ Representatives of the Fundacion Bolivia Exporta (Bolivia Exports Foundation), USITC staff interview, La Paz, May 15, 1997.

principally Germany and Spain. The program is scheduled to end in November 1997 and has targeted finished products rather than raw materials. The targeted products are wood manufactures, leather articles, sweaters of fine animal hair, and handicrafts. The program has enabled producers to improve the quality and design of their products, particularly textiles and wood. A new IDB-financed program is anticipated, but it will target Latin American markets.⁶⁸

In general, export promotion efforts have focused on regional markets (e.g., Argentina, and Chile) rather than the U.S. market. Thus, ATPA has not been widely advertised, and the identification of products for export promotion generally has not taken ATPA into account.⁶⁹ The Bolivian Government acknowledged that the country was not taking full advantage of the program and needed a better system to promote it.⁷⁰

Investment Activity

The Bolivian Government does not collect or publish statistics on foreign direct investment. However, the Bolivian Central Bank estimated that foreign direct investment increased from \$372 million in 1995 to \$545 million in 1996.⁷¹ The capitalization program, which was designed to attract foreign investment to formerly state-run sectors, resulted in large investments in the telecommunications and electricity sectors in 1996. Although the United States has traditionally been the principal source of foreign investment in the country, primarily in the mining and hydrocarbons sector, Italy became the largest source of private investment in 1996 owing to its investment in the telecommunications industry.⁷²

ATPA has not played a major role in promoting investments in the production of new nontraditional exports, but instead has encouraged growth in certain sectors. One sector that has seen rapid growth is wood

manufactures. After years of concentration on timber, investment has focused on value-added products such as doors, window frames, furniture, and coffins. Industry representatives also have indicated an interest in exploring the production of wood toys, spoons, broomsticks, and parquet floors.⁷³ The U.S. Embassy in La Paz reported large new investments in 1996 by exporters of wooden furniture and parts, and wood flooring.⁷⁴

The leather industry is also expanding. Although the quality of leather can be poor, exports are growing in leather products such as wallets, handbags, leather clothes, briefcases, cellular phone cases, laptop cases, backpacks, desktop accessories, and belts with textile inserts.⁷⁵

Although over half a million dollars' worth of new investments were made in the jewelry sector,⁷⁶ which represents the majority of U.S. imports from Bolivia under ATPA, U.S. imports of several categories of jewelry and parts declined in 1996. The declines can be attributed to a combination of factors: the bankruptcy of one of the five Bolivian jewelry makers in 1996;⁷⁷ changes in the RITEX law (Regime for Temporary Importation), which caused some confusion;⁷⁸ and a new tax on Bolivian gold imposed on jewelry producers, which has forced them to source gold from the United States rather than from Bolivia. As a result of the gold tax and the shift to U.S. gold, from 1995 to 1996 gold jewelry exports to the United States remained stable in terms of volume despite the decline in value, since income was only generated on the value added.⁷⁹

Expansion in the production of new agricultural products is occurring primarily in response to efforts to promote alternative crops to coca. Examples of these products are hearts of palm, black pepper, pineapple, passion fruit, and bananas. Currently these products are sold either domestically or regionally

⁶⁸ Representatives of the Camara Nacional de Industrias, Centro de Promocion de Inversiones (National Chamber of Industries, Center for Investment Promotion), USITC staff interview, La Paz, May 12, 1997.

⁶⁹ Representatives of private sector export and investment promotion agencies, USITC staff interviews, La Paz, May 12 and 15, 1997.

⁷⁰ Representatives of the Ministerio de Desarrollo Economico, Secretaria Nacional de Industria Y Comercio, USITC staff interview, La Paz, May 15, 1997.

⁷¹ U.S. Department of State telegram, "FY 98 Investment Climate Statement for Bolivia," message reference No. 3080, prepared by U.S. Embassy, La Paz, June 18, 1997.

⁷² U.S. Department of State telegram, "Bolivian Economy: 1996 in Review, Outlook for 1997," message reference No. 938, prepared by U.S. Embassy, La Paz, Feb. 25, 1997.

⁷³ Representatives from the public and private sectors, including Secretaria Nacional de Industria Y Comercio, Fundacion Bolinvest, and La Chonta, USITC staff interviews, La Paz and Santa Cruz, May 12-15, 1997.

⁷⁴ U.S. Department of State telegram, "USITC Annual Andean Investment Survey," message reference No. 2836, prepared by U.S. Embassy, La Paz, June 5, 1997.

⁷⁵ Representatives of Fundacion Bolinvest and Camara Nacional de Industrias, USITC staff interviews, La Paz, May 12, 1997.

⁷⁶ U.S. Department of State telegram, "USITC Annual Andean Investment Survey," message reference No. 2836, prepared by U.S. Embassy, La Paz, June 5, 1997.

⁷⁷ Representatives of Orbol, USITC staff interview, La Paz, May 15, 1997.

⁷⁸ Representatives of Fundacion Bolinvest, USITC staff interview, La Paz, May 12, 1997.

⁷⁹ Representatives of the public and private sectors, including Secretaria Nacional de Industria Y Comercio, CAMEX, and Orbol, La Paz, May 12 and 15, 1997.

rather than to the United States since the Bolivian products remain uncompetitive compared with those of other tropical producers. However, in the long term, it is believed that hearts of palm and black pepper are promising crops for the U.S. market.⁸⁰ Nonetheless, black pepper already enters the United States MFN duty free, like many of Bolivia's fastest growing nontraditional exports (soybeans, and Brazil nuts).

Other promising exports from Bolivia are flowers, cochineal, and quinoa. Cut flowers are a small but growing sector in Bolivia that has taken advantage of the new market opportunities provided by ATPA.⁸¹ Indeed, Colombian flower producers have expressed interest in establishing farms in Bolivia.⁸²

There are several reasons for ATPA's limited success in promoting nontraditional exports to the United States. The most commonly cited problem was the inability of Bolivian products to achieve the quality and volume standards of a sophisticated market like the United States. Private-sector representatives mentioned that, particularly for new products, Bolivian products were more competitive in the markets of their regional trading partners, which are at a relatively similar level of economic development. High air transport costs to the United States for manufactured products was also cited as a deterrent. Finally, officials interviewed claimed that the scheduled termination date of the ATPA in 2001 did not provide enough time to be an adequate incentive to invest. However, despite the problems, interviewees credited ATPA with encouraging growth in certain sectors.⁸³

Colombia

Economic and Trade Performance

During the second half of 1996, Colombia's economy slid into recession as a result of high interest rates and various political scandals.⁸⁴ GDP grew 2.1 percent in 1996, compared with 5.4 percent in 1995.

⁸⁰ Representatives of the U.S. Agency for International Development, Chapare region, May 13-14, 1997.

⁸¹ U.S. Department of State telegram, "Bolivia Worried Bill Will Remove Flowers From ATPA," message reference No. 2622, prepared by U.S. Embassy, La Paz, May 23, 1997.

⁸² Representatives of Fundacion Bolinvest, USITC staff interview, La Paz, May 12, 1997.

⁸³ Representatives of Fundacion Bolinvest and Camara Nacional de Industrias, USITC staff interviews, La Paz, May 12 and 15, 1997.

⁸⁴ Economist Intelligence Unit, *Crossborder Monitor*, Mar. 26, 1997.

Growth was concentrated in the oil and mining sectors; the industrial sector experienced negative growth of 3.5 percent, and agriculture was flat. Inflation reached 21.6 percent, and the peso remained overvalued.⁸⁵

During 1996, Colombia's exports grew 4.4 percent to an estimated \$10.6 billion, primarily because of increases in petroleum and coal exports. Exports of nontraditional products declined slightly. The large rise in the value of the Colombian peso is universally blamed for Colombia's poor export performance in 1996.⁸⁶

Colombia's imports grew just 3.3 percent in 1996, shrinking the overall trade deficit to \$3.1 billion. The United States was Colombia's major trading partner, accounting for about 40 percent of Colombia's total exports, nearly 40 percent of which were in the petroleum sector.⁸⁷

Investment Climate and Export Promotion

Foreign investment in Colombia receives nondiscriminatory treatment and is subject to few restrictions. Colombian law grants national treatment to all investors and permits 100-percent foreign ownership in almost all sectors. The Government provides numerous investment incentives, including tax and financial incentives. Colombia does not provide adequate and effective protection of intellectual property and is listed on USTR's "watch list" of countries to be monitored for IPR protection.⁸⁸ The United States and Colombia initiated negotiations to conclude a bilateral investment treaty in June 1994, but no further action has been taken.⁸⁹

Coinvertir (Invest in Colombia Corporation), a nonprofit organization established in 1992, specializes in investment promotion. In 1996-97, Coinvertir is targeting potential investment in the following sectors: metallurgy, plastics, electronics, and infrastructure.⁹⁰

⁸⁵ U.S. Department of State telegram, "Colombia's GDP Growth for 1996 of 2.1 Percent is Now Official," message reference No. 3334, prepared by U.S. Embassy, Bogota, Apr. 9, 1997; and U.S. Department of State telegram, "Samper's Economic Policies: An Emperor Losing His Clothes," message reference No. 3918, prepared by U.S. Embassy, Bogota, Apr. 23, 1997.

⁸⁶ Representatives of the public and private sectors, including Proexport, the American Chamber of Commerce, and the U.S. Embassy, USITC staff interviews, Bogota, May 8-9, 1997.

⁸⁷ Data provided by the Ministerio de Comercio Exterior (Ministry of Foreign Trade), Bogota, Colombia.

⁸⁸ For more information on IPR, see chapter 4.

⁸⁹ U.S. Embassy, Bogota, *Investment Climate*, July 1996.

⁹⁰ Coinvertir, advertising booklet.

According to several interviewees, the ATPA program is not well known in Colombia. During ATPA's first 2-1/2 years of existence, the Government held numerous seminars to advertise it. However, Proexport, Colombia's export promotion agency, no longer advertises ATPA separately. Instead, Proexport incorporates ATPA promotion as one element in its broader export promotion efforts,⁹¹ which have recently focused more on the regional market.⁹²

Investment Activity

The most recent statistics of the Central Bank of Colombia show that foreign investment in Colombia, excluding petroleum, increased by 46 percent from \$1.3 billion in 1995 to \$1.9 billion in 1996. The financial and manufacturing sectors accounted for about 70 percent of the investment. The United States was the source of nearly 20 percent of this investment, more than 10 percent less than in 1995.⁹³

Although overall foreign investment increased in 1996, investment in the creation of new businesses or the expansion of existing businesses decreased. Much of the investment registered in 1996 resulted from the sale or privatization of existing companies, especially in the financial and energy sectors.⁹⁴ Although interviewees claimed that investment in ATPA-related projects probably occurred, none of them could cite specific examples. One private-sector official⁹⁵ thought that the ceramic industry (floor and wall tile) may have recently begun to export under ATPA.⁹⁶ A Colombian fruit processor noted that ATPA had permitted the company to establish a niche market in the United States for its fruit purees.⁹⁷

Government efforts to promote alternatives to coca production have resulted in expansion and

⁹¹ Representatives of Proexport and private-sector entities, USITC staff interviews, Bogota, May 8-9, 1997.

⁹² Representatives of the Ministerio de Comercio Exterior, USITC staff interview, Bogota, May 8, 1997.

⁹³ Coinvertir, *Colombia Foreign Investment Market Statistics*, May 1997.

⁹⁴ U.S. Department of State telegram, "Foreign Investment in Colombia: It's Down, Not Up," message reference No. 4708, prepared by U.S. Embassy, Bogota, May 16, 1997.

⁹⁵ Representative from the American Chamber of Commerce, USITC staff interview, Bogota, May 8, 1997.

⁹⁶ The Tile Council of America claims U.S. imports of ceramic tile from Colombia under ATPA have adversely affected the domestic industry. Submission to the Commission by John F. Bruce, Counsel to Tile Council of America, received June 30, 1997. (See appendix B.)

⁹⁷ Peter Nares, "Colcitricos: Riding the Natural Foods Wave," *Business Colombia*, published by the Colombian-American Chamber of Commerce, Dec. 1996, pp. 19-21; and Representative of Canary, USITC staff interview, Bogota, May 8, 1997.

improvements in the production of fruits, such as mangoes and berries. The Government has also established two major projects organizing peasant farmers in the hearts of palm and rubber sectors. Whereas the production of rubber will be directed to the domestic market, it is expected that hearts of palm will be exported.⁹⁸

Numerous reasons were cited for Colombia's poor utilization of ATPA. The most frequently cited factor was the deterioration of the political relationship with the United States as evidenced by Colombia's being denied certification by the United States for its inadequate antinarcotics efforts.⁹⁹ According to interviewees, the decertification, announced in March 1996 and then again in March 1997, has undermined ATPA-related investor confidence. ATPA is viewed as a unilateral program and an instrument of policy for the United States subject to political whim.¹⁰⁰ Thus, investors believe the United States can withdraw ATPA benefits at any time. In 1997, the second decertification raised the level of uncertainty even more than the first because of what was considered the extreme politicization of ATPA and the discussion of possible sanctions in the U.S. Congress. This environment of uncertainty discouraged new investment and, in general, caused already established investors to postpone decisions to expand investment.¹⁰¹

Another common complaint was the lack of export orientation by Colombian businesses.¹⁰² Because businesses benefited from a long period of protection, it takes time to train and promote an "exporter culture."¹⁰³ Only in the early 1990s did the Colombian Government implement *apertura*, an economic liberalization and deregulation program that opened the economy to the outside world.

Other factors cited for the low use of ATPA were (1) the rise in the value of the Colombian peso, which has made Colombian products uncompetitive on the U.S. as well as world markets; (2) concerns about security, which have stifled investment in rural areas; (3) lack of knowledge of the program, on the part of both Colombian businessmen and U.S. importers; and

⁹⁸ For more information, see chapter 7. PLANTE (National Alternative Development Plan), *Republic of Colombia, Report of Activities*, Mar. 1997; and representatives from PLANTE, USITC staff interview, Bogota, May 9, 1997.

⁹⁹ For more information, see chapter 7.

¹⁰⁰ Representatives from the public and private sectors, including the American Chamber of Commerce, Proexport, Ministerio de Comercio Exterior and Coinvertir USITC staff interviews, Bogota, May 8-9, 1997.

¹⁰¹ Ibid.

¹⁰² Representatives from the American Chamber of Commerce and Proexport, USITC staff interviews, Bogota, May 8, 1997.

¹⁰³ Ibid.

(4) technical difficulties associated with using the program, such as identifying product coverage and understanding the rules of origin. Finally, officials interviewed claimed the scheduled termination date of the ATPA in 2001 did not provide enough time for an adequate incentive to invest. These interviewees recommended the program be extended until 2005, when the Free Trade Area of the Americas is scheduled to enter into effect.¹⁰⁴

Despite the low use of ATPA, interviewees praised ATPA for encouraging exports and investment in Colombia's "legal" economy. Both public- and private-sector officials said ATPA plays an important role in supporting that part of the society that is legitimately working. In addition, they argued that although export volumes for many of the products benefiting from ATPA may be small, they are important to the regions where they are produced.¹⁰⁵

Ecuador

The economic slowdown that began in Ecuador in 1995 continued in 1996. GDP grew just 2.0 percent, compared with 2.3 percent in 1995. Inflation rose slightly to 24.4 percent.¹⁰⁶ The uncertainties associated with the 1996 elections and delays in the announcement of the new Government's economic policies helped prevent an economic recovery during the year.¹⁰⁷

During 1996, Ecuador's exports climbed 10 percent to \$4.9 billion and imports fell by 14 percent to \$3.5 billion, resulting in a trade surplus of \$1.4 billion. Oil and oil products accounted for over one-third of exports in 1996; such exports grew 14 percent from 1995 to 1996. Cut flower exports also expanded by 14 percent, with the United States accounting for 70 percent of Ecuador's flower sales. Exports of manufactured goods increased 19 percent, with exports of seafood products (especially canned fish and fishmeal) up 50 percent, and exports of fruit products up 58 percent. In 1996, Ecuador's trade surplus with the United States grew slightly; the United States is its largest trading partner and the market for 38 percent of its exports.¹⁰⁸

¹⁰⁴ Representatives from the public and private sectors, including the American Chamber of Commerce, Proexport, and Ministerio de Comercio Exterior, USITC staff interviews, Bogota, May 8-9, 1997.

¹⁰⁵ Representatives of the American Chamber of Commerce and Ministerio de Comercio Exterior, USITC staff interviews, Bogota, May 8, 1997.

¹⁰⁶ Economist Intelligence Unit, *Country Reports: Ecuador*, Apr. 11, 1997.

¹⁰⁷ U.S. Department of State telegram, "1997 Trade Act Report - Ecuador," message reference No. 6299, prepared by U.S. Embassy, Quito, Nov. 18, 1996.

¹⁰⁸ U.S. Department of State telegram, "Ecuador Economic Highlights - February 1997," message reference No. 1254, prepared by U.S. Embassy, Quito, Mar. 5, 1997.

The United States-Ecuador bilateral investment treaty entered into force on May 11, 1997, and guarantees U.S. investors national treatment, unrestricted remittances, and international arbitration of disputes. Although the scope for private investment in Ecuador has been expanded in recent years, certain sectors, such as mining, petroleum, fisheries, and various utilities, still maintain restrictions.¹⁰⁹ Ecuador is considered to provide adequate protection of IPR, although the country was listed in 1996 on USTR's "watch list" and in 1997 on USTR's "priority watch list" of countries to be monitored for IPR protection.¹¹⁰

Political instability and the uncertain direction of economic policy deterred foreign investors in 1996. Foreign direct investment fell slightly to \$447 million, compared with \$470 million in 1995. The bulk of new foreign investment has been flowing into the petroleum sector. Outside the oil sector, foreign direct investment is concentrated in financial services, food processing, chemicals, pharmaceuticals, and machinery and vehicle manufacturing. The United States remains Ecuador's major source of foreign investment.¹¹¹

In addition to the uncertainties associated with the new Government, other disincentives to invest are poor infrastructure and public services (for example, electricity shortages), cumbersome labor regulations, and extensive corruption.¹¹² In January 1997, the U.S. Ambassador to Ecuador warned that the "systemic corruption now afflicting [the] country" would hurt foreign investment and undermine economic development.¹¹³

Peru

After posting strong growth rates in 1993-95, Peru's GDP grew by a sluggish 2.8 percent in 1996. A widening current account deficit forced the Government to tighten monetary and fiscal policies, which improved the external trade balance but caused GDP to slump. In 1996, manufacturing grew by only

¹⁰⁹ U.S. Department of State telegram, "Investment Climate Statement - Ecuador 1997," message reference No. 3168, prepared by U.S. Embassy, Quito, June 18, 1997.

¹¹⁰ For more information on IPR developments in Ecuador in 1997, see chapter 4.

¹¹¹ U.S. Department of State telegram, "Investment Climate Statement - Ecuador 1997," message reference No. 3168, prepared by U.S. Embassy, Quito, June 18, 1997.

¹¹² Economist Intelligence Unit, *Investing, Licensing and Trading Conditions Abroad*, Dec. 1, 1997.

¹¹³ U.S. Department of State telegram, "Ambassador's Speech on the Effects of Corruption on Foreign Investment," message reference No. 572, prepared by U.S. Embassy, Quito, Jan. 31, 1997.

1.8 percent. However, inflation was 11.5 percent after averaging 33.3 percent in 1992-96.¹¹⁴

Despite the slowdown, Peru's progress toward economic, social, and political stability since 1990, when the current Government took office, has generated strong investor confidence.¹¹⁵ Privatization, a key component of the Government's economic reform program, has generated almost \$7 billion in revenues since 1991.¹¹⁶ During 1996, the pace of privatization slowed; only five major companies were privatized. However, \$2.3 billion in sales were realized in 1996 owing to the sale of the Government's remaining shares in companies already privatized.¹¹⁷

During 1996, Peru's trade deficit shrank to \$1.9 billion as exports grew 6.1 percent to \$5.9 billion and imports rose 1.8 percent to \$7.8 billion.¹¹⁸ Peru's trade deficit with the United States, its largest trading partner, also declined. Exports of such nontraditional products as jewelry, flowers, and agricultural products under ATPA all increased in 1996.¹¹⁹

The Government's economic reform program significantly liberalized foreign investment in Peru. Peru guarantees foreign investors national treatment, unrestricted remittances, free currency conversion, and binding international arbitration for international investment disputes.¹²⁰ Foreign investment is

¹¹⁴ Economist Intelligence Unit, *Crossborder Monitor*, Apr. 9, 1997, and *Country Forecasts*, Feb. 28, 1997; and U.S. Department of State telegram, "Despite Hostage Crisis, Peru's Economy Shows Signs of Life," message reference No. 2473, prepared by U.S. Embassy, Lima, Mar. 21, 1997.

¹¹⁵ U.S. Department of State telegram, "Prospects for Economic and Social Growth in Peru - 1997," message reference No. 1770, prepared by U.S. Embassy, Lima, Feb. 28, 1997.

¹¹⁶ U.S. Department of State telegram, "Privatization Slow in 1996-Pace in 1997 is Uncertain," message reference No. 2549, prepared by U.S. Embassy, Lima, Mar. 24, 1997.

¹¹⁷ *Ibid.*

¹¹⁸ U.S. Department of Commerce, International Trade Administration, "Country Commercial Guide, Peru," 1997.

¹¹⁹ U.S. Department of State telegram, "Andean Trade Preference Act Benefits Increasingly Used by Peruvian Exporters," message reference No. 5479, prepared by U.S. Embassy, Lima, June 25, 1997.

¹²⁰ U.S. Department of State telegram, "Prospects for Economic and Social Growth in Peru - 1997," message reference No. 1770, prepared by U.S. Embassy, Lima, Feb. 28, 1997.

permitted in all economic sectors.¹²¹ Negotiations to complete a bilateral investment treaty with the United States broke off in 1992 and had not resumed by yearend 1996.¹²² Although Peru is listed on USTR's "watch list" of countries to be monitored for IPR protection, Peru is considered to have one of the strongest IPR regimes in Latin America.¹²³

In 1996, foreign direct investment registered with the Government's National Commission for Foreign Investment and Technology decreased 1 percent, from \$1,006 million in 1995 to \$996 million in 1996. There are no reliable data on unregistered flows, which could increase total direct investment by an estimated 30 percent.

The Peruvian Government and private exporters associations actively promoted ATPA during 1996. The expiration of GSP offered Government officials the opportunity to advertise the benefits of ATPA.¹²⁴

ATPA is playing an important role in expanding nontraditional exports from Peru to the United States, particularly in the agricultural sector. According to the U.S. Embassy in Lima, 1996 investments in flowers reached nearly \$1 million. One flower company, which currently does not export to the United States, plans to expand to the U.S. market in the medium term. Companies producing asparagus, grapes, figs, and canned and frozen fruits also reported new investments in 1996. Companies producing copper electric rods and wire reported significant new investments, including one firm that expected large annual investments over the next several years. Together, these companies reported to the U.S. Embassy nearly \$7 million in 1996 investments. The majority of the companies claimed that they would not have made the investments in the absence of ATPA.¹²⁵

¹²¹ U.S. Department of Commerce, International Trade Administration, "Country Commercial Guide, Peru," 1997.

¹²² U.S. Department of State telegram, "Peru Reiterates Interest in Bilateral Investment Treaty," message reference No. 3616, prepared by U.S. Embassy, Lima, Apr. 25, 1997.

¹²³ U.S. Department of State telegram, "Prospects for Economic and Social Growth in Peru - 1997," message reference No. 1770, prepared by U.S. Embassy, Lima, Feb. 28, 1997. For more information on IPR, see chapter 4.

¹²⁴ U.S. Department of State telegram, "Andean Trade Preference Act Benefits Increasingly Used by Peruvian Exporters," message reference No. 5479, prepared by U.S. Embassy, Lima, June 25, 1997.

¹²⁵ *Ibid.*

CHAPTER 7

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

Overview

According to the U.S. Department of State, cocaine continues to pose "the most serious drug threat to the United States,"¹ and stopping the flow of cocaine to the United States is its "main international drug control priority."² All of the world's coca production takes place in the Andean region, and Colombia is the source of virtually all the cocaine shipped into the United States.³ Ecuador is considered primarily a transit zone for both unrefined coca products (shipped from Peru, the world's largest producer of coca leaf, to Colombia, the world's major processor of cocaine hydrochloride) and processed drugs (shipped from Colombia to the United States and Europe).⁴

The main goal of ATPA is to promote broad-based economic growth and development in the Andean countries. Specifically, the program aims to develop sustainable economic alternatives to coca cultivation and cocaine production by offering Andean products broader access to the U.S. market. To assess the effectiveness of the program in reaching its goal, the ATPA requires that the Commission, "in conjunction with other agencies," provide "an assessment . . . regarding . . . the estimated effect [of ATPA]...on the drug-related crop eradication and crop substitution efforts of the beneficiary countries." This chapter is structured in two parts. The first part describes the scope of the analysis and the summary of findings pertaining to the ATPA reporting requirement on eradication and substitution. Crop eradication and

alternative development efforts are then specifically addressed—as viewed by relevant U.S. Government agencies and as they relate to the ATPA itself.

The Commission relied on other organizations, both government and private, for information in preparing its assessment. In addition, factfinding field trips to Colombia and Bolivia and unclassified embassy reports were sources of information for this analysis. The field work by Commission staff afforded the Commission an opportunity to obtain information on the impact of ATPA from representatives of foreign governments and private sector interests. The Commission also used published reports from, and interviews with, relevant U.S. Government agencies on drug-crop control and alternative development in the Andean region.

The Commission found that, during 1996, ATPA continued to have a small, indirect, but positive effect on beneficiary countries' drug control efforts. However, the Commission continues to believe that no precise estimate of the impact of ATPA on drug-related-crop eradication and crop substitution/alternative development is possible. The Commission recognizes that ATPA is only one prong in a multifaceted effort to combat the drug problem. It is not empirically possible to attempt to draw the causal relationship between trade preferences and eradication/substitution due to measurement problems.

Eradication and Substitution/Alternative Development

An underlying objective of the ATPA is to support the efforts that beneficiary countries were already making to stem the supply of illicit drugs. Previous reports in this series have discussed the difficulty of determining any direct connection between substitution and coca reduction.⁵ Further linkage between supply-control efforts by beneficiary countries and

¹ U.S. Department of State, *International Narcotics Control Strategy Report* (hereafter, *INCSR*), Mar. 1997, p. 9.

² *Ibid.*

³ *Ibid.*, p. xli.

⁴ 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*, USITC Publication 2814, Sept. 1994, pp. 51-62.

⁵ USITC, *First Report*, p. 63; *Second Report*, pp. 45-6; *Third Report*, p. 39.

the ATPA is therefore particularly tenuous. It is not possible to infer a causal relationship from the evidence available.⁶

For the first 4 years of its operation, ATPA had a minimal impact on efforts to eradicate illicit drugs grown in the region and on efforts to substitute other crops for coca. This fact does not mean that the program is ineffective or that it is not achieving its objectives. For the first time in this series of reports, it appears that eradication and alternative development efforts in 1996 are beginning to show distinct signs of promise. Evidence of both eradication and successful alternative development in the region is increasing.

While achievements to date have been generally below initial ambitious objectives, limited drug-related-crop eradication has been taking place, and progress in 1996 in this regard was significant. For example, in 1996 Bolivia intensified its official eradication policy, and Peru officially began eradication efforts for the first time since 1989. Colombia is committed to an official policy of crop eradication, and is the only beneficiary country to approve aerial eradication.

Bolivia, Colombia, and Peru are engaged in promoting crop control efforts through alternative development programs. Bolivia and Peru have significant U. S. Agency for International Development (USAID) support in this endeavor, and the Government of Colombia has launched a domestic program with multinational support.⁷

Although there has been some progress, both crop eradication programs and alternative development efforts in the region appear, so far, to be marginal at best in their effectiveness in controlling the supply of illicit drugs leaving the region and entering the United States.⁸ While eradication in 1996 did contribute to a reduction in the number of hectares under coca cultivation of about 6 percent from the 1995 level, and opportunities for alternative crops continue to increase in the Andean region, significant inroads into reducing the illicit drug supply have not yet been achieved by beneficiary countries.

⁶ Office of National Drug Control Policy (ONDCP), Executive Office of the President, *Crop Substitution in the Andes* Rensselaer Lee and Patrick Clawson, Dec. 1993. The paper maintained that "no significant decline of coca and cocaine production can probably be expected for 10 to 20 years," given then-present unfavorable trends and conditions in the region, p. 4.

⁷ See country profile section for a discussion of PLANTE, the Colombian program of alternative development.

⁸ Cocaine continues to be readily available in the United States. ONDCP, Executive Office of the President, *The National Drug Control Strategy: 1997*, Feb. 1997, p. 21.

Eradication

The degree to which the United States and ATPA beneficiary countries engage in antinarcotics cooperation is directly addressed in an annual report published by the U.S. State Department's Bureau for International Narcotics and Law Enforcement Affairs. The Foreign Assistance Act (FAA)⁹ requires the State Department to report annually on certain aspects of U.S. narcotics control strategy and in its annual report, to identify major illicit drug-producing and major drug-transit countries, as well as major money-laundering countries. 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 *INCSR* also provides the factual basis for Presidential determinations affecting foreign assistance and multilateral development banking assistance to drug-producing countries.¹⁰ 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.¹¹

The latest *INCSR* report, issued in March 1997, includes the four ATPA countries among those determined to be major drug-producing and/or drug-transit countries. In 1997, on the basis of information contained in the *INCSR* report, President Clinton fully certified Bolivia, Ecuador, and Peru as complying with the U.N. Convention.¹² A Presidential determination on Colombia resulted in its being denied certification for the second consecutive year.

Table 7-1 shows the illicit coca cultivation and eradication totals as reported by the Department of

⁹ 22 U.S.C. 2291.

¹⁰ 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." *INCSR*, Apr. 1994, p. 62.

¹¹ Two levels of certification are possible: full certification and national interest certification. The latter is used 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.

¹² In 1996 Bolivia and Peru were certified only with a national interest waiver.

Table 7-1
Coca cultivation and eradication in the Andean region, 1991-96
(In hectares)

	Bolivia	Colombia	Ecuador	Peru	Total
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	(1)	129,100	217,808
Eradicated	5,149	959	(1)	0	6,108
Net	45,500	37,100	0	129,100	211,700
1993:					
Cultivated	49,600	40,493	(1)	108,800	198,893
Eradicated	2,400	793	(1)	0	3,193
Net	47,200	39,700	0	108,800	195,700
1994:					
Cultivated	49,200	49,610	(1)	108,600	207,410
Eradicated	1,100	4,910	(1)	0	6,010
Net	48,100	44,700	0	108,600	201,400
1995:					
Cultivated	54,093	59,650	(1)	115,300	229,043
Eradicated	5,493	8,750	(1)	-	14,243
Net	48,600	50,900	0	115,300	214,800
1996:					
Cultivated	55,612	67,200	(1)	95,659	218,400
Eradicated	7,512	28,750	(1)	1,259	17,450
Net	48,100	58,450	0	94,400	200,950

¹ Not available.

² Based on information received from U.S. Embassy, Bogota, fax message, July 23, 1997.

Source: U.S. Department of State, *International Narcotics Control Strategy Report*, Mar. 1997, pp. 24, 71, 91 and 107, except as noted.

State in 1996.¹³ The data illustrate that from 1991 to 1993, eradication of coca declined steadily. This decrease preceded the inauguration of the ATPA program and continued during its first 2 years. Between 1993 and 1994 there was an increase in the

¹³ Recent *INCSR* reports point out the shortcomings in various time series and data elements concerning illicit drugs. The numbers are used to examine trends and are to be considered as *approximations*, not hard data. Generally, the most reliable information available is that on the number of hectares under cultivation. Crop yields are more difficult to estimate. The report states that specific eradication efforts in recent years have been directed to cocaine, the illicit substance "at the top of the U.S. Government's drug-control priority list." Current methodology allows for reliable information on *potential* drug production rather than on actual final drug crop available for harvest. "In publishing these numbers, we repeat our caveat that these are theoretical numbers, useful for examining trends. Though research is moving us closer to a more precise cocaine yield estimate for Latin America, we do not yet know for certain the actual amount available for distribution." *INCSR*, Mar. 1997, p. 23; Apr. 1996, p. 19.

eradication results, as nearly 6,000 hectares were eradicated, up from nearly 3,200 hectares in 1993.¹⁴ The amount of eradicated coca more than doubled between 1994 and 1995, amounting to more than 14,000 hectares—the largest amount this decade. However, because the amount of Andean land area under new coca cultivation outpaced that lost through eradication, the net result was an increase in the net hectareage in coca from 1994 to 1995.

Results in 1996 indicate that eradication contributed to an overall reduction of 6.4 percent in the coca cultivated in ATPA beneficiary countries—the first such decline in 3 years. While the *INCSR* reported that cultivation in Colombia increased by 32 percent,¹⁵ successful eradication

¹⁴ The increased eradication was entirely attributable to Colombian efforts to attack coca production in both 1994 and 1995. See separate country discussion below.

¹⁵ *INCSR*, Mar. 1997, p. 10. Because Colombian and U.S. officials were unable to agree on a figure for the volume of land successfully eradicated in 1996, the March report contained no figure for eradication in Colombia. Aerial photography in late 1996 took place shortly after the aerial spraying of a large segment of

efforts in Bolivia and Peru contributed to a net decline regionally. The decrease in Bolivia, while a slight 1 percent, was nevertheless the first decline in 5 years. The decline in Peru was 18 percent, a significant result for a country that only began official eradication efforts in 1996.¹⁶ This represented the lowest level of coca cultivation in Peru since 1986.¹⁷

Each of the three ATPA beneficiary countries where crop eradication is viewed as a needed control measure—Bolivia, Colombia, and Peru—was successful in eliminating coca plants in 1996. Eradication results in two of these countries were quite significant, particularly in comparison with the immediately preceding years, and the net result was a decline in the amount of land under cultivation. Therefore, crop eradication as carried out in the Andean region can be deemed, in a limited way, a successful supply control measure, and the ATPA can generally be considered an enhancement to individual country efforts in this regard.

Throughout the early life of the ATPA, the main measure of the effectiveness of controlling the illicit coca/cocaine industry was the rate of gross coca eradication.¹⁸ The concept of net cultivation is replacing the earlier measurement.¹⁹ In the future, the success of crop-control efforts in the Andean region will be indicated by a decrease in the amount of area under cultivation, taking into account the areas of successful eradication—i.e., net cultivation.²⁰ In the new definition, eradication is presumed to more than offset whatever new planting might have taken place in the year under review and to result in a diminution in the overall coca area under cultivation.

¹⁵—Continued

cultivated area. However, owing to a combination of seasonal rains and insufficient time for the herbicide to produce recognizable effects, corroboration of the extent of successful Colombian eradication was not possible. The verification methodology employed by U.S. officials, questioned by Colombia (see submission by the Government of Colombia in connection with this investigation, dated June 20, 1997), produced an unofficial estimate in mid-1997. [Should an official estimate be made, it will be incorporated into this report. In the meantime, the unofficial estimate has been used.] A respectable level of eradication was still not sufficient to overcome an increase in the amount of new plantings during the year.

¹⁶ The Peruvian decline was mainly the result of farmers abandoning the crop in the face of lower coca prices. See section on Peru, below.

¹⁷ INCSR, p. 102.

¹⁸ USAID, *Strategic Plan, FY 1998-2002*, p. 13.

¹⁹ USAID officials, USITC staff interviews, Villa Tunare, Chapare, Bolivia, May 13, 1997.

²⁰ "Achievement . . . will be measured by the cumulative net hectares of illicit coca removed from production . . ." USAID, *Strategic Plan, FY 1998-2002*, p. 87.

Substitution/Alternative Development

The two aspects of supply management that are explicitly cited in the statute are drug-related "crop eradication" and "crop substitution." The latter has more realistically evolved into a policy of alternative development, where, with an explicit linkage to limiting coca cultivation, farmers are encouraged to begin cultivation of other agricultural products.²¹ At the time of enactment of the ATPA, "crop substitution" was the name given to one facet of supply management policy that applied to illicit drugs.²² Since that time, however, the concept has fallen into disfavor. For, in fact, there is no single commodity that can compete with coca in terms of profitability, ease of cultivation, frequency of harvesting, and market access. As a strategy, the concept of "alternative development" has come to replace that of "crop substitution." This is most explicitly stated in the 1996 *National Drug Control Strategy*:

*U.S. international counterdrug policy supports eradication and **alternative development** programs [emphasis added] to eliminate the illegal production of drug crops. Alternative development is a necessary component because it creates alternative income and employment opportunities for drug crop cultivators. In so doing, it helps governments move toward prohibiting and, if necessary, eradicating drug crops. Further, it backstops crop control gains by reducing the adverse environmental impact that results when growers destroy rain forest areas to plant illicit crops.*²³

Alternative development programs, in conjunction with eradication efforts, currently constitute U.S. policy in assisting ATPA beneficiary countries to meet their targets of reducing illicit coca production.²⁴ In

²¹ Conversation with USAID officials, Washington, July 23, 1997. Neither the annual ONDCP *National Drug Control Strategy* nor the INCSR mention the term "crop substitution."

²² In fiscal years 96 and 97, two-thirds of the U.S. drug control budget was devoted to supply control efforts. See, ONDCP, *The National Drug Control Strategy: 1997*, Table 5-1, p. 63.

²³ ONDCP, Executive Office of the President, *The National Drug Control Strategy: 1996*, p. 35.

²⁴ "Eradication . . . is not a panacea; there are other means of reducing crops. The right combination of effective law enforcement actions and *alternative development programs* [emphasis added] has also proven successful." INCSR, p. 4.

1996 three ATPA beneficiaries—Bolivia, Colombia, and Peru—had alternative development programs in place. The programs in Bolivia and Peru were joint efforts by the respective governments in conjunction with USAID. Colombia, while receiving USAID assistance,²⁵ has mounted its own alternative development program, called PLANTE.²⁶

however, the amount of coca reduced by eradication measured 7512 hectares, representing an increase of 36.8 percent from 1995. The net result was a reduction of 1 percent in Bolivian land under coca cultivation—the first, albeit small, net reduction since 1992—as replanting negated most of the effects of eradication (figure 7-1).²⁸

Country Profiles

Bolivia

Until 1996 there had been no “significant breakthroughs . . . in reducing the overall size of the coca/cocaine industry in Bolivia.”²⁷ In 1996,

²⁵ USAID support in Colombia is focused on programs for the enhancement of justice and increased environmental awareness.

²⁶ See country profile section on Colombia for a discussion of PLANTE.

²⁷ USAID, *Strategic Plan, FY 1998-2002*, p. 13.

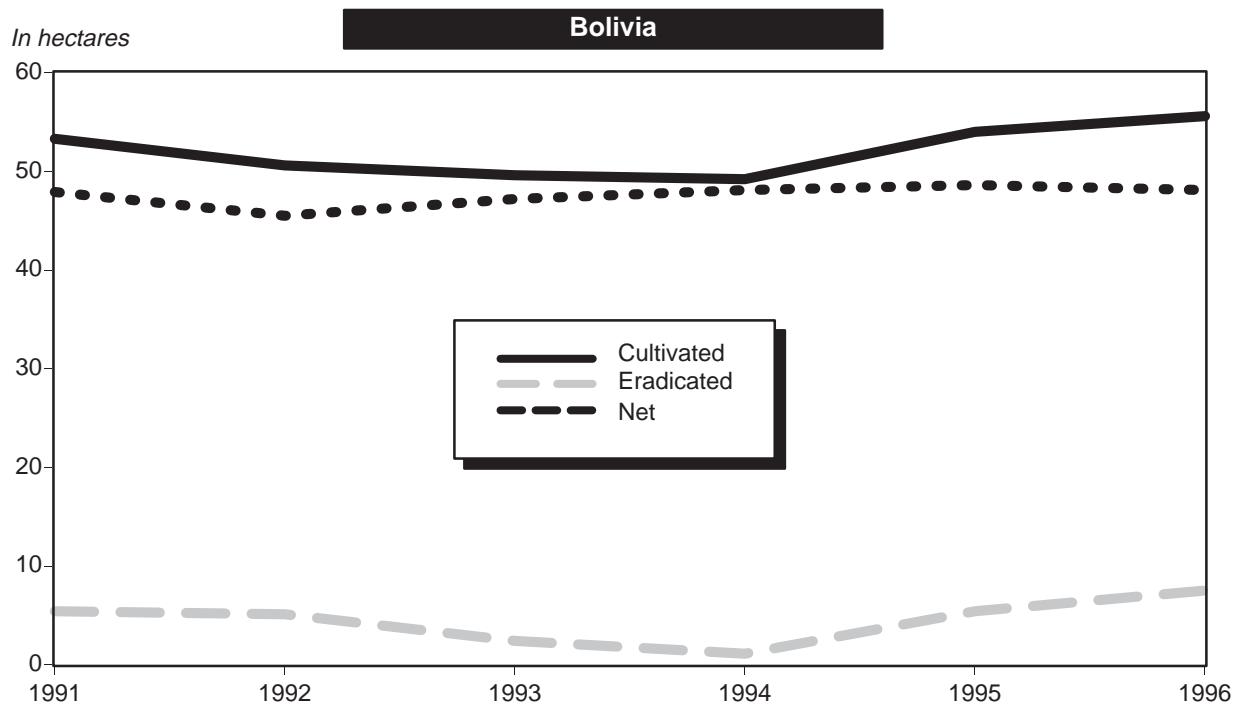
Bolivia allows only manual eradication of illegal coca.²⁹ This results in a process that is slow, and at the same time dangerous to eradication personnel.³⁰ Eradication in Bolivia has traditionally been voluntary and has been compensated; that is, in return for agreeing to eradicate the coca on their plots, farmers

²⁸ While this meant that cultivation remained approximately at the 1995 level, it translated into a reduction of 12 percent in potential coca leaf production. *INCSR*, p. 10, p. 66.

²⁹ *Ibid.*, p. 4.

³⁰ In 1996 there were riots in Bolivia as farmers protested the forced eradication of illicit coca.

Figure 7-1
Coca cultivation and eradication in Bolivia, 1991-96



Source: U.S. Department of State, *International Narcotics Control Strategy Report*, Mar. 1997, pp. 24, 71, 91 and 107.

receive a certain amount of remuneration.³¹ Of the two major growing regions in the country—the Yungas and the Chapare—the former is where most of the traditional, licit coca is grown,³² and the latter accounts for 91-95 percent of the illicit coca grown in Bolivia.³³ Over 90 percent of the coca eradicated in Bolivia to date has been voluntary and compensated.³⁴ Current law in Bolivia (Law 1008)³⁵ allows “old coca”—that cultivated before 1995—to remain in place, but any “new coca”—that planted after 1995—is illegal and can be destroyed—that is, forcibly eradicated. Planting new coca is a crime. Government policy is to take out new coca as well as any “co-located” old coca. This procedure is not called “forced” eradication but “automatic” eradication. All coca planted after 1988 is illegal, but less than 10 percent of the current coca is pre-1988. Because this law was not strictly enforced, it was modified to define “new coca” as any dating from April 1995. Therefore, any coca planted after April 1995 is officially considered illegal. But after 3 years, all coca looks the same. The idea is to penalize farmers for planting new coca (which is illegal) by taking away their old coca too. The farmer gets paid for the old coca as compensation so he won’t grow more new coca.

³¹ Narcotraffickers keep most of the proceeds from drug sales. Farmers in Bolivia, for example, typically receive “approximately \$2,100/hectare for a year’s production of coca leaf, \$4,430 if they convert the leaves to coca base, or a one-time payment of \$2,500 if they [choose] instead the government of Bolivia’s cash compensation for eradicating that same hectare.” USAID, *Strategic Plan, FY 1998-2002*, p. 76.

³² Bolivian law allows for the cultivation of 2,000 hectares of licit coca. USAID, *Strategic Plan, FY 1998-2002*, p. 80.

³³ USAID, *Strategic Plan, FY 1998-2002*, p. 78.

³⁴ *Ibid.*, p. 77.

³⁵ “The law permits limited coca cultivation in traditional areas, declares illegal any coca cultivated elsewhere in the country, prohibits the planting of new coca outside the traditional areas, and dictates the phased and compensated eradication of coca in the largest growing area (the Chapare). It also prohibits the use of herbicides for eradicating coca.” *INCSR*, p. 67. Law 1008 prohibits the processing of any coca to produce cocaine.

Coca planted in the Chapare before the promulgation of Law 1008 is considered “excess and transitional.” All other coca, including Chapare coca planted after 1988, is illegal. Under Law 1008, transitional coca must be eradicated at a rate of 5,000-8,000 ha per year, subject to the availability of funds for “alternative development” programs targeted at those individuals and communities eradicating coca. Though not established by law, cash compensation is paid to those who eradicate “transitional” coca voluntarily. Illegal coca is subject to eradication without the owner’s consent and without compensation. *INCSR*, p. 69.

Farmers get paid for all voluntary eradication as long as the crop is not new.³⁶

The current USAID/Government of Bolivia goal is to eliminate coca from the Chapare region in 5 years.³⁷ This policy is only sustainable if the eradication policy is accompanied by enforcement efforts and alternative development opportunities.³⁸ In late 1996 a more aggressive campaign to detect and destroy both new coca and seedbeds was mounted.³⁹

A closer, well-defined linkage between voluntary eradication as a condition for participation in alternative development programs has been developed in the Chapare.⁴⁰ The voluntary agreements are made at the community level and generally involve a number of individual farmers. “Farmers and communities which agree to eradicate their coca will be given preferential access to improved planting material and related infrastructure and technical assistance.”⁴¹

In 1996, agriculture and the agroindustry were on an upswing bringing new markets to the areas of Bolivia that traditionally cultivated the illicit coca crop.⁴² The Bolivian Government had previously given cash compensation to those who eradicated coca voluntarily.⁴³ This year, with over 20,000 farmers making a transition to produce alternative licit crops,⁴⁴ eradication and new product growth were taken to new levels. Alternative development efforts in Bolivia are focusing on five products of proven high marketability—bananas, pineapples, hearts of palm, passion fruit (maracuya), and black pepper.⁴⁵

³⁶ Interview with NAS representative, Cochabamba, May 13, 1997.

³⁷ The President of Bolivia and the leading candidates in the June 1997 presidential election maintained that all illegal coca in Bolivia should be eliminated by the end of the current presidential term (2002). Effectively, this means that all coca above the 12,000 hectares authorized for traditional licit uses is illegal and susceptible to eradication.

³⁸ “If current coca hectareage is decreased through eradication and suppression of new plantings, the risk/reward ratio for producing and marketing coca products is sufficiently high, and alternative income sources for farmers are adequately developed, then the Chapare can be converted to a coca free zone.” USAID, *Strategic Plan, FY 1998-2002*, p. 79.

³⁹ *INCSR*, p. 66.

⁴⁰ Interview with NAS official, Cochabamba, May 13, 1997.

⁴¹ USAID, *Strategic Plan, FY 1998-2002*, p. 85.

⁴² U.S. Department of State telegram, “New Optimism in Cochabamba,” message reference No. 2066, prepared by U.S. Embassy, La Paz, Apr. 23, 1997.

⁴³ *INCSR*, p. 69.

⁴⁴ Inter Press Service English News Wire, “Bolivia: Farmers Continue To Plant While Coca Is Being Destroyed,” May 7, 1996.

⁴⁵ Interview with USAID officials, visit to La Jota experimental agricultural station, Chapare, May 13, 1997.

USAID reports that land under cultivation in alternative crops in the Chapare increased by more than 20 percent from 1995 to 1996—to 92,359 hectares.⁴⁶

Coca eradication in Bolivia in 1996 was the highest since 1990. The Chapare region, which had generally been known as the center of coca and cocaine production, began cultivation of many non-traditional exports. With sponsorship from USAID, local farmers were given assistance and formed cooperatives in order to enter the markets that were traditionally saturated with the few types of crops, besides coca, that could be grown in the area.⁴⁷ Argentina and Chile are now importing bananas and pineapples, which can produce up to \$5,000 per hectare, from this region, and significant investments by Ecuadorean and Chilean companies have begun a push toward larger scale plantations.⁴⁸ Other crops that have been introduced to the region are citrus fruits,⁴⁹ and palm hearts,⁵⁰ which can provide a profit of \$2,500 per hectare compared with a reported \$2,027 in gross earnings from a hectare of coca.⁵¹ The change was complemented by a rural development strategy that covered four areas: the technological and productive development of agriculture, natural resource management for conservation, investment in irrigation and road infrastructure, and investment in human resources through education, health and sanitation.⁵² The Bolivian Government has also drafted a “Law for the Industrialization of the Tropic of Cochabamba,” which is a bill that could transform the Chapare region over a period of 10 years, and could possibly generate \$50 million to \$100 million in income in capital goods and agroindustry.⁵³ The simultaneous actions of these initiatives created optimism for the future reduction of illicit crop cultivation in Bolivia.

⁴⁶ USAID, CORDEP Reporting System, Cochabamba Development Project, briefing paper.

⁴⁷ U.S. Department of State telegram, “New Optimism in Cochabamba,” message reference No. 2066, prepared by U.S. Embassy, La Paz, Apr. 1997.

⁴⁸ Ibid.

⁴⁹ Ibid.

⁵⁰ Palm hearts can yield as many as four harvests per year. This crop is currently more remunerative than coca leaf in the Chapare. Interview with a former coca farmer who switched into palmetto. USITC staff interview, Villa Tunare, Chapare, May 13, 1997.

⁵¹ Inter Press Service English News Wire, “Bolivia: Farmers Continue To Plant While Coca Is Being Destroyed,” May 7, 1996.

⁵² Economist Intelligence Unit, *Country Reports-Bolivia*, Mar. 7, 1996.

⁵³ Inter Press Service English News Wire, “Bolivia: Farmers Continue to Plant While Coca Is Being Destroyed,” May 7, 1996. The bill has not yet been enacted.

Colombia

While the actual number of hectares successfully eradicated in 1996 in Colombia was in some dispute, the volume of spraying/fumigation was agreed to be considerable.⁵⁴ However, despite aerial spraying of over 16,000 hectares of targeted coca fields, coca cultivation increased by 32 percent (figure 7-2).⁵⁵ In 1996 Colombia agreed to the use of civilian U.S. contract pilots as part of its aerial eradication program.⁵⁶ Ground fire on eradication aircraft is not uncommon in Colombia; in 1996 a U.S.-owned aircraft was shot down and its pilot, a Colombian, was killed.⁵⁷ In 1996 there was also some disagreement over the selection and use of a granular herbicide for safe, effective use in Colombia.

“In 1996, as in previous years, Colombia remained the world’s leading producer and distributor of cocaine and an important supplier of heroin and marijuana. In the same year, coca cultivation in the country increased by approximately 30 percent.”⁵⁸ Although coca production increased in the region, one specific alternative development program became a major form of assistance to the coca cultivators. PLANTE⁵⁹, the Colombian alternative development program, was approved in 1994 and became operational in 1996. PLANTE helps small peasant farmers (on plots of 1 to 3 hectares in size) make the switch to licit crops. It concentrates on areas of intense illicit drug crop cultivation. It is neither an interdiction nor an eradication effort; it is a supplement to such efforts, and only initiates its assistance activities after illegal crops have been destroyed.⁶⁰ It is thus a complementary strategy to law enforcement/eradication.⁶¹

PLANTE is one of the country’s largest efforts to take a stand in the war on drugs. This program does not limit itself to crop substitution, but rather it aims at social and economic development in areas such as technological assistance, health, education, public service, transportation, infrastructure, production projects, employment, housing, marketing, credit, and

⁵⁴ The methodology for determining the actual amount of eradication is disputed. See comments in public submission of the Colombian Government Trade Bureau, submitted June 30, 1997. A summary of the submission is contained in appendix B.

⁵⁵ *INCSR*, p. 10 and p. 83.

⁵⁶ Ibid., p. 85.

⁵⁷ Ibid., p. 87.

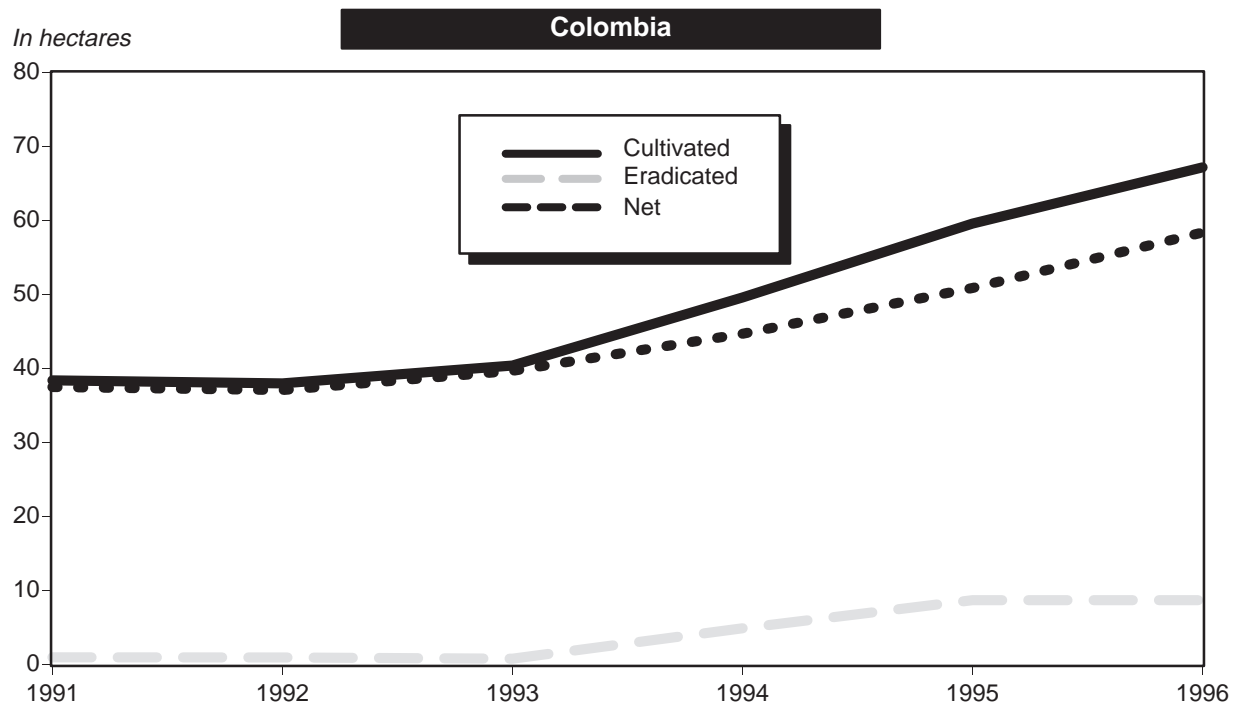
⁵⁸ *INCSR*, pg. 83.

⁵⁹ PLANTE is the Spanish acronym for *Plan Nacional de Desarrollo Alternativo*.

⁶⁰ *INCSR*, p. 85.

⁶¹ Representatives of PLANTE, USITC staff interview, Bogota, May 9, 1997.

Figure 7-2
Coca cultivation and eradication in Colombia, 1991-96



Source: U.S. Department of State, International Narcotics Control Strategy Report, Mar. 1997, pp. 24, 71, 91 and 107.

institutional strengthening.⁶² PLANTE has been significantly funded over the past year by various sources. The program received \$2.5 million from the United Nations Drug Control Program, \$2.5 million from the Government of Colombia, plus a \$94 million loan from the Inter-American Development Bank.⁶³ In the first year of the program's operation, it gave almost 2,000 peasant families over \$7 million in credits, which are generally used as relocation and support payments.⁶⁴ PLANTE provides assistance in a number of ways: technical assistance, job programs, agricultural credits, marketing programs, and transportation subsidies. PLANTE's 1996 budget was nearly \$33 million. It aided more than 30,000 rural peasant families in Colombia.

⁶² "Colombia's Efforts To Destroy Illegal Crop Production," taken from <http://www.colombiaemb.org/infogen/wp2.html>, which is the web address for the Colombian Embassy in the United States.

⁶³ INCSR, p. 85.

⁶⁴ Ibid.

Ecuador

Ecuador is considered primarily a transit zone for drug-related products. Coca leaf chewing is not traditional in Ecuador as it is in other Andean countries, so the product does not have a significant domestic market. Because no major quantities of coca are believed to be produced in the country, crop control is not an issue.

There was no evidence of significant drug cultivation in Ecuador in 1996.⁶⁵ There was, however, an intensification in its being a major transit zone for cocaine shipped from Colombia to both the United States and Europe; there was also the discovery of a cocaine processing lab, capable of producing up to 250 kilograms of cocaine a week, using coca base shipped overland from Peru. The lab was destroyed by Ecuadorean officials.⁶⁶

⁶⁵ Ibid., p. 96.

⁶⁶ Ibid., pp. 92 and 94.

Peru

Peru has traditionally been reluctant to participate in large-scale efforts at eradication. There was a political risk associated with eradication in the absence of guaranteed, adequate long-term compensation.⁶⁷ Such financial support was needed from foreign sources, and was not available. As a result, eradication in Peru did not take place. There was some seedbed destruction, but that was generally confined to national parks. A policy change occurred in 1996, when the Government of Peru endorsed the destruction of coca in all national parks and abandoned fields.⁶⁸ As a result, the seedbed eradication program was expanded to include young coca (under 2 years old).

Successful alternative development efforts in Peru are the result of a continuing low price for coca base in the country. As a result of a successful interruption of the Colombia-Peru airbridge in 1995, the price of coca to Peruvian farmers dropped severely. The low price level continued through 1996,⁶⁹ cocacero farm income was so depressed that farmers were willing to actively consider alternative crops. This afforded the Peruvian Government's alternative development program the opportunity to begin the process of negotiating with communities to promote coca reduction in exchange for sustained economic development in key areas.⁷⁰ The State Department annual report emphasizes the crucial importance of maintaining the low prices for coca leaf and coca base—the catalyst for coca farmers' willingness to abandon an illegal crop in favor of alternative economic activities.⁷¹

The 18-percent annual reduction in the level of Peruvian coca cultivation (table 7-1) contributed to a greater willingness on the part of coca-cultivating communities to consider licit economic activities. In 1996, the Peruvian Government actively pursued measures to further establish the crop substitution and alternative development programs. As a result, 226 communities entered into agreements with the government to reduce illicit coca cultivation (in the amount of 15,000 hectares over the next 5 years). These communities and their respective abandonments of coca cultivation include: the Sivia District of the Apurimac Valley, as much as 50 percent; the Tarapoto Area in the Lower and Central Huallaga Valley, ranging from 30 to 50 percent; and Aguatia, Pachitea,

and Ucayali, 20 to 40 percent.⁷² The land survey from which the abandonment percentages were calculated indicated that no new seedbeds were discovered in these areas. Accompanying the coca abandonment were new investments and opportunities for the local cocaceros initiated by both the Peruvian Government and outside agencies. The linkage between eradication and assistance that was pursued in Bolivia was also established in Peru. Assistance to increase productivity and income from licit crops, along with support for improvements in infrastructure and access to human services, forms the other end of the formalized exchange.

In order for the local farmers to be able to switch from illicit to licit crop cultivation, the Government funded several programs to ease the transition and to make the marketplace for legal crops more accessible to the farmers. Peruvian authorities have tried to distance the farmers from the drug-trafficking industry with offerings such as the \$44 million binational crop-replacement project, of which Peru is paying \$14 million.⁷³ The Government also rehabilitated over 550 kilometers of farm-to-market roads,⁷⁴ resurfaced the road from Lima to Huanaca, and constructed a bridge.⁷⁵ There have also been over 100 community development projects to provide increased access to basic human services, including the construction of 10 schools, 4 potable water systems, 1 health post, and an irrigation system.⁷⁶ Though Government assistance for repairing the Peruvian infrastructure was abundant, there were fewer initiatives to directly aid the cocaceros in substituting their coca crops with licit ones.

The cocaceros are wary of entering into new crop cultivation because of the lost income they will incur.⁷⁷ The Government has encouraged farmers to switch to coffee, cotton, and bananas and other tropical fruits, but they would have to suffer 2 years of no income if coffee was produced, and the market for the latter products is very difficult to break into, for it is saturated with similar products. Also, farmers that have already changed to growing bananas, which earn less than \$0.20 per arroba (25 pounds) compared with \$0.50 per arroba for coca leaf, were devastated

⁶⁷ Ibid., p. 5.

⁶⁸ Ibid.

⁶⁹ In some areas the coca base price dropped below the "break-even" point for farmers, forcing abandonment of coca fields. *INCSR*, p. 104.

⁷⁰ Ibid., p. 102.

⁷¹ Ibid., p. 106.

⁷² U.S. Department of State telegram, "Anecdotal Ground Surveys Reveal Increased Peruvian Coca Abandonment and Few Seedbeds," message reference No. 2929, prepared by U.S. Embassy, Lima, Apr. 1997.

⁷³ Los Angeles Times, "Peru Prods Coca Farms To Go Legal," Nov. 9, 1996.

⁷⁴ INCSR, p. 105.

⁷⁵ U.S. Department of State telegram, "Despite Slight Increase in Coca Prices, Peru's Upper Huallaga Valley Remains Severely Depressed," message reference No. 8200, prepared by U.S. Embassy, Lima, Sept. 1996.

⁷⁶ Ibid.

⁷⁷ Ibid.

in the Viscunga region of Central Huallaga because their crops were attacked and destroyed by sigatoga blight.⁷⁸ Another alternative that the cocalers discovered is the harvesting of the wild-growing *Uncaria tomentosa* or the “cat’s claw” tree, demand for which has significantly increased owing to its use for medicinal purposes.⁷⁹ However, the forests will be wiped out in two years if the farmers continue to cut down these trees.⁸⁰

While coca prices are depressed, Peruvian authorities are developing a National Plan for Alternative Development. The plan would provide a blueprint for the virtual elimination of coca over a 10-year period and the reinforcement of a development program to introduce new crops and provide microbusiness opportunities to coca farmers willing to switch. The plan has an estimated cost of \$250 million and would eventually be presented to the international donor community.⁸¹

Accompanying the reluctance of the farmers to switch to licit crop cultivation were Government spending cuts in the alternative development programs. Officials from the National Institute for Development in Peru told embassy officials that the Government of Peru (GOP) was being forced to cut back development spending in the region in the final months of 1996 by almost 50 percent owing to budgetary cuts in Lima.⁸² Only five focus areas continued to receive aid, because the money was to be spent on rehabilitating the infrastructure of the region. Though the Government cut financial assistance at the end of the year, outside entities continued support through direct financial aid and through the creation of new industries in the region.

UNDCP in Peru intends, according to its director, to spend at least US\$16 million to assist the alternative development projects and demand reduction in the illicit coca through the use of “Contradrogas.” This is the GOP’s independent commission created by the Counternarcotics Law 824, of April 1996,⁸³ that has become Peru’s national

planning coordinator for execution of projects of alternative development and demand reduction.⁸⁴ “Another project created was the Peru to Colombia “Airbridge Denial Program,” which prevented the air-trafficking of cocaine base out of Peru’s interior coca zones, resulting in low coca prices, which precipitated high-level coca abandonment (including an 18-percent reduction in coca cultivation in 1966) and farmers’ acceptance of alternative development activities.”⁸⁵ Several of these activities have come from outside investors that offer new employment to the farmers.

The Aguaytia Integrated Natural Gas and Thermo-Electric Project was started on October 18, 1996, and provided a basis for alternative forms of employment to replace the coca cultivation that is common in that region.⁸⁶ This was a US\$250 million project that the agency began owing to the lack of other investments in the region in recent years and the efforts of USAID. Viable alternative employment opportunities in licit industries cannot help but reinforce Peruvian attempts to further isolate those farmers and prospective farm workers who opt to continue cultivating illicit drugs.

ATPA Effectiveness

The difficulty of isolating the direct effects of ATPA on coca crop reduction has been pointed out in previous reports in this series.⁸⁷ The facts that coca eradication and crop substitution programs have been going on for years in the region and that many such programs antedate the ATPA make it difficult to factor out effects solely attributable to ATPA.

Among the several factors that directly impede the effectiveness of ATPA are the following: the continuing strong demand for cocaine and for other drugs in the United States and elsewhere, existing U.S. policies that may hinder U.S. imports from Andean countries, and the separation between the legal and illegal economies in the Andean countries.

The high worldwide demand for cocaine and other drugs produced in the Andean countries inhibits the antidrug effects of the ATPA. In fact, the lucrative economics of coca production are consistently seen as the primary constraint to widespread adoption of

⁷⁸ Inter Press Service English News Wire, “Peru-Environment: Without Coca, Farmers Stumble and Suffer,” Mar. 24, 1996.

⁷⁹ Ibid.

⁸⁰ Ibid.

⁸¹ Interview with USAID officials, Washington, July 23, 1997.

⁸² U.S. Department of State telegram, “Despite Slight Increase in Coca Prices, Peru’s Upper Huallaga Valley Remains Severely Depressed,” message reference No. 8200, prepared by U.S. Embassy, Lima, Sept. 1996.

⁸³ U.S. Department of State telegram, “GOP Publishes Regulations for ‘Contradrogas,’” message reference No. 3001, prepared by U.S. Embassy, Lima, Apr. 1997.

⁸⁴ U.S. Department of State telegram, “Status of the Lima Mini-Dublin,” message reference No. 4491, prepared by U.S. Embassy, Lima, May 1997.

⁸⁵ Ibid.

⁸⁶ U.S. Department of State telegram, “U.S. Consortium Breaks Ground on Natural Gas/Electric,” message reference No. 9071, prepared by U.S. Embassy, Lima, Oct. 1996.

⁸⁷ For example, *Second Report, 1994*, pp. 45ff.

alternative crops that could benefit from such programs as the ATPA.⁸⁸

Physical and economic infrastructure, such as paved roads, storage facilities, processing plants, and financing in Andean coca-producing areas, is generally inadequate to meet the requirements of alternative legal crops and industries. The fact that coca does not need pesticides, fertilizers, roads, or financing underscores the difficulty. Moreover, development of an infrastructure better able to support alternatives to drug production tends to be slowed by concerns that the potential benefits of development might profit the coca producers themselves (that is, paved roads to better facilitate transportation of coca) or might cause environmental damage. Furthermore, for alternative crops or industries to challenge coca production, a sufficient quantity and quality of product for market must be guaranteed in order to make use of economies of scale and to secure a place in the import market of a country such as the United States. In the initial ATPA years, this guarantee was difficult to accomplish largely because of a lack of knowledge about viable alternative crops and the lack of adequate infrastructure. However, the situation appears to be changing. Evidence of successful alternative development programs (e.g., USAID in the Chapare) exists.

Related to the high returns for illicit drugs compared with alternative crops is the important but separate role that drug production has come to play in the economies of these countries. Part of the developmental goal in the ATPA is to encourage these countries dependent on the black-market drug economy to move toward legitimate markets and to focus on developing alternative agricultural systems incorporating high-value or multipurpose crops. However, existing national agricultural policies generally do not favor small landholders and isolated producers, who are most commonly involved in coca production, because of traditional and cultural factors. Consequently, the distinction and the separation that exist between the producers of coca and those involved in the legitimate economies go beyond the abilities of a trade agreement, such as ATPA, to address.

ATPA's effectiveness is also affected by such issues as U.S. demand for Andean products eligible for preferential treatment, domestic Andean demand for many potential U.S. exports, competition from Mexico, and such U.S. trade policies as import quotas and sanitary and phytosanitary regulations.

Most Andean products already had faced relatively low U.S. tariffs before the enactment of

⁸⁸ Office of Technology Assessment, *Alternative Coca Reduction Strategies in the Andean Region*, July 1993, p. 3.

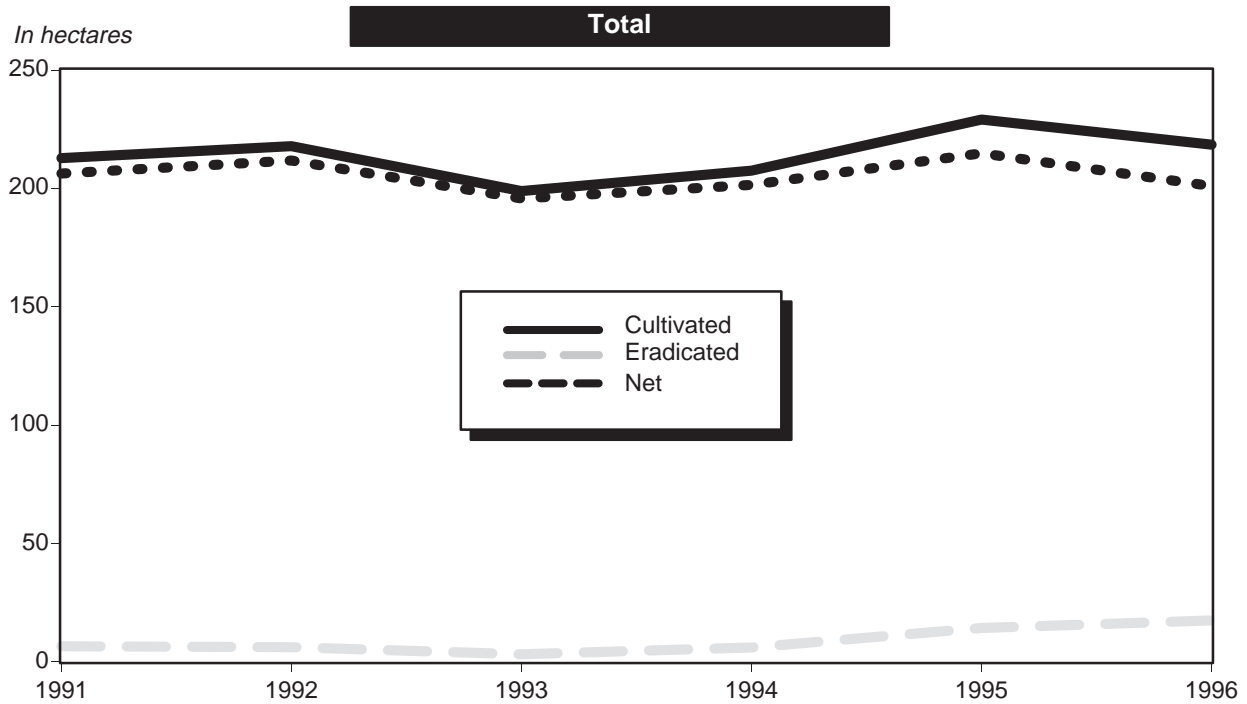
ATPA. Thus, U.S. pre-ATPA duties were generally not a significant barrier to the U.S. market for ATPA country goods. However, ATPA did not make all such goods eligible for duty-free treatment or reduced rates of duty; U.S. duties applicable to some ATPA exports, such as sugar, still remain relatively high.

Other factors deter ATPA export expansion. Cut flowers, an export that was expected to increase significantly under ATPA, have been the subject of several investigations under the U.S. antidumping laws. In those investigations, U.S. growers alleged that imports from several ATPA countries were being sold in the United States at less than fair value ("LTFV") and that U.S. growers were materially injured or threatened with material injury by reason of such sales at LTFV.⁸⁹ Additionally, agriculture exports to the United States are subject to quality and grade standards in order to protect the general health of the nation. These standards can be difficult to meet for countries lacking adequate transportation and storage facilities. Furthermore, Mexico, which in general has a comparative advantage in transportation to the United States compared with the Andean countries, produces many products that compete with the Andean goods, such as mangoes. In addition, Mexico receives preferential tariff treatment under the NAFTA. Finally, ATPA benefits are legislated for only 10 years and can be withdrawn at any time. This lack of guaranteed continuance of existing duty-free status for Andean country goods has caused some uncertainty among potential investors.

The year under review with this fourth report in the series of ATPA studies represents the completion of half of the life of the program. This is also the first time in the series that the attempts of beneficiary countries to cooperate with the United States in controlling the supply of illicit drugs appear to have had a concrete effect. The volume of land under coca cultivation declined in 1996 (figure 7-3). That was due in part to widening eradication efforts and also to the successful severing of the Peru-Colombia

⁸⁹ Existing countervailing and antidumping duties on cut flowers from Peru, Ecuador, and Colombia were illustrated in table 6-5, above. The USITC made affirmative determinations in the cases of fresh cut flowers from Colombia and Ecuador (investigation nos. 731-TA-329 and 331) on Mar. 18 1987. A case involving cut flowers from Peru (investigation no. 731-TA-334) was terminated on May 21, 1986. An affirmative determination was made in another case involving fresh cut flowers from Peru (investigation no. 303-TA-18) in Apr. 23, 1987. The most recent unfair import case ended in March 1995, when the Commission determined that the U.S. domestic rose industry was not materially injured by imports of roses from Colombia and Ecuador. See USITC, *Fresh Cut Roses From Colombia and Ecuador, investigation Nos. 731-TA-684 and 685 (final)*, USITC publication 2862, Mar. 1995.

Figure 7-3
Coca cultivation and eradication in the Andean region, 1991-96



Source: U.S. Department of State, International Narcotics Control Strategy Report, Mar. 1997, pp. 24, 71, 91 and 107.

airbridge, which further allowed coca prices to remain low and encouraged Peruvian farmers to abandon illicit cultivation.

The burgeoning success of alternative development programs in the Andean region is worthy of note. They hold out the possibility for the introduction of new crops as well as the future cultivation of such crops on a scale sufficient to

demonstrate their economic viability. The causal linkage between the ATPA itself and beneficiary country coca control measures is unproven. However, 1996 marked a turning point—albeit small—in efforts to support the ATPA goal of broad-based economic development in the Andean countries, with a specific focus on the development of sustainable alternatives to coca cultivation and cocaine production.

APPENDIX A
Federal Register Notices

ACTION: Notice of opportunity to submit comments in connection with 1996 annual report.

EFFECTIVE DATE: April 1, 1997.

FOR FURTHER INFORMATION CONTACT: Thomas Jennings (202-205-3260), Country and Regional Analysis Division, Office of Economics, U.S. International Trade Commission, Washington, D.C. 20436.

Background

Section 206 of ATPA (19 U.S.C. 3204) requires that the Commission submit annual reports to the Congress regarding:

(1) The actual economic effect of ATPA on the U.S. economy generally as well as on specific industries which produce articles that are like, or directly competitive with, articles being imported under the Act;

(2) The probable future effect of ATPA on the U.S. economy generally and on industries affected by the Act; and

(3) The estimated effect of ATPA on drug-related crop eradication and crop substitution efforts of beneficiary countries.

Notice of institution of the investigation and the schedule for such reports was published in the Federal Register of March 10, 1994 (59 FR 1308). The Commission's fourth annual report on ATPA, covering calendar year 1996, is to be submitted by September 30, 1997.

Written Submissions

The Commission does not plan to hold a public hearing in connection with the preparation of this report. However, interested persons are invited to submit written statements concerning the matters to be addressed in the report. Commercial or financial information that a party desires the Commission to treat as confidential must be submitted on separate sheets of paper, each clearly marked "Confidential Business Information" at the top. All submissions requesting confidential treatment must conform with the requirements of section 201 of the Commission's Rules of Practice and Procedure (19 CFR 201.6). All written submissions, except for confidential business information, will be made available for inspection by interested persons in the Office of the Secretary to the Commission. To be assured of consideration by the Commission, written statements relating to the Commission's report should be submitted at the earliest practical date and should be received no later than June 30, 1997.

Address all submissions to Office of the Secretary, U.S. International Trade Commission, 500 E St., S.W., Washington, D.C. 20436. Hearing-impaired persons are advised that information on this matter can be obtained by contacting the Commission's TDD terminal on (202) 205-1810.

Issued: April 2, 1997.

By order of the Commission.

Donna R. Koehnke,
Secretary.

[FR Doc. 97-9178 Filed 4-9-97; 8:45 am]

BILLING CODE 7020-02-P

INTERNATIONAL TRADE COMMISSION

[Investigation No. 332-227]

Annual Report on the Impact of the Caribbean Basin Economic Recovery Act on U.S. Industries and Consumers

AGENCY: United States International Trade Commission.

ACTION: Notice of opportunity to submit comments in connection with 1996 annual report.

EFFECTIVE DATE: April 2, 1997.

FOR FURTHER INFORMATION CONTACT: Thomas Jennings (202-205-3260), Country and Regional Analysis Division, Office of Economics, U.S. International Trade Commission, Washington, D.C. 20436.

Background

Section 215(a) of the Caribbean Basin Economic Recovery Act (CBERA) (19 U.S.C. 2704(a)) requires that the Commission submit annual reports to the Congress and the President regarding:

(1) The actual economic effect of CBERA on the U.S. economy generally as well as on specific industries which produce articles that are like, or directly competitive with, articles being imported under the Act; and

(2) The probable future effect of CBERA on the U.S. economy generally and on industries affected by the Act.

Notice of institution of the investigation and the schedule for such reports was published in the Federal Register of May 14, 1986 (51 FR 17678). The twelfth report, covering calendar year 1996, is to be submitted by September 30, 1997.

Written Submissions

The Commission does not plan to hold a public hearing in connection with the twelfth annual report. However, interested persons are invited

to submit 2 written statements concerning the matters to be addressed in the report. Commercial or financial information that a party desires the Commission to treat as confidential must be submitted on separate sheets of paper, each clearly marked "Confidential Business Information" at the top. All submissions requesting confidential treatment must conform with the requirements of section 201.6 of the Commission's Rules of Practice and Procedure (19 CFR 201.6). All written submissions, except for confidential business information, will be made available for inspection by interested persons in the Office of the Secretary to the Commission. To be assured of consideration by the Commission, written statements relating to the Commission's report should be submitted at the earliest practical date and should be received no later than June 30, 1997.

Address all submissions to the Secretary to the Commission, U.S. International Trade Commission, 500 E St., S.W., Washington, D.C. 20436. Hearing-impaired persons are advised that information on this matter can be obtained by contacting the Commission's TDD terminal on (202) 205-1810.

Issued: April 2, 1997.

By order of the Commission.

Donna R. Koehnke,
Secretary.

[FR Doc. 97-9177 Filed 4-9-97; 8:45 am]

BILLING CODE 7020-02-P

INTERNATIONAL TRADE COMMISSION

[Investigation No. 731-TA-752 (Final)]

Crawfish Tail Meat From China

AGENCY: United States International Trade Commission.

ACTION: Scheduling of the final phase of an antidumping investigation.

SUMMARY: The Commission hereby gives notice of the scheduling of the final phase of antidumping investigation No. 731-TA-752 (Final) under section 735(b) of the Tariff Act of 1930 (19 U.S.C. 1673d(b)) (the Act) to determine whether an industry in the United States is materially injured or threatened with material injury, or the establishment of an industry in the United States is materially retarded, by reason of less-than-fair-value imports from China of crawfish tail meat, provided for in subheadings 0306.19.00

Dated: April 4, 1997.

Richard G. Bryson,
Acting Chief, Division of Regulatory Support.
[FR Doc. 97-9110 Filed 4-9-97; 8:45 am]
BILLING CODE 4310-05-M

AGENCY FOR INTERNATIONAL DEVELOPMENT

Agency Strategic Plan

AGENCY: U.S. Agency for International Development.

ACTION: Notice.

SUMMARY: The U.S. Agency for International Development (USAID) seeks public comment on its draft strategic plan. The plan, an important requirement under the Government Performance and Results Act, seeks to articulate the mission statement, goals and objectives of the United States' economic and humanitarian assistance programs.

DATES: Comments should be sent no later than April 18, 1997.

SEND COMMENTS TO: Dan Rathbun, BHR/PPE, Room 365, U.S. Agency for International Development, 320 C Street, N.W., Washington, D.C. 20523 or (drathbun@usaid.gov).

FOR FURTHER INFORMATION CONTACT: Dan Rathbun, 2703-351-0127 or (drathbun@usaid.gov).

SUPPLEMENTARY INFORMATION: The draft Strategic Plan and an accompanying questionnaire are available at the USAID Internet Web Site: (http://www.info.usaid.gov/pubs/strat_plan/).

Dated: March 31, 1997.

Dan Rathbun,
Program Officer, Office of Program, Planning and Evaluation, Bureau for Humanitarian Response.

[FR Doc. 97-8170 Filed 4-9-97; 8:45 am]
BILLING CODE 6110-01-M

INTERNATIONAL TRADE COMMISSION

[Investigation No. 337-TA-380]

Certain Agricultural Tractors Under 50 Power Take-Off Horsepower; Notice of Denial of Petition for Reconsideration and Motion for Relief Pending Review

AGENCY: U.S. International Trade Commission.

ACTION: Notice.

SUMMARY: Notice is hereby given that the U.S. International Trade Commission has determined to deny respondents' Petition for

Reconsideration and respondents' Motion for Relief Pending Review in the above-captioned investigation.

FOR FURTHER INFORMATION CONTACT: Shara L. Aranoff, Esq., Office of the General Counsel, U.S. International Trade Commission, 500 E Street, S.W., Washington, D.C. 20436, telephone 202-205-3090.

SUPPLEMENTARY INFORMATION: The authority for the Commission's determination is contained in Section 705 of the Administrative Procedure Act (5 U.S.C. 705), Section 337 of the Tariff Act of 1930, as amended (19 U.S.C. 1337), and in §§ 210.47 and 210.48 of the Commission's Rules of Practice and Procedure (19 C.F.R. 210.47 and 210.48).

This trademark-based section 337 investigation was instituted by the Commission on February 14, 1996, based on a complaint filed by Kubota Tractor Corporation ("KTC"), Kubota Manufacturing of America ("KMA"), and Kubota Corporation ("KBT") (collectively "complainants"). On January 9, 1997, the Commission determined not to review that portion of the presiding administrative law judge's (ALJ) final initial determination (ID) finding a violation of section 337 based on infringement of complainants' federally-registered U.S. trademark "KUBOTA" (Reg. No. 922,330).

On February 25, 1997, the Commission issued a general exclusion order prohibiting the unlicensed entry for consumption of agricultural tractors under 50 power take-off horsepower manufactured by Kubota Corporation of Japan that infringe the federally-registered U.S. trademark "KUBOTA" and eleven cease and desist orders directed to respondents Bay Implement Company, Casteel World Group, Inc. (and related entities), Gamut Trading Co. (and related entities), Lost Creek Tractor Sales, MGA, Inc. Auctioneers, The Tractor Shop, Tractor Company, and Wallace International Trading Co. prohibiting the importation, sale for importation, or sale in the United States after importation of agricultural tractors under 50 power take-off horsepower manufactured by Kubota Corporation of Japan that infringe the federally-registered U.S. trademark "KUBOTA". The Commission also determined that the public interest factors enumerated in subsections 337(d) and (f) did not preclude the issuance of the general exclusion order and cease and desist orders, and that the bond during the Presidential review period should be in the amount of 90 percent of the entered value of the articles in question.

On March 13, 1997, respondents Gamut Trading Co., Gamut Imports, Wallace International Trading Co., Wallace Import Marketing Co., Inc., Bay Implement Co., Casteel World Group, Inc., The Tractor Shop, Suma Sangyo, Eisho World Ltd., Sanko Industries Co., Ltd, and Fujisawa Trading Co. filed a Petition for Reconsideration pursuant to Commission rules 210.47 and 210.48, requesting that the Commission reconsider its conclusion that requiring warning labels on the infringing tractors would not be an effective remedy. On the same date, respondents also filed a Motion for Relief Pending Review, requesting that the Commission stay the effective date of its general exclusion order and cease and desist orders until such time as the U.S. Court of Appeals for the Federal Circuit can decide respondents' planned appeal. Responses in opposition to both requests were received from complainants and the Commission investigative attorney (IA) on March 24, 1997.

Having considered the written submissions of the parties, as well as the record in this investigation, the Commission determined to deny both respondents' Petition for Reconsideration and respondents' Motion for Relief Pending Review.

Copies of the Commission's opinion and order and all other nonconfidential documents filed in connection with this investigation are or will be available for inspection during official business hours (8:45 a.m. to 5:15 p.m.) in the Office of the Secretary, U.S. International Trade Commission, 500 E Street, S.W., Washington, D.C. 20436, telephone 202-205-2000. Hearing impaired persons are advised that information on the matter can be obtained by contacting the Commission's TDD terminal at 202-205-1810.

Issued: April 4, 1997.

By order of the Commission.

Donna R. Koehake,

Secretary.

[FR Doc. 97-9198 Filed 4-9-97; 8:45 am]

BILLING CODE 7020-02-P

INTERNATIONAL TRADE COMMISSION

[Investigation No. 332-352]

Andean Trade Preference Act: Effect on the U.S. Economy and on Andean Drug Crop Eradication

AGENCY: United States International Trade Commission.

APPENDIX B
Summary of Submissions in Response to
***Federal Register* Notices**

Submissions for the Record

Investigation No. 332-227

CBERA

Ambassador Richard L. Bernal of Jamaica:¹

A statement by Ambassador Bernal made the following points:

- the commercial relationship between the United States and the CBERA beneficiaries supports more than 300,000 jobs in the United States; moreover, that relationship creates some 18,000 jobs annually in the United States.
- the Caribbean Basin is one of the few regions in the world where the United States maintains a trade surplus.
- an estimated 60 to 70 cents of each dollar spent in the Caribbean Basin by U.S. citizens and businesses is returned to the United States through purchases of U.S. goods and services, compared with only ten cents of each dollar spent in Asia.
- the single most important issue facing the Caribbean Basin countries is the lack of U.S. market access parity with Mexico for apparel articles that can be seen in Mexican apparel import growth rates outpacing Caribbean growth rates by a 3 to 1 margin.
- recent changes in the U.S./Caribbean partnership that have de-emphasized these relations include: the elimination of the Section 936 Program, which is a provision of the U.S. tax law that provides credits for firms investing in Puerto Rico or the Caribbean; a decline in foreign aid from the U.S.; and the disruption of Caribbean exports of bananas and rum due to a trade regime set up by the European Union to support banana-dependent countries and the December 1996 Singapore WTO Ministerial Information Technology Agreement (ITA) that would provide duty free access to the U.S. and the EU markets to all shippers worldwide.
- a short term strategy or proposal to sustain U.S./Caribbean economic links would have to encompass several key principles that would: level the playing field between Mexico and the Caribbean through legislation that covers all products excluded from the CBI; serve as a gateway to the FTAA; be permanent or of a sufficiently long duration to provide credibility and certainty; not impose entrance requirements that are insurmountable; and be advanced with the support of all key constituencies, such as labor, business and consumer groups, in both the U.S. and the Caribbean.
- a long term strategy that is initiated by the erection of a Free Trade Area of the Americas (FTAA) that consists of: an orderly accession process including a clearly defined set of eligibility criteria, procedures for applying for membership and a timetable for expansion; considerable flexibility since it will probably not be possible for all countries to move at the same pace and arrive at a single destination; provisions for associate or partial membership to permit countries, or sectors within those countries, to undertake FTAA commitments in a way that does not infringe upon existing obligations; and a process that takes into consideration the special needs of small developing countries.

The Rubber and Plastic Footwear Manufacturers Association (RPFMA):²

The submission from the RPFMA stated that imports of certain footwear from CBERA countries have adversely affected U.S. domestic rubber footwear and slipper manufacturers. The RPFMA pointed

¹ Submission to the Commission on Ambassador Bernal's behalf by Stephen Lamar, Director, Jefferson Waterman International, received June 30, 1997.

² Submission to the Commission by Mitchell J. Cooper, Counsel, Rubber and Plastic Footwear Manufacturers Association, received Apr. 22, 1997.

out that Section 222 of the Caribbean Basin Economic Recovery Expansion Act affords duty-free entry to the United States to certain products, including rubber footwear and slippers manufactured or assembled from components of U.S. origin. According to RPFMA, “[t]he requirement of using domestic components in order to get duty-free treatment is one that is easily met by footwear companies.” Concerning the impact on U.S. domestic production, RPFMA stated that, because of this provision, Supreme Slipper, a large domestic manufacturer of slippers, and Kaysam, a significant domestic manufacturer of rubber footwear have closed their doors in the United States and have relocated to the Dominican Republic. Moreover, in NAFTA, the products of this industry were among the few to be accorded the maximum 15 year phase-out.

International Intellectual Property Alliance (IIPA):³

This submission focused on the copyright protection and enforcement issues as applied in the CBI program and discussed the economic impact inflicted on U.S. companies due to copyright piracy in the region. The IIPA, in their February 1997 Special 301 submission to the U.S. Trade Representative, provided estimated trade losses of \$53.6 million due to copyright piracy in 1996 in four CBERA countries, including: the Dominican Republic (\$3.0 million), Honduras (\$5.0 million), Guatemala (\$16.5 million), and Panama (\$29.1 million). The IIPA also included specific descriptions of the copyright problems in the aforementioned countries, such as broadcasting and cable piracy in Honduras and Guatemala; the unauthorized broadcasting and retransmission of motion pictures and television programming in the Dominican Republic; the copyright piracy of videos, sound recordings and music, computer and entertainment software, and books in Nicaragua; and the shipment for numerous pirated and counterfeited products in Panama. The IIPA “advocates that FTAA Governments should: take immediate action to enforce copyright law to reduce the high levels of commercial piracy; revise their laws to ensure the highest levels of copyright protection, including the ratification and implementation of the two new World Intellectual Property Organization (WIPO) copyright treaties; and provide non-discriminatory market access for information and entertainment services.” The IIPA believes that “maintaining the trade leverage of the CBI program is essential for the future growth of the U.S. copyright-based industries in the Caribbean and Central American region in the coming years.”

³ Submission to the Commission by Steven J. Metalitz, Vice President and General Counsel, and Maria Strong, Vice President and Associate General Counsel, International Intellectual Property Alliance, received June 30, 1997.

Submissions for the Record Investigation No. 332–352 ATPA

Colombian Government Trade Bureau, Washington, D.C.:⁴

The submission from the Colombian Government Trade Bureau expressed its views regarding the ATPA in three areas: trade and investment, illegal crop eradication, and alternative development and crop substitution. They maintained that trade between the United States and Colombia has increased dramatically since the enactment of ATPA, as did investment in Colombia. Evidence of this can be seen in the increase in various products from Colombia that were not previously imported and the higher inflows of American investment into Colombia. Concerning illegal crop eradication, the Colombian Government questioned the U.S. methodology for enumerating the extent of the eradication because the figures determined by each country were quite different. Also, the Colombian Government maintained that crop eradication results would have been much higher had there not been unexpected delays in the delivery of aircraft promised by the United States and the American decision to suspend fumigation flights in the month of September. Accompanying the eradication efforts were alternative development and illegal crop substitution programs, including PLANTE. The Colombian Government suggested that “the fight against illicit crops is a joint effort that must be undertaken by Colombia and the United States as partners.” Finally, the Colombian Government commented that ATPA “has helped ameliorate the social and economic conditions that give rise to illicit crop cultivation” by indirectly creating jobs in the country. Furthermore, the Colombian Government urges that the quota on sugar be removed and “that ATPA’s product coverage be widened” to cover such industries as textiles, apparel, leather goods and footwear due to the belief that “foreign investment in the textile and apparel sectors has been increasingly diverted to Mexico.”

Tile Council of America (TCA):⁵

The submission from TCA stated that “the ATPA has had a negative economic impact on the U.S. ceramic tile industry, forcing U.S. producers to compete with large added volumes of low-priced and under-priced ceramic tile from Colombia.” According to the TCA, U.S. producers of tile have incurred a direct loss of revenue over the past several years and renewal of ATPA benefits to Colombia would further this decline.

Floral Trade Council:⁶

This submission focused on the effects of ATPA on the fresh cut flower industry in the United States. According to the Floral Trade Council, “the U.S. fresh cut flower industry faces an uncertain future given the current oversupplies in the market caused by duty-free treatment of all fresh cut flower imports from Colombia, Bolivia, Ecuador, and Peru.” They cited the Commission’s previous reports on the ATPA, showing the effects of ATPA on the industry over the years and how the ATPA has encouraged increased imports and has done little to stem Colombian drug exports.

⁴ Submission to the Commission by Nicolas Lloreda, Director, on behalf of the Colombian Government Trade Bureau, Washington, received June 30, 1997.

⁵ Submission to the Commission by John F. Bruce, Counsel to Tile Council of America, received June 30, 1997.

⁶ Submission to the Commission by Terence P. Stewart, James R. Cannon, Jr., and Mara M. Burr, Special Counsel, on behalf of the Floral Trade Council, received June 30, 1997.

APPENDIX C
Technical Notes to Chapters 3 and 6

This section presents the methodology used to estimate the impact of CBERA and ATPA on the U.S. economy in 1996. The economic effects of CBERA/ATPA duty reductions¹ are evaluated using a comparative static analysis. Since CBERA/ATPA tariff preferences were already in effect in 1996, 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 CBERA/ATPA provisions) with those that might have existed under full tariffs (i.e., no CBERA/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 CBERA/ATPA had not been in place during 1996. However, the material on welfare and displacement effects, in the section titled “Analytical Approach” in the Introduction and in this appendix, discusses the impact of CBERA/ATPA in terms of duty reductions, rather than the “removal” of duty eliminations already in place.² The effects of a duty reduction and a duty imposition are symmetrical and lead to results that are equivalent in magnitude but opposite in sign.³ 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 CBERA/ATPA products, competing non-CBERA/non-ATPA (foreign) products, and competing domestic products, are modeled. These three markets are depicted in panels a, b, and c of figure C-1. Imports from CBERA/ATPA beneficiaries, imports from non-CBERA/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 CBERA/ATPA and non-CBERA/non-ATPA import demand curves, D_c 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.⁴ It is assumed that the CBERA/ATPA import supply curve to the U.S. market, the non-CBERA/non-ATPA import supply curve, and the domestic industry supply curve, S_c , 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” estimates of the welfare and domestic displacement effects on the U.S. economy.⁵

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

The decrease in the price of CBERA/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-CBERA/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.

¹ 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).

² Most comparative static analyses are used to evaluate the effects of an event that has not already happened— such as a proposed tariff elimination. This comparative analysis evaluates the effects of an event that has already happened—CBERA duty elimination has been in effect since 1984, and ATPA since 1992. The method described in this section can be used in either situation.

³ This is technically true only if income effects are negligible. Given the small U.S. expenditure on goods from CBERA/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.

⁴ The subscripts c, n, and d refer to CBERA/ATPA imports, non-CBERA/non-ATPA imports, and U.S. output, respectively.

⁵ Since CBERA/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.

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

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

The net welfare effect of CBERA/ATPA is equal to the increase in consumer surplus plus the decrease in tariff revenue—the trapezoid $P_c abP_c'$ minus the rectangle $P_c acP_c'$ in panel a, i.e., triangle abc.⁶ The dollar amount by which CBERA/ATPA imports displace U.S. output is measured by the rectangle $Q_d' deQ_d$ 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:

$$(1) \quad (Q_c/Q_c') = (P_c/P_c')^{\epsilon_{cc}}$$

$$(2) \quad (Q_n/Q_n') = (P_c/P_c')^{\epsilon_{nc}}$$

$$(3) \quad (Q_d/Q_d') = (P_c/P_c')^{\epsilon_{dc}}$$

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

$$(1)' \quad (Q_c/Q_c') = (1+t)^{\epsilon_{cc}}$$

$$(2)' \quad (Q_n/Q_n') = (1+t)^{\epsilon_{nc}}$$

$$(3)' \quad (Q_d/Q_d') = (1+t)^{\epsilon_{dc}}$$

The ϵ_{ij} is the uncompensated elasticity of demand for good i with respect to price j . The values for the ϵ_{cc} , ϵ_{nc} , and ϵ_{dc} elasticities are derived from the following relations:

$$(4) \quad \epsilon_{cc} = V_c \eta - V_n \sigma_{cn} - V_d \sigma_{cd}$$

$$(5) \quad \epsilon_{nc} = V_c (\sigma_{nc} + \eta)$$

$$(6) \quad \epsilon_{dc} = V_c (\sigma_{dc} + \eta)$$

where the V_i 's are market shares for CBERA/ATPA imports, non-CBERA/non-ATPA imports, and domestic output, respectively, η is the aggregate demand elasticity, and the σ_{ij} 's are the elasticities of substitution between the i th and j th products.⁷ Estimates of the aggregate demand elasticities were

⁶ 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 CBERA/ATPA.

⁷ Equations (4) through (6) are derived from P.R.G. Layard and A.A. Walters, *Microeconomic Theory* (New York: McGraw-Hill, 1978).

taken from the literature.⁸ To obtain upper bound estimates of the impact of CBERA/ATPA, it is assumed that all of the elasticities of substitution are identical and high, in this case equal to 5.⁹

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)

$$\begin{aligned} \text{area of} \\ \text{trapezoid } P_cabP_c' &= \int_{P_c'}^{P_c} k P_c^{\epsilon_{cc}} dP_c \\ &= [1/(1+\epsilon_{cc})] [(1+t)^{(1+\epsilon_{cc})} - 1] P_c' Q_c' \quad \text{if } \epsilon_{cc} \neq -1 \\ &= k \ln(1+t) \quad \text{if } \epsilon_{cc} = -1 \end{aligned}$$

Tariff revenue from U.S. imports from CBERA/ATPA partners

$$\begin{aligned} \text{area of} \\ \text{rectangle } P_cacP_c' &= (P_c - P_c') Q_c \\ &= P_c' t Q_c \quad \text{given } P_c = P_c'(1+t) \\ &= t P_c' Q_c' (1+t)^{\epsilon_{cc}} \quad \text{given } Q_c = Q_c' (1+t)^{\epsilon_{cc}} \end{aligned}$$

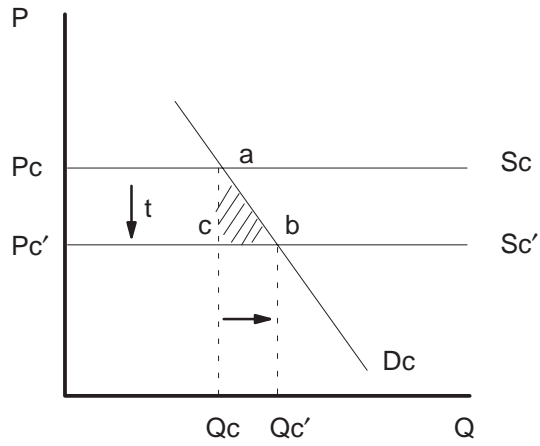
Domestic output

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

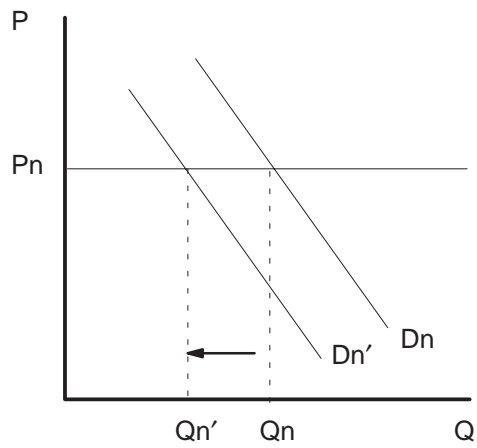
⁸ The aggregate elasticities were taken from sources referenced in USITC, *Potential Impact on the U.S. Economy and Selected Industries of the North American Free-Trade Agreement*, USITC publication 2596, January 1993.

⁹ The elasticity of substitution (EOS) for ethyl alcohol was set equal to 3 rather than 5. Because of the relatively small market share for CBERA imports and the high tariff rate, an EOS greater than 3 implies that a dollar of imports of ethyl alcohol from CBERA countries displaces more than a dollar's worth of domestic output.

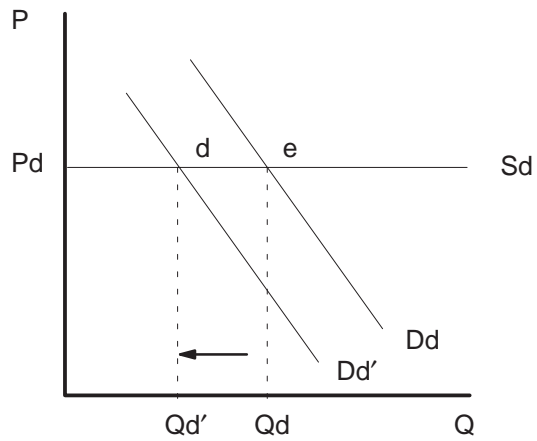
Figure C-1
Partial equilibrium analysis of the effects of CBERA/ATPA duty provisions on U.S. imports



a. imports under CBERA/ATPA



b. non-CBERA/non-ATPA imports



c. U.S. domestic output

APPENDIX D
Data Used in NAFTA Parity Analysis

Table D-1
Import competition between U.S. imports from CBERA, Mexico, Canada, NAFTA, and the
Rest-of-the-World (ROW): value of imports for 35 4-digit SIC commodities, 1991-96

Commodity	Year	CBERA	Mexico	Canada	ROW	Total
<i>Thousands of dollars</i>						
Total selected commodities	1991	6,865,668	8,126,870	12,514,759	79,551,155	107,058,452
	1992	7,915,777	8,288,478	13,049,442	84,586,476	113,840,173
	1993	8,448,248	8,944,201	14,132,492	85,670,027	117,194,968
	1994	9,204,111	10,031,117	15,200,521	89,603,257	124,039,006
	1995	10,260,954	12,899,504	16,417,717	94,714,089	134,292,264
	1996	11,863,452	16,129,925	19,702,958	105,850,777	153,547,112
0132—Tobacco	1991	29,826	15,426	16,997	673,657	735,906
	1992	46,944	13,452	36,638	1,378,337	1,475,371
	1993	61,103	19,523	27,907	1,261,566	1,370,099
	1994	27,732	2,059	9,422	573,968	613,181
	1995	21,162	3,553	10,159	515,262	550,136
	1996	47,518	23,917	12,331	838,931	922,697
0139—Field crops, except cash grains, n.e.c.	1991	37,945	44,997	34,245	182,596	299,783
	1992	43,048	41,884	45,502	170,477	300,911
	1993	51,402	35,454	78,207	142,155	307,218
	1994	59,051	38,747	153,678	184,796	436,272
	1995	80,783	31,069	105,129	238,914	455,895
	1996	92,876	32,336	140,641	254,618	520,471
0161—Vegetables and melons	1991	73,089	794,290	42,681	73,542	983,602
	1992	86,864	639,309	45,915	76,551	848,639
	1993	103,449	862,078	47,838	107,997	1,121,362
	1994	105,904	938,967	57,964	124,327	1,227,162
	1995	113,080	1,150,383	77,208	145,432	1,486,103
	1996	118,706	1,344,970	99,597	165,616	1,728,889
0179—Fruits and tree nuts, n.e.c.	1991	869,578	450,484	816	1,650,073	2,970,951
	1992	949,386	440,164	500	1,496,955	2,887,005
	1993	919,038	432,434	479	1,317,429	2,669,380
	1994	1,014,668	486,184	321	2,092,996	3,594,169
	1995	1,281,629	755,114	362	2,368,220	4,405,325
	1996	1,264,135	711,333	612	2,011,842	3,987,922
0181—Ornamental floriculture and nursery products	1991	34,629	28,633	59,849	519,420	642,531
	1992	41,444	25,637	69,578	573,102	709,761
	1993	43,777	32,262	82,477	615,905	774,421
	1994	48,810	30,429	91,542	659,194	829,975
	1995	51,840	40,579	112,377	778,071	982,867
	1996	58,144	40,644	135,570	872,809	1,107,167
0912—Finfish	1991	49,639	37,998	746,884	1,184,040	2,018,561
	1992	46,903	35,254	522,010	1,137,726	1,741,893
	1993	56,052	28,179	439,072	1,244,235	1,767,538
	1994	70,192	28,410	366,901	1,356,468	1,821,971
	1995	84,508	43,203	331,675	1,506,812	1,966,198
	1996	118,347	46,771	339,422	1,496,814	2,001,354
0913—Shellfish	1991	257,939	203,598	206,690	1,833,121	2,501,348
	1992	267,783	161,220	253,078	2,084,704	2,766,785
	1993	281,926	227,752	301,140	2,150,698	2,961,516
	1994	349,435	282,203	388,354	2,588,664	3,608,656
	1995	380,895	375,764	339,834	2,443,741	3,540,234
	1996	386,467	373,105	350,925	2,303,674	3,414,171

Table D-1—Continued
Import competition between U.S. imports from CBERA, Mexico, Canada, NAFTA, and the
Rest-of-the-World (ROW): value of imports for 35 4-digit SIC commodities, 1991-96

Commodity	Year	CBERA	Mexico	Canada	ROW	Total
<i>Thousands of dollars</i>						
1099—Metallic ores, n.e.c.	1991	152,521	258	9,368	376,692	538,839
	1992	176,143	413	2,839	328,711	508,106
	1993	163,947	31	7,216	339,073	510,267
	1994	131,058	3	10,240	340,313	481,614
	1995	119,169	8	18,769	359,933	497,879
	1996	121,126	5	22,752	365,584	509,467
1311—Crude petroleum and natural gas	1991	531,286	4,340,803	6,977,407	27,858,414	39,707,910
	1992	516,515	4,272,347	7,542,698	28,501,224	40,832,784
	1993	397,300	4,185,219	8,244,618	28,667,776	41,494,913
	1994	401,524	4,608,140	8,819,726	28,617,388	42,446,778
	1995	302,777	5,682,791	9,385,512	29,953,383	45,324,463
	1996	225,520	7,036,282	11,281,622	30,223,879	48,767,303
2011—Meat prod and meat pkg prod ex poultry and sml gm anml .	1991	159,403	22,306	657,102	2,301,656	3,140,467
	1992	31,074	22,936	739,814	2,032,564	2,926,388
	1993	195,371	20,290	861,389	1,993,083	3,070,133
	1994	178,576	24,101	900,965	1,880,054	2,983,696
	1995	117,021	26,616	935,781	1,582,530	2,661,948
	1996	78,979	27,395	1,121,106	1,410,620	2,638,100
2037—Frozen fruits, fruit juices, and vegetables	1991	58,378	180,143	85,392	736,521	1,060,434
	1992	81,648	172,707	99,530	781,301	1,135,186
	1993	64,854	168,242	131,255	629,201	993,552
	1994	71,625	194,784	136,685	620,581	1,023,675
	1995	74,982	223,617	158,264	556,745	1,013,608
	1996	82,443	222,228	203,052	839,254	1,346,977
2062—Beet and cane sugar, molasses, and byproducts . .	1991	256,699	18,362	24,876	422,968	722,905
	1992	294,726	7,894	55,169	361,136	718,925
	1993	280,384	4,831	18,963	332,188	636,366
	1994	260,935	11,956	30,314	362,201	665,406
	1995	244,086	22,951	15,130	462,805	744,972
	1996	474,781	36,838	7,930	662,287	1,181,836
2121—Cigars	1991	38,345	3,698	0	2,144	44,187
	1992	38,763	3,137	3	2,242	44,145
	1993	44,947	3,552	0	2,233	50,732
	1994	56,845	3,710	0	2,252	62,807
	1995	83,110	5,722	0	4,334	93,166
	1996	166,436	10,650	3	9,749	186,838
2252—Hosiery, except women's full and knee length hosiery	1991	14,214	3,916	6,339	289,932	314,401
	1992	19,933	2,619	6,594	149,142	178,288
	1993	86,645	1,600	7,696	134,570	230,511
	1994	110,404	1,814	13,463	162,288	287,969
	1995	140,423	21,693	26,739	168,281	357,136
	1996	144,939	80,104	35,786	139,060	399,889
2311—Men's and boys' suits and coats, except raincoats	1991	78,478	16,904	57,122	525,610	678,114
	1992	100,630	20,345	78,680	589,266	788,921
	1993	108,022	19,465	99,107	597,348	823,942
	1994	145,343	26,620	122,768	658,888	953,619
	1995	147,250	40,579	155,540	698,522	1,041,891
	1996	156,353	70,588	183,596	723,346	1,133,883

Table D-1—Continued
Import competition between U.S. imports from CBERA, Mexico, Canada, NAFTA, and the
Rest-of-the-World (ROW): value of imports for 35 4-digit SIC commodities, 1991-96

Commodity	Year	CBERA	Mexico	Canada	ROW	Total
<i>Thousands of dollars</i>						
2321—Men's and boys' shirts	1991	305,642	12,792	10,864	2,709,561	3,038,859
	1992	461,873	30,353	28,423	3,506,977	4,027,626
	1993	602,446	80,191	38,444	3,797,694	4,518,775
	1994	686,811	112,439	40,917	4,076,815	4,916,982
	1995	979,470	242,352	60,904	4,592,719	5,875,445
	1996	1,112,223	395,172	80,316	4,418,167	6,005,878
2322—Men's and boys' underwear and nighwear	1991	111,439	6,299	1,255	170,058	289,051
	1992	173,698	21,246	2,876	197,753	395,573
	1993	240,924	31,037	2,839	252,845	527,645
	1994	307,174	79,765	3,173	261,484	651,596
	1995	473,100	147,790	8,850	333,332	963,072
	1996	660,643	217,909	18,860	331,410	1,228,822
2325—Men's and boys' separate trousers and casual slacks . .	1991	548,401	224,698	25,575	1,511,588	2,310,262
	1992	701,277	281,700	46,489	1,627,775	2,657,241
	1993	809,056	351,286	50,492	1,569,543	2,780,377
	1994	955,464	447,978	67,611	1,680,085	3,151,138
	1995	1,092,069	705,297	85,411	1,906,158	3,788,935
	1996	1,082,666	919,180	102,651	2,008,530	4,113,027
2329—Men's and boys' clothing, n.e.c.	1991	42,828	7,526	13,736	1,698,966	1,763,056
	1992	48,202	14,739	19,679	1,989,487	2,072,107
	1993	47,911	21,300	29,621	2,247,979	2,346,811
	1994	54,513	26,693	47,385	2,502,914	2,631,505
	1995	64,513	66,659	54,823	2,309,543	2,495,538
	1996	84,699	60,410	56,068	2,375,225	2,576,402
2331—Women's and misses' blouses and shirts	1991	159,185	57,235	16,441	2,690,183	2,923,044
	1992	187,715	70,948	29,720	3,212,539	3,500,922
	1993	210,726	120,224	33,824	3,498,980	3,863,754
	1994	222,961	221,256	43,974	3,459,369	3,947,560
	1995	227,078	322,381	61,274	3,295,630	3,906,363
	1996	235,485	413,731	74,534	3,256,528	3,980,278
2335—Women's and misses' dresses	1991	44,591	12,839	7,398	909,659	974,487
	1992	43,112	17,246	10,000	983,498	1,053,856
	1993	50,800	21,323	14,103	1,044,205	1,130,431
	1994	65,741	44,147	16,666	1,212,861	1,339,415
	1995	92,280	73,550	24,289	1,497,415	1,687,534
	1996	121,153	111,277	35,747	1,601,989	1,870,166
2337—Women's and misses' suits, skirts, and coats	1991	208,908	36,815	21,947	2,068,412	2,336,082
	1992	256,674	45,306	28,210	2,187,682	2,517,872
	1993	333,819	55,459	38,309	2,296,539	2,724,126
	1994	294,727	55,009	43,706	2,279,750	2,673,192
	1995	331,538	70,874	60,719	2,373,160	2,836,291
	1996	412,953	111,936	76,701	2,491,288	3,092,878
2341—Women's, girls', and infants' underwear and nightwear . . .	1991	187,738	50,721	3,861	586,434	828,754
	1992	228,279	62,120	6,308	688,073	984,780
	1993	286,540	70,144	5,902	805,576	1,168,162
	1994	349,864	92,601	10,239	889,596	1,342,300
	1995	451,388	121,076	13,513	54,053	1,540,030
	1996	458,473	140,064	17,829	1,029,966	1,646,332

Table D-1—Continued
Import competition between U.S. imports from CBERA, Mexico, Canada, NAFTA, and the
Rest-of-the-World (ROW): value of imports for 35 4-digit SIC commodities, 1991-96

Commodity	Year	CBERA	Mexico	Canada	ROW	Total
<i>Thousands of dollars</i>						
2342—Brassieres and allied garments	1991	195,335	68,622	4,373	158,836	427,166
	1992	243,581	92,369	3,833	194,404	534,187
	1993	284,281	103,945	3,634	226,665	618,525
	1994	332,138	130,586	6,336	256,076	725,136
	1995	426,253	176,664	9,139	290,429	902,485
	1996	364,562	186,524	3,285	291,039	845,410
2353—Hats, caps, and millinery	1991	31,827	20,656	3,749	350,370	406,602
	1992	63,136	26,367	5,367	479,953	574,823
	1993	68,616	32,021	8,683	548,867	658,187
	1994	60,151	32,500	12,232	68,322	673,205
	1995	58,990	34,684	14,277	587,592	695,543
	1996	55,753	34,351	16,079	632,265	738,448
2369—Children's outerwear, n.e.c.	1991	500,496	323,655	44,239	5,696,348	6,564,738
	1992	641,230	418,472	71,330	6,885,247	8,016,279
	1993	746,267	424,681	99,918	6,924,858	8,195,724
	1994	801,813	530,375	118,869	7,475,229	8,926,286
	1995	850,610	756,779	150,976	7,131,362	8,889,727
	1996	1,036,126	973,668	192,035	6,989,462	9,191,291
2819—Industrial inorganic chemicals, n.e.c.	1991	217,144	181,051	823,527	2,842,176	4,063,898
	1992	176,854	193,653	853,897	2,727,300	3,951,704
	1993	175,391	177,823	932,430	2,584,177	3,869,821
	1994	282,664	230,969	1,106,958	2,891,573	4,512,164
	1995	385,167	218,840	1,223,765	3,520,327	5,348,099
	1996	378,443	265,259	1,437,465	3,924,810	6,005,977
2833—Medicinals and botanicals	1991	315,803	84,513	33,454	2,420,123	2,853,893
	1992	379,555	151,433	44,188	2,701,538	3,276,714
	1993	178,897	58,203	53,345	2,810,782	3,101,227
	1994	35,523	58,777	61,360	3,210,266	3,365,926
	1995	45,317	60,557	69,933	4,456,349	4,632,156
	1996	46,736	58,785	53,966	5,961,313	6,120,800
2869—Industrial organic chemicals, n.e.c.	1991	80,843	141,272	425,063	4,271,886	4,919,064
	1992	57,116	132,100	551,388	4,759,807	5,500,411
	1993	73,621	138,946	595,395	4,819,486	5,627,448
	1994	182,203	186,106	711,133	5,687,296	6,766,738
	1995	146,787	285,716	842,847	6,908,770	8,184,120
	1996	156,710	259,831	688,298	7,580,868	8,685,707
2911—Petroleum refinery products	1991	859,645	171,997	2,017,367	7,840,352	10,889,361
	1992	940,289	248,068	1,702,639	7,294,288	10,185,284
	1993	874,932	504,522	1,709,351	6,653,211	9,742,016
	1994	819,507	320,312	1,601,737	6,532,415	9,273,971
	1995	615,884	294,610	1,832,236	6,022,205	8,764,935
	1996	1,314,625	850,756	2,659,460	13,685,292	18,510,133
3131—Boot and shoe cut stock and findings	1991	146,665	42,068	7,131	130,827	326,691
	1992	173,208	46,612	6,121	141,029	366,970
	1993	213,265	54,663	7,853	147,837	423,618
	1994	255,549	57,656	9,349	144,390	466,944
	1995	203,845	8,324	7,674	139,482	409,325
	1996	214,984	67,592	9,274	130,440	422,290

Table D-1—Continued
Import competition between U.S. imports from CBERA, Mexico, Canada, NAFTA, and the
Rest-of-the-World (ROW): value of imports for 35 4-digit SIC commodities, 1991-96

Commodity	Year	CBERA	Mexico	Canada	ROW	Total
<i>Thousands of dollars</i>						
3634—Electric housewares and fans, n.e.c.	1991	19,818	197,256	21,709	1,380,796	1,619,579
	1992	31,383	247,018	17,377	1,443,750	1,739,528
	1993	39,170	274,285	15,609	1,388,649	1,717,713
	1994	40,095	267,241	22,694	1,405,676	1,735,706
	1995	52,284	298,115	27,972	1,423,737	1,802,108
	1996	49,218	330,332	22,664	1,403,615	1,805,829
3678—Connectors for electronic applications	1991	16,095	141,356	55,464	356,725	569,640
	1992	19,885	138,113	59,331	405,237	622,566
	1993	47,061	158,594	53,732	502,455	761,842
	1994	32,621	194,431	57,060	591,009	875,121
	1995	21,524	206,241	64,727	770,207	1,062,699
	1996	17,064	248,994	74,453	837,207	1,177,718
3841—Surgical and medical instruments and apparatus, n.e.c.	1991	113,365	144,459	16,672	775,817	1,050,313
	1992	126,064	137,897	25,681	891,912	1,181,554
	1993	154,527	152,320	23,520	1,047,644	1,378,011
	1994	195,947	188,134	32,605	1,053,779	1,470,465
	1995	313,301	235,333	37,792	1,087,602	1,674,028
	1996	338,285	300,216	40,205	1,184,376	1,863,082
3911—Jewelry of precious metal	1991	117,931	39,222	35,167	2,351,652	2,543,972
	1992	120,841	53,405	38,036	2,604,789	2,817,071
	1993	151,779	72,321	68,124	2,966,576	3,258,800
	1994	196,543	76,017	84,174	3,199,973	3,556,707
	1995	186,838	100,021	94,118	3,331,031	3,712,008
	1996	185,879	126,775	108,122	3,398,907	3,819,683

Table D-2
Import competition between U.S. imports from CBERA, Mexico, Canada, NAFTA, and the
Rest-of-the-World (ROW): import shares for 35 4-digit SIC commodities from, 1991-96

Commodity	Year	CBERA	Mexico	Canada	NAFTA	ROW
Total selected commodities	1991	6.41	7.59	11.69	19.28	74.31
	1992	6.95	7.28	11.46	18.74	74.30
	1993	7.21	7.63	12.06	19.69	73.10
	1994	7.42	8.09	12.25	20.34	72.24
	1995	7.64	9.61	12.23	21.83	70.53
	1996	7.73	10.50	12.83	23.34	68.94
0132—Tobacco	1991	4.05	2.10	2.31	4.41	91.54
	1992	3.18	0.91	2.48	3.40	93.42
	1993	4.46	1.42	2.04	3.46	92.08
	1994	4.52	0.34	1.54	1.87	93.60
	1995	3.85	0.65	1.85	2.49	93.66
	1996	5.15	2.59	1.34	3.93	90.92
0139—Field crops, except cash gains, n.e.c.	1991	12.66	15.01	11.42	26.43	60.91
	1992	14.31	13.92	15.12	29.04	56.65
	1993	16.73	11.54	25.46	37.00	46.27
	1994	13.54	8.88	35.23	44.11	42.36
	1995	17.72	6.81	23.06	29.87	52.41
	1996	17.84	6.21	27.02	33.23	48.92
0161—Vegetables and melons	1991	7.43	80.75	4.34	85.09	7.48
	1992	10.24	75.33	5.41	80.74	9.02
	1993	9.23	76.88	4.27	81.14	9.63
	1994	8.63	76.52	4.72	81.24	10.13
	1995	7.61	77.41	5.20	82.60	9.79
	1996	6.87	77.79	5.76	83.55	9.58
0179—Fruits and tree nuts, n.e.c.	1991	29.27	15.16	0.03	15.19	55.54
	1992	32.88	15.25	0.02	15.26	51.85
	1993	34.43	16.20	0.02	16.22	49.35
	1994	28.23	13.53	0.01	13.54	58.23
	1995	29.09	17.14	0.01	17.15	53.76
	1996	31.70	17.84	0.02	17.85	50.45
0181—Ornamental floriculture and nursery products	1991	5.39	4.46	9.31	13.77	80.84
	1992	5.84	3.61	9.80	13.42	80.75
	1993	5.65	4.17	10.65	14.82	79.53
	1994	5.88	3.67	11.03	14.70	79.42
	1995	5.27	4.13	11.43	15.56	79.16
	1996	5.25	3.67	12.24	15.92	78.83
0912—Finfish	1991	2.46	1.88	37.00	38.88	58.66
	1992	2.69	2.02	29.97	31.99	65.32
	1993	3.17	1.59	24.84	26.44	70.39
	1994	3.85	1.56	20.14	21.70	74.45
	1995	4.30	2.20	16.87	19.07	76.64
	1996	5.91	2.34	16.96	19.30	74.79
0913—Shellfish	1991	10.31	8.14	8.26	16.40	73.29
	1992	9.68	5.83	9.15	14.97	75.35
	1993	9.52	7.69	10.17	17.86	72.62
	1994	9.68	7.82	10.76	18.58	71.73
	1995	10.76	10.61	9.60	20.21	69.03
	1996	11.32	10.93	10.28	21.21	67.47
1099—Metallic ores, n.e.c.	1991	28.31	0.05	1.74	1.79	69.91
	1992	34.67	0.08	0.56	0.64	64.69
	1993	32.13	0.01	1.41	1.42	66.45
	1994	27.21	0.00	2.13	0.13	70.66
	1995	23.94	0.00	3.77	3.77	72.29
	1996	23.78	0.00	4.47	4.47	71.76

Table D-2—Continued
Import competition between U.S. imports from CBERA, Mexico, Canada, NAFTA, and the
Rest-of-the-World (ROW): import shares for 35 4-digit SIC commodities from, 1991-96

Commodity	Year	CBERA	Mexico	Canada	NAFTA	ROW
		<i>Import Shares</i>				
1311—Crude petroleum and natural gas	1991	1.34	10.93	17.57	28.50	70.16
	1992	1.26	10.46	18.47	28.94	69.80
	1993	0.96	10.09	19.87	29.96	69.09
	1994	0.95	10.86	20.78	31.63	67.42
	1995	0.67	12.54	20.71	33.25	66.09
	1996	0.46	14.43	23.13	37.56	61.98
2011—Meat prod and meat pkg prod ex poultry and sml gm anml	1991	5.08	0.71	20.92	21.63	73.29
	1992	4.48	0.78	25.28	26.06	69.46
	1993	6.36	0.66	28.06	28.72	64.92
	1994	5.99	0.81	30.20	31.00	63.01
	1995	4.40	1.00	35.15	36.15	59.45
	1996	2.99	1.04	42.50	43.54	53.47
2037—Frozen fruits, fruit juices, and vegetable	1991	5.51	16.99	8.05	25.04	69.45
	1992	7.19	15.21	8.77	23.98	68.83
	1993	6.53	16.93	13.21	30.14	63.33
	1994	7.00	19.03	13.35	32.38	60.62
	1995	7.40	22.06	15.61	37.68	54.93
	1996	6.12	16.50	15.07	31.57	62.31
2062—Beet and cane sugar, molasses, and byproducts	1991	35.51	2.54	3.44	5.98	58.51
	1992	41.00	1.10	7.67	8.77	50.23
	1993	44.06	0.76	2.98	3.74	52.20
	1994	39.21	1.80	4.56	6.35	54.43
	1995	32.76	3.08	2.03	5.11	62.12
	1996	40.17	3.12	0.67	3.79	56.04
2121—Cigars	1991	86.78	8.37	0.00	8.37	4.85
	1992	87.81	7.11	0.01	7.11	5.08
	1993	88.60	7.00	0.00	7.00	4.40
	1994	90.51	5.91	0.00	5.91	3.59
	1995	89.21	6.14	0.00	6.14	4.65
	1996	89.08	5.70	0.00	5.70	5.22
2252—Hosiery, except women's full and knee length hosiery	1991	4.52	1.25	2.02	3.26	92.22
	1992	11.18	1.47	3.70	5.17	83.65
	1993	37.59	0.69	3.34	4.03	58.38
	1994	38.34	0.63	4.68	5.31	56.36
	1995	39.32	6.07	7.49	13.56	47.12
	1996	36.24	20.03	8.95	28.98	34.77
2311—Men's and boys' suits and coats, except raincoats	1991	11.57	2.49	8.42	10.92	77.51
	1992	12.76	2.58	9.97	12.55	74.69
	1993	13.11	2.36	12.03	14.39	72.50
	1994	15.24	2.79	12.87	15.67	69.09
	1995	14.13	3.89	14.93	18.82	67.04
	1996	13.79	6.23	16.19	22.42	63.79
2321—Men's and boys' shirts	1991	10.06	0.42	0.36	0.78	89.16
	1992	11.47	0.75	0.71	1.46	87.07
	1993	13.33	1.77	0.85	2.63	84.04
	1994	13.97	2.29	0.83	3.12	82.91
	1995	16.67	4.12	1.04	5.16	78.17
	1996	18.52	6.58	1.34	7.92	73.56

Table D-2—Continued

Import competition between U.S. imports from CBERA, Mexico, Canada, NAFTA, and the Rest-of-the-World (ROW): import shares for 35 4-digit SIC commodities from, 1991-96

Commodity	Year	CBERA	Mexico	Canada	NAFTA	ROW
<i>Import Shares</i>						
2322—Men's and boys' underwear and nightwear	1991	38.55	2.18	0.43	2.61	58.83
	1992	43.91	5.37	0.73	6.10	49.99
	1993	45.66	5.88	0.54	6.42	47.92
	1994	47.14	12.24	0.49	12.73	40.13
	1995	49.12	15.35	0.92	16.26	34.61
	1996	53.76	17.73	1.53	19.27	26.97
2325—Men's and boys' separate trousers and casual slacks	1991	23.74	9.73	1.11	10.83	65.43
	1992	26.39	10.60	1.75	12.35	61.26
	1993	29.10	12.63	1.82	14.45	56.45
	1994	30.32	14.22	2.15	16.36	53.32
	1995	28.82	18.61	2.25	20.87	50.31
	1996	26.32	22.35	2.50	24.84	48.83
2329—Men's and boys' clothing, n.e.c.	1991	2.43	0.43	0.78	1.21	96.36
	1992	2.33	0.71	0.95	1.66	96.01
	1993	2.04	0.91	1.26	2.17	95.79
	1994	2.07	1.01	1.80	2.82	95.11
	1995	2.59	2.67	2.20	4.87	92.55
	1996	3.29	2.34	2.18	4.52	92.19
2331—Women's and misses' blouses and shirts	1991	5.45	1.96	0.56	2.52	92.03
	1992	5.36	2.03	0.85	2.88	91.76
	1993	5.45	3.11	0.88	3.99	90.56
	1994	5.65	5.60	1.11	6.72	87.63
	1995	5.81	8.25	1.57	9.82	84.37
	1996	5.92	10.39	1.87	12.27	81.82
2335—Women's and misses' dresses	1991	4.58	1.32	0.76	2.08	93.35
	1992	4.09	1.64	0.95	2.59	93.32
	1993	4.49	1.89	1.25	3.13	92.37
	1994	4.91	3.30	1.24	4.54	90.55
	1995	5.47	4.36	1.44	5.80	88.73
	1996	6.48	5.95	1.91	7.86	85.66
2337—Women's and misses' suits, skirts, and coats	1991	8.94	1.58	0.94	2.52	88.54
	1992	10.19	1.80	1.12	2.92	86.89
	1993	12.25	2.04	1.41	3.44	84.30
	1994	11.03	2.06	1.63	3.69	85.28
	1995	11.69	2.50	2.14	4.64	83.67
	1996	13.35	3.62	2.48	6.10	80.55
2341—Women's, girls', and infants' underwear and nightwear	1991	22.65	6.12	0.47	6.59	70.76
	1992	23.18	6.31	0.64	6.95	69.87
	1993	24.53	6.00	0.51	6.51	68.96
	1994	26.06	6.90	0.76	7.66	66.27
	1995	29.31	7.86	0.88	8.74	61.95
	1996	27.85	8.51	1.08	9.59	62.56
2342—Brassieres and allied garments	1991	45.73	16.06	1.02	17.09	37.18
	1992	45.60	17.29	0.72	18.01	36.39
	1993	45.96	16.81	0.59	17.39	36.65
	1994	45.80	18.01	0.87	18.88	35.31
	1995	47.23	19.58	1.01	20.59	32.18
	1996	43.12	22.06	0.39	22.45	34.43

Table D-2—Continued

Import competition between U.S. imports from CBERA, Mexico, Canada, NAFTA, and the Rest-of-the-World (ROW): import shares for 35 4-digit SIC commodities from, 1991-96

Commodity	Year	CBERA	Mexico	Canada	NAFTA	ROW
		<i>Import Shares</i>				
2353—Hats, caps, and millinery	1991	7.83	5.08	0.92	6.00	86.17
	1992	10.98	4.59	0.93	5.52	83.50
	1993	10.43	4.87	1.32	6.18	83.39
	1994	8.94	4.83	1.82	6.64	84.42
	1995	8.48	4.99	2.05	7.04	84.48
	1996	7.55	4.65	2.18	6.83	85.62
2369—Children's outerwear, n.e.c.	1991	7.62	4.93	0.67	5.60	86.77
	1992	8.00	5.22	0.89	6.11	85.89
	1993	9.11	5.18	1.22	6.40	84.49
	1994	8.98	5.94	1.33	7.27	83.74
	1995	9.57	8.51	1.70	10.21	80.22
	1996	11.27	10.59	2.09	12.68	76.04
2819—Industrial inorganic chemicals, n.e.c.	1991	5.34	4.46	20.26	24.72	69.94
	1992	4.48	4.90	21.61	26.51	69.02
	1993	4.53	4.60	24.09	28.69	66.78
	1994	6.26	5.12	24.53	29.65	64.08
	1995	7.20	4.09	22.88	26.97	65.82
	1996	6.30	4.42	23.93	28.35	65.35
2833—Medicinals and botanicals	1991	11.07	2.96	1.17	4.13	84.80
	1992	11.58	4.62	1.35	5.97	82.45
	1993	5.77	1.88	1.72	3.60	90.63
	1994	1.06	1.75	1.82	3.57	95.38
	1995	0.98	1.31	1.51	2.82	96.20
	1996	0.76	0.96	0.88	1.84	97.39
2869—Industrial organic chemicals, n.e.c.	1991	1.64	2.87	8.64	11.51	86.84
	1992	1.04	2.40	10.02	12.43	86.54
	1993	1.31	2.47	10.58	13.05	85.64
	1994	2.69	2.75	10.51	13.26	84.05
	1995	1.79	3.49	10.30	13.79	84.42
	1996	1.80	2.99	7.92	10.92	87.28
2911—Petroleum refinery products	1991	7.89	1.58	18.53	20.11	72.00
	1992	9.23	2.44	16.72	19.15	71.62
	1993	8.98	5.18	17.55	22.72	68.29
	1994	8.84	3.45	17.27	20.73	70.44
	1995	7.03	3.36	20.90	24.27	68.71
	1996	7.10	4.60	14.37	18.96	73.93
3131—Boot and shoe cut stock and findings	1991	44.89	12.88	2.18	15.06	40.05
	1992	47.20	12.70	1.67	14.37	38.43
	1993	50.34	12.90	1.85	14.76	34.90
	1994	54.73	12.35	2.00	14.35	30.92
	1995	49.80	14.25	1.87	16.12	34.08
	1996	50.91	16.01	2.20	18.20	30.89
3634—Electric housewares and fans, n.e.c.	1991	1.22	12.18	1.34	13.52	85.26
	1992	1.80	14.20	1.00	15.20	83.00
	1993	2.28	15.97	0.91	16.88	80.84
	1994	2.31	15.40	1.31	16.70	80.99
	1995	2.90	16.54	1.55	18.09	79.00
	1996	2.73	18.29	1.26	19.55	77.73
3678—Connectors for electronic applications	1991	2.83	24.81	9.74	34.55	62.62
	1992	3.19	22.18	9.53	31.71	65.09
	1993	6.18	20.82	7.05	27.87	65.95
	1994	3.73	22.22	6.52	28.74	67.53
	1995	2.03	19.41	6.09	25.50	72.48
	1996	1.45	21.14	6.32	27.46	71.09

Table D-2—Continued

Import competition between U.S. imports from CBERA, Mexico, Canada, NAFTA, and the Rest-of-the-World (ROW): import shares for 35 4-digit SIC commodities from, 1991-96

Commodity	Year	CBERA	Mexico	Canada	NAFTA	ROW
		<i>Import Shares</i>				
3841—Surgical and medical instruments and apparatus, n.e.c.	1991	10.79	13.75	1.59	15.34	73.87
	1992	10.67	11.67	2.17	13.84	75.49
	1993	11.21	11.05	1.71	12.76	76.03
	1994	13.33	12.79	2.22	15.01	71.66
	1995	18.72	14.06	2.26	16.32	64.97
	1996	18.16	16.11	2.16	18.27	63.57
3911—Jewelry of precious metal	1991	4.64	1.54	1.38	2.92	92.44
	1992	4.29	1.90	1.35	3.25	92.46
	1993	4.66	2.22	2.09	4.31	91.03
	1994	5.53	2.14	2.37	4.50	89.97
	1995	5.03	2.69	2.54	5.23	89.74
	1996	4.87	3.32	2.83	6.15	88.98