2001 Report to Congress on the Trade and Employment Effects of the Andean Trade Preference Act

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TRADE AND EMPLOYMENT EFFECTS OF THE

ANDEAN TRADE PREFERENCE ACT

Eighth Annual Report to the Congress

Pursuant to Section 207 of the

Andean Trade Preference Act

Submitted by

The U.S. Department of Labor

Bureau of International Labor Affairs

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Executive Summary

During 2000, $2.0 billion in U.S. imports from the four Andean Trade Preference Act (ATPA) beneficiary countries entered the United States duty-free under provisions in the ATPA; however, a significant portion of these duty-free entries (34 percent or $669 million) probably would have qualified for duty-free entry under other existing U.S. trade preference programs such as the Generalized System of Preferences. Thus, approximately 66 percent ($1.3 billion) of these duty-free entries represent the unique benefits of the ATPA to the ATPA-beneficiary nations. These unique ATPA benefits represented 11.6 percent of total U.S. imports from the ATPA beneficiary nations and 0.1 percent of total U.S. imports from all nations in 2000. Almost 99 percent of the items eligible for ATPA duty-free treatment, actually entered duty-free.

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

Introduction

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

Section 207 of the ATPA requires the Secretary of Labor, in consultation with other appropriate federal agencies, to undertake a continuing review and analysis of the impact of the implementation of the ATPA on U.S. labor. The legislation also directs the Secretary to submit an annual report to the Congress presenting a summary of the results of the review and analysis. This report is the eighth in a series of annual reports to the Congress pursuant to Section 207 of the ATPA. It presents a summary of the analysis of the impact of duty-free treatment of certain U.S. imports from beneficiary Andean nations under the ATPA on U.S. trade and employment during calendar 2000.

First, this report reviews trends in U.S. trade with the four ATPA beneficiary nations and identifies the leading items in U.S. trade (imports and exports) with those nations. Next, U.S. imports from the ATPA beneficiary nations are examined with regard to the various U.S. trade preference programs (e.g., the ATPA; the Generalized System of Preferences (GSP), a U.S. program initiated in 1975 that provides for duty-free treatment of approximately 4,650 tariff items from over 140 designated beneficiary developing countries and territories; and a U.S. Harmonized Tariff Schedule (HTS) provision for the duty-free entry of U.S. components and materials incorporated in offshore assembly of items imported into the United States--HTS 9802.00.80). The report then attempts to identify U.S. trade preferences which are uniquely available to the beneficiary countries under the ATPA. Finally, domestic employment trends are reviewed for those domestic industries that produce goods like or similar to those of U.S. imports from the ATPA beneficiaries which have experienced significant growth and established significant U.S. market share as the result of ATPA benefits. The report closes with some general conclusions on the impact of the ATPA on U.S. employment.

U.S. import (customs value of imports for consumption) and export (f.a.s. value of domestic exports) data used in this report are based upon compilations of official statistics from the U.S. Department of Commerce, Bureau of the Census; U.S. nonfarm employment data (annual averages of monthly establishment employment) are tabulated from establishment payroll employment survey data from the U.S. Department of Labor, Bureau of Labor Statistics. More detailed tabulations of U.S. trade with the

ATPA beneficiary nations are available in more comprehensive annual reports (for this year as well as for prior years) which are prepared by the U.S. Department of Labor and are available from the Department's Bureau of International Labor Affairs, Office of International Economic Affairs, 200 Constitution Avenue, N.W., Room S-5317, Washington, DC 20210 (telephone: 202-693-4914), or the Bureau's web site (www.dol.gov/dol/ilab), or the National Technical Information Service (NTIS), 5285 Port Royal Road, Springfield, Virginia 22161 (telephone: 703-487-4690).

U.S. Trade with the ATPA Beneficiary Countries

U.S. imports from the four ATPA beneficiary nations in 2000 accounted for 0.9 percent of total U.S. merchandise imports from all countries and amounted to $11.1 billion, a 13.1 percent increase over their level in 1999. U.S. exports to the ATPA beneficiaries in 2000 accounted for 0.9 percent of all U.S. merchandise exports to the world and amounted to $6.3 billion, a 0.5 percent increase over their level in 1999.

On a bilateral basis, the U.S. merchandise trade deficit with the ATPA beneficiary nations increased from $3.6 billion in 1999 to $4.8 billion in 2000. Despite the increase in U.S. exports to the ATPA beneficiaries during 2000, these exports are still below their level in 1994 - the first full year in which all four of the ATPA countries were designated beneficiaries. In nominal (current dollar) terms, U.S. exports to the ATPA beneficiaries in 2000 were 65.7 percent above their 1991 level, while U.S. imports from the ATPA beneficiaries in 2000 were 137.1 percent above their 1991 level.

By broad industrial division, 17 percent of U.S. imports from the ATPA beneficiaries in 2000 were agricultural and fishery products, 46 percent were crude and refined petroleum and minerals, 32 percent were manufactures, and 5 percent were miscellaneous items. During 2000, U.S. imports of crude and refined petroleum products from the ATPA beneficiary countries increased by 36.1 percent (following a 50.7 percent increase in 1999), while U.S. imports of non-petroleum products from the ATPA beneficiary nations remained essentially the same with a $500 million increase from their 1999 level of $6.3 billion, an increase of less than 0.01 percent.

Leading industrial categories of U.S. imports from the ATPA beneficiary nations in 2000 included: crude petroleum ($2,737 million); refined petroleum products ($2,111 million); agricultural products ($1,554 million); primary metal products ($1,088 million); apparel ($837 million); chemicals ($555 million); miscellaneous commodities ($366 million); fishery products ($347 million); food products ($327 million); and miscellaneous manufactures ($251 million). These top-ten categories, based on the 2-digit Standard Industrial Classification system, accounted for 91.5 percent of all U.S. imports from the ATPA beneficiaries in 2000.

Leading industrial categories of U.S. exports to the ATPA beneficiary nations in 2000 included: nonelectrical machinery ($1,582 million); chemicals ($1,287 million); electrical machinery ($576 million); agricultural products ($452 million); transportation equipment ($363 million); paper products ($285 million); scientific and professional instruments ($238 million); food products ($234 million); miscellaneous manufactures, not specifically provided for ($202 million); and primary metals ($170 million). These top-ten categories, based on the 2-digit Standard Industrial Classification system, accounted for 85.6 percent of all U.S. exports to the ATPA beneficiaries in 2000.

Several of the leading categories of U.S. exports to the Andean region are also among the leading import categories, indicating a moderate two-way flow of trade. In part, this results from the trade under provision 9802.00.80 in the harmonized tariff schedule (HTS)--formerly item 807.00 in the Tariff Schedules of the United States--that assesses U.S. import duties only on the foreign value-added in offshore assembly or further processing of U.S.-made components which are then imported into the United States. In 2000, 3.6 percent of the total value of all U.S. imports subject to duty from the ATPA beneficiary nations entered the United States under this provision.

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

Products specifically excluded from ATPA duty-free treatment include most textile and apparel items; certain footwear; canned tuna; petroleum and petroleum products; certain sugar, syrup, and molasses products; rum and tafia; and certain watches and watch parts. Beginning in 1992, reduced rates of duty were applied to handbags, luggage, flat goods, work gloves, and leather wearing apparel from the ATPA beneficiaries; duties on these items were reduced by a maximum of 20 percent over the following five-year period. U.S. imports of ATPA-beneficiary non-petroleum products subject to duty and excluded from ATPA (primarily wearing apparel) have increased at an average annual rate of 12.2 percent over the 1991-2000 period.

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

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

In 2000, over $4.3 billion (or 39 percent) of the $11.1 billion in total U.S. imports from the ATPA beneficiary countries was imported normal trade relations (NTR) duty-free.(2) Of the remaining $6.8 billion which was not NTR duty-free (henceforth, referred to as imports subject to duty), U.S. import duties were assessed on over $4.5 billion, while over $2.3 billion entered duty-free under one of several special U.S. tariff preference programs.

Of the $2.3 billion in U.S. imports subject to duty from the ATPA beneficiaries that entered duty-free under one of the special U.S. tariff preference programs (i.e., not NTR duty-free) in 2000, $1,955 million entered duty-free under the ATPA provision, $146 million entered duty-free under the GSP provision, $136 million (U.S.-content value) entered duty-free under the 9802.00.80 provision, and $84 million entered duty-free under other special rate provisions (mostly temporary Chapter 99 rate provisions).

Nearly all products eligible for GSP duty-free entry are also eligible for duty-free entry under the ATPA. For products that were already eligible for GSP treatment when the ATPA came into effect in 1992, the ATPA beneficiaries have increased their utilization of available U.S. tariff preferences (i.e., the percentage of eligible products that actually entered duty-free under either GSP or ATPA has risen moderately). In 1991, 75 percent of the value of items eligible for both GSP and ATPA (had the latter been in effect) entered duty-free under GSP; in 1992, 83 percent of the value of items eligible for both GSP and ATPA entered duty-free (9 percent under ATPA and 74 percent under GSP); and by 2000, 99 percent of the value of these items entered duty-free (91 percent under ATPA and 8 percent under GSP). For products eligible for ATPA, but not GSP, utilization has increased even more substantially from 29 percent in 1992 to 99 percent in 2000. Thus almost all items that are eligible for duty-free treatment under either the ATPA or the GSP, are actually imported duty-free.

The share of U.S. imports subject to duty from the ATPA beneficiaries that is eligible for duty-free treatment under the ATPA has increased from 28 percent in 1992 to 31 percent in 2000; most of the items eligible for ATPA duty-free treatment were already eligible for GSP duty-free treatment (items eligible for the ATPA but not the GSP accounted for only 3 percent of imports subject to duty in 1992 and 5 percent in 2000). U.S. imports from the ATPA beneficiaries of items eligible for duty-free treatment only under the ATPA have increased at an average annual rate of 15.9 percent since 1991.

Leading industrial categories of ATPA duty-free U.S. imports (some of which would have been eligible for GSP duty-free entry) in 2000 included: primary nonferrous metal products ($567 million); horticultural specialties ($440 million); jewelry and silverware ($158 million); paints and varnishes ($135 million); industrial inorganic chemicals ($117 million); miscellaneous food products ($82 million); recovered nonferrous metals ($58 million); vegetables and melons ($52 million); miscellaneous plastic products ($40 million); and sugar and confectionery products ($37 million). These top-ten categories, based on the 3-digit Standard Industrial Classification system, accounted for 86.2 percent of total ATPA duty-free U.S. imports in 2000.

Assembly of U.S.-made parts or materials by the ATPA beneficiaries (primarily into products ineligible for ATPA duty-free entry or into ATPA-eligible products that did not meet ATPA or GSP rules-of-origin requirements) decreased in 2000 (as in 1998 and 1999) and was below the level in 1994. The value of U.S. imports from the ATPA-beneficiary nations of assembled items entered under HTS item 9802.00.80

rose from $175 million in 1991 to $280 million in 1995, but fell to $247 million (or 3.6 percent of all U.S. imports subject to duty from the ATPA beneficiaries) in 2000. U.S. components comprised 55.1 percent of the value of these items in 2000. The U.S. tariff provision covering the assembly of articles made from U.S.-made parts and materials is available generally for U.S. imports from any country.

Assembled apparel items ($226 million with 53 percent U.S.-content value) accounted for almost 91 percent of the value of U.S. imports from ATPA beneficiaries under HTS item 9802.00.80 in 2000; the other industrial group with appreciable amounts were textile mill products ($21 million with 82 percent U.S.-content value).

In addition to receiving ATPA benefits, the ATPA beneficiary countries are eligible for reduced duties on certain leather products (including handbags, luggage, work gloves, and leather wearing apparel, but not footwear). In 2000, the United States imported $28.2 million of these eligible leather products from the ATPA beneficiaries, $26.5 million of which was assessed the lower duties, $81 thousand was U.S. content entered under 9802, and the balance ($1.6 million) was subject to full duty. The value of leather products imports from the ATPA beneficiaries eligible for reduced duties in 2000 was approximately the same as it was in 1991, the year before the reduced duties program began.

The ATPA beneficiary countries have been eligible for the Special Access Program (SAP) for textile and apparel products since August 24, 1995. The SAP is a quota preference program similar to that under the Caribbean Basin Economic Recovery Act of 1982 in which CBERA countries are provided additional access to the U.S. market in the form of guaranteed access levels (GALs) for products assembled from U.S. formed and cut fabric. During 2000, no ATPA beneficiary country exports entered the United States under this program.

U.S. Trade Preferences Uniquely Provided by the ATPA

The ATPA provided the beneficiary nations unique duty-free treatment of their exports to the United States in 2000 in the following cases: products eligible for ATPA duty-free entry, but not eligible for duty-free entry under GSP ($376 million, of which $372 million entered ATPA duty-free) and products eligible for both ATPA and GSP duty-free entry which were imported from ATPA beneficiary countries that had lost their GSP product eligibility due to exceeding that program's competitive-need limitations ($916 million, of which $914 million entered ATPA duty-free).

The total unique ATPA benefits of $1,286 million in 2000 represented the amount of ATPA duty-free imports that would not have received duty-free treatment under the GSP program and would have been subject to duty in the absence of the ATPA program. These benefits were $370 million, or 40.5 percent above their level in 1999 (which followed increases of 3.2 percent in 1999, 47.9 percent in 1998, 30.9 percent in 1997 and 28.7 percent in 1996) and represented 11.6 percent of total U.S. imports from the ATPA-beneficiary nations (but only 0.1 percent of total U.S. imports from all sources) in 2000.

The top-ten tariff schedule categories of items receiving duty-free treatment unique to the ATPA in 2000 included: cathodes ($565.7 million); fresh cut roses ($192.4 million), pigments and dyes ($136.9 million), fresh cut chrysanthemums, standard carnations, anthuriums, and orchids ($119.5 million), tuna and skipjack not in airtight containers ($74.6 million), gold compounds ($48.6 million), fresh or chilled asparagus entered from November 15 to September 15 ($33.4 million), gold rope necklaces and neck chains ($18.7 million), oil well tubing of iron ($13.3 million), and fresh or chilled asparagus entered from September 15 to November 15 ($9.9 million). These ten items accounted for 94.4 percent ($1,213.0 million) of the duty-free entries unique to the ATPA in 2000. Six of the top-ten items are items normally eligible for GSP but at least one of the ATPA beneficiaries had lost its GSP eligibility for the item by exceeding that program's competitive need limitation. These six items were: cathodes from Peru; pigments and dyes from Colombia; fresh cut chrysanthemums, standard carnations, anthuriums, and orchids from Colombia; gold compounds from Colombia; gold necklaces from Peru; and fresh asparagus entered September 15 to November 15 from Peru. The remaining four top-ten items were items that ATPA beneficiaries benefitted from due to these items being eligible for duty-free entry under the ATPA but not under the GSP program.

In 2000, Peru accounted for 50 percent ($648 million) of total ATPA duty-free imports unique to the ATPA, Colombia for 38 percent ($495 million), Ecuador for 11 percent ($142 million), and Bolivia for less than one-hundredth of one percent ($43 thousand). The $1,286 million in ATPA unique duty-free treatment represented 18.9 percent of U.S. imports subject to duty from the ATPA beneficiaries in 2000. Unique ATPA duty-free benefits relative to imports subject to duty were highest for Peru (44 percent), followed by Colombia (13 percent), Ecuador (9 percent), and Bolivia (0.03 percent).

U.S. Employment and Trade with the Andean Nations

Any adverse U.S. employment effects due to the tariff preferences of the ATPA would result from increased imports of items due to these tariff preferences. Given the availability of several U.S. trade preference programs with different requirements, it is often not clear how to isolate the effects of the ATPA. The analysis in this report used two measures of duty-free entries under the ATPA to assess the impact of the ATPA on U.S. employment: 1) the total amount that entered ATPA duty-free, and 2) the amount that entered ATPA duty-free uniquely to the ATPA (i.e., items entered ATPA duty-free that were not eligible for duty-free entry under the GSP program). Using these two measures, attention is focused on the import groups which showed significant growth and represented a significant share of total U.S. imports in 2000.

Three import groups based on the 3-digit Standard Industrial Classification (SIC) system were identified in which ATPA duty-free imports increased by over $5 million during 2000 and accounted for at least one percent of total U.S. imports of that SIC group: sugar and confectionery products, industrial inorganic chemicals, and primary nonferrous metals. There were four import groups which had an increase in duty-free imports unique to the ATPA of over $1 million and accounted for at least one percent of total U.S. imports of that SIC group: vegetables and melons, industrial inorganic chemicals, structural clay products, and primary nonferrous metals. Two groups (industrial inorganic chemicals, and primary nonferrous metals) satisfied both criteria.

U.S. import trends in these product groups and employment trends in each of the U.S. industries producing products like those in these import groups are examined below. Significant increases in U.S. imports of these products from the ATPA beneficiaries may, in part, reflect the availability of duty-free treatment under the ATPA. To place the analysis of domestic employment trends in perspective, the overall U.S. employment situation in 2000 is discussed first.

The U.S. Employment Situation in 2000

During 2000, the overall employment situation in the United States remained strong. The U.S. economy added 2.8 million jobs during 2000; employment has increased by 23.5 million since 1991. Total nonfarm employment in 2000 (131.8 million) was 22.4 million (or 20.4 percent) above the previous cyclical high recorded in 1990. The job gains during 2000 occurred in both the service-producing and goods-producing sectors. Employment in the goods-producing sector in 2000 (25.7 million) was 202,000 above its level in 1999. Within the goods-producing sector, there were job gains in construction and mining, but a decrease in manufacturing. The manufacturing sector lost 83,000 jobs in 2000; this sector has 607,000 jobs fewer than in 1990. The U.S. manufacturing sector, with employment of 18.5 million in 2000, has lost 2.6 million jobs since its peak in employment in 1979, although real manufacturing GDP has increased substantially since then. Most economists agree that many of these employment losses reflect, in part, the growth in productivity and changes in technology over this period, but there is disagreement about the relative importance of increased imports or trade deficits as a cause of these losses.

U.S. Import and Domestic Employment Trends in Selected Industrial Sectors Receiving Significant Benefits Provided under the ATPA in 2000

Vegetables and melons (SIC 016): U.S. imports of vegetables and melons from the ATPA beneficiaries decreased from $56.0 million in 1999 to $54.1 million in 2000. Most of these imports entered ATPA duty-free ($51.8 million) and most of the remainder entered GSP duty-free ($2.3 million). ATPA duty-free imports which were not eligible for GSP duty-free treatment increased from $40.2 million in 1999 to almost $44.1 million in 2000 (a 9.7 percent increase). ATPA duty-free imports of vegetables and melons accounted for 2.3 percent of total U.S. imports of these items during 2000. The primary item entered ATPA duty-free, which was also eligible for GSP duty-free treatment, was onions and shallots. The primary items entered ATPA duty-free that were not eligible for GSP duty-free treatment were fresh asparagus entered between November 15 and September 15, and fresh asparagus entered between September 15 and

November 15 from Peru (which has lost GSP eligibility due to competitive need considerations).

Duty-free imports of asparagus with unique duty-free entry status under the ATPA have increased by 392 percent since 1994; during 2000 they increased 9.3 percent to $43.3 million (after a 32.8 percent increase in 1999). ATPA duty-free imports of fresh asparagus accounted for 37.7 percent of total U.S. asparagus imports in 2000. Adequate U.S. employment data for asparagus farming or the vegetables and melons industry are not available; however the U.S. Department of Agriculture (USDA) makes estimates of annual domestic production of asparagus. According to USDA, domestic production of fresh and prepared asparagus decreased from 109,850 tons in 1994 to 108,820 tons in 1999, and increased to 113,600 tons in 2000, while the dollar value of U.S. production declined from $178 million in 1994 to $156 million in 1996, and then increased to $233 million in 1999 and decreased to $221 million in 2000. Although the production of asparagus increased during 2000, the value of production decreased due to a sizable 11 percent decline in the price of fresh asparagus. U.S. production of asparagus occurs primarily between February and June and most of the imports from the ATPA nations enter between August and January. In 2000, fresh asparagus accounted for 80 percent and processed for 20 percent by value (17 percent canned and 4 percent frozen) of U.S. asparagus production. U.S. production tonnage of fresh asparagus increased by 15 percent between 1998 and 1999 and by 3 percent between 1999 and 2000, while U.S. production of processed asparagus increased by 1 percent in 1999 and increased by 6 percent in 2000. According to the United States International Trade Commission (USITC), U.S. imports of ATPA duty-free asparagus were equal to 22 percent of U.S. apparent consumption during 1999; given that the changes in production and imports were moderate in 2000, apparent consumption of ATPA duty-free asparagus should be close to 22 percent in 2000. It is possible that the increasing amounts of ATPA duty-free fresh asparagus during the winter months could reduce the demand for U.S. processed asparagus; however, the U.S. production output and price of processed asparagus has remained relatively stable over the last several years. Given the relatively stable domestic output of asparagus, it does not appear that the duty-free benefits provided by the ATPA have produced any adjustment problem for workers producing asparagus.

Sugar and confectionery products (SIC 206): U.S. imports from the ATPA-beneficiaries of sugar and confectionery products increased by 6 percent during 2000. U.S. imports of these items amounted to $121.5 million during 2000 and accounted for 4.0 percent of total U.S. sugar and confectionery product imports. Over 56 percent of these imports from the ATPA beneficiaries entered duty-free under either the ATPA or GSP programs. ATPA duty-free imports of these items were $37.1 million in 2000, while GSP duty-free imports totaled $31.4 million. U.S. duty-free imports from ATPA beneficiaries of sugar and confectionery products that were eligible for ATPA but not for GSP duty-free treatment totaled only $371 thousand which is less than 0.1 percent of all U.S. sugar and confectionery product imports. Thus the ATPA program did not provide any duty-free treatment that was not also available under the GSP program. Since U.S. cane sugar imports are subject to U.S. quota levels which are set to equate projected U.S. consumption needs with projected U.S. production, the duty-free provisions of the ATPA program do not permit the ATPA beneficiaries to increase their sugar exports into the United States at the expense of reduced U.S. production. A small portion of the ATPA duty-free imports of sugar and confectionery products are not covered by U.S. quotas, and it is possible that duty-free treatment of these items may have increased ATPA-beneficiary exports of those items.

U.S. employment in the sugar and confectionery products industry has decreased at an annual rate of 0.95 percent over the 1979-2000 period and decreased at an annual 0.7 percent rate over the 1990-2000 period; in 2000, employment declined by 1,100 (1.2 percent). Since U.S. sugar quotas control the level of U.S. sugar imports and only a small amount of sugar products that enter duty-free under the ATPA are not subject to quotas, the duty-free provisions of the ATPA do not appear to have presented any substantial employment adjustment problems for this industry.

Industrial inorganic chemicals (SIC 281): U.S. imports of industrial inorganic chemicals from the ATPA beneficiaries increased by 72.6 percent to $149.5 million during 2000. Of this amount, $117.3 million entered duty-free under the ATPA program, and $113.2 million of these duty-free imports were items not eligible for GSP duty-free treatment during some portion of 2000. These ATPA duty-free imports represented 1.4 percent of total U.S. imports of industrial inorganic chemicals during 2000. The ATPA duty-free imports whose duty-free status was exclusively due to the ATPA were primarily two items which have lost GSP eligibility due to competitive need limitations: gold compounds (HTS 2843.30.0000) from Colombia lost GSP eligibility beginning in July 1998 and metallic aluminum pigments (HTS 3212.90.0010) from Colombia lost GSP eligibility beginning in July 2000. U.S. imports of gold compounds from Colombia fell by 14 percent to $48.6 million in 2000. U.S. imports of metallic aluminum pigments increased from zero in 1999 to $64.2 million in 2000; imports of this item from Colombia accounted for 75 percent of U.S. imports of metallic aluminum pigments in 2000. ATPA duty-free imports of pigments and dyes from Colombia (HTS 3212.90.00) which totaled $195.5 million in 2000 were the third largest HTS 8-digit item whose duty-free benefits were unique to the ATPA program.

However, only metallic aluminum pigments which represent 33 percent of this 8-digit item is allocated to industrial inorganic chemicals (SIC 281) while the remaining pigments are allocated to paints and varnishes (SIC 285).

U.S. employment in the industrial inorganic chemicals industry has been falling significantly in recent years, with a 1.4 percent drop (1,400 jobs) in 2000; this industry lost 12,400 jobs in 1999. There has been a 39.9 percent decrease since 1979 and a 29.3 percent decrease since 1990. According to the U.S. International Trade Commission, U.S. imports from Colombia accounted for 6.7 percent of U.S. apparent consumption of gold compounds in 1999; they also estimated that the duty preferences provided by the ATPA may have displaced up to 1.3 percent of the domestic production of this industry. Given that unique ATPA duty-free imports of industrial inorganic chemicals account for less than one percent of total U.S. imports in this category and account for a very small percentage of U.S. apparent consumption, it does not appear that the duty-free provisions of the ATPA can account for a significant proportion of the employment declines experienced in the industrial inorganic chemicals industry. Nevertheless, at the margin, given that employment in this industry has been declining consistently, the increased imports due to the ATPA may have resulted in a very small percentage of the employment declines.

Structural clay products (SIC 325): The ATPA nations' exports of structural clay products to the United States increased from $10.1 million in 1999 to $12.2 million in 2000. Almost all ($11.9 million) of these items entered ATPA duty-free and a large percentage of these ($9.7 million) were items not eligible under the GSP. These unique ATPA duty-free imports represented only 0.7 percent of total U.S. imports of structural clay products during 2000. Most of the imports in this category were glazed ceramic flags and tiles (HTS 6908.90.00) from Colombia, Peru and Ecuador.

U.S. employment in the structural clay products industry increased by 900 jobs to 33,500 in 2000. However, employment in this industry is 2,300 jobs below its 1990 level and 18,600 jobs below its 1979 level. According to the U.S. International Trade Commission, ATPA duty-free imports of glazed ceramic flags and tiles represent less than one percent of total U.S. apparent consumption of this item. Therefore it is very unlikely that the duty-free imports from the ATPA beneficiaries accounted for the employment declines in the structural clay products industry during the 1990s.

Primary nonferrous metals (SIC 333): U.S. imports of primary nonferrous metals from the ATPA nations increased by 10.3 percent to $912.7 million in 2000. ATPA duty-free imports increased from $327.0 million in 1999 to $566.7 million in 2000 and have more than quintupled since 1997. During 2000, ATPA duty-free imports of primary nonferrous metals totaled $566.7 million and were the largest of any 3-digit SIC industry and accounted for 29 percent of total ATPA duty-free imports. For almost all of these ATPA duty-free imports, their duty-free status was unique to the ATPA and represented 3.3 percent of total U.S. imports of primary nonferrous metals. These ATPA duty-free imports consisted of refined copper cathodes (HTS 7403.11.00.00) from Peru which are not eligible for duty-free treatment under the GSP program since Peru has exceeded the competitive need limitations for this item. Unique ATPA duty-free imports under this tariff line item were the largest of any tariff line item, and represented over 44 percent of total unique ATPA duty-free imports. Imports of refined copper cathodes from Peru have increased 365 percent since 1996, and accounted for 31.6 percent of total U.S. imports of this item during 2000.

U.S. employment in the primary nonferrous metals industry fell by 1,300 jobs to 35,600 during 2000. Employment in this industry has declined by 51 percent since 1979 and 22 percent since 1990. Clearly any adjustment problem created by the provisions of the ATPA would be concentrated in a small specific sector of this industry, i.e., the copper cathode segment. Duty-free imports unique to the ATPA of copper cathodes accounted for 7. 4 percent of U.S. apparent consumption of this item in 1999 (based U.S. International Trade Commission estimates of apparent consumption). Although the sizable increases in imports of this item from the ATPA countries may provide one explanation for the output declines in this industry, the tariff preference provided by the ATPA program cannot reasonably account for these increases in imports. The existing tariff on this item is only one percent and thus the ATPA provides only a small benefit which is unlikely to be responsible for the rapid increases in imports of this item. The USITC has estimated that less than one percent of the production of the equivalent U.S. domestic industry had been displaced by increased imports of copper cathodes due to the duty-free provisions of the ATPA. Thus, it does not appear that the ATPA is responsible for any adjustment problem in this industry.

Update on industries with significant ATPA duty-free imports from previous reports: Two industries which have been analyzed frequently in previous reports as being possibly negatively impacted by the ATPA, but did not meet the requirements for further analysis in 2000, are the cut flower and the tuna industries.

Cut flowers: The two segments of the cut flower industry likely to have been impacted by the ATPA are fresh cut chrysanthemums and standard carnations (HTS 0603.10.70) and fresh cut roses (HTS 0603.10.60). Fresh cut roses are eligible for ATPA duty-free treatment but not GSP duty-free treatment, while fresh cut chrysanthemums and standard carnations are eligible under both programs but Colombia has lost GSP eligibility due to competitive need limitations. ATPA duty-free entries ($311.9 million) under these two tariff items accounted for 16.0 percent of all ATPA duty-free entries and 24.3 percent of the duty-free entries that were unique to the ATPA in 2000. There were also $127.7 million of ATPA duty-free imports of other horticultural specialties including cut miniature spray carnations and ornamental cut flowers (except roses, carnations, orchids, and chrysanthemums) which were also eligible for GSP duty-free treatment.

U.S. imports of fresh cut roses (HTS 0603.10.60) from the ATPA beneficiaries increased by $9.4 million to $192.4 million in 2000; but this increase did not fully compensate for the $12.9 million decrease in 1999. U.S. imports of fresh cut roses from the Andean beneficiaries had increased consistently over the 1994-1998 period. Over 99 percent of these imports entered ATPA duty-free. During 2000, 90.3 percent of total U.S. imports of fresh roses entered ATPA duty-free with most of the remainder from other nations entering duty free under the NAFTA and the CBERA. This tariff item is not eligible for GSP duty-free entry and had the second largest amount of duty-free imports unique to the ATPA during 2000. The ATPA allowed the beneficiaries to avoid a 6.8 percent tariff. According to the U.S. Department of Agriculture, domestic production of roses declined by at least 20.2 percent in terms of value in 2000 following a decrease of 16.7 percent during 1999. According to the U.S. International Trade Commission (USITC), U.S. imports of roses from the ATPA beneficiaries accounted for an increased share of apparent domestic consumption (imports plus domestic production, less exports), growing from 34 percent in 1993 to 69 percent in 1999. This trend continued during 2000 with U.S. imports from the ATPA countries increasing and U.S. domestic production continuing its long-run decline. Therefore it would appear that the preferences granted under the ATPA program for roses continue to be a factor in the production declines in the domestic rose industry.

U.S. imports of ATPA duty-free chrysanthemums and standard carnations (HTS 0603.10.70) from Colombia, which had lost eligibility for GSP by exceeding the competitive need limits in previous years, decreased from $133.4 million in 1999 to $119.5 million in 2000 after a decrease of $8.8 million between 1998 and 1999. Chrysanthemums and standard carnations from Colombia received the fourth largest unique benefits under the ATPA of any eight-digit HTS item in 2000. Colombia accounted for 88 percent of all U.S. imports of this tariff item from all sources. Ecuador accounted for 1.3 percent of total U.S. imports (or $1.8 million) of this item and almost all of these entered ATPA duty-free although imports from Ecuador are also eligible for GSP duty-free treatment. During 2000, approximately 46 percent of U.S. imports from Colombia of this tariff item was composed of carnations (HTS 0603.10.7030) and 54 percent was chrysanthemums (HTS 0603.10.7010 and 0603.10.7020), with the very small amount of orchids. According to the USITC, U.S. imports from Colombia under this tariff item accounted for approximately three-fourths of apparent domestic consumption during 1999. According to the U.S. Department of Agriculture, U.S. domestic production (in blooms) of chrysanthemums declined by 50 percent between 1989 and 1994 and remained relatively stable between 1994 and 1998 with only a decrease of 3 percent. During 1999, domestic production (in bunches) of standard chrysanthemums decreased by 21 percent; the U.S. Department of Agriculture discontinued reporting production of standard chrysanthemums beginning in 2000. Domestic production of pompon chrysanthemums increased by 31 percent in 1999 but decreased by 17 percent in 2000. Domestic production of standard carnation blooms declined by 32 percent from 1989 to 1994 and declined by a further 64 percent between 1994 and 1999. During 2000, domestic production of standard carnations increased by 9 percent in terms of stems but decreased by 12 percent in terms of dollar value due to a 19 percent decrease in the price per stem.

Given that the U.S. Department of Agriculture has discontinued providing some data on the production of roses and standard chrysanthemums in a manner that allows for an evaluation of production trends for these flower types during 2000, it is difficult to assess the health of these sectors of the cut flower industry. However, considering production trends prior to 2000, the limited production data that are available for 2000, and the import trends for these products, it appears that U.S. production of these cut flowers types have been and remain under considerable competitive pressure.

Domestic employment data for growers of specific types of flowers or cut flowers generally are not available, however, the U.S. Department of Agriculture collects data on the peak number of workers hired by floriculture establishments--i.e., firms that grow a wide variety of flowers for cutting, potted plants, and bedding plants. According to this source, 8,624 floriculture operations hired on average 14.7 workers during 2000 compared with 9,471 operations which hired on average 13.6 workers in 1999; therefore the number of hired workers decreased by 1.6 percent during 2000. Thus any workers released by the reduced production of these selected cut flowers may experience difficulties in finding employment in another segment of the cut flower industry in their current geographic location. The ability of these workers to find employment in the floriculture industry generally is difficult to determine. It is estimated that approximately 57 percent of crop workers in the United States are domestic U.S. citizens or legal permanent residents with the remainder being illegal, temporary, or of unknown legal status. These domestic and permanent resident farm workers are subject to extensive periods of unemployment and low wages; poverty is pervasive (61 percent live below the poverty line) among farm workers.(3) Neither the Department of Labor nor the Agriculture Department collect wage data specifically for cut flower agriculture workers.

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

Tuna: U.S. imports of ATPA miscellaneous food products (SIC 209) decreased by 11.5 percent to $117.6 million in 2000; these imports accounted for 3.5 percent of total U.S. imports in this SIC category during 2000. Most of the ATPA duty-free imports in this SIC consisted of tunas (HTS 1604.14) which were not eligible for GSP duty-free treatment during 1999.

ATPA duty-free imports of tuna are concentrated in two tariff schedule items composed of tuna and skipjack not in airtight containers: HTS 1604.14.40 (in bulk, not in oil) and HTS 1604.14.50 (other); the former item is not eligible for duty-free entry under the GSP while the latter is but Colombia has lost GSP for this item due to competitive need limits. Duty-free imports due exclusively to ATPA provisions increased rapidly from $46.1 million in 1998 to $84.2 million in 1999 but fell to $75.5 million in 2000. Even with the decrease in 2000, U.S. imports from the ATPA beneficiaries of these two items have increased by 22-fold since 1992. Over 91 percent of these imports from the ATPA beneficiaries came from Ecuador with the remainder from Colombia. U.S. imports from the ATPA nations represented 76 percent of total U.S. imports from all sources of these two tariff items in 2000; most of these entered ATPA duty-free. ATPA duty-free entries under these items accounted for 5.9 percent of all duty-free entries that were unique to the ATPA in 2000.

According to the U.S. International Trade Commission, this product category (HTS 1604.14.40 and 1604.14.50) comprises the cooked and cleaned meat of tuna, which in the trade is referred to as loins. Loins represent an intermediate stage that occurs during the production of canned tuna. According to the Commission, there is no U.S. production of tuna loins as a primary product, since most U.S. tuna fishermen are either employed directly by the canneries or they sell their tuna unprocessed. Tuna loins generally are produced in foreign tuna processing plants (which are labor-intensive) and exported to U.S. tuna canneries where they are further processed into canned tuna (which is capital-intensive). Imports of canned tuna are not eligible for duty-free treatment under the ATPA.

According to the U.S. International Trade Commission, the U.S. tuna industry is relatively small; the majority of workers on U.S. tuna boats in the western Pacific are non-U.S. citizens. Employment in the canning segment which uses the loins as an input was relatively stable during the 1992-1996 period when duty-free imports under the ATPA increased substantially. The total domestic catch of tuna fell from 368.7 million pounds in 1999 to 282.0 million pounds in 2000. Although U.S. duty-free imports under the ATPA declined during 2000, the U.S. domestic catch declined even more significantly. The degree to which the ATPA imports caused a reduction in the domestic catch is less clear. Therefore it is difficult to determine the effect of the ATPA duty-free imports on the U.S. commercial fishing fleet (and any employment connected with it); however, employment in the canning segment of the U.S. tuna industry likely benefitted from the increased tuna imports.

Conclusions

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

Neither the dollar amount nor the rate of increase in U.S. imports from the ATPA nations has been extraordinary or threatening. The share of total U.S. imports subject to duty from the ATPA beneficiaries that received duty-free treatment has risen from 22 percent in 1991 to 34 percent in 2000. This is largely due to increased utilization of the duty-free benefits under the ATPA--especially for products not eligible for GSP duty-free treatment; nevertheless, the amounts entered duty-free have remained quite modest.

During 2000, 17.6 percent of all U.S. imports from the ATPA beneficiaries entered ATPA duty-free; however, approximately two-thirds of these (11.6 percent of U.S. imports from the ATPA beneficiaries) entered duty-free due to unique provisions provided by the ATPA program. These unique benefits were $307 million or 40.5 percent more than they were in 1999 (following increases of 3.2 percent in 1999, 47.9 percent in 1998, 30.9 percent in 1997, and 28.7 percent in 1996). This increase in unique benefits is due to both increases in the number of HTS items whose duty-free status was unique to the ATPA (due to losing GSP eligibility since July 1, 1999 due to competitive need limits) and increases in the volume of imports of items whose unique ATPA duty-free status remained fixed during 1999 and 2000. Approximately 29 percent of the unique ATPA duty-free imports (or $372 million) were items not eligible for duty-free entry under the GSP program, and the other 71 percent (or $914 million) were items covered by the GSP program but ineligible due to exceeding the competitive need limitations. Over 50 percent of the unique ATPA duty-free imports were from Peru, while 38 percent were from Colombia, 11 percent were from Ecuador, and a negligible amount were from Bolivia. The ATPA provision allowing for reduced duties for certain leather items has not resulted in any increase in U.S. imports of these items from the ATPA beneficiaries. Overall, the ATPA program does not appear to have significantly altered the production or export structure of the ATPA nations.

Five groups of products received substantial and increasing benefits in 2000 from duty-free treatment under the ATPA: two food groups (vegetables and melons -- asparagus; and sugar and confectionery products-primarily cane sugar), a non-ferrous metal group (primary nonferrous metals -- fined copper cathodes), a chemical group (industrial inorganic chemicals -- gold compounds and metallic pigments) and structural clay products-- ceramic tiles. Almost all of the ATPA duty-free imports of sugar and confectionery products would have been eligible for duty-free treatment under the GSP. ATPA duty-free entries of these five groups accounted for 40 percent of all ATPA duty-free imports and 54 percent of all duty-free imports in 2000 that were unique to the ATPA. For each of the U.S. industries that produced products similar to the five import groups, it is difficult to identify major adverse effects on U.S. employment.

Previous reports have concluded that the cut flower industry (in particular, fresh cut chrysanthemums, standard carnations, and roses) may have been impacted by the duty-free provisions of the ATPA. During the last two years, ATPA duty-free imports of these items have moderated with a decline in ATPA imports of chrysanthemums and standard carnations (due primarily to price decreases). However, domestic production of these cut flowers appears to have continued to decline in 2000; changes in reported production data provided by the U.S. Agriculture Department has made it difficult to provide an analysis of the domestic industry during 2000. It is possible that the decline in the domestic production of these cut flowers, and any employment declines associated with it, may have been due in part to imports of these cut flowers from the ATPA beneficiaries, but it is also possible that other trade or non-trade factors may also have been in part responsible.

During 2000, there was a decline in U.S. imports of ATPA duty-free tuna loins; imports of this item had been increasing significantly over the last several years. However, it had generally been concluded (see previous reports) that these imports did not have an adverse effect on U.S. employment in this industry.

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

While the ATPA may offer the beneficiary nations an incentive to diversify their export structure and more readily gain access to the U.S. market, the margin of these benefits has been declining in recent years. For example, the United States has successfully negotiated and implemented several comprehensive free trade agreements (with Israel in 1986; Canada in 1989; and Canada and Mexico in 1994). In 1984, the United States granted unilateral trade preferences (which now have no expiration date) to the Caribbean Basin beneficiaries on many of the same items covered by the ATPA; in addition, the Caribbean Basin nations were provided expanded benefits (which are not available to the ATPA countries) beginning in 2001. A number of the developing nations of Africa were also provided additional preferences (beyond those provided by the GSP) beginning in 2001. Also, as the result of the conclusion and implementation of the Uruguay Round of multilateral trade negotiations, U.S. trade barriers in general are being reduced for all (normal-trade-relations) trading partners.

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

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

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

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