Trade and Employment Effects of the Andean Trade Perference Act

Tenth 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 - 2003

Table of Contents

ILAB Home

Frequently Asked Questions

WebMILS

About ILAB
- ILAB Mission Statement
- Leadership
- Mission & Vision
- Organization
- Key Personnel

ILAB Offices
- ICLP
- OTAI (formerly NAO)
- OFR
- OIEA
- OIO

Grants & Contracts

Newsroom

Publications & Reports

Laws & Regulations
- Executive Order 13126

Related Links

Contact Us

EXECUTIVE SUMMARY

The submission of this report to the Congress continues a series of reports by the U.S. Department of Labor on the impact of the Andean Trade Preference Act (ATPA) on U.S. employment. The current report covers calendar year 2002 and represents the tenth in the series.

The ATPA, enacted on December 4, 1991, authorized the President to proclaim duty-free treatment for eligible articles from Bolivia, Colombia, Ecuador, and Peru. ATPA expired on December 4, 2001, but was subsequently expanded in product coverage and renewed to December 31, 2006 by the Andean Trade Promotion and Drug Eradication Act that was signed into law by the President on August 6, 2002. The lapse of the ATPA during the period December 2001 to August 2002 probably resulted in underreporting of the actual benefits received under the program. Section 207 of the ATPA directs the Secretary of Labor to undertake a continuing review and analysis of the impact of the agreement on U.S. employment and submit a summary report of such analysis annually to the Congress.

During 2002, $995 million 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 (26 percent or $260 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 74 percent ($735 million) of these duty-free entries represent the unique benefits of the ATPA to the ATPA-beneficiary nations. These unique ATPA benefits represented 7.6 percent of total U.S. imports from the ATPA beneficiary nations and 0.06 percent of total U.S. imports from all nations in 2002. The ATPA duty-free provisions allowed the ATPA beneficiaries to save approximately $20.7 million in U.S. tariffs. For items uniquely eligible for ATPA duty-free treatment, approximately 43 percent actually entered ATPA duty-free.

The main finding of this report is that 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 U.S. production and possibly employment in some sectors, especially 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 expired on December 4, 2001, but was renewed retroactively to the expiration date (until December 31, 2006) on August 6, 2002 by the Andean Trade Promotion and Drug Eradication Act (ATPDEA) as part of the Trade Act of 2002 (Public Law 107-210, Title XXXI); this legislation also significantly expanded the product coverage of the ATPA program.

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 tenth 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 2002.

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 more than 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. Detailed data tabulations of U.S. employment and U.S. trade with the ATPA beneficiary nations that were used in the preparation of this report are available upon request from the Department's Bureau of International Labor Affairs, Office of International Economic Affairs, 200 Constitution Avenue, NW, Room S-5317, Washington, DC 20210 (telephone: 202-693-4914).

U.S. TRADE WITH THE ATPA BENEFICIARY COUNTRIES

U.S. imports from the four ATPA beneficiary nations in 2002 accounted for 0.8 percent of total U.S. merchandise imports from all countries and amounted to $9.6 billion, a 0.4 percent increase over their level in 2001, but still 13.5 percent below their level in 2000. U.S. exports to the ATPA beneficiaries in 2002 accounted for 1.0 percent of all U.S. merchandise exports to the world and amounted to $6.5 billion, a 1.6 percent increase over their level in 2001.

On a bilateral basis, the U.S. merchandise trade deficit with the ATPA beneficiary nations decreased slightly from $3.2 billion in 2001 to $3.1 billion in 2002. With the increase in U.S. exports to the ATPA beneficiaries in 2002, these exports are now slightly above 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 2002 were 0.3 percent above their 1994 level, while U.S. imports from the ATPA beneficiaries in 2002 were 63.5 percent above their 1994 level.

By broad industrial division, 18 percent of U.S. imports from the ATPA beneficiaries in 2002 were agricultural, forestry and fishery products, 41 percent were crude and refined petroleum and minerals, 36 percent were manufactures, and 5 percent were miscellaneous items. During 2002, U.S. imports of crude and refined petroleum products from the ATPA beneficiary countries increased by one percent, and U.S. imports of non-petroleum products from the ATPA beneficiary nations increased by 0.1 percent from their 2001 level of $6.0 billion.

Leading industrial categories of U.S. imports from the ATPA beneficiary nations in 2002 included: crude petroleum and natural gas ($2,308 million); agricultural products ($1,402 million); refined petroleum products ($1,260 million); primary metal products ($977 million); apparel ($759 million); food products ($431 million); chemicals ($400 million); fishery products ($360 million); minerals and ores ($352 million); and special classification provisions ($289 million). These top ten categories, based on the 3-digit North American Industry Classification System (NAICS), accounted for 88.8 percent of all U.S. imports from the ATPA beneficiaries in 2002.

Leading industrial categories of U.S. exports to the ATPA beneficiary nations in 2002 included: chemicals ($1,365 million); nonelectrical machinery ($1,138 million); computer and electronic products ($928 million); agricultural products ($606 million); transportation equipment ($451 million); paper products ($257 million); food products ($254 million); special classification provisions ($235 million); electrical equipment ($190 million); and refined petroleum and coal products ($155 million). These top ten categories, based on the 3-digit NAICS, accounted for 86.3 percent of all U.S. exports to the ATPA beneficiaries in 2002.

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 2002, 2.3 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; rum and tafia; canned tuna; certain agricultural products subject to tariff rate quotas including sugar, syrup, and molasses products. The Andean Trade Promotion and Drug Eradication Act (ATPDEA) which was signed into law on August 6, 2002 (as part of the Trade Act of 2002) increased significantly the amount of ATPA beneficiary imports that are eligible for ATPA duty-free treatment. Newly eligible items include petroleum and petroleum products; some leather items including certain gloves and footwear; tuna packaged in foil; and certain watches and watch parts. In 2001, only 20.4 percent of ATPA imports were of items eligible for ATP duty-free treatment, while in 2002 after the implementation of the ATPDEA, this increased to 50.0 percent. 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. Many of these leather items obtained duty-free eligibility under the ATPDEA.

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 an 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.

Due to the temporary lapses of the GSP and ATPA programs during the period covered by this report, the official trade statistics of the U.S. Department of Commerce do not fully reflect the actual amount of imports receiving duty-free treatment under the GSP and ATPA programs during 2001 and 2002. The GSP program expired on September 30, 2001 and the ATPA program expired on December 4, 2001;[2] although both of these programs were reauthorized in the Trade Act of 2002 and made retroactive back to their expiration dates, monthly U.S. import statistics only reflect the duty treatment that an importer requested upon entry into the United States and not the final duty treatment that the item may have ultimately received.[3] Thus items that were entered between December 4, 2001 and August 6, 2002 and were eligible for, and ultimately received ATPA duty-free treatment, are only partially reported in the official trade statistics as receiving duty-free treatment. As such, the reported values of items receiving ATPA and (to a lesser extent) GSP duty-free treatment during 2001and 2002 discussed in this report undercount the actual values. The fact that these programs had expired probably did not significantly reduce imports of items eligible for duty-free entry because there was a strong expectation that these programs would be renewed retroactively as has happened several previous times with the GSP program.

In 2002, more than $3.6 billion (or 38 percent) of the $9.6 billion in total U.S. imports from the ATPA beneficiary countries was imported normal trade relations (NTR) duty free.[4] Of the remaining $6.0 billion which was not NTR duty-free (henceforth, referred to as imports subject to duty), U.S. import duties were assessed on $4.4 billion, while more than $1.6 billion entered duty free under one of several special U.S. tariff preference programs.

Of the $1.6 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 2002, $995 million entered duty-free under the ATPA provision, $476 million entered duty-free under the GSP provision, $61 million (U.S.-content value) entered duty-free under the 9802.00.80 provision, and $89 million entered duty-free under other special rate provisions (mostly temporary Chapter 99 rate provisions).[5]

Imports entering ATPA duty-free declined by 39.8 percent in 2002 after declining by 15.5 percent during 2001. Some of this decline was due to the failure of official statistics to accurately reflect the duty treatment of some imports that entered after December 4, 2001 and may have been granted ATPA duty-free treatment retroactively. ATPA duty-free imports during 2002 represented 10.4 percent of total U.S. imports from the ATPA beneficiaries; this percentage was 17.6 percent in 2000. The percentage entering ATPA duty-free was only 2.2 percent in the first quarter of 2002, 4.7 percent in the second quarter, 9.6 percent in the third quarter, and 21.5 percent in the fourth quarter. It is probably the case that most of this increase (from quarter to quarter) reflects the changing degree to which the actual ATPA duty-free entries were properly recorded in the official statistics.[6] In contrast, GSP duty-free entries increased by 158.3 percent in 2002 after increasing by 26.6 percent during 2001. U.S. customs procedures make it administratively easier for importers to obtain a retroactive duty rebate for a qualifying item under the GSP program than under the ATPA program. As a result, some items which qualified for both GSP and ATPA duty-free entry that had historically entered duty free under the ATPA program were probably entered under the GSP program between December 4, 2001 and August 6, 2002 with the expectation of a more timely rebate when the GSP program was renewed. It is partially for this reason that GSP duty-free imports increased during 2001 and 2002 even though total ATPA duty-free imports declined during 2001 and 2002.

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). During 2001, the reported utilization rate declined to 95 percent (84 percent under ATPA and 12 percent under the GSP) and declined further to 76 percent in 2002 (43 percent under the ATPA and 33.1 percent under the GSP); but these decreases were probably due to the inability to properly account for ATPA and GSP duty-free entries which were eventually allowed retroactively. For products eligible for ATPA, but not GSP, utilization has increased much more substantially from 29 percent in 1992 to 99 percent in 2000; however, utilization declined to 91 percent in 2001 and 44 percent in 2002 due to these previously mentioned reporting problems.[7] Thus, almost all items which were eligible for duty-free treatment under either the ATPA or the GSP were actually imported duty free during 2000, and probably were in fact imported duty free during 2001 and 2002 although the reported statistics suggest a much lower utilization rate.

The share of U.S. imports subject to duty from the ATPA beneficiaries that is eligible for duty free treatment under the ATPA increased from 28 percent in 1992 to 34 percent in 2001, and with the expansion of items eligible for ATPA duty-free entry due to the ATPDEA, to 80 percent by the end of 2002. Most of the items eligible for ATPA duty-free treatment prior to the ATPDEA were already eligible for GSP duty-free treatment (3 percent of imports subject to duty in 1992 and 6 percent in 2001); by the end of 2002, 56 percent of U.S. imports subject to duty from the ATPA beneficiaries were eligible for duty-free treatment under the ATPA but not under the GSP. As this statistic demonstrates, the ATPDEA represented a major expansion of the ATPA program.

While the ATPDEA expanded significantly the value of imports eligible for duty-free treatment, the margin of benefits, calculated as the tariff payments saved, were quite modest since many of the new items receiving duty-free eligibility under the ATPDEA were previously subject to tariffs that were quite low. ATPA duty-free imports which were eligible for duty-free treatment under both the ATPA and the GSP program had a trade-weighted *ad valorem* tariff of 3.4 percent, duty-free imports eligible only under the ATPA had a trade-weighted *ad valorem* tariff of 7.3 percent, and duty-free imports which gained duty-free eligibility under the ATPDEA had a trade-weighted *ad valorem* tariff of only 0.2 percent. The trade-weighted *ad valorem* tariff of items still not eligible for ATPA duty-free treatment was 12.3 percent in 2002.

Leading industrial categories of ATPA duty free U.S. imports (some of which would have been eligible for GSP duty-free entry) in 2002 included: nonferrous metal products ($255 million); oil and gas ($186 million); nursery products ($173 million); jewelry and silverware ($78 million); vegetables and melons ($62 million); paints and coatings ($30 million); petroleum refinery products ($24 million); tobacco products ($21 million); fruits and vegetables ($16 million); and noncitrus fruits and tree nuts ($15 million). These top ten categories, based on the 5-digit North American Industry Classification System, accounted for 86.2 percent of total ATPA duty free U.S. imports in 2002.

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 2002 (as it has every year since 1997) to a level below its level in 1991. The value of U.S. imports from the ATPA-beneficiary nations of assembled items entered under HTS item 9802.00.80 peaked at $280 million in 1995, but fell to $141 million (or 2.3 percent of all U.S. imports subject to duty from the ATPA beneficiaries) in 2002. U.S. components comprised 43.2 percent of the value of these items in 2002. The U.S. tariff provision covering the assembly of articles made from U.S.-made parts and materials is available for U.S. imports from any country.

Assembled women's and girls' apparel items ($84 million with 46 percent U.S.-content value) accounted for almost 60 percent of the value of U.S. imports from ATPA beneficiaries under HTS item 9802 in 2002; the other industrial groups with appreciable amounts were men's and boy's apparel ($44 million with 35 percent U.S. content value) and other textile products ($8 million with 45 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). Most of these items became eligible for full duty-free treatment in November 2002. During 2002, $5.8 million of U. S. imports of these leather products from the ATPA beneficiaries were assessed the lower duties; a 74 percent decrease from the level in 2001. This provision of the ATPA has not been successful in increasing ATPA exports of these items; the value of leather products imports from the ATPA beneficiaries eligible for reduced duties in 2001 was below its level in 1991, the year before the reduced duties program began.

The ATPA beneficiary countries have been eligible for a 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 2002, 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 2002 in the following cases: products eligible for ATPA duty-free entry, but not eligible for duty-free entry under GSP ($1.1 billion, of which $380 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 ($604 million, of which $354 million entered ATPA duty-free).

These unique ATPA benefits totaled $735 million in 2002 and 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 $329 million, or 30.9 percent below their level in 2001 (which followed a decrease of 17.3 percent in 2000, after increases of 40.5 percent in 2000, 3.2 percent in 1999, 47.9 percent in 1998, 30.9 percent in 1997 and 28.7 percent in 1996) and represented 7.6 percent of total U.S. imports from the ATPA-beneficiary nations (but only 0.06 percent of total U.S. imports from all sources) in 2002. These declines in 2002 and 2001, however, are most likely due to the failure of the reported statistics to account for the ATPA duty-free entries which may have been granted retroactively.

The top ten tariff schedule categories of items receiving duty-free treatment unique to the ATPA in 2002 included: cathodes ($248.7 million), crude petroleum oils less than 25 API ($119.8 million), fresh-cut roses ($69.8 million), crude petroleum oils greater than 25 API ($66.6 million), fresh-cut chrysanthemums, standard carnations, anthuriums, and orchids ($46.3 million), fresh or chilled asparagus entered from November 15 to September 15 ($31.6 million), pigments and dyes ($29.9 million), paper-wrapped cigarettes ($20.5 million), fresh or chilled asparagus entered from September 15 to November 15 ($18.7 million), and naphthas ($9.7 million). These ten items accounted for 90.1 percent ($661.6 million) of the duty-free entries unique to the ATPA in 2002. Four of the top ten items are items normally eligible for GSP but at least one of the ATPA beneficiaries had lost its GSP eligibility for the item by exceeding that program's competitive need limitation. These four items were: cathodes from Peru; fresh-cut chrysanthemums, standard carnations, anthuriums, and orchids from Colombia; pigments and dyes from Colombia; and fresh asparagus entered September 15 to November 15 from Peru. The remaining six top-ten items were items that ATPA beneficiaries benefitted from due to these items being eligible for duty-free entry under the ATPA but not under the GSP program. Three of these items are petroleum items (crude petroleum oils less than 25 API, crude petroleum oils greater than 25 API, and naphthas) which only became eligible for duty-free treatment during the last two months of 2002 under the ATPDEA.

In 2002, Peru accounted for 44 percent ($320 million) of total ATPA duty-free imports unique to the ATPA, Colombia for 39 percent ($289 million), Ecuador for 17 percent ($125 million), and Bolivia for one-hundredth of one percent ($96 thousand). The $735 million in ATPA unique duty-free treatment represented 12.3 percent of U.S. imports subject to duty from the ATPA beneficiaries in 2002. Unique ATPA duty-free benefits relative to imports subject to duty were highest for Peru (23 percent), followed by Colombia (9 percent), Ecuador (9 percent), and Bolivia (0.1 percent).

An alternative measure of the benefits provided by the ATPA program is the tariff savings which the program allowed. For items that entered ATPA duty free, the estimated tariff savings were $34.0 million. The tariff savings for ATPA duty-free imports that were uniquely eligible under the ATPA totaled $20.7 million; of this amount, $12.9 million was from items eligible under the ATPA but not the GSP program, and $7.9 million was from items eligible for the ATPA but ineligible for the GSP due to competitive need considerations. Of the $20.7 million in tariff savings unique to the ATPA, $11.6 million belonged to Colombia, $7.2 million to Peru, $1.9 million to Ecuador, and $5,300 to Bolivia.

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. This task is especially difficult for the 2001-2002 period since a significant amount of imports entering duty-free under the ATPA program may not have been accurately recorded in the official trade statistics. 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 either showed significant growth, a significant amount, or represented a significant share of total U.S. imports in 2002.

Eight import groups based on the 5-digit North American Industry Classification System (NAICS) were identified in which ATPA duty-free imports increased by more than $10 million during 2002, or were greater than $50 million, or accounted for at least three percent of total U.S. imports of that NAICS industry. These groups were: vegetables and melons, nursery products flowers and seeds, oil and gas, tobacco products, petroleum refinery products, paints and coatings, nonferrous metals, and jewelry and silverware. There were seven import groups which had an increase in duty-free imports unique to the ATPA of more than $5 million, or total unique benefits of $25 million, or unique benefits that accounted for at least one percent of total U.S. imports of that NAICS industry; all seven of these groups were also included in the first group. Jewelry and silverware satisfied the criteria of the first group but had only a limited amount of ATPA duty-free imports that were unique to the ATPA.

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 2002 is discussed first.

Throughout this report, trends in annual average U.S. industry employment will be examined over the period 1979 to 2002. The years 1979 and 1990 roughly correspond to business cycle peaks while 1991 roughly corresponds to the latest previous trough.[8] To control for business cycle effects, employment levels should ideally be compared between comparable points in the business cycle; business cycle peaks and troughs, however, do not fit neatly into calender years. In addition, employment patterns may not correspond closely with officially recognized business cycles. The last recession for the United States occurred between March 2001 and November 2001. On an annual basis however, employment peaked in the recession year of 2001, and declined in 2002. Therefore for the analysis of longer run secular trends, it may be most appropriate to compare employment levels in 2001 with employment in the peak years 1979 and 1990, while employment in 2002 is compared to employment in the trough year of 1991. Since manufacturing employment reached its all-time annual high in 1979, comparisons to 1979 provide some perspective on the long-term contraction (in terms of employment) of the U.S. manufacturing sector. In addition, the annual change in employment between 2001 and 2002 will be examined.

U.S. Import and Domestic Employment Trends in Selected Industrial Sectors Receiving Significant Benefits Provided under the ATPA in 2002

Vegetables and melons (NAICS 11121): U.S. imports of vegetables and melons from the ATPA beneficiaries increased from $71.2 million in 2001 to $85.9 million in 2002. Approximately 72 percent of these imports entered ATPA duty-free ($61.5 million) and another 14 percent of the remainder entered GSP duty-free ($11.7 million). The actual percentage entering ATPA duty-free would probably be higher if the likely underreporting of ATPA duty-free imports were considered. ATPA duty-free imports of vegetables and melons which were not eligible for GSP duty-free treatment increased from $43.8 million in 2001 to $50.8 million in 2002 (a 16.0 percent increase). ATPA duty-free imports of these items accounted for 2.2 percent of total U.S. imports of vegetables and melons during 2002. 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 (HTS 0709.2090), and fresh asparagus entered between September 15 and November 15 (HTS 0709.20.10) from Peru (which has lost GSP eligibility due to competitive need considerations).

Imports of asparagus eligible for unique duty-free entry status under the ATPA increased 20.5 percent to $59.3 million during 2002; they have increased by 574 percent since 1994 when they amounted to $8.8 million. Reported unique ATPA duty-free imports ($50.3 million) of fresh asparagus increased by 16.7 percent during 2002. In years prior to 2001, more than 99 percent of ATPA eligible asparagus received duty-free treatment so the fact that only 85 percent received duty-free treatment in 2002 may be due to the lack of information on ATPA duty-free entries after December 4, 2001. Imports of ATPA asparagus eligible for unique duty-free entry accounted for 43.8 percent of total U.S. asparagus imports in 2002. Due to the ATPA duty-free provisions, the ATPA beneficiaries avoided tariffs of $3.3 million on fresh asparagus.

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 103,890 tons in 2001 to 93,400 tons in 2002 (a decrease of 10.1 percent), following an 8.5 percent decrease in 2001. The dollar value of U.S. production decreased from $229 million in 2001 to $173 million in 2002 due to both price and production declines. 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 2002, fresh asparagus accounted for 81 percent and processed for 19 percent by value (17 percent canned and 2 percent frozen) of U.S. asparagus production. U.S. production tonnage of fresh asparagus decreased by 9 percent between 2000 and 2001 and by 8 percent between 2001 and 2002, while U.S. production of processed asparagus decreased by 8 percent in 2001 and decreased by 15 percent in 2002. U.S. imports of ATPA asparagus eligible for ATPA unique duty-free treatment were equal to 36 percent of U.S. apparent consumption (landed value (c.i.f.) imports plus domestic production, less exports) during 2002. 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. Although the U.S. output and price of processed asparagus had remained relatively stable over the 1997-2000 period, processed output decreased by 19 percent in 2001 and 9 percent in 2002; the price in 2002 was similar to the price in 2000. It may be the case that the duty-free provisions of the ATPA are partly responsible for the continual production declines in the U.S. output of both fresh and processed asparagus. Given the lack of data on the employment of workers involved in the production of asparagus, it is difficult to determine if increased ATPA duty-free imports of asparagus have created any significant adjustment problems for domestic workers producing asparagus.

Nursery products, flowers, and seeds (NAICS 11142): U.S. imports of nursery products, flowers, and seeds from the ATPA nations decreased by 25.8 percent to $382.4 million in 2002. ATPA duty-free imports declined by 55 percent from $382.5 million in 2001 to $172.9 million in 2002 and accounted for 15.0 percent of total U.S. imports of nursery products, flowers, and seeds. Approximately two-thirds of these ATPA duty-free imports were items that were not eligible for duty-free entry under the GSP program. ATPA duty-free imports in this category were primarily composed of several varieties of cut flowers. The 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. Fresh-cut chrysanthemums and standard carnations are eligible under both programs, but Colombia has lost GSP eligibility due to competitive need limits. ATPA duty-free entries of cut roses and Colombian chrysanthemums and standard carnations were $116.0 million in 2002, accounted for 15.8 percent of the duty-free entries that were unique to the ATPA in 2002. There were $56.5 million of ATPA duty-free imports of two other cut flower types -- miniature spray carnations (HTS 0603.10.30), and Alstroemeria, Gypsophila and other unspecified cut flowers (HTS 0603.10.80); both of these cut flower categories are eligible for duty-free treatment under both the ATPA and the GSP programs. The tariff savings provided uniquely by the ATPA program for these cut flowers amounted to $7.7 million in 2002 and represented 37 percent of the total ATPA unique tariff savings.

U.S. imports of fresh-cut roses (HTS 0603.10.60) from the ATPA beneficiaries decreased by $13.1 million to $175.4 million in 2002. Although only $69.8 million of these imports are recorded as entering ATPA duty-free during 2002, this figure is unreliable due to the reporting problems cited earlier; in prior years approximately 99 percent of these rose imports entered ATPA duty free. U.S. imports of fresh-cut roses from the Andean beneficiaries had increased consistently over the 1994-1997 period, but have been relatively stable since 1997. During 2002, 92.0 percent of total U.S. imports of fresh roses were imported from the ATPA beneficiaries. This tariff item is not eligible for GSP duty-free entry and had the third largest amount of duty-free imports unique to the ATPA during 2002. The ATPA allowed the beneficiaries to avoid a 6.8 percent tariff; the total estimated tariff saving for this item amounted to $4.7 million -- the largest for any tariff line item. According to the U.S. Department of Agriculture, domestic production of roses declined by 6.3 percent in terms of value following declines of 2.4 percent in 2001, 20.4 percent in 2000 and 16.7 percent during 1999. The quantity of stems domestically grown decreased by 10.1 percent in 2002 (after a 0.9 percent increase in 2001) while the wholesale price increased by 4.3 percent (after a 3.2 percent decline in 2001). According to the United States International Trade Commission (USITC), U.S. imports of roses from the ATPA beneficiaries accounted for an increased share of apparent domestic consumption (landed value (c.i.f.) imports plus domestic production, less exports), growing from 34 percent in 1993 to 71 percent in 2001. The reported number of domestic producers of cut roses declined from 94 in 2001 to 78 in 2002. In previous years, this report has concluded that the preferences granted under the ATPA program for roses were a factor in the production declines in the domestic rose industry; the trends observed during 2002 would further support that conclusion.

U.S. imports of ATPA duty-free chrysanthemums and standard carnations (HTS 0603.10.70) from Colombia, which lost eligibility for GSP duty-free treatment for this item by exceeding the competitive need limits in previous years, decreased from $98.4 million in 2001 to $86.0 million in 2002; these imports decreased by $21.1 million in 2001, $13.9 million in 2000 and $8.8 million in 1999. U.S. imports of Colombian chrysanthemums and standard carnations increased significantly during the 1992-1996 period, stabilized during 1997 and 1998, but have declined by 39.9 percent since 1998. Chrysanthemums and standard carnations from Colombia received the fifth largest amount (in value terms) of unique benefits under the ATPA of any eight-digit HTS item in 2002; the tariff savings (unique to the ATPA) for this item were $3.0 million -- the second largest of any tariff line item. Colombia accounted for 88 percent of all U.S. imports of this tariff item from all sources. Ecuador accounted for 0.5 percent of total U.S. imports (or $493 thousand) of this item but imports from Ecuador are also eligible for GSP duty-free treatment. During 2002, approximately 44 percent of U.S. imports from Colombia of this tariff item were composed of carnations (HTS 0603.10.7030) and 56 percent were chrysanthemums (HTS 0603.10.7010 and 0603.10.7020), in addition to a very small amount of orchids. According to the United States International Trade Commission (USITC), U.S. imports from Colombia under this tariff item accounted for 69 percent of apparent domestic consumption during 2001. 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 2000. Beginning 2001, The U.S. Department of Agriculture discontinued reporting production of standard chrysanthemums but continued reporting production of pompon chrysanthemums. Domestic production (by blooms) of pompon chrysanthemums increased by 8.0 percent and by 9.9 percent by value in 2002. Domestic production of standard carnation blooms declined by 32 percent from 1989 to 1994 and declined by a further 77 percent between 1994 and 2001. During 2002, domestic production of standard carnations declined by 17 percent while the price increased by one percent. Almost 87 percent of the domestically grown standard carnations are grown in California. The reported number of producers of standard carnations declined from 42 in 2001 to 33 in 2002.

Given that the U.S. Department of Agriculture discontinued the collection of some data on the domestic production of roses and standard chrysanthemums in 2000, it is difficult to assess the economic situation of these sectors of the cut flower industry since 2000. Imports of cut flowers receiving preferential duty treatment under the ATPA appear to have stabilized or even declined slightly in recent years after large increases in the mid-1990s. Domestic productions of roses and chrysanthemums also appear to have stabilized over the last several years although at significantly lower levels; however, domestic production of carnations has continued its rapid decline. Considering production trends and import trends for these products, it appears that U.S. production of these cut flowers types, especially carnations, has been and remains under considerable competitive pressure from ATPA producers. Given the complexities involved in economic analysis, it is difficult to conclusively isolate the factors responsible for specific economic trends. Given that qualification however, it would appear that imports from the ATPA producers are likely responsible for the contraction of domestic production of standard carnations. The exact importance of the tariff preference provided by the ATPA program, which is only 6.4 percent, is more difficult to assess.

The number of growers of cut flowers declined from 625 in 2001 to 586 in 2002. Domestic employment data for growers of specific types of flowers or cut flowers generally are not available; however, the U.S. Department of Agriculture does collect data on the peak number of workers hired by floriculture establishments--i.e., firms that grow a wide variety of flowers for cutting, potted plants, and bedding plants. According to this source, 8,106 floriculture operations hired on average 15.3 workers during 2002, compared with 8,664 operations which hired on average 14.6 workers in 2001; therefore, the total number of workers hired by floriculture establishments decreased by approximately 2,472 (2.0 percent) during 2002. This could be due to increased productivity and other factors. Any workers released as a result of the reduced production of these selected cut flowers may have experienced 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 48 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; many farm workers are ineligible for unemployment benefits. Agricultural worker real earnings decreased over the 10-year period 1989-98 both absolutely (declining from $6.89 in 1989 to $6.18 in 1998 using 1998 dollars) and relative to the average hourly wage for all production workers (declining from 54 percent in 1989 to 48 percent in 1998). Neither the Department of Labor nor the Agriculture Department collect wage data specifically for cut flower agriculture workers.

Trends in U.S. domestic production and U.S. imports from the ATPA countries since implementation of the ATPA 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. Domestic production of chrysanthemums appears to have stabilized over the last several years, while domestic production of roses and especially carnations continues to fall by significant percentages each year. Although the number of affected workers is likely to have been small, the employment opportunities in the cut flower and floriculture industries are probably limited and it is difficult to determine the degree of adjustment difficulty such workers may face should they seek employment in other industries.

Oil and gas (NAICS 21111): U.S. imports of ATPA oil and gas products only became eligible for ATPA duty-free treatment with the implementation of the ATPDEA on October 31, 2002. Despite the short period of time that these imports were eligible for duty-free treatment during 2002, sizable amounts entered duty free since these items have accounted for a significant percentage of ATPA exports to the United States even prior to their obtaining duty-free status. U.S. imports of ATPA oil and gas were $2.3 billion and accounted for 24 percent of all ATPA exports to the United States in 2002; this 5-digit NAICS industry is the largest for U.S. imports from the ATPA countries. U.S. imports of ATPA oil and gas increased from $1.9 billion in 2001 to $2.3 billion in 2002, a 24.6 percent increase. ATPA oil and gas accounted for 3.2 percent of total U.S. oil and gas imports in 2002. Approximately 87 percent of these imports were items that were eligible (after October 31, 2002) for the ATPA but not the GSP. Two HTS 8-digit petroleum oils (HTS 2709.00.10 and 2709.00.20) accounted for all of the ATPA but not GSP imports in this industry; these two HTS 8-digit items were the two largest 8-digit items in U.S. imports from the ATPA beneficiaries. Given the relatively short period (2 months) that these items were eligible for duty-free treatment in 2002, only $186.4 million entered ATPA duty-free. The NTR tariff on these two HTS items (which can be avoided under the ATPA) is quite low. The rate is 5.25 cents a barrel for HTS 2709.00.10 and 10.5 cents a barrel for HTS 2709.00.20; the *ad valorem* equivalents range from .2 to .3 percent for the former and from .4 to .7 percent for the latter. It is likely that in future years, this NAICS industry will become the largest for ATPA duty-free imports.

U.S. employment in the oil and gas extraction subsector (NAICS 211) decreased by 1,200 jobs to 122,500 in 2002.[9] Employment in this subsector is 68,500 jobs below its average level in 1991; employment has fallen in this subsector each year since 1991. This could be due to increased productivity and other factors. Moreover, given the fairly small percentage of U.S. imports of oil and gas accounted for by ATPA imports, and the insignificant tariff rate avoided under the ATPA, it is unlikely that the duty-free provisions of the ATPA have had any measurable effect on domestic employment in the oil and gas extraction subsector.

Tobacco products (NAICS 31222): U.S. imports from the ATPA beneficiaries of tobacco products increased by 104 percent during 2002. U.S. imports of these items amounted to $33.4 million during 2002 and accounted for 6.3 percent of total U.S. tobacco product imports. Almost all of these imports from the ATPA beneficiaries were eligible for ATPA but not for GSP duty-free treatment. During 2002, $20.6 million entered ATPA duty-free, but this amount is probably smaller than actual duty-free entries due to the reporting problems discussed earlier in the report. The primary HTS tobacco item entering ATPA duty free was paper-wrapped cigarettes (HTS 2402.20.80); imports of this item increased from $16.2 million in 2001 to $33.1 million in 2002 with $20.5 million receiving ATPA duty-free treatment. The USITC estimated that ATPA duty-free imports of this item in 2001 represented less than one percent of U.S. apparent consumption of cigarettes. The tariff on this item is $1.05 per kilogram plus 2.3 percent; the *ad valorem* equivalent of both components is calculated to be about 12.3 percent. Thus, the ATPA program provides a significant duty-free benefit for ATPA exports of this item; the estimated tariff savings were $2.5 million in 2002 -- third highest for any tariff line item.

U.S. employment in the tobacco products industry (NAICS 3122: which includes both tobacco stemming -NAICS 31221 and tobacco manufacturing- NAICS 31222) increased by 1,400 in 2002 to 33,200. Employment in this industry had been declining consistently since 1990 when employment was 45,000; other than the gain in 2002, employment has declined every year since 1990 except for an increase of 100 jobs recorded in 1997. Although the tariff preference provided by the ATPA is significant, U.S. imports from the ATPA beneficiaries account for only 3.9 percent of total U.S. tobacco products imports, and ATPA cigarettes account for less than one percent of U.S. apparent consumption so it is unlikely that the duty-free benefits of the ATPA program have had any measurable impact on U.S. employment in the tobacco industry.

Petroleum refinery products (NAICS 32411): U.S. imports of petroleum refinery products decreased by $421 million (or 25 percent) in 2002 to $1.3 billion. The ATPA beneficiaries accounted for 4.0 percent of total U.S. imports of petroleum refinery products in 2002. Of this amount, $967 million were products eligible for the ATPA after October 31, 2002;

of this amount only $23.6 entered ATPA duty-free due partially to the fact that these items were only eligible for two months during 2002. ATPA duty-free imports of petroleum refinery products were composed of $9.7 million of naphthas (HTS 2710.11.25), $7.3 million of distillate and residual fuel oils under 25API (HTS 2710.19.05), and $6.6 million of distillate and residual fuel oils above 25 API (HTS 2710.19.10); these products are not eligible for GSP duty-free treatment. The ATPA program allows the ATPA beneficiaries to avoid an estimated *ad valorem* tariff of less than one percent.

U.S. employment in the petroleum refinery industry has declined every year since 1991; the decline was 1,400 in 2002. With employment of 75,100 in 2002, employment in this industry has declined by 33 percent since 1991. Given that ATPA duty-free treatment only began in November 2002, the duty-free provisions of the ATPA program cannot be a significant factor in the employment losses that have occurred in this industry.

Paints, and coatings (NAICS 32551): The ATPA nations' exports of paints and coatings to the United States decreased from $197.0 million in 2001 to $32.1 million in 2002 (an 84 percent decline). Approximately 93 percent ($30.0 million) of these items entered ATPA duty-free and all of these were items not eligible under the GSP. These unique ATPA duty-free imports represented 5.1 percent of total U.S. imports from all sources of paints and coatings during 2002; U.S. total imports of this category decreased by $137.6 million (19 percent) during 2002. The primary item in this NAICS category receiving unique ATPA duty-free benefits was pigments and dyes (HTS 3212.90.00) from Colombia; although this item is normally eligible for duty-free treatment under the GSP, Colombia lost GSP eligibility for this item by surpassing the competitive need limit for this item in prior years. Colombia accounted for almost 32 percent of total U.S. imports of this tariff line item during 2002; during 2001 Colombia accounted for 76 percent and during the first five months of 2003 there were no imports from Colombia of this item. The normal trade relations tariff on this tariff-line item was 3.1 percent; thus, the margin of benefit provided by the ATPA program is rather modest.

U.S. employment in the paints and coatings industry decreased by 2,000 jobs to 47,700 in 2002. Employment in this industry is 13,100 jobs below its average level in 1990; employment had declined each year between 1990 and 1997, then increased between 1997 and 1999, and then decreased each year since 1999. In previous years reports, it has been concluded that the ATPA duty-free provisions may have possibly contributed toward this decline; however, the increase in ATPA imports was not large enough to account for more than a modest proportion of this decline. With the significant fall in imports of this product from the ATPA beneficiaries in 2002, any competitive pressure being exerted on this industry by the duty-free provisions of the ATPA has been significantly reduced.

Nonferrous metals (NAICS 33141): U.S. imports of nonferrous metals increased by $125.1 million (16.3 percent) to $892.9 million in 2002. ATPA duty-free imports of these items decreased from $464.1 million in 2001 to $255.3 million in 2002; but this reduction is most likely due primarily to the reporting problems discussed earlier. This 5-digit NAICS industry had the largest amount of ATPA duty-free imports of any 5-digit industry (as was the case in 2000 and 2001); this industry accounted for 25.7 percent of all ATPA duty-free imports during 2002. The ATPA duty-free imports in this industry that were unique to the ATPA (i.e., not eligible under the GSP) amounted to $248.7 million and accounted for 33.9 percent of all unique ATPA duty-free imports. These unique ATPA duty-free imports consisted entirely of refined copper cathodes (HTS 7403.11.00) from Peru. This HTS item is normally eligible for duty-free entry under the GSP program but Peru has lost eligibility under that program by exceeding the competitive need limits in prior years. This 8-digit HTS item had the largest amount of unique ATPA duty-free imports of any HTS category (as was the case in 2001). Since the reported ATPA duty-free entries of this item are probably unreliable, trends for this product are best described by imports (regardless of duty treatment) of this item. Peru's exports to the U.S. of cathodes decreased slightly by $9 million in 2002 to $446.9 million.

U.S. employment in the nonferrous metal smelting and refining industry has declined every year since 1990 except for a gain of 300 jobs in 1997. During 2002, this industry lost 900 jobs (7 percent) as employment fell to 12,300; since 1990, this industry has lost 7,600 jobs or 38 percent of its employment. According to estimates by the USITC covering 2001, U.S. imports of refined copper cathodes from Peru accounted for 7.3 percent of U.S. apparent consumption of this item. 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 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.

Jewelry and silverware (NAICS 33991): U.S. imports of ATPA beneficiary jewelry and silverware increased by $16.4 million to $239.4 million in 2002. Although ATPA duty-free imports fell from $149.2 million in 2001 to $77.6 million in 2002, this reduction was likely caused by the reporting problems associated with the ATPA. As that discussion emphasized, entry under the GSP program was administratively easier and as a result GSP duty-free entries of jewelry and silverware increased from $12.5 million in 2001 to $71.5 million in 2002 as importers effectively switched from using the ATPA to the GSP program. Almost 89 percent of the ATPA duty-free imports of jewelry and silverware were for items that were also eligible for GSP duty-free treatment. Items in this category were various types of gold necklaces, clasps and chains. Almost all of the $8.7 million of ATPA duty-free imports not also eligible under the GSP were imports of gold rope necklaces (HTS 7113.19.21) from Peru which has lost GSP eligibility for this item by exceeding (in previous years) the competitive need limits; U.S. imports of this item from Peru increased from $9.1 million in 2001 to $16.7 million in 2002 and accounted for 40 percent of all U.S. imports of this tariff line item. The NTR *ad valorem* tariff on this item, which is avoided under the ATPA, is 5 percent.

U.S. employment in the jewelry and silverware industry fell by 3,700 jobs (7 percent) in 2002 to 49,900. Employment in this industry has declined yearly since 1993 and has fallen by 22,000 (31 percent) since 1990. Jewelry and silverware imports from the ATPA beneficiaries accounted for only 1.1 percent of total U.S. imports of these items during 2002. According to the USITC, imports of gold rope necklaces from Peru accounted for 16.2 percent of U.S. apparent consumption of this item during 2001; given the 83.5 percent increase in imports of this item during 2002, this percentage of apparent consumption probably increased by a similar amount. Given the continuing employment declines in this industry, the significant increase in imports from Peru, and the significant share that these imports account of domestic consumption, it is possible that the duty-free provisions of the ATPA might account for a small proportion of the job losses in this industry.

CONCLUSIONS

Although a definitive evaluation of the domestic employment impact of the ATPA cannot be made since the effects of duty free provisions of the ATPA on U.S. imports cannot be completely isolated from the effects of other trade preference programs such as the GSP and HTS item 9802.00.80, it is unlikely that the ATPA has had a significant effect on overall U.S. employment. In addition, U.S. trade flows with the ATPA beneficiary countries have been small, representing 0.8 percent of total U.S. imports in 2002.

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 rose from 22 percent in 1991 to 34 percent in 2000. This dropped to 29 percent during 2001 and 17 percent during 2002; but this decline was probably due in large part to the fact that a significant proportion of the imports actually receiving ATPA duty-free treatment from December 4, 2001 to August 6, 2002 were not designated as such in the reported statistics because the ATPA program had expired temporarily. The long-term increase in ATPA duty-free entries 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.

With the implementation of the ATPDEA beginning in October 31, 2002, the percentage of ATPA exports eligible for ATPA duty-free treatment increased from 20.4 percent in 2001 to 50.0 percent in 2002. The ATPA program provided unique duty-free eligibility to only 1.9 percent of ATPA exports to the United States in 1992; by 2001 ATPA uniquely eligible items had increased to 3.6 percent, and with the expansion of the ATPDEA they increased to 35.0 percent of imports from the ATPA beneficiaries. Including GSP items that lost eligibility throughout the 1992-2002 period, the ATPA provided unique eligibility to 4.2 percent of imports from the ATPA nations in 1992, 4.7 percent in 2001, and 35.9 percent in 2002. However, the estimated trade-weighted *ad valorem* tariff on items uniquely eligible for the ATPA (before ATPDEA expansion) was 6.7 percent, while the estimated trade weighted *ad valorem* tariff on the items uniquely eligible under the ATPDEA was only 0.3 percent. Thus the average tariff on the items covered by the original ATPA program were approximately 25 times greater than the average tariff on the new items covered by the ATPDEA. Thus, although the ATPDEA expanded the amount of ATPA items that were uniquely eligible for duty-free treatment by almost a factor of ten, these new items had tariffs so low that they were already essentially entering duty free. The ATPA program saved the ATPA producers an estimated $20.7 million in tariff payments in 2002; of this amount, the implementation of the ATPDEA contributed only $516 thousand. Cut flower imports accounted for 37 percent (or $7.7 million) of ATPA unique tariff savings in 2002. ATPA exports to the United States of items receiving unique duty-free treatment under the ATPA program did not grow significantly faster than ATPA exports of items not receiving preferential treatment under the ATPA program during the 1992-2001 period. Therefore, the ATPA program does not appear to have significantly altered the export or production structure of the ATPA nations.

During 2002, 10.4 percent of all U.S. imports from the ATPA beneficiaries entered ATPA duty-free, and approximately 74 percent of these (7.6 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 $328.5 million (or 30.9 percent) lower than they were in 2001; and $550.9 million (or 42.9 percent) lower than they were in 2000. This decline is due, in part, to the failure of reported statistics to accurately reflect the actual amount of imports that may have received ATPA duty-free treatment during 2001 and 2002. Prior to 2001, these unique ATPA duty-free benefits had usually increased; for example, they increased by 40.5 percent in 2000, 3.2 percent in 1999, 47.9 percent in 1998, 30.9 percent in 1997, and 28.7 percent in 1996. Approximately 52 percent of the unique ATPA duty-free imports (or $380 million) in 2002 were items not eligible for duty-free entry under the GSP program, and the other 48 percent (or $354 million) were items covered by the GSP program but ineligible due to exceeding the competitive need limitations. Almost 44 percent of the unique ATPA duty-free imports were from Peru, while 39 percent were from Colombia, 17 percent were from Ecuador, and a negligible amount was from Bolivia. Peru’s share of total unique ATPA benefits has progressively increased since the mid-1990s when Colombia obtained almost two-thirds of total unique benefits. In terms of tariff savings provided uniquely by the ATPA, Colombia benefitted most with tariff savings of $11.6 million, followed by Peru $7.2 million, Ecuador $1.9 million, and Bolivia whose benefit was only $5,300. 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; most of these items obtained duty-free eligibility under the ATPDEA.

Eight groups of products received substantial or increasing benefits in 2002 from duty-free treatment under the ATPA: two agricultural groups (vegetables and melons -- asparagus; and nursery products, flowers, and seeds -- fresh-cut roses, standard carnations, and chrysanthemums), two petroleum groups (oil and gas -- crude petroleum oils; and petroleum refinery products -- distillate and residual fuel oils and naphthas), two consumer groups (cigarettes -- paper-wrapped cigarettes; and jewelry and silverware -- gold rope necklaces), and two industrial intermediate input groups (paints, varnishes, and lacquers -- pigments and dyes; and nonferrous metals -- refined copper cathodes). A substantial proportion of the ATPA duty-free imports of jewelry and silverware would also have been eligible for duty-free treatment under the GSP. The two petroleum groups obtained their duty-free eligibility under the ATPDEA. ATPA duty-free entries of these eight groups accounted for 83 percent ($828 million) of all ATPA duty-free imports and 93 percent ($685 million) of all duty-free imports in 2002 that were unique to the ATPA. These eight groups also contained all of the top 13 8-digit tariff line items ranked by unique ATPA duty-free imports. For each of the U.S. industries that produced products similar to the eight import groups, it is difficult to identify major adverse effects on U.S. employment. However employment in five of the six manufacturing industries declined during 2002, and employment levels in all six have been on a general downward trend since 1990. To the degree that the ATPA duty-free provisions have increased imports of these manufactured products, given the employment trends, it is likely that some workers have been displaced by these imports. The decline in the domestic production of some cut flowers (in particular, fresh-cut chrysanthemums, standard carnations, and roses) and any employment declines associated with it, may have been due in part to imports of these cut flowers from the ATPA beneficiaries and these cut flower imports have likely been increased due to the duty-free provisions of the ATPA.

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. The implications of the recently passed ATPDEA will only become apparent over the next several years.

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; Canada and Mexico in 1994, Jordan in 2001, and Singapore and Chile in 2003). 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. A number of the developing nations of Africa were also provided additional preferences (beyond those provided by the GSP) in the African Growth and Opportunity Act 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 have been reduced for all (normal-trade-relations) trading partners.

Footnotes

[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]When a trade preference program expires, importers are required to pay the required duty; if the program is re-authorized and made retroactive, importers can request that those duties be refunded.

[3]Since there are administrative costs (filings forms, etc.) for requesting duty-free entry under these programs, importers often wait until the programs are re-authorized and made retroactive before they submit the required forms. If the corrections are available before June of the following year, they are reported in an addendum to that year's statistics; there were no corrections for the 2001 statistics and only a partial correction for the 2002 statistics.

[4]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).

[5]Chapter 99 provisions are temporary tariff reductions that are often available to only certain specified countries and often only cover a subset of the products in an eight-digit tariff line item.

[6]The higher percentage entering duty-free in the fourth quarter of 2002 also reflects the fact that a significant number of new items became eligible for ATPA duty-free entry in November 2002 due to the ATPDEA.

[7]These utilization percentages do not include the items obtaining duty-free status under the ATPDEA since they were eligible for only two months during 2002.

[8]Business cycle peaks and troughs are designated by the National Bureau of Economic Research, a private nonprofit research organization. The last four recessions extended from the following peak-to-trough dates: January 1980 to July 1980, July 1981 to November 1982, July 1990 to March 1991, and March 2001 to November 2001.

[9]The U.S. Labor Department only publishes data for the 3-digit NAICS subsector 211; however since there is only one 5-digit industry in this subsector (21111), the employment in the former can describe employment in the latter.

Back to Top www.dol.gov/ilab www.dol.gov

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