Caribbean Basin Economic Recovery Act:

Fourteenth Report 1998
Investigation No. 332-227

Andean Trade Preference Act:

Sixth Report 1998
Investigation No. 332-352

Impact on the United States

USITC Publication 3234
September 1999

U.S. International Trade Commission

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Abstract

The submission of this study to the Congress and to the President continues a series of annual reports by the U.S. International Trade Commission (Commission) on the impact of the Caribbean Basin Economic Recovery Act (CBERA) and the Andean Trade Preference Act (ATPA) on U.S. industries and consumers. In the interest of economy and efficiency, the Commission has combined the two separate reports into a single document. Part I contains the CBERA report, representing the 14th in the series of CBERA reports. Part II contains the ATPA report, 6th in the Andean series.

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

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

The current study fulfills the Commission's reporting requirement under both statutes for calendar year 1998. The overall effect of CBERA- and ATPA-exclusive imports on the U.S. economy and consumers continued to be negligible in 1998. Based on the upper range estimates and industry analysis, the Commission did not identify any U.S. industries that would face potentially significant negative effects from CBERA-exclusive imports. U.S. imports of the 20 leading CBERA-exclusive items, except two sugar subheadings, produced net welfare gains for U.S. consumers in 1998. U.S. imports from ATPA beneficiaries were estimated to have potentially significant effects on domestic industries producing chrysanthemums, carnations, anthuriums, and orchids; asparagus; and fresh-cut roses. U.S. imports of nearly all of the 20 leading ATPA-exclusive items produced net welfare gains for U.S. consumers in 1998. The probable future effect of CBERA and ATPA on the United States, as estimated by an examination of export-oriented investment in the beneficiary countries, is also expected to be minimal in most sectors. In addition, country case studies were conducted to analyze the effectiveness of CBERA and ATPA in promoting export-led growth and export diversification in beneficiary countries. Whereas the case study on Costa Rica revealed that CBERA appears to have been important in stimulating economic growth through the diversification of exports, the case studies on Colombia and Ecuador suggest that ATPA has had a relatively small effect.

ATPA continued to have a slight but positive effect on drug-crop eradication and crop substitution in the Andean region in 1998. Eradication efforts contributed to a slight overall decline of 2 percent in

the volume of land under coca cultivation, despite a surge in Colombian production. Further, alternative development efforts to introduce new products and expand licit-crop production in the region are continuing to show promising results, especially in Bolivia and Peru.

The information provided in this report is for the purpose of this report only. Nothing in this report should be construed as indicating what the Commission's determination would be in an investigation involving the same or similar subject matter conducted under another statutory authority.

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Executive Summary

This report covers the impact on the United States of the Caribbean Basin Economic Recovery Act (CBERA) and the Andean Trade Preference Act (ATPA) during calendar year 1998. Given the similarity in the reporting requirements for each of these statutes and their identical statutory reporting date, the Commission has combined the reports into a single document. Section 215 of the CBERA statute requires the Commission to prepare an annual report assessing both the actual and the probable future effects of CBERA on the U.S. economy generally, on U.S. industries, and on U.S. consumers. Similarly, section 206 of the ATPA requires the Commission to report annually on the program and to estimate the effect of ATPA on drug-related crop eradication and crop substitution.

Partial-equilibrium analysis was used to estimate the impact of CBERA and ATPA on the United States. The probable future effect of CBERA and ATPA on the United States was estimated by an examination of export-oriented investment in the beneficiary countries. This year's report also provides an assessment of the effectiveness of CBERA and ATPA in promoting export-led growth and export diversification in the beneficiary countries. The assessment is based on case studies on Costa Rica, with respect to CBERA, and on Colombia and Ecuador, in the case of ATPA. Data sources included field interviews, direct observation, interviews with other government agencies, U.S. Department of Commerce data, and reports from U.S. embassies.

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

The Caribbean Basin Economic Recovery Act entered into effect on January 1, 1984. CBERA eliminates or, in some cases, reduces tariffs on eligible products of designated Caribbean, Central American, and South American countries and territories. The primary goal of CBERA is to promote export-oriented growth in the Caribbean Basin countries and to diversify their economies away from traditional agricultural products and raw materials. CBERA applies to the same tariff categories covered by the U.S. Generalized System of Preferences (GSP), but it is less restrictive than the GSP in that CBERA's benefits apply to additional products and the product-qualifying rules are more liberal.

Main Commission findings

- Of the $3.2 billion in U.S. imports that entered under CBERA in 1998, imports amounting to $1.6 billion could not have received tariff preferences under any other program. The five leading items benefiting exclusively from CBERA in 1998 were higher priced cigars, medical instruments, leather footwear uppers, raw cane sugar, and jewelry articles.
- The overall effect of CBERA-exclusive imports on the U.S. economy and on consumers continued to be negligible in 1998. In 1998, the value of duty-free U.S. imports under CBERA was around 0.04 percent of U.S. gross domestic product (GDP). The total value of U.S. imports from CBERA countries was 1.9 percent of total U.S. imports.
- Fuel-grade ethyl alcohol provided the largest gain in consumer surplus ($10.0 million to $14.4 million) resulting exclusively from CBERA tariff preferences in 1998. Frozen concentrated orange juice provided the second-largest gain in consumer surplus ($8.3 million to $11.1 million).

U.S. imports of the 20 leading CBERA-exclusive items, except for two sugar subheadings, produced net welfare gains for U.S. consumers in 1998. Frozen concentrated orange juice yielded the largest net gain, valued at $4.7 million to $5.2 million, followed by fuel-grade ethyl alcohol and methanol.

- No U.S. industries were identified as potentially experiencing displacement of more than 5 percent of the value of U.S. production, based on an upper range estimate.

- The probable future effect of CBERA on the United States is expected to be minimal in most economic sectors. However, the Commission identified recent investments in export-oriented production of CBERA-eligible products, including cigars, footwear, luggage, jewelry, leather goods, electronic components, medical devices, and fruits, including citrus and melons.

- The effectiveness of CBERA in promoting export-led growth and economic diversification in the beneficiary countries was analyzed by conducting a case study on Costa Rica. The study revealed that exports from Costa Rica, the second-largest CBERA beneficiary, grew and diversified significantly between 1980 and 1997. All public- and private-sector individuals interviewed during fieldwork in Costa Rica agreed that CBERA played a fundamental role in the economy's transformation by creating opportunities for exports of nontraditional products to new markets, for example, the United States. Local export incentive programs, such as free-trade zones, and a friendly investment climate also were critical. However, CBERA was the spark that "changed the attitude of the country."

Trade-related activities

- In 1998, U.S. imports under CBERA edged up from $3,208 million in 1997 to $3,225 million in 1998, even though imports actually declined from 10 of the top 15 CBERA beneficiaries. U.S. imports from CBERA countries were depressed by (1) lower commodity prices, (2) smaller allocations of sugar quotas, and (3) damage caused by hurricanes Georges and Mitch.

- U.S. imports under CBERA declined from 19.3 percent of total U.S. imports from CBERA countries in 1997 to 18.8 percent in 1998, marking the first year since the implementation of CBERA of a decline in share from the previous year.

- The product composition of U.S. imports under CBERA remained largely unchanged between 1997 and 1998, except for a continued surge in medical instruments and a decline in sugar products.

- In 1998, the Dominican Republic, Costa Rica, Guatemala, and Honduras continued to be the largest sources of U.S. imports from CBERA countries, both overall and under CBERA. They have consistently accounted for more than two-thirds of U.S. imports under CBERA; in 1998, they were responsible for nearly four-fifths of the total.

- CBERA countries continued to gain importance as a market for U.S. exports in 1998. U.S. exports to CBERA countries totaled $19.2 billion, 7.8 percent more than in 1997, and accounted for 3.0 percent of total U.S. exports in 1998, up from 2.8 percent in 1997.

- The Dominican Republic, Honduras, Costa Rica, and Guatemala continued to be the principal markets in the region, collectively responsible for 53.3 percent of all U.S. exports to CBERA countries in 1998. Panama, El Salvador, and Jamaica accounted for 22.9 percent of the total.

- Seven of the 20 leading U.S. export items to CBERA countries were textiles or apparel, mostly semifinished products that are re-imported as assembled garments. The other leading export items included cereals, petroleum products, motor vehicles, and data-processing machinery.

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

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

Main Commission findings

- Of the $1.6 billion in U.S. imports that entered under ATPA in 1998, imports valued at $0.9 billion could not have received tariff preferences under any other program. The five leading items benefiting exclusively from ATPA in 1998 were fresh-cut roses; copper cathodes from Peru (which exceeded its GSP competitive-need limit); chrysanthemums, carnations, anthuriums, and orchids from Colombia (which exceeded its GSP competitive-need limit); semimanufactured, nonmonetary gold; and tuna and skipjack.
- The overall effect of ATPA-exclusive imports on the U.S. economy and on consumers continued to be negligible in 1998. In 1998, the value of duty-free U.S. imports under ATPA was around 0.02 percent of U.S. GDP. The total value of U.S. imports from ATPA countries was 0.9 percent of total U.S. imports.
- Fresh-cut roses provided the largest gain in consumer surplus ($13.4 million to $13.6 million). Chrysanthemums, carnations, anthuriums, and orchids provided the second-largest gain in consumer surplus ($9.4 million to $9.5 million) resulting exclusively from ATPA tariff preferences in 1998. U.S. imports of nearly all of the 20 leading ATPA-exclusive items produced net welfare gains for U.S. consumers in 1998. Asparagus yielded the largest net gain, valued at $374,000 to $933,000, followed by fresh-cut roses and chrysanthemums, carnations, anthuriums, and orchids.
- The Commission's economic and industry analyses indicated that U.S. industries that may have experienced displacement of more than 5 percent of the value of U.S. production in 1998, based on upper range estimates, were those producing chrysanthemums, carnations, anthuriums, and orchids (1.2 percent to 7.6 percent displacement, valued at $0.5 million to $2.9 million); asparagus (2.1 percent to 7.6 percent displacement, valued at $2.6 million to $9.3 million); and fresh-cut roses (1.1 percent to 7.0 percent displacement, valued at $1.2 million to $7.2 million).
- The probable future effect of ATPA on the United States is expected to be minimal in most economic sectors. However, the Commission was able to identify recent investments in export-oriented production of ATPA-eligible products, including pigments, gold-related products, flowers, fruits, and vegetables.
- ATPA continued to have a slight but positive effect on drug-crop eradication and crop substitution in the Andean region during 1998. Important gains were made in drug eradication in the Andean region, as evidenced by the continuing downward trend in illicit coca production. In 1998, the total coca crop declined by 2 percent, to its lowest level in 10 years, despite a surge in Colombian production. This phenomenon has been substantially assisted by the governments of Bolivia, Colombia, and Peru, which are all actively promoting crop-control efforts through alternative development programs.
- The effectiveness of ATPA in promoting broad-based economic growth and the development of sustainable economic alternatives to drug-crop production in the Andean region was analyzed by conducting case studies on Colombia and Ecuador.

- The case study on Colombia, the largest ATPA beneficiary, revealed that Colombia's exports diversified only slightly between 1990 and 1997. However, APTA has encouraged exports to the United States of several nontraditional products, including cut flowers, pigments, articles of precious metal, and unhardened gelatin. Colombia's economic recession throughout 1998 limited progress.

- The case study on Ecuador revealed that Ecuador's exports diversified only marginally between 1990 and 1997. ATPA, however, has encouraged diversification into nontraditional agricultural products, particularly flowers, a development that has substantially boosted the standard of living in rural areas. Other factors, including economic and political instability and a general lack of knowledge about how to export and access foreign markets, have constrained progress.

Trade-related activities

- In 1998, U.S. imports under ATPA increased by 21.6 percent to $1.6 billion, accounting for 19.7 percent of total U.S. imports from ATPA countries. However, total U.S. imports from ATPA countries declined by 3.6 percent in 1998, principally because of lower prices on a broad range of leading imports that do not enter under ATPA, including petroleum products, coffee, shrimp, and bananas.

- During the ATPA years, the relative importance of U.S. imports of fresh-cut flowers has diminished as a share of U.S. imports under ATPA, falling from 43.3 percent of the total in 1994 to 32.9 percent in 1997 and 27.5 percent in 1998. U.S. imports of some other product categories—such as copper and gold articles, jewelry, and canned fish—have grown faster.

- The year 1998 was the first year since the implementation of ATPA that a cut-flower product was not the leading U.S. import item under ATPA, based on customs value. Instead, copper cathodes ranked first. During the year, U.S. imports of certain gold articles, zinc (not alloyed), and pigments surged under the program.

- Peru's participation in ATPA continued to grow faster in 1998 than the participation of other beneficiaries. Peru accounted for 15.7 percent of U.S. imports under the program in 1994, 34.1 percent in 1997, and 38.5 percent in 1998, and it provided 10 of the 20 leading items the United States imported under ATPA in 1998. Peru's share in imports under ATPA in 1998 was not far behind that of Colombia (43.2 percent), the largest ATPA beneficiary.

- U.S. exports to ATPA countries stagnated in 1998, because of falling exports to Colombia. U.S. exports totaled $8.7 billion, slightly less than in 1997, and accounted for less than 1 percent of U.S. exports to all countries. Colombia accounted for 53.7 percent of U.S. exports to ATPA countries in 1998, losing some of its dominant share to the other three ATPA countries. Cereals and aircraft were the only product categories with rising exports. Although falling prices depressed most export values, the value of cereal exports surged by 38 percent.

Introduction

The Caribbean Basin Economic Recovery Act (CBERA)[1] was implemented in 1984 to encourage economic growth and development in the Caribbean Basin countries by promoting increased production and exports of nontraditional products. The United States enacted the Andean Trade Preference Act (ATPA)[2] in 1991 to encourage the South American Andean countries of Bolivia, Colombia, Ecuador, and Peru to reduce drug-crop cultivation and production by fostering production and exports of nontraditional products. Both programs authorize the President to proclaim preferential rates of duty on many products entering the United States from those regions.

In two separate series, the Commission has been reporting on the impact of CBERA and ATPA preferences on the U.S. economy for 14 and 6 years, respectively. The reporting requirements for each of these programs are virtually identical (see the following excerpts), and the same methodology has been employed by the Commission in responding to each statutory mandate.

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

[1] CBERA was enacted August 5, 1983, as Public Law 98-67, title II; 97 Stat. 384, 19 U.S.C. 2701 et seq. and became effective January 1, 1984 (Presidential Proclamation 5133, 48 F.R. 54453). Minor amendments to CBERA were made by Public Laws 98-573, 99-514, 99-570, and 100-418. CBERA beneficiary countries are listed in table 1, below.

[2] ATPA was passed by the Congress on November 26, 1991, and signed into law on December 4, 1991. Public Law 102-182, title II; 105 Stat. 1236, 19 U.S.C. 3201 et seq. Minor amendments to ATPA were made by Public Law 102-583. ATPA became effective July 22, 1992, for Colombia and Bolivia (Presidential Proclamation 6455, 57 F.R. 30069, and Presidential Proclamation 6456, 57 F.R. 30087, respectively); April 30, 1993, for Ecuador (Presidential Proclamation 6544, 58 F.R. 19547); and August 31, 1993, for Peru (Presidential Proclamation 6585, 58 F.R. 43239).

The current publication, covering calendar year 1998, combines the two reports; CBERA's effects are assessed in part I and ATPA's effects, in part II. Table 1 compares the major provisions of CBERA and ATPA.

Table 1-1
Summary of CBERA/ATPA preferential provisions, year-end 1998

	CBERA	ATPA
Inception	Enacted 8/5/83 - CBERA Expanded 8/20/90 - CBEREA[1]	Enacted 12/4/91 - ATPA
Benefits	Duty-free entry and reduced duty entry granted on a non-reciprocal, non-MFN basis	Duty-free entry and reduced duty entry granted on a nonreciprocal, non-MFN basis.
Exclusions	Textiles, apparel, leather, canned tuna, petroleum and derivatives, certain footwear, certain watches/parts	Textiles, apparel, leather, canned tuna, petroleum and derivatives, certain footwear, certain watches/parts, plus certain sugar products, and rum
Duration	Originally: 10 years, until 9/30/95 CBEREA: indefinite	10 years, expires 12/2001
Beneficiaries	24 Central American & Caribbean countries: Antigua, Aruba, The Bahamas, Barbados, Belize, British Virgin Islands, Costa Rica, Dominica, Dominican Republic, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Montserrat, Netherlands Antilles, Nicaragua, Panama, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago	4 Andean countries: Bolivia, Colombia, Ecuador, and Peru
Coverage (eligible items)[2]	approx. 6,900	approx. 6,750
Value of imports under the program (*million dollars*)	$3,225	$1,645
Significance:		
Share of U.S. imports from the region as a share of total U.S. imports	1.9%	0.9%
Share of imports from beneficiaries that receive program preferences	18.8%	19.7%

[1] Caribbean Basin Economic Recovery Expansion Act of 1990.
[2] 8-digit HTS items.

Section 3003 of the Federal Reports Elimination and Sunset Act of 1995[3] provides that statutory requirements for certain "annual, semiannual, or other regular periodic" reports by federal agencies to the Congress "shall cease to be effective" as of December 21, 1999. The USITC's report on CBERA is one of the listed reports;[4] the USITC's report on ATPA is not on the list. Thus, this CBERA report may be the final USITC report on the program under section 215 of CBERA.

Analytical Approach

The core of the CBERA and ATPA programs (hereinafter, CBERA/ATPA) is the duty-free or reduced-duty treatment importers can claim when entering qualifying products of designated beneficiary countries (where goods are not specifically excluded from the programs).[5] In each case, the duty elimination for all eligible products occurred at once as countries were designated as beneficiaries—there was generally no phase-in of duty preferences—but the duty reductions for a few goods were phased in over 5 years.[6] Direct effects of such a one-time duty elimination can be expected to consist primarily of increased U.S. imports from beneficiary countries resulting from trade and resource diversion to take advantage of lower duties in the U.S. market, including: (1) a diversion of beneficiary-country production away from domestic sales and non-U.S. foreign markets; and (2) a diversion of variable resources (such as labor and materials) away from production for domestic and non-U.S. foreign markets. In general, these direct effects are likely to occur within a short time (probably a year or two) after the duty elimination. It is therefore likely that these effects have been fully realized in both programs, especially CBERA, which has been in effect since 1984. Over a longer period, the effects of CBERA/ATPA will flow mostly from investment in industries in beneficiary countries that benefit from the duty elimination or reduction. Both the short-term and long-term effects are limited by the small size of the CBERA/ATPA beneficiary-country economies, and the long-term effects are likely to be difficult to distinguish from other market forces in play since the programs were initiated. Investment, however, has been tracked in past CBERA/ATPA reports in order to examine the trends in, and composition of, investment in the two regions.

The effects of CBERA/ATPA on the U.S. economy, industries, and consumers were assessed through an analysis of (1) imports entered under each program and trends in U.S. consumption of those imports; (2) estimates of gains to U.S. consumers, losses to the U.S. Treasury resulting from reduced tariff revenues, and potential displacement in U.S. industries competing with the leading U.S. imports that benefited exclusively from the CBERA/ATPA programs in 1998;[7] and (3) an examination of trends in production and other economic factors in the industries identified as likely to be particularly affected by such imports. General economic and trade data came from official statistics of the U.S. Department of Commerce and from materials developed by country/regional and industry analysts of the Commission. The report also incorporates public comments received in response to the Commission's *Federal Register* notices regarding the investigations.[8]

As in previous reports in this series, the effects of CBERA/ATPA were analyzed by estimating the differences in benefits to U.S. consumers, U.S. tariff revenues, and U.S. industry production that would likely have occurred if the tariffs had been in place for beneficiary countries in 1998. Actual

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[3] Public Law 104-66, 109 Stat. 734.

[4] House Document No. 103-7, found at Internet address *http:clerkweb.house.gov*.

[5] See chs. 1 and 5 for a discussion of the countries that are designated beneficiaries and the products that are eligible for preferential treatment.

[6] A number of previously excluded products were added for reduced-duty treatment under the Caribbean Basin Economic Recovery Expansion Act of 1990.

[7] That is, those that are not excluded or do not receive unconditional column 1-general duty-free treatment or duty-free treatment under other preference programs such as GSP.

[8] Copies of the notices are contained in appendix A.

1998 market conditions were compared with a hypothetical case in which column 1-general duties, formerly known as most-favored-nation (MFN) duties, were imposed for the year. The effects of CBERA/ATPA duty reductions for 1998 were estimated by using a standard economic approach for measuring the impact of a change in the prices of one or more goods. Specifically, a partial-equilibrium model was used to estimate gains to consumers, losses in tariff revenues, and industry displacement.[9] Previous analyses in this series have shown that since CBERA/ATPA have been in effect, U.S. consumers have benefited from lower prices and higher consumption, competing U.S. producers have had lower sales, and tariff revenues to the U.S. Treasury have been lower.

Generally, the net welfare effect was measured by adding three components: (1) the change in consumer surplus, (2) the change in tariff revenues to the U.S. Treasury resulting from the CBERA/ATPA duty reduction, and (3) the change in producer surplus.[10] The model used in this analysis assumes that the supply of U.S. domestic production is perfectly elastic; that is, U.S. domestic prices do not fall in response to CBERA/ATPA duty reductions. Thus, decreases in U.S. producer surplus were not captured in this analysis. The effects of CBERA/ATPA duty reductions on most U.S. industries were expected to be small.

Ranges of potential net welfare and industry displacement estimates are reported, which reflect a range of assumed substitutabilities between CBERA/ATPA products and competing U.S. output. The upper range estimates reflect the assumption of high substitution elasticities.[11] The lower range estimates reflect the assumption of low substitution elasticities. Upper range estimates were used to identify items that could be most affected by CBERA/ATPA.

The analysis was conducted on the 20 leading items that benefited exclusively from CBERA and ATPA tariff preferences (tables 3-2 and 7-2, respectively).[12] Estimates of welfare and potential U.S. industry displacement were made, and industries for which estimated upper range potential displacement was over 5 percent of the value of U.S. production were selected for further analysis.

Probable future effects of CBERA/ATPA are discussed on the basis of a qualitative analysis of economic trends and investment patterns in beneficiary countries and in competing U.S. industries. Information on investment in CBERA/ATPA-related production facilities was obtained from U.S. embassies in the regions and from interviews and other fieldwork.

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[9] A more detailed explanation of the approach can be found in appendix C.

[10] Consumer surplus is a dollar measure of the total net gain to U.S. consumers from lower prices. It is defined as the difference between the total value consumers receive from the consumption of a particular good and the total amount they pay for the good.

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

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

[11] Commission industry analysts provided evaluations of the substitutability of CBERA/ATPA products and competing U.S. products, which were translated into a range of substitution elasticities--3 to 5 for high substitutability, 2 to 4 for medium, and 1 to 3 for low. Although there is no theoretical upper limit to elasticities of substitution, a substitution elasticity of 5 is consistent with the upper range of estimates in the economics literature. Estimates in the literature tend to be predominantly lower. See, for example, Clinton R. Shiells, Robert M. Stern, and Alan V. Deardorff, "Estimates of the Elasticities of Substitution Between Imports and Home Goods for the United States," *Weltwirtschaftliches Archiv*, 122 (1986), pp. 497-519.

[12] Commission industry analysts provided estimates of U.S. production and exports for the 20 leading items that benefited exclusively from CBERA and ATPA, as well as evaluations of the substitutability of CBERA/ATPA-exclusive imports and competing U.S. products.

To assess the impact of ATPA on drug-crop eradication and crop substitution, Commission investigators evaluated the extent of drug-crop production in the Andean region country by country. The primary sources for this information were interviews with public- and private-sector officials during field trips to Colombia and Ecuador and information from other U.S. Government agencies, such as the Department of State.

In addition to the statutory requirements, this year's report also includes (1) an assessment of the effectiveness of CBERA/ATPA in promoting export-oriented growth and nontraditional exports in the beneficiary countries and (2) an identification of corresponding benefits to the United States—for example, increased U.S. exports to the beneficiaries. Commission investigators analyzed the effectiveness of CBERA/ATPA on beneficiary countries by conducting case studies on three countries. For CBERA, Costa Rica was selected because it has consistently been the second-largest CBERA beneficiary. For ATPA, case studies on Colombia, the largest ATPA beneficiary, and Ecuador were prepared. The investigators examined trends in total trade and the composition of trade over the life of CBERA/ATPA. Their analysis also incorporated information obtained in field visits to those countries as well as information from other U.S. Government agencies on macroeconomic developments, the investment climate, export and investment promotion programs, and investment activity. Corresponding U.S. benefits of CBERA/ATPA were identified by trend analysis of U.S. exports to beneficiary countries.

Organization

The current study is divided into two parts, each containing a full statutory report. Part I, on CBERA, has four chapters; because of an additional reporting requirement for the ATPA program, part II has five chapters. The first four chapters of each part correspond, and the methodology used to estimate the impact of CBERA and ATPA is the same.

Chapters 1 and 5 summarize the CBERA and ATPA programs, respectively. Chapters 2 and 6 analyze U.S. trade with CBERA/ATPA beneficiaries during 1998. Chapters 3 and 7 address the estimated effects of CBERA/ATPA in 1998 on the U.S. economy generally, as well as on U.S. industries and consumers. Those chapters also examine the probable future effects of CBERA/ATPA. Chapters 4 and 8 contain country case studies that describe economic and trade developments in the selected CBERA/ATPA beneficiaries since the implementation of each program and how they may relate to CBERA/ATPA. Chapter 9 considers the impact of ATPA on drug-crop eradication and crop substitution in the beneficiary countries.

Appendix A reproduces the *Federal Register* notices by which the Commission solicited public comment on the programs; appendix B contains a summary of those submissions received in response to the *Federal Register* notices. Appendix C explains the economic model used to derive the findings presented in chapters 3 and 7. Appendix D includes tables underlying some of the analysis of trade trends in chapters 2 and 6. Finally, appendix E contains a list of frequently used abbreviations.

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

CHAPTER 1
Summary of the CBERA Program

CBERA authorizes the President to grant unilateral preferential trade benefits to Caribbean Basin countries and territories. The program permits shippers from designated beneficiaries to claim duty-free or reduced-duty treatment for eligible products imported into the customs territory of the United States; if importers do not claim this status, the goods are dutiable under the general rates of duty column (according to countries having normal trade relations and formerly known as most-favored-nation (MFN) rates). CBERA was initially given statutory effect through September 30, 1995; the Caribbean Basin Economic Recovery Expansion Act (CBEREA) of 1990[1] repealed that termination date, made the program permanent, and expanded CBERA benefits in several respects.[2] In September 1995, the United States requested that the World Trade Organization (WTO) renew a prior waiver of U.S. obligations under article I of the General Agreement on Tariffs and Trade (GATT) (nondiscriminatory treatment) to allow the continuation of CBERA tariff preferences; that request was granted on November 15, 1995.[3] A WTO waiver was sought because CBERA tariff preferences were extended on a nonreciprocal basis to a limited number of countries, rather than to all WTO members. The following sections summarize CBERA provisions concerning beneficiaries, trade benefits, and qualifying rules and the relationship between CBERA and the U.S. Generalized System of Preferences (GSP) program.

Beneficiaries

Eligible imports from 24 countries received CBERA tariff preferences during 1998.[4] Four other countries—Anguilla, Cayman Islands, Suriname, and Turks and Caicos Islands—are potentially eligible for CBERA benefits but have not requested that status.[5] The President can terminate beneficiary status or suspend or limit a country's CBERA benefits at any time.[6]

To qualify for the program, each country must meet several criteria. CBERA beneficiaries are required to afford internationally recognized worker rights under the definition used in the GSP program[7] and to provide effective protection of intellectual property rights (IPR), including copyrights for film and television material. The President may waive either condition if he determines, and so reports to Congress, that the designation of a particular country would be in the economic or security interest of the United States.[8] To date, CBERA benefits have been

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

[2] Among other things, the 1990 act provided duty reductions for certain products previously excluded from such treatment. For a comprehensive description of the 1990 act, see U. S. International Trade Commission (USITC), *Report on the Impact of the Caribbean Basin Economic Recovery Act, Sixth Report 1990*, USITC publication 2432, Sept. 1991, pp. 1-1 to 1-5.

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

[4] Those countries were Antigua, Aruba, The Bahamas, Barbados, Belize, British Virgin Islands, Costa Rica, Dominica, Dominican Republic, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Montserrat, Netherlands Antilles, Nicaragua, Panama, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago.

[5] The Caribbean, Central American, and South American countries and territories potentially eligible for CBERA benefits are listed in 19 U.S.C. 2702(b). During 1999, both Anguilla and Suriname expressed interest in beneficiary status under the CBERA program. USITC staff interview with U.S. Department of State staff, July 19, 1999.

[6] 19 U.S.C. 2702(e).

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

[8] 19 U.S.C. 2702(b).

withdrawn from only one country on the basis of worker rights or U.S. IPR violations.[9]

In 1997, two CBERA beneficiaries—Honduras and Panama—underwent active reviews by the United States; the Office of the United States Trade Representative (USTR) had received petitions requesting removal of their GSP benefits because of alleged worker rights or IPR inadequacies.[10] The GSP reviews of Honduras and Panama were terminated in 1998, although GSP and CBERA duty-free treatment of certain goods from Honduras were removed for about 2 months in 1998 for failure to protect IPR. On March 30, 1998, USTR Barshefsky announced a partial suspension of both CBERA and GSP benefits to Honduras as a result of "Honduras' continued failure to provide adequate and effective protection of intellectual property rights." The suspensions—product specific on some $5 million in potential U.S. imports under the CBERA and GSP programs—went into effect April 20, 1998. On June 30, the USTR terminated the suspension in view of measures the Government of Honduras had taken to fight piracy and to protect IPR. In October 1998, the Trade Policy Staff Committee (TPSC), during its annual GSP review process, terminated a review of Panama's protection of IPR in light of Panama's improved enforcement efforts.[11]

In addition, in April 1998, the USTR conducted a review of country practices pertaining to IPR protection under the so-called Special 301 provisions of the Trade Act of 1974, as amended, and placed 32 countries, including Costa Rica, Guatemala, Honduras, and Jamaica, on the watch list of countries to be monitored for progress in implementing commitments regarding IPR protection and in providing comparable market access for U.S. intellectual property products. The Dominican Republic was among 15 countries placed on the Special 301 Priority Watch List at the same time.[12] In April 1999, the USTR placed 37 countries on the watch list, including Costa Rica and Jamaica, and placed 16 trading partners on the Special 301 Priority Watch List. Of the CBERA beneficiaries, Guatemala and the Dominican Republic were the only ones placed on the priority watch list.[13]

Trade Benefits Under CBERA

Under CBERA, preferential rates of duty below the column 1-general rates[14] can be accorded to most products of Caribbean Basin countries; the general tariff rate is reduced either to free or, for a small group of products, to a rate equal to 80 percent of the column 1-general rate except that the reduction may not exceed 2.5 percent ad valorem.[15] In addition to basic preference-eligibility rules, certain conditions apply to CBERA duty-free entries of sugar, beef,[16] and ethyl alcohol.[17] Imports of sugar and beef, like those of some other agricultural products, remain subject to any applicable and generally imposed U.S. quotas and food-safety requirements.[18]

[9] See USTR, "USTR Barshefsky Announces Action to Address Honduran Failure to Protect Intellectual Property Rights," press release 97-94, Nov. 4, 1997; USTR, "Trade Preferences for Honduras Suspended," press release 98-36, March 30, 1998; and USTR, "Trade Preferences for Honduras Restored," press release 98-65, July 1, 1998.

[10] 62 F.R. 43408ff

[11] In late June 1999, two petitions were received on the Dominican Republic, one regarding IPR and the other regarding expropriation. USTR, telephone conversation with USITC staff, July 14, 1999.

[12] USTR, "USTR Announces Results of Special 301 Annual Review," press release 98-44, May 1, 1998.

[13] USTR, "USTR Announces Results of Special 301 Annual Review," press release 99-41, Apr. 30, 1999.

[14] For some products, the general or normal trade relations rate is free.

[15] General note 3 (c) to the Harmonized Tariff Schedule (HTS) lists the special tariff treatment programs for eligible products of designated countries under various U.S. laws, including CBERA. General note 7 covers CBERA in detail.

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

[17] Ethyl alcohol produced from agricultural feedstock grown in a CBERA country is admitted free of duty; however, preferential treatment for alcohol produced from non-CBERA agricultural feedstock is restricted to 60 million gallons (227.1 million liters) or 7 percent of the U.S. domestic ethanol market, whichever is greater. 19 U.S.C. 2703(a)(1). See also section 423 of the Tax Reform Act of 1986, as amended by section 7 of the Steel Trade Liberalization Program Implementation Act of 1989 (19 U.S.C. 203 nt; Public Law 99-514 as amended by Public Law 101-221).

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

Although not eligible for duty-free entry, certain leather handbags, luggage, flat goods (such as wallets and portfolios), work gloves, and leather wearing apparel from CBERA countries are eligible to enter at reduced rates of duty, as noted above.[19] Excluded from all CBERA preferential duty treatment by law are most textiles and apparel, certain footwear, canned tuna, petroleum and petroleum derivatives, and certain watches and watch parts.[20] As an exception to the textiles exclusion, eligible CBERA countries shipping apparel assembled therein entirely from fabric formed and cut in the United States may qualify for liberal import quotas.[21]

Qualifying Rules

CBERA generally provides that eligible products must either be wholly grown, produced, or manufactured in a designated CBERA country or be "new or different" articles made from substantially transformed non-CBERA inputs in order to receive duty-free entry into the United States.[22] The cost or value of the local (CBERA region) materials and the direct cost of processing in one or more CBERA countries must total at least 35 percent of the appraised customs value of the product at the time of entry. These rules of preference allow CBERA countries to pool their resources to meet the local-value-content requirement on an aggregated basis; also, inputs from Puerto Rico and the U.S. Virgin Islands may count in full toward the value threshold. As an advantage over the GSP program, the CBERA local-value-content requirement can also be met when the CBERA content is 20 percent of the customs value and the remaining 15 percent is attributable to U.S.-made (excluding Puerto Rican) materials or components.[23] To encourage production sharing between Puerto Rico and CBERA countries, CBERA allows duty-free entry for articles produced in Puerto Rico that are "by any means advanced in value or improved in condition" in a CBERA country.[24]

CBERA and GSP

The CBERA beneficiaries (except Aruba, The Bahamas, Netherlands Antilles, and Nicaragua)[25] are also GSP beneficiaries.[26] CBERA and GSP are similar in many ways, and many products may enter the United States free of duty under either program. Both programs offer increased access to the U.S. market. Like CBERA, GSP requires that eligible imports (1) be imported directly from beneficiaries into the customs territory of the United States, (2) meet the substantial transformation (ST) requirement for any foreign inputs (in the GSP program, a "double ST" test is used),[27] and (3) contain a minimum of 35

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

[20] 19 U.S.C. 2703(b). For discussions of products originally excluded from CBERA and subsequent modifications to the list of excluded products, see USITC, *Impact of the Caribbean Basin Economic Recovery Act on U.S. Industries and Consumers: The First Ten Years of CBERA, Ninth Report 1993,* USITC publication 2813, Sept. 1994, pp. 2-9, and *Caribbean Basin Economic Recovery Act: Impact on U.S. Industries and Consumers, Tenth Report 1994,* USITC publication 2927, Sept. 1995, pp. 3-4.

[21] These apparel quotas are discussed in ch. 2.

[22] Products undergoing the following operations do not qualify: simple combining or packaging operations, dilution with water, or dilution with another substance that does not materially alter the characteristics of the article. 19 U.S.C. 2703(a)(2). Articles, other than textiles and apparel or petroleum and petroleum products, that are assembled or processed in CBERA countries wholly from U.S. components or materials also are eligible for duty-free entry pursuant to note 2 to subchapter II, chapter 98, of the HTS. Articles produced through operations such as enameling, simple assembly or finishing, and certain repairs or alterations may qualify for CBERA duty-free entry pursuant to changes made in 1990. For a more detailed discussion, see USITC, *Report on the Impact of the Caribbean Basin Economic Recovery Act, Seventh Report 1991,* USITC publication 2553, Sept. 1992, p. 1-4.

[23] 19 U.S.C. 2703(a)(1).

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

[25] On January 1, 1998, two CBERA countries–Aruba and the Netherlands Antilles—became ineligible for preferential treatment because of a Presidential determination in 1996 that these beneficiary developing countries had become "high income" countries, as defined by the official statistics of the International Bank for Reconstruction and Development (World Bank). The Cayman Islands, Cyprus, Greenland, and Macau also became ineligible. 61 F.R. 54719.

[26] The U.S. GSP program was originally enacted pursuant to title V of the Trade Act of 1974 (Public Law 93-618, 88 Stat. 2066 and following) and was renewed for an additional 10 years pursuant to title V of the Trade and Tariff Act of 1984 (Public Law 98-573, 98 Stat. 3018 and following), as amended (19 U.S.C. 2461 and following). Since that time, the GSP program has expired and been renewed several times. GSP expiration and renewal issues are discussed later in this section.

[27] "Double substantial transformation" involves transforming foreign material into a new or different product that, in turn, becomes the constituent material used to produce a second new or different article in the beneficiary country.

percent local-value content. The documentary requirements necessary to claim either CBERA or GSP duty-free entry are identical—a Certificate of Origin Form A is to be presented at the time the qualifying products enter the United States, though slightly varying value-related information may be required under the two programs.

However, the programs differ in several ways that tend to make Caribbean Basin producers prefer the more liberal CBERA. First, CBERA covers more tariff categories than GSP does: Unless specifically excluded, all products eligible to enter the United States under CBERA can receive a tariff preference, including some textile and apparel goods ineligible for GSP treatment, if the importer claims it. Second, U.S. imports under CBERA are not subject to GSP competitive-need and country-income restrictions. Under GSP, products that achieve a specified market penetration in the United States (the competitive-need limit) may be excluded from GSP eligibility; products so restricted may continue to enter free of duty under CBERA. Moreover, countries may lose all GSP privileges once their per capita income grows to exceed a specified amount,[28] but they retain their CBERA eligibility. Third, CBERA qualifying rules for individual products are more liberal than those of GSP. GSP requires that 35 percent of the value of the product be added in a single beneficiary or in a specified association of eligible GSP countries,[29] whereas CBERA allows regional aggregation within CBERA plus U.S. content.

[28] 19 U.S.C. 2464(c)-(f).
[29] 19 U.S.C. 2463(b)(1)(B).

The U.S. GSP program has not been in continuous effect in recent years. It expired at midnight on July 31, 1995; the provisions of the program were renewed October 1, 1996, retroactive to August 1, 1995 through May 31, 1997.[30] The U.S. GSP program expired again on May 31, 1997, but was renewed August 5, 1997, retroactive to June 1, 1997 through June 30, 1998.[31] On June 30, 1998, the program expired again but was renewed October 21, 1998, retroactive to July 1, 1998 through June 30, 1999.[32] All imports claiming the GSP tariff preference that entered during periods when GSP was not in effect were subject to ordinary column 1-general duties at the time of entry unless other preferential treatment—such as CBERA—was claimed. Duties paid on such articles were eligible for refund after the GSP became operative again. Because the lapse in GSP was particularly long in 1995 and 1996, suppliers in the Caribbean Basin could be sure only that the preferential tariff provisions of the CBERA were in force. As a result, there was a marked shift away from using GSP to CBERA in 1995 and 1996, although the trend was already apparent. Many Caribbean Basin suppliers continued to enter goods under CBERA even after GSP was reauthorized.

[30] On August 20, 1996, the President signed the Small Business Job Protection Act of 1996 (Public Law 104-188, 110 Stat. 1755), Subtitle J, Title I, of that law contains provisions entitled the GSP Renewal Act of 1996 (110 Stat. 1917). Also, U.S. Department of State telegram, "GSP Reauthorized Through May 31, 1997," message reference No. 166692, Washington, DC, Aug. 12, 1996; and 61 F.R. 52078.
[31] 62 F.R. 46549-46550.
[32] 63 F.R. 67169-67170.

CHAPTER 2
U.S. Trade With the Caribbean Basin

Introduction

This chapter covers trade with the 24 countries that are currently designated as CBERA beneficiaries (hereinafter CBERA countries).[1] Imports that entered under CBERA preferential tariff provisions during 1998 are examined. However, because U.S. imports under CBERA constitute a comparatively small portion of U.S. imports from the region,[2] and because they are greatly affected by other factors and programs, such as production sharing and GSP, imports under CBERA are analyzed in the context of overall bilateral trade between the United States and CBERA countries.

In this chapter trade is discussed principally on a 2-digit Harmonized Tariff Schedule (HTS) chapter and an 8-digit HTS subheading basis in terms of (a) two-way trade, (b) overall U.S. imports from the beneficiaries, (c) the portion of U.S. imports that enter under CBERA preferences, and (d) U.S. exports to those countries. Although a comprehensive discussion of the 24 beneficiaries was not feasible, the roles of individual beneficiary countries as sources of and destinations for this trade are also covered. When so indicated, developments during 1998 are discussed in the context of longer term trends. For an in-depth analysis of trade trends over the life of CBERA, see last year's report.[3]

The year 1998 was atypical for CBERA countries, because of three factors that adversely affected their economies: (1) a decline in the prices of their export commodities, including those of petroleum products, coffee, pineapples, and methanol; (2) a major reduction of U.S. sugar quotas allocated to CBERA beneficiaries; and (3) natural disasters.[4] The intermittent eruptions of the volcano Soufriere in Montserrat through mid-1998 severely depopulated that island and devastated its economy.[5] Hurricane Georges, striking late in September, caused hundreds of deaths in the Dominican Republic and considerable economic damage in both the Dominican Republic and Haiti. The even more devastating Hurricane Mitch that struck Central America in late October and early November, and concomitant flood and wind damage killed some 11,000 people, inflicted widespread homelessness, and caused other massive property damage. Honduras and Nicaragua were the most severely affected; El Salvador, Guatemala, and Belize emerged with measurable but less catastrophic consequences.

Much of the damage—long-term soil erosion, weakened infrastructure, and loss of production facilities and jobs—will be felt in years to come. Because both hurricanes occurred relatively late in 1998 and may have affected trade mostly in the 4th quarter, overall U.S. imports for the year continued to increase even from most of the affected countries. U.S. imports under CBERA provisions edged up from $3,208 million in 1997 to $3,225 million in 1998. Notably, however, 1998 was the first year since the program's implementation that imports under CBERA preferences did not account for an increasing portion of total imports from CBERA countries: They constituted 19.3 percent of the total in 1997 and 18.8 percent in 1998.[6] Smaller sugar shipments, declines in the prices of some leading items, and hurricane damage affecting some products were the most likely causes.

Two-Way Trade

During the period 1980-86, the United States had a collective trade deficit with the countries receiving

[1] For a list of these countries, see ch. 1.

[2] In 1998, imports under CBERA accounted for 18.8 percent of overall U.S. imports from CBERA countries.

[3] USITC, *Caribbean Basin Economic Recovery Act: Impact on U.S. Industries and Consumers, Thirteenth Report, 1997*, USITC publication 3132, Sept. 1998.

[4] Because of the decline of several relevant commodity prices, and the effect of natural disasters occurring during the year, this chapter frequently cites year-to-year changes in terms of volume as well as value.

[5] From July 1995 through mid-1998, repeated eruptions of the volcano Soufriere devastated the economy of Montserrat. The southern two-thirds of the island was evacuated, including the capital city, Plymouth. Population fell from 10,400 in 1995 to around 4,000 by October 1998, with some still living in emergency shelters in the safe northern part of the island. The volcano is presently inactive, and some economic revival is expected.

[6] Percentages include a small amount of reduced-duty items under CBERA and erroneous entries under CBERA that should have been free of duty under column 1-general duty rates.

CBERA preferences. In 1987, however, the decline of petroleum-related U.S. imports from CBERA countries shifted the balance in favor of the United States, which has maintained a trade surplus with the region since then. In 1998, the U.S. surplus with CBERA countries was $2.1 billion, up from $1.2 billion in 1997 (table 2-1 and figure 2-1).

U.S. exports to CBERA countries grew faster in 1998 than U.S. exports to the world; the share of the CBERA-country market in total U.S. exports rose from 2.8 percent in 1997 to a record 3.0 percent in 1998. Meanwhile, the 1.9 percent collective share of CBERA countries in 1997 U.S. imports from the world remained the same in 1998.

Production-sharing operations, a program intended to raise U.S. competitiveness in response to intensified global competition, play a major role in boosting U.S. trade with Caribbean countries in both directions. In 1998, imports under production-sharing provisions (PSP)[7] of the HTS accounted for 45.1 percent of total U.S. imports from CBERA countries, and U.S. content in shared production returned accounted for 28.8 percent.[8] The Dominican Republic and Honduras are the leading CBERA sources of imports under PSP. Apparel is the principal sector in which production sharing takes place, followed by medical instruments.

[7] Production sharing "...allows rationalization of production by performing a production process or series of processes at different global locations based on inherent efficiencies or reduced costs of the various production inputs" (Source: U.S. International Trade Commission, *Production Sharing: Use of U.S. Components and Materials in Foreign Assembly Operations, 1994-97,* USITC publication 3146, Dec. 1998, p. 1-1. See pp. 1-1 and 1-2 for a description of these provisions).

[8] See also U.S. International Trade Commission, *Production Sharing: Use of U.S. Components and Materials in Foreign Assembly Operations, 1994-97,* USITC publication 3146, Dec. 1998, p. 1-15 and p. 1-17. The next report in this series, which includes 1998 data, is expected to be published by the end of 1999.

Table 2-1
U.S. trade with CBERA countries, 1980-98

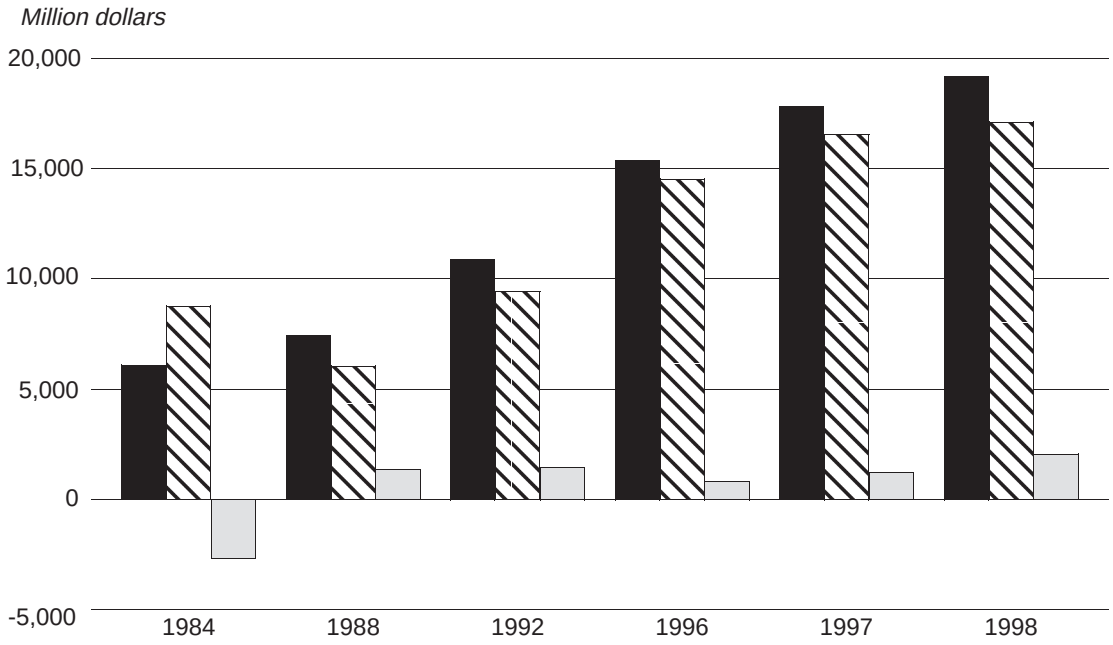
Year	U.S. exports[1]	Share of U.S. exports to the world	U.S. imports[2]	Share of U.S. imports from the world	U.S. trade balance
	Million dollars	*Percent*	*Million dollars*	*Percent*	*Million dollars*
1980	5,930.2	2.7	10,193.9	4.2	-4,263.8
1981	6,293.3	2.7	9,711.5	3.7	-3,418.1
1982	6,131.9	2.9	7,029.0	3.3	-897.1
1983	5,666.7	2.8	8,930.2	3.5	-3,263.6
1984	6,111.3	2.8	8,781.7	2.7	-2,670.4
1985	5,827.7	2.7	6,774.2	2.0	-946.6
1986	6,114.3	2.8	6,128.7	1.7	-14.5
1987	6,731.2	2.8	6,099.1	1.5	632.1
1988	7,427.8	2.4	6,062.2	1.4	1,365.7
1989	8,786.6	2.5	6,895.8	1.5	1,890.8
1990	9,307.1	2.5	7,525.2	1.5	1,781.9
1991	9,885.5	2.5	8,229.4	1.7	1,656.2
1992	10,901.7	2.6	9,425.6	1.8	1,476.1
1993	11,941.9	2.7	10,094.0	1.8	1,847.9
1994	12,822.0	2.7	11,200.3	1.7	1,621.7
1995	14,870.3	2.7	12,550.1	1.7	2,320.2
1996	15,374.7	2.6	14,544.8	1.8	829.9
1997	17,807.9	2.8	16,572.4	1.9	1,235.4
1998	19,200.1	3.0	17,124.3	1.9	2,075.8

[1] Domestic exports, f.a.s. basis.

[2] Imports for consumption, customs value.

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

Figure 2-1
U.S. trade with CBERA countries, 1984, 1988, 1992, 1996, 1997, and 1998



Items	1984	1988	1992	1996	1997	1998
U.S. exports	6,111.3	7,427.8	10,901.7	15,374.7	17,807.9	19,200.1
U.S. imports	8,781.7	6,062.2	9,425.6	14,544.8	16,572.4	17,124.3
U.S. trade balance	-2,670.4	1,365.7	1,476.1	829.9	1,235.4	2,075.8

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

Total Imports

Total U.S. imports from CBERA countries (including both the portion affected and unaffected by CBERA preferences) amounted to $17.1 billion in 1998, 3.3 percent more than in 1997. CBERA countries combined constituted the 13th-largest U.S. supplier during the year—ahead of Thailand but behind Singapore.

Product Composition and Leading Items

Table 2-2 and figure 2-2 show the changes in major product categories of total U.S. imports from CBERA countries during 1984-98, especially the replacement of mineral fuel by apparel as the dominant category. Table 2-3 shows the 20 leading items in this trade during 1997 and 1998 on an 8-digit HTS subheading basis, ranked by their 1998 import value. Distillate and residual fuel oils and the numerous apparel items on the list of leading items are dutiable under column 1-general duty rates, formerly known as MFN duties. Some other items, although dutiable under general duties, are eligible for CBERA tariff preferences, including medical, surgical, or dental instruments and appliances (medical instruments); and cigars, cheroots, and cigarillos, each valued at 23¢ or more (higher priced

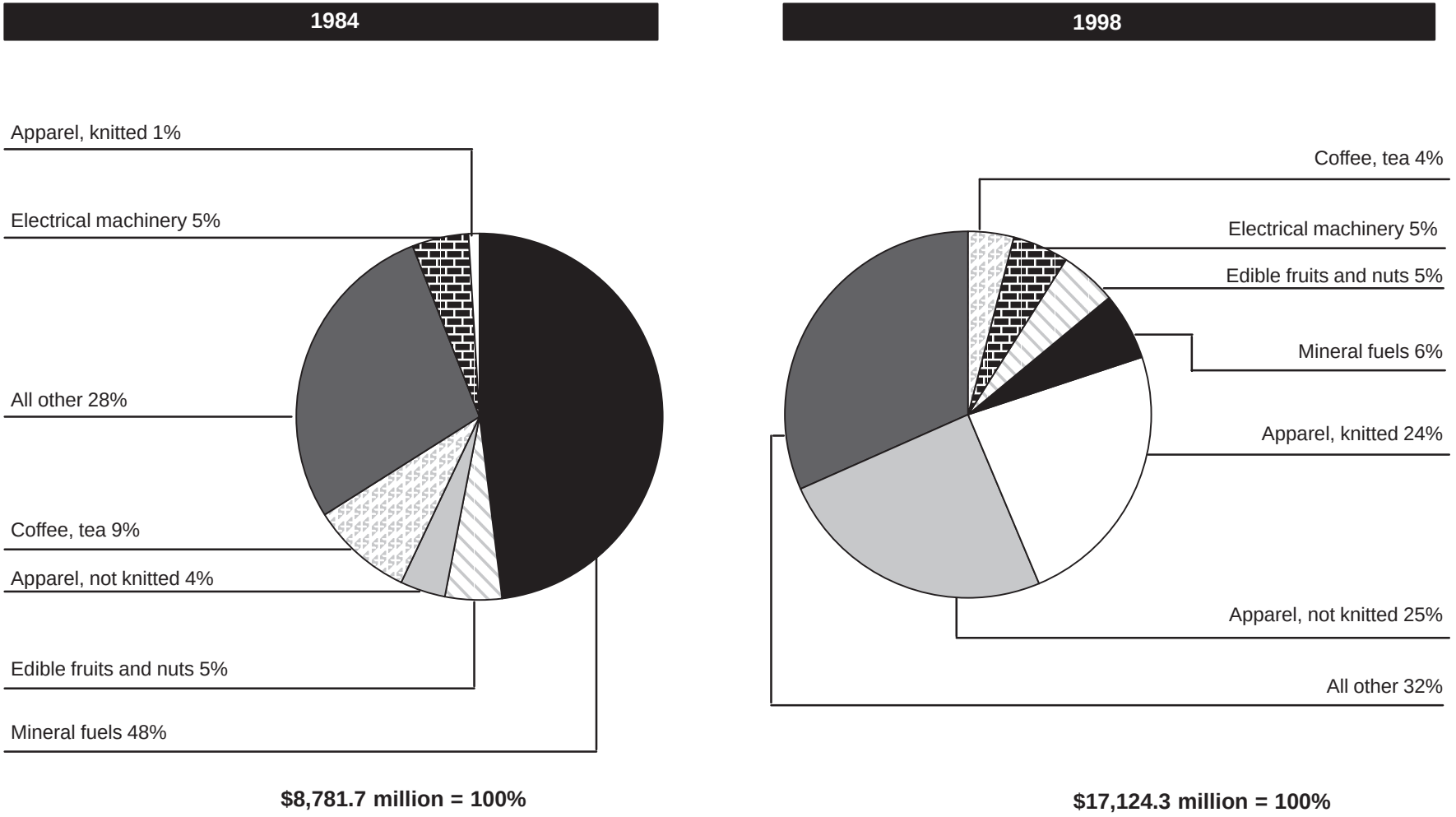
Table 2-2
Leading U.S. imports for consumption from CBERA countries, by major product categories, 1984, 1988, 1992, 1994, 1997, and 1998

HTS Chapter	Description	1984	1988	1992	1994	1997	1998
		Value (1,000 dollars)					
62	Articles of apparel and clothing accessories, not knitted or crocheted	365,798	1,020,191	2,105,963	2,892,429	4,057,189	4,188,142
61	Articles of apparel and clothing accessories, knitted or crocheted	99,213	388,642	1,090,669	1,559,858	3,534,664	4,087,322
27	Mineral fuels, mineral oils and products of their distillations; bituminous substances; mineral waxes	4,242,235	1,075,310	1,474,451	1,241,830	1,358,066	988,446
08	Edible fruit and nuts; peel of citrus fruit or melons	423,869	544,052	654,267	698,613	887,130	837,643
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television recorders and reproducers, parts and accessories	462,050	244,647	312,774	406,238	711,715	771,378
09	Coffee, tea, mate and spices	600,635	390,412	384,725	429,243	794,130	759,141
03	Fish and crustaceans, molluscs and other aquatic invertebrates	235,131	279,182	319,978	422,515	565,105	563,572
90	Optical, photographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof	11,288	47,869	142,271	215,118	377,864	411,152
24	Tobacco and manufactured tobacco	112,301	62,762	87,118	90,146	439,075	408,816
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	20,319	16,202	19,606	25,897	18,288	371,470
	Total of above	6,572,839	4,069,269	6,591,821	7,981,887	12,743,225	13,387,082
	All other	2,208,877	1,992,906	2,833,796	3,218,393	3,829,178	3,737,199
	Total all commodities	8,781,716	6,062,175	9,425,616	11,200,280	16,572,402	17,124,281
		Percent of total					
62	Articles of apparel and clothing accessories, not knitted or crocheted	4.17	16.83	22.34	25.82	24.48	24.46
61	Articles of apparel and clothing accessories, knitted or crocheted	1.13	6.41	11.57	13.93	21.33	23.87
27	Mineral fuels, mineral oils and products of their distillations; bituminous substances; mineral waxes	48.31	17.74	15.64	11.09	8.19	5.77
08	Edible fruit and nuts; peel of citrus fruit or melons	4.83	8.97	6.94	6.24	5.35	4.89
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television recorders and reproducers, parts and accessories	5.26	4.04	3.32	3.63	4.29	4.50
09	Coffee, tea, mate and spices	6.84	6.44	4.08	3.83	4.79	4.43
03	Fish and crustaceans, molluscs and other aquatic invertebrates	2.68	4.61	3.39	3.77	3.41	3.29
90	Optical, photographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof	.13	.79	1.51	1.92	2.28	2.40
24	Tobacco and manufactured tobacco	1.28	1.04	.92	.80	2.65	2.39
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	.23	.27	.21	.23	.11	2.17
	Total of above	74.85	67.13	69.94	73.42	76.89	78.18
	All other	25.15	32.87	30.06	26.58	23.11	21.82
	Total all commodities	100.00	100.00	100.00	100.00	100.00	100.00

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

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

Figure 2-2
Composition of U.S. imports for consumption from CBERA countries, by major product categories, 1984 and 1998



Note.—Percentages may not add to 100 because of rounding.

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

Table 2-3
Leading U.S. imports for consumption from CBERA countries, 1997-98

HTS Number	Description	1997	1998	Change
		Value (1,000 dollars)		*Percent*
6109.10.00	T-shirts, singlets, tank tops and similar garments, knitted or crocheted, of cotton	840,116	1,101,146	31.1
6203.42.40	Men's or boys' trousers, breeches and shorts, not knitted of cotton	985,581	991,589	0.6
0901.11.00	Coffee, not roasted, not decaffeinated	760,172	717,453	-5.6
0803.00.20	Bananas, fresh or dried	641,139	599,821	-6.4
6204.62.40	Women's or girls' trousers, breeches and shorts, not knitted or crocheted, of cotton, nesoi	434,150	536,714	23.6
6110.20.20	Sweaters, pullovers and similar articles, knitted or crocheted, of cotton, nesoi	456,889	514,424	12.6
2710.00.05	Distillate and residual fuel oils (including blends) derived from bituminous minerals, testing under 25 degrees A.P.I.	524,906	442,166	-15.8
6205.20.20	Men's or boys' shirts, not knitted or crocheted, of cotton, nesoi	405,162	435,714	7.5
9801.00.10	U.S. goods returned without having been advanced in value or improved in condition while abroad	367,456	434,192	18.2
6105.10.00	Men's or boys' shirts, knitted or crocheted, of cotton	313,488	384,719	22.7
9018.90.80	Medical, surgical, or dental instruments and appliances	343,111	374,180	9.1
6212.10.90	Brassieres, not of lace, or silk	338,975	354,909	4.7
8473.30.10	Printed circuit assemblies for machines of heading 8471	723	347,291	47,956.6
2402.10.80	Cigars, cheroots and cigarillos containing tobacco, each valued 23 cents or over	341,727	318,820	-6.7
0306.13.00	Shrimps and prawns, cooked in shell or uncooked, dried, salted or in brine, frozen	282,857	289,766	2.4
6108.21.00	Women's or girls' briefs and panties, knitted or crocheted, of cotton	282,749	271,094	-4.1
6107.11.00	Men's or boys' underpants and briefs, knitted or crocheted, of cotton	231,708	268,404	15.8
1701.11.10	Raw sugar not containing flavoring or coloring	343,135	246,726	-28.1
6203.43.40	Men's or boys' trousers, breeches and shorts, not knitted, synthetic fibers	214,587	230,147	7.3
2814.10.00	Anhydrous ammonia	229,742	223,901	-2.5
	Total of items shown	8,338,375	9,083,178	8.9
	Total all commodities	16,572,402	17,124,281	3.3

Note.—Because of rounding, figures may not add to totals shown. The abbreviation nesoi stands for "not elsewhere specified or otherwise included."

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

cigars).[9] The remaining top items are free of duty under column 1-general duty rates, including bananas, coffee, and shrimp and prawns.

In 1984, U.S. imports of petroleum products (HTS chapter 27) accounted for 48.3 percent of overall U.S. imports from CBERA countries. By 1988, the share of petroleum products had shrunk to 17.7 percent, and by 1997, to 8.2 percent. The steep decline of petroleum prices in 1998 further diminished the share of petroleum products to only 5.8 percent of the total.

In contrast to petroleum products, goods of HTS chapters 62 (apparel not knitted) and 61 (knitted apparel) constituted only 5.3 percent of all U.S. imports from CBERA countries in 1984, but that share grew to 23.2 percent by 1988, 45.8 percent by 1997, and 48.3 percent by 1998.[10] Those rapidly growing apparel imports from the region also reflect the increasing use of production sharing by U.S. and Caribbean companies.

The two top items from CBERA countries in 1998 (T-shirts and men's or boys' cotton trousers; table 2-3) were also the top items in 1997, but in reverse order: Imports of T-shirts continued their surge during 1998 (by 31.1 percent), whereas imports of trousers remained about the same as in 1997. Many other leading import items listed in table 2-3 are also apparel articles.[11] Coffee was the third leading item in both 1997 and 1998. Caribbean Basin coffee originates principally in Central American countries, for which coffee continues to be a major source of export revenue. It has been estimated that Central America's exports of coffee will drop by 10 percent in the 1998/99 harvest as a result of Hurricane Mitch.[12] During 1998, coffee imports from CBERA countries were up in volume by 5.2 percent.[13] Despite Hurricane Mitch, imported quantities were up from all Central American sources but Guatemala, and almost doubled from Honduras[14] and Nicaragua.[15] The value of coffee imports from CBERA countries was down by 5.6 percent, however, because of declining prices. Average unit values dropped from $3.54 per kilogram to $3.18 per kilogram between 1997 and 1998.

In 1998, coffee imports from Guatemala dropped by 19.4 percent in volume (27.2 percent in value), presumably because of the country's exposure to the hurricane.[16] Even so, Guatemala remained the number one coffee supplier among CBERA countries, still providing twice the quantity and value imported from Costa Rica, the second-largest coffee supplier.

Bananas were the fourth leading item in both 1997 and 1998. Imports from CBERA countries combined dropped by 1.5 percent in volume in 1998, primarily reflecting a decline in imports from Honduras, whose volume was one-third lower than in 1997. Honduras reportedly lost nearly half of its crop as a result of Hurricane Mitch.[17] Yet, import volume surged by 41.5 percent from Guatemala, the second-largest supplier among CBERA countries, and almost tripled from Nicaragua, the fourth major supplier, even though both countries were major hurricane victims. Imports were up by 14.4 percent in volume from Costa Rica, the principal supplier among CBERA countries to the United States, and the world's second-largest banana exporter after Ecuador.[18] The value of banana imports from CBERA countries dropped by 6.4 percent in 1998 as prices softened.

Fresh bananas are a major traditional agricultural export item from the Caribbean Basin, with longstanding U.S. investment in production and distribution companies in Central America. In 1996, Honduras and Guatemala were among the countries that requested a WTO dispute-settlement panel to examine the European Union's regime for the importation, sale, and distribution of bananas, which

[9] Those leading items that enter duty-free under CBERA will be discussed under "Imports under CBERA" later in this chapter.

[10] The combination of HTS chapter 61 and 62 is used here to make import trends of apparel comparable with the import trends of other industries based on HTS 2-digit classification, which is generally used in this chapter. For more accurate trends, see the "Textiles and Apparel" section below.

[11] Apparel imports are discussed in more detail below.

[12] "Trade and Immigration Top Agenda," *Latin America Monitor, Central America,* Feb. 1999, p. 1.

[13] Data involving quantities (volumes and unit values of trade) mentioned henceforth are official U.S. Census data. The tables show data only by value, not by quantity.

[14] Honduras reportedly suffered only limited coffee damage from Hurricane Mitch.

[15] According to the estimates of the Government of Nicaragua, most coffee plants survived the storm. U.S. Department of State telegram, "Economic Effects of Hurricane Mitch on Nicaragua," message reference No. 03348, prepared by U.S. Embassy, Managua, Nov. 27, 1998.

[16] The immediate losses reportedly stem from berries knocked from trees prematurely. Damaged roads may have caused additional losses. (U.S. Department of State telegram, "Hurricane Mitch Hits the Labor Sector," message reference No. 04792, prepared by U.S. Embassy, Guatemala City, Dec. 01, 1998.)

[17] "Farming after the Hurricane," *The Economist,* Feb. 20, 1999, p. 35.

[18] In terms of quantity, Costa Rica was the world's largest exporter in 1998.

they believed to be contrary to their interests.[19] These countries claimed that, by imposing import quotas and distribution restrictions, the European Union (EU) favors bananas from domestic producers and former European colonies in Africa, the Caribbean, and the Pacific over cheaper, so-called dollar bananas from Latin America.[20] Following the WTO's 1997 finding of EU discriminatory practices, the EU adopted a modified banana regime in June 1998. However, the United States and other complainants, including Guatemala, Honduras, and Panama,[21] raised concerns about the proposed modification's consistency with WTO commitments. By the end of 1998, the EU failed to implement the WTO rulings in a manner acceptable to the complainants, and the banana issue escalated into a major trade dispute.[22]

Distillate and residual fuels testing under 25 degrees API were the seventh leading import item from CBERA countries in 1998. Even though the volume of imports of this item increased by 17.1 percent during the year, the value of this imported item dropped by 15.8 percent because of falling petroleum prices. The average dollar value of a barrel imported from CBERA countries combined dropped by 28.1 percent from its recorded level in 1997. Principal suppliers in 1998 were Aruba and Trinidad and Tobago. The Netherlands Antilles, whose exports of this item to the United States dropped in value by some 57 percent in 1998, ranked third. Among CBERA countries, only Trinidad and Tobago has economically recoverable reserves of crude petroleum, as well as petroleum refineries and small blending operations. Aruba has only a small blending facility. Imported petroleum products from the Netherlands Antilles are, in fact, transshipments.

Textiles and Apparel

Two-way trade between the United States and CBERA countries in the textile and apparel sector grew by 9 percent in 1998 to $13.1 billion. That growth enabled the sector to remain the largest source of bilateral trade, with 36 percent of the total. U.S. sector trade with CBERA countries primarily involves apparel production sharing, in which U.S. firms ship garment parts to the region for sewing and re-import the assembled apparel articles. Although most textile and apparel articles are ineligible for duty-free entry under CBERA,[23] imports of apparel and other made-up textile articles assembled from U.S. components are eligible for reduced duties under HTS heading 9802.00.80.[24] In addition, garments assembled in participating CBERA countries from fabrics wholly formed and cut in the United States enter under preferential quotas known as guaranteed access levels (GALs).[25]

U.S. sector exports to CBERA countries, which consist mostly of the garment parts for assembly, grew by 5 percent, to $4.6 billion in 1998, or one-fourth of total U.S. exports to the region. U.S. sector imports from CBERA countries, which consist almost entirely of apparel, rose by 9 percent, to $8.5 billion, and accounted for one-half of total U.S. imports from the region. The 1998 gain in sector imports was much lower than the 26 percent increase in 1997 and the 17 percent average annual growth during 1994-96. Trade sources attributed the 1998 slowdown to several factors, including increased competition from East Asian countries whose currencies had depreciated significantly during 1997-98[26] and rising labor, utility, and interest costs in certain CBERA countries.[27]

The 1998 slowdown in CBERA textiles and apparel shipments also reflected the use of North American Free-Trade Agreement (NAFTA) tariff preferences for Mexico, which competes with CBERA countries for apparel assembly work from U.S.

[19] The others were the United States, Mexico, and Ecuador.

[20] Belize, Jamaica, St. Lucia, St. Vincent and the Grenadines, Dominica, and Grenada are those CBERA countries that benefit from the banana regime of the EU. For more detail, see USITC, *Caribbean Basin Economic Recovery Act: Impact on U.S. Industries and Consumers, Thirteenth Report, 1997*, USITC publication 3132, Sept. 1998, pp. 16-18.

[21] Panama, a CBERA beneficiary, was not among the original complainants in the WTO dispute because it was not a WTO member at that time.

[22] On April 6, 1999, WTO arbitrators concurred with the U.S. position and assessed the damages suffered by U.S. interests at $191.4 million. Subsequently, the adversely affected Caribbean countries began coordinating their damage-control strategies.

[23] Textiles and apparel subject to textile agreements (i.e., articles covered by the former Multifiber Arrangement as in effect on August 6, 1983) are excluded by law from duty-free treatment under CBERA; they include articles of cotton, wool, and manmade fibers.

[24] HTS heading 9802.00.80 provides a duty exemption for U.S. components that are returned to the United States as parts of goods assembled abroad. The U.S. components can be made of either U.S. or foreign fabric as long as the fabric is cut to shape in the United States and exported ready for assembly.

[25] For further information on the GAL program, see USITC, *Caribbean Basin Economic Recovery Act: Impact on U.S. Industries and Consumers, Thirteenth Report, 1997*, USITC publication 3132, Sept. 1998, p. 13.

[26] American Textile Manufacturers Institute, Washington, DC, "International Trade," *Textile HiLights*, Dec. 1998, pp. i-v.

[27] U.S. apparel industry representative, telephone conversation with USITC staff, Mar. 12, 1999.

apparel firms. Under NAFTA, U.S. imports of apparel from Mexico that are assembled from fabrics wholly formed and cut in the United States enter free of duty and quota under HTS heading 9802.00.90 (most apparel imports from Mexico in 1998 entered under this tariff provision).[28] By contrast, similar CBERA garments enter under the GALs but are still subject to duty on the value added offshore.[29] The competitive balance between CBERA countries and Mexico was also affected by the 50 percent devaluation of the Mexican peso from December 1994 to January 1995, which effectively reduced dollar prices of Mexican goods in the U.S. market. Since the currencies of the major CBERA apparel suppliers generally have appreciated since 1994, industry sources in some CBERA countries reportedly believe that the Mexican peso devaluations have exacerbated their price disadvantage with Mexican apparel exports.[30] Nevertheless, U.S. apparel imports from CBERA countries rose by 83 percent during 1994-98, to $8.3 billion; apparel imports entering under HTS heading 9802.00.80 rose faster, by 92 percent, to $7 billion.

The highly competitive retail market in the United States has motivated many U.S. apparel firms to begin or expand assembly operations in CBERA countries and Mexico to cut production costs. Both CBERA countries and Mexico offer competitively priced labor to perform labor-intensive sewing operations, and their proximity to the United States provides U.S. firms with greater management and quality control over production, lower shipping costs, and shorter lead times than Asian operations. The proximity of CBERA countries and Mexico also enables U.S. firms to use the "quick response" programs they developed with their retail customers.

Recognizing the importance of the apparel industry as a major source of jobs and export earnings in their countries, some CBERA governments, such as the Dominican Republic (often in collaboration with the domestic textile and apparel trade associations) have recently taken measures to attract additional foreign investment in the apparel and textile sector. Initiatives designed to enhance the competitiveness of the sector include expanding free-trade zone (FTZ) programs, offering tax incentives, instituting labor-training programs, and streamlining customs procedures.[31]

CBERA countries continue to express their support for equal access with Mexico to the U.S. market. Legislation introduced in the 105th U.S. Congress (H.R. 2644), the United States-Caribbean Trade Partnership Act, would have provided NAFTA-like treatment for qualifying apparel and all other goods excluded from duty-free entry under CBERA. However, on November 4, 1997, the legislation failed to pass the U.S. House of Representatives by a vote of 234 to 182. No action was taken on NAFTA-parity legislation introduced in the United States Senate (S. 2400, the Trade and Tariff Act of 1998) before adjournment of the 105th Congress in October 1998.[32]

Footwear and Footwear Parts

U.S. imports of footwear articles, except zoris (thonged sandals), disposable footwear, and most footwear parts, are not eligible for duty-free treatment under CBERA. However, they do benefit from reduced duties under HTS heading 9802.00.80.[33] Footwear articles also benefit from section 222 of the

[28] On January 1, 1999, U.S. tariffs were phased out for apparel of cotton and manmade fibers from Mexico that meet the NAFTA rules of origin, further exacerbating the cost disadvantage of apparel imports from CBERA countries.

[29] For every $10 in customs value, a typical CBERA garment entered under HTS heading 9802.00.80 contains $6.40 in duty-free U.S. parts and $3.60 in dutiable, foreign value added. Applying the 1998 trade-weighted average duty on apparel of 15.8 percent to the foreign value added yields an average duty of $0.57, or an ad valorem equivalent of 5.7 percent.

[30] Mercedes Cortazar, "Honduras Continues to Lead Central America," *Apparel Industry Internacional*, found at Internet address *http://www.aiimag.com/aiieng/archives/1198/nstor2.html*, retrieved Mar. 24, 1999.

[31] "The Government of the Dominican Republic: Total Support for the Textile and Apparel Industry," *Apparel Industry Internacional*, found at Internet address: *http://www.aiimag.com/aiieng/ archives/1098/oster8.html*, retrieved Mar. 24, 1999.

[32] Continued interest in granting the CBERA countries NAFTA parity and concern about providing economic assistance following the devastation wrought by several hurricanes in late 1998 prompted the introduction of new NAFTA-parity legislation at the beginning of the 106th Congress. On February 3, 1999, Senator Bob Graham introduced S. 371 - The Central American and Caribbean Relief Act. On March 4, 1999, the Clinton Administration proposed the United States-Caribbean Basin Trade Enhancement Act. On the same day, H.R. 984-The United States-Caribbean Basin Trade Partnership Act was also introduced. On June 10, 1999, the House Committee on Ways and Means approved H.R. 984, as amended. The Senate approved its bill on June 22, 1999. No further action had been taken on either of these bills as of August 16, 1999.

[33] Heading 9802.00.80 of the HTS provides a partial duty exemption for products assembled abroad from U.S.-fabricated components in production-sharing operations. In general, duty is assessed only on the value added abroad (essentially the cost of stitching the footwear parts together).

1990 Caribbean Basin Economic Recovery Expansion Act (CBEREA), which permitted for the first time the duty-free entry of completed footwear assembled in CBERA countries entirely from U.S. components.[34] The CBEREA also liberalized the rules of origin regarding Puerto Rican inputs used in CBERA exports for preferential duty treatment.[35]

U.S. imports of footwear (except footwear parts) from CBERA countries are small, accounting for about 1 percent of all U.S. footwear imports, both in quantity and in value, in 1998. The CBERA shipments in 1998 declined by 18 percent in quantity, to 14.7 million pairs, and by 12 percent in value, to $82 million. U.S. imports of footwear from the world in 1998 showed little change from the 1997 level of $13.4 billion. Although imports from China, the most dominant U.S. supplier, rose by 7.6 percent in quantity, to 1.1 billion pairs, and by 9 percent in value, to $7.7 billion, during the period, those from all other suppliers together declined by 11 percent in value and 10 percent in volume. As a result, the share of U.S. imports supplied by China in 1998 rose by 3 percentage points in quantity to 73 percent and by 4 percentage points in value to 58 percent.

U.S. production-sharing activity in footwear with CBERA countries has accelerated since the enactment of section 222 of the CBEREA. Section 222 is reflected in the HTS as note 2(b) to subchapter II of chapter 98, and was effective as of October 1, 1990. Imports of footwear from CBERA countries under note 2(b), which requires that the footwear articles be assembled entirely from U.S.-made components, increased significantly, from $381,000 in 1991 to $64 million in 1997, and then dropped by 5 percent to $61 million in 1998. Section 222 imports accounted for 92 percent of the quantity (13.5 million pairs) and 74 percent of the value ($61 million) of total U.S. footwear imports from CBERA countries in 1998. The Dominican Republic supplied $58 million, or 94 percent, of the imports in 1998.

Footwear imports from CBERA countries consist primarily of rubber footwear, which represented 78 percent of the quantity but only 41 percent of the value of total footwear imports from CBERA countries in 1998. Imports of rubber footwear in 1998 declined by 21 percent in quantity, to 11.6 million pairs, and by 17 percent in value, to $35 million. As duties on rubber footwear are high, U.S. firms producing rubber footwear have enhanced their economic benefits by increasing production-sharing operations with CBERA countries and importing rubber footwear mostly duty-free under note 2(b).[36]

CBERA countries and Mexico are small suppliers of finished footwear, but they compete with each other for assembly work from U.S. firms. U.S. imports of footwear from CBERA countries have grown at a much slower rate than those from Mexico since NAFTA's implementation in 1994. Imports from Mexico, about 77 percent of which consist of nonrubber footwear, averaged an annual growth rate of 34 percent in value during 1994-97, but dropped by 9 percent in 1998 to $261 million. Imports from CBERA countries averaged an annual growth rate of 15 percent during 1994-97, but declined by 14 percent, to $84 million, in 1998. The decline in imports from Mexico and CBERA countries in 1998 reflected the stagnant U.S. market and keen price competition from traditional suppliers, especially China. Although 74 percent of footwear imports from CBERA countries entered under production-sharing provisions in 1998, mostly free of duty under note 2(b), only 21 percent of the imports from Mexico entered under production-sharing provisions. Most nonrubber imports from Mexico consist of "non-9802" imports, on which Mexico has significant duty advantages over CBERA countries. Mexico still has to pay duties on value added offshore on rubber footwear.

U.S. imports of footwear uppers and parts from CBERA countries have generally benefited from the duty-free provisions of the CBERA. In 1998, U.S. imports of footwear uppers and parts from CBERA countries increased by 1 percent, to $241 million, whereas those from all others declined by 12 percent, to $289 million. Consequently, the Caribbean share

[34] Section 222 was codified in note 2(b) to subch. II of ch. 98 of the HTS.

[35] The CBEREA stipulates that articles produced in Puerto Rico that are "by any means advanced in value or improved in condition by a beneficiary CBERA country" are eligible for duty-free entry into the United States. The law also requires that any materials added to such Puerto Rican articles must be of U.S. or CBERA-country origin, and the final product must be imported directly into the customs territory of the United States from the CBERA country.

[36] Nonetheless, in its written submission before the Commission, the Rubber and Plastic Footwear Manufacturers Association stated that the U.S. rubber footwear industry is a highly import-sensitive industry; in 1998, imports of fabric-upper and slippers took 93 percent of the domestic market and imports of waterproof footwear took 48 percent. According to the Association, the enactment of the CBEREA has adversely affected the industry, because imports of rubber footwear, including slippers from the Caribbean countries, increased from 200,000 pairs in 1990 to nearly 12 million pairs in 1998.

of total U.S. imports of footwear uppers and parts rose by 3 percentage points to 45 percent. Approximately 88 percent, or $211 million, of those imports from CBERA countries in 1998 entered free of duty under CBERA, with the Dominican Republic supplying $187 million, or 89 percent. Over 90 percent of the total value of footwear uppers and parts from CBERA countries consisted of stitched shoe uppers of leather that entered under HTS subheading 6406.10.65; the Dominican Republic provided nearly 90 percent of those imports. This item represented the fourth-largest item imported under CBERA in 1998.[37]

Imports by Country

Overall U.S. imports from each CBERA country in selected years since 1984 are presented in table 2-4. The Dominican Republic, Costa Rica, Honduras, and Guatemala remained the top four U.S. suppliers in 1998, accounting for nearly 70 percent of U.S. imports from the region. The data do not readily show that hurricanes Georges and Mitch affected 1998 trade; the impact will probably emerge in years to come. Overall 1998 imports from the affected countries dropped only from Belize. Declines in the value of imports were more apparent from those countries that ship petroleum-based products: Trinidad and Tobago, Aruba, and the Netherlands Antilles, reflecting lower oil prices during 1998.

Dutiability

Since 1986, about one-third of annual U.S. imports from CBERA countries have been dutiable. Tariff revenues, as indicated by "calculated duties," and the average rate of duty applied to imports from CBERA countries have risen sharply with the growth of apparel imports, most of which have been dutiable at relatively high rates.[38] Tariff revenues in 1998 were $715.6 million, nine and a half times their 1984 amount; during that period, the average rate of duty climbed from 1.6 percent to 13.3 percent (table 2-5).

[37] See table 2-8.

[38] As stated earlier, in 1998, apparel products had an average nominal duty rate of 15.8 percent ad val., and the effective rate was 5.7 percent after the duty-free U.S. content of apparel entering under HTS heading 9802.00.80 had been subtracted. The average duty rate shown in table 2-5 (13.3 percent) reflects the presence of Caribbean apparel that does not qualify under HTS subheading 9802.00.80, such as apparel made from Asian fabric or uncut U.S. fabric.

Duty-Free Imports

Duty-free imports entered in 1998 under one of the following provisions: (1) unconditionally free under column 1-general duty rates (22.6 percent); (2) conditionally free under GSP (1.1 percent); (3) conditionally free under "production sharing," that is, HTS chapter 98 (26.4 percent); (4) conditionally free under CBERA (18.1 percent); or (5) under other provisions (0.3 percent).

The share of U.S. imports that entered free of duty grew between 1984 and 1988 from 47.2 percent of total U.S. imports to 67.4 percent from CBERA countries (table 2-6). Since then, duty-free imports have continued to account for about two-thirds of total U.S. imports from CBERA countries; they constituted 68.6 percent of the total in 1998. Sharply growing amounts of U.S. content of shared production reentering U.S. customs territory (6.8 percent of the total in 1984 and 27.0 percent in 1997), as well as increasing U.S. imports under CBERA (6.7 percent of the total in 1984 and 19.0 percent in 1997), were principally responsible for the growth of duty-free imports. This trend ended in 1998, because both the reentering U.S. portion of shared production and imports under CBERA dipped slightly below their 1997 levels to 26.4 percent and 18.1 percent of total imports, respectively. Imports that were free of duty under column 1-general duty rates were alone responsible for the small increase in their portion of all duty-free imports in 1998.

Imports under CBERA

The year 1998 was the first year since the beginning of the program in which the value of imports from CBERA countries that enter duty-free under CBERA declined slightly, from $3,152 million in 1997 to $3,097 million in 1998. However, if the small amount of reduced-duty imports and erroneous entries under CBERA are also taken into account, imports under CBERA edged up minimally, from $3,208 million in 1997 to $3,225 million in 1998.[39]

The steady growth of imports under CBERA before 1998 had taken place principally at the expense of imports under GSP.[40] CBERA has been favored

[39] Numbers cited hereinafter as imports under CBERA, although predominantly free of duty, may include a minimal amount of imports that are dutiable under CBERA at reduced rates.

[40] For a discussion of trends of imports entering under GSP, see USITC, *Caribbean Basin Economic Recovery Act: Impact on U.S. Industries and Consumers, Thirteenth Report, 1997,* USITC publication 3132, Sept. 1998, p. 22.

Table 2-4
U.S. imports for consumption, by source, 1984, 1988, 1992, 1994, 1997, and 1998

Source	1984	1988	1992	1994	1997	1998
	Value (1,000 dollars)					
Dominican Republic	994,427	1,425,371	2,366,509	3,076,519	4,308,370	4,444,617
Costa Rica	468,633	777,797	1,402,042	1,645,382	2,321,561	2,741,991
Honduras	393,769	439,504	780,638	1,091,688	2,320,301	2,543,882
Guatemala	446,267	436,979	1,072,697	1,283,596	1,984,236	2,071,441
El Salvador	381,391	282,584	383,245	607,541	1,344,801	1,436,028
Trinidad and Tobago	1,360,106	701,738	839,788	1,085,781	1,105,157	974,118
Jamaica	396,949	440,934	593,361	739,552	720,589	735,613
Nicaragua	58,064	1,121	68,609	167,397	439,156	452,702
Aruba[1]	-	647	189,657	318,941	461,168	402,410
Netherlands Antilles	2,024,367	408,100	569,689	412,652	549,177	299,931
Panama	311,627	256,046	218,232	252,465	353,915	299,552
Haiti	377,413	382,466	107,170	58,764	188,097	271,669
The Bahamas	1,154,282	268,328	580,700	192,890	153,390	143,905
Guyana	74,417	50,432	87,064	94,555	104,240	117,854
Belize	42,843	52,049	58,510	49,392	78,948	66,402
Barbados	252,598	51,413	30,528	34,250	42,017	35,098
St. Kitts and Nevis	23,135	20,822	22,857	21,716	29,856	31,868
St. Lucia	7,397	26,044	28,065	26,497	20,589	22,381
Grenada	766	7,349	7,476	7,247	6,479	12,076
British Virgin Islands	1,335	684	3,235	14,604	16,940	7,481
Dominica	86	8,530	4,506	6,957	9,049	6,391
St. Vincent & the Grenadines	2,958	13,950	4,530	5,430	4,342	4,773
Antigua Barbuda	7,898	6,893	5,414	5,435	5,015	1,933
Montserrat	989	2,393	1,095	1,032	5,010	164
Total	8,781,716	6,062,175	9,425,616	11,200,280	16,572,402	17,124,281

See footnote at end of table.

Table 2-4—*Continued*
U.S. imports for consumption, by source, 1984, 1988, 1992, 1994, 1997, and 1998

Source	1984	1988	1992	1994	1997	1998
			Percent of total			
Dominican Republic	11.32	23.51	25.11	27.47	26.00	25.96
Costa Rica	5.34	12.83	14.87	14.69	14.01	16.01
Honduras	4.48	7.25	8.28	9.75	14.00	14.86
Guatemala	5.08	7.21	11.38	11.46	11.97	12.10
El Salvador	4.34	4.66	4.07	5.42	8.11	8.39
Trinidad and Tobago	15.49	11.58	8.91	9.69	6.67	5.69
Jamaica	4.52	7.27	6.30	6.60	4.35	4.30
Nicaragua	.66	.02	.73	1.49	2.65	2.64
Aruba[1]	-	.01	2.01	2.85	2.78	2.35
Netherlands Antilles	23.05	6.73	6.04	3.68	3.31	1.75
Panama	3.55	4.22	2.32	2.25	2.14	1.75
Haiti	4.30	6.31	1.14	.52	1.14	1.59
The Bahamas	13.14	4.43	6.16	1.72	.93	.84
Guyana	.85	.83	.92	.84	.63	.69
Belize	.49	.86	.62	.44	.48	.39
Barbados	2.88	.85	.32	.31	.25	.21
St. Kitts and Nevis	.26	.34	.24	.19	.18	.19
St. Lucia	.08	.43	.30	.24	.12	.13
Grenada	.01	.12	.08	.06	.04	.07
British Virgin Islands	.02	.01	.03	.13	.10	.04
Dominica	-	.14	.05	.06	.05	.04
St. Vincent & the Grenadines	.03	.23	.05	.05	.03	.03
Antigua Barbuda	.09	.11	.06	.05	.03	.01
Montserrat	.01	.04	.01	.01	.03	.00
Total	100.00	100.00	100.00	100.00	100.00	100.00

[1] Aruba was designated a beneficiary country effective January 1, 1986.

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

Table 2-5
U.S. imports for consumption from CBERA countries: Dutiable value, calculated duties, and average duty, 1984, 1988, 1992, 1994, 1997, and 1998

Item	1984	1988	1992	1994	1997	1998
Dutiable value (*1,000 dollars*)[1]	4,567,416	1,975,850	3,269,148	3,730,777	5,320,617	5,384,147
Dutiable as a share of total imports *(percent)*	52.8	32.6	34.7	33.3	32.1	31.4
Calculated duties (*1,000 dollars*)[1]	75,293	157,605	322,434	429,491	651,226	715,572
Average duty (*percent*)[2]	1.6	8.0	9.9	11.5	12.2	13.3

[1] Dutiable value and calculated duty exclude the U.S. content entering under HTS subheading 9802.00.80 and subheading 9802.00.60 and misreported imports. Data based on product eligibility corresponding to each year.
[2] Average duty = (calculated duty/dutiable value) * 100.

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

over GSP partly because its rules-of-origin criteria for U.S. duty exemptions as well as its paperwork requirements are less stringent than those under GSP. Also, CBERA has no statutory deadline, whereas the GSP program has intermittently expired with uncertain prospects for renewal, as noted in chapter 1.

Product Composition and Leading Items

The product composition of U.S. imports under CBERA in 1998 remained largely unchanged from the composition in 1997, except for a surge in the share of medical instruments and a continued decline in the share of sugar. Electrical machinery (HTS chapter 85) was the leading import category containing tariff items eligible for CBERA treatment in both 1997 and 1998 (table 2-7 and figure 2-3); it is also a major import category with respect to overall imports from CBERA countries. The category as a whole accounted for 17.0 percent of all imports under the program in 1984, 15.0 percent in 1997, and 15.1 percent in 1998. Electrical machinery imports entering under CBERA included five leading CBERA-eligible items in 1998 (table 2-8). Imports of electrical telephonic switching apparatus (HTS subheading 8517.90.24), originating in Costa Rica, surged by 121.9 percent during the year, and imports of switches not elsewhere classified (HTS subheading 8536.50.90) increased by 92.7 percent.

Tobacco and manufactured tobacco (HTS chapter 24) was the second leading import category in 1998. Virtually all chapter 24 imports from CBERA countries were entered under CBERA provisions. The tobacco group accounted for 12.9 percent of all imports under CBERA in 1984, dropped to 4.3 percent of the total in 1994, and climbed thereafter faster than imports of any other product group, to account for 11.5 percent of the total in 1997, and 10.9 percent in 1998. The marked increase in tobacco products in 1995-97 was caused principally by a rise in demand for premium hand-rolled cigars (higher priced cigars; HTS subheading 2402.10.80) in the United States.[41]

In 1998, the import value of tobacco products dropped by 5.4 percent from its record value in 1997 (table 2-7). The decline was caused by smaller volumes of higher priced cigars shipped, as well as lower prices. Yet higher priced cigars remained the number one product entering under CBERA (table 2-8); it was also the leading item benefiting exclusively from the program (table 3-2). In 1998, 93 percent of all U.S. imports of this item originated in CBERA countries; the Dominican Republic alone was responsible for 56 percent. Imported quantities dropped most steeply from countries damaged by Hurricane Mitch; they declined by 26.1 percent from Honduras, the second-largest U.S. supplier worldwide,

[41] U.S. cigars are machine-made and therefore not directly substitutable for imported hand-made cigars.

Table 2-6
U.S. imports for consumption from CBERA countries, by duty treatment, 1984, 1988, 1992, 1994, 1997, and 1998

Item	1984	1988	1992	1994	1997	1998
	Value (1,000 dollars)					
Total imports	8,649,235[1]	6,061,054[2]	9,425,616	11,200,280	16,572,402	17,124,281
Dutiable value[3]	4,567,416	1,975,850	3,269,148	3,730,777	5,320,617	5,384,147
Production sharing[4]	([5])	427,144	863,225	1,347,019	2,437,620	2,670,309
CBERA reduced duty[6]	([7])	([7])	29,418	31,938	55,471	63,930
Other dutiable	4,567,416	1,548,706	2,376,505	2,351,820	2,827,526	2,649,908
Duty-free value[8]	4,081,819	4,085,204	6,156,467	7,469,503	11,251,785	11,740,134
Col. 1-general[9]	2,170,537	1,927,912	2,097,079	2,514,726	3,237,554	3,864,752
Production sharing[10]	587,560	906,518	1,777,260	2,391,420	4,478,633	4,525,187
CBERA[11]	575,994	790,941	1,498,556	2,018,220	3,152,371	3,096,758
GSP[12]	592,249	353,079	340,666	375,686	228,885	195,407
Other duty free[13]	155,479	106,754	442,904	169,451	154,341	58,031
	Percent of total					
Total imports	100.0	100.0	100.0	100.0	100.0	100.0
Dutiable value[3]	52.8	32.6	34.7	33.3	32.1	31.4
Production sharing[4]	([5])	7.0	9.2	12.0	14.7	15.6
CBERA reduced duty[6]	([7])	([7])	0.3	0.3	0.3	0.4
Other dutiable	52.8	25.6	25.2	21.0	17.1	15.5
Duty-free value[8]	47.2	67.4	65.3	66.7	67.9	68.6
Col. 1-general[9]	25.1	31.8	22.2	22.4	19.5	22.6
Production sharing[10]	6.8	15.0	18.9	21.3	27.0	26.4
CBERA[11]	6.7	13.0	15.9	18.0	19.0	18.1
GSP[12]	6.8	5.8	3.6	3.4	1.4	1.1
Other duty free[13]	1.8	1.8	4.7	1.5	0.9	0.3

Table 2-6—*Continued*
U.S. imports for consumption from CBERA countries, by duty treatment, 1984, 1988, 1992 , 1994, 1997, and 1998

[1] Nicaragua and Guyana, currently covered by CBERA, were not beneficiaries and therefore were excluded from the data for 1984.
[2] Nicaragua, currently covered by CBERA, was not eligible and therefore excluded from the data for 1988.
[3] Dutiable value excludes the U.S. content entering under HTS heading 9802.00.80 and subheading 9802.00.60, and misreported imports.
[4] Value of Caribbean Basin-origin value added, under HTS heading 9802.00.80 and subheading 9802.00.60, excluding items entered under CBERA or GSP provisions.
[5] Not available, included in "Other dutiable."
[6] Value of imports of handbags, luggage, flat goods, work gloves, and leather apparel subject to 20-percent duty reductions under the CBERA between 1992 and 1996.
[7] Presidential Proclamation 6428 of May 1, 1992, first implemented reduced duties for certain products of beneficiary countries under CBERA.
[8] Calculated as total imports less dutiable value.
[9] Value of imports which have a col. 1-general duty rate of free.
[10] Value of nondutiable exported and returned U.S.-origin products or components, under HTS heading 9802.00.80 and subheading 9802.00.60, excluding items entered under CBERA or GSP provisions.
[11] Reduced by the value of unconditionally duty-free imports and ineligible items that were misreported as entering under the CBERA program and the value of reduced-duty items (handbags, luggage, flat goods, work gloves, and leather wearing apparel) reported separately above as dutiable.
[12] Reduced by the value of unconditionally duty-free imports and ineligible items that were misreported as entering under the GSP program.
[13] Calculated as a remainder, and represents imports entering free of duty under column 1-special.

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

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

Table 2-7
Leading U.S. imports for consumption under CBERA, by major product categories, 1984, 1988, 1992, 1994, 1997, and 1998

HTS Chapter	Description	1984	1988	1992	1994	1997	1998
		Value (1,000 dollars)					
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television recorders and reproducers, parts and accessories	98,042	112,708	173,879	218,336	480,009	485,597
24	Tobacco and manufactured tobacco substitutes	74,488	43,823	84,490	88,248	370,212	350,200
17	Sugar and sugar confectionary	209,456	120,920	213,325	133,229	382,954	285,487
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof	467	20,277	53,491	110,403	112,015	234,947
64	Footwear, gaiters and the like; parts of such articles	400	13,282	134,526	222,727	209,677	211,311
08	Edible fruit and nuts; peel of citrus fruit or melons	15,183	74,935	113,539	130,887	217,002	208,371
71	Natural or cultured pearls, precious or semiprecious stones, precious metals; precious metal clad metals, articles thereof; imitation jewelry; coins	2,978	32,136	75,632	170,785	182,449	185,904
07	Edible vegetables and certain roots and tubers	17,749	37,081	81,266	96,063	118,364	137,902
29	Organic chemicals	37	39,453	94,699	95,893	109,889	91,871
20	Preparations of vegetables, fruit, nuts, or other parts of plants	13,853	30,373	55,186	47,806	87,743	90,429
	Total of above	432,653	524,988	1,080,032	1,314,377	2,270,314	2,282,019
	All other	145,051	322,254	448,657	735,781	937,529	942,544
	Total all commodities	577,704	847,242	1,528,690	2,050,158	3,207,842	3,224,564

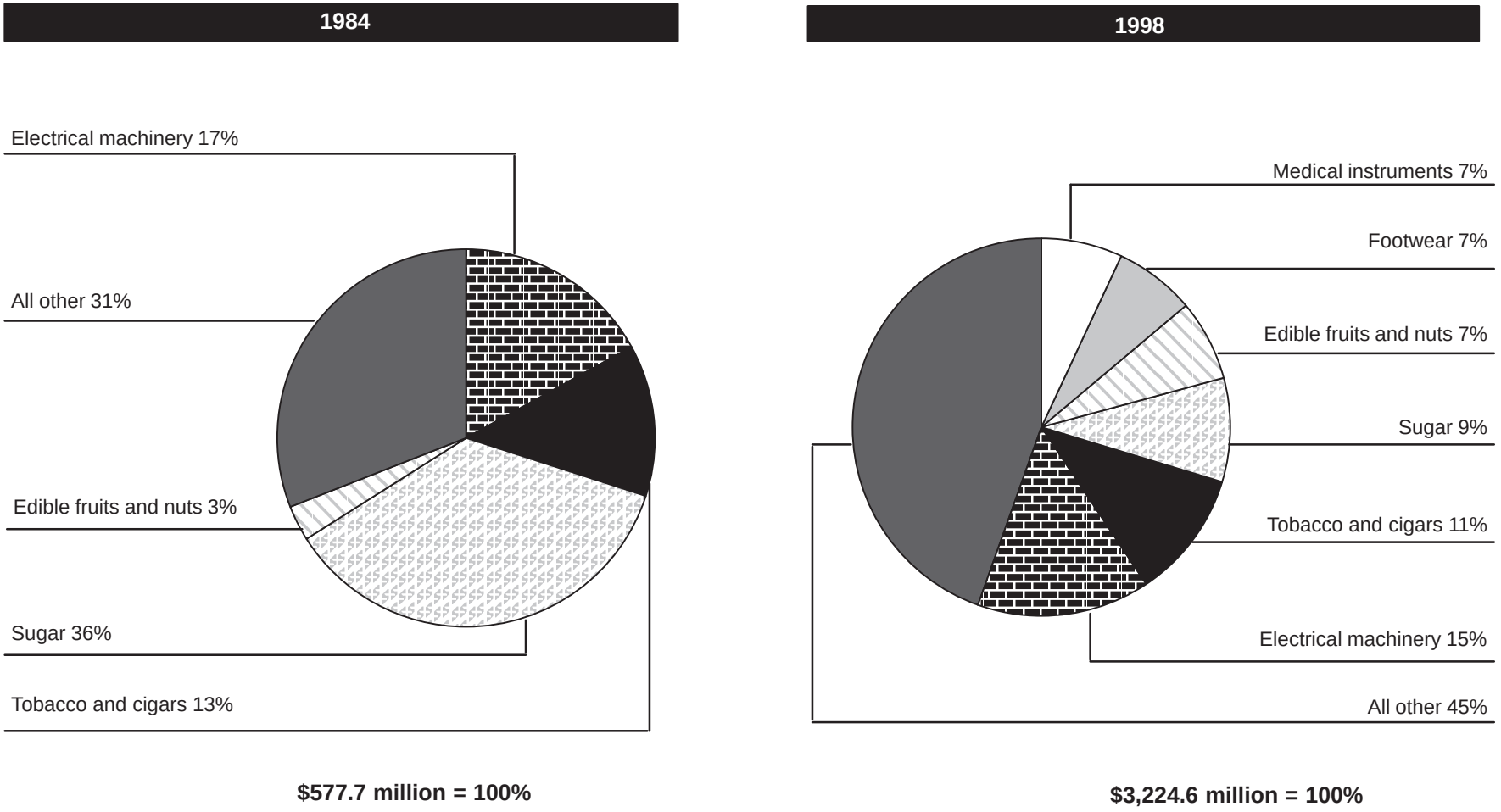
Table 2-7—*Continued*
Leading U.S. imports for consumption under CBERA, by major product categories, 1984, 1988, 1992, 1994, 1997, and 1998

HTS Chapter	Description	1984	1988	1992	1994	1997	1998
		Percent of total					
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television recorders and reproducers, parts and accessories	16.97	13.30	11.37	10.65	14.96	15.06
24	Tobacco and manufactured tobacco substitutes	12.89	5.17	5.53	4.30	11.54	10.86
17	Sugar and sugar confectionary	36.26	14.27	13.95	6.50	11.94	8.85
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof	.08	2.39	3.50	5.39	3.49	7.29
64	Footwear, gaiters and the like; parts of such articles	.07	1.57	8.80	10.86	6.54	6.55
08	Edible fruit and nuts; peel of citrus fruit or melons	2.63	8.84	7.43	6.38	6.76	6.46
71	Natural or cultured pearls, precious or semiprecious stones, precious metals; precious metal clad metals, articles thereof; imitation jewelry; coins	.52	3.79	4.95	8.33	5.69	5.77
07	Edible vegetables and certain roots and tubers	3.07	4.38	5.32	4.69	3.69	4.28
29	Organic chemicals	.01	4.66	6.19	4.68	3.43	2.85
20	Preparations of vegetables, fruit, nuts, or other parts of plants	2.40	3.58	3.61	2.33	2.74	2.80
	Total of above	74.89	61.96	70.65	64.11	70.77	70.77
	All other	25.11	38.04	29.35	35.89	29.23	29.23
	Total all commodities	100.00	100.00	100.00	100.00	100.00	100.00

Note.—Because of rounding, figures may not add to totals given. Data based on current definition of CBERA-eligible countries.

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

Figure 2-3
Composition of U.S. imports for consumption under CBERA, by major product categories, 1984 and 1998



Note.—Percentages may not add to 100 because of rounding.
Source: Compiled from official statistics of the U.S. Department of Commerce.

Table 2-8
Leading U.S. imports for consumption under CBERA, 1997-98

HTS Number	Description	1997	1998	Change 1997-98	Leading CBERA source
		Value (1,000 dollars)		*Percent*	
2402.10.80	Cigars, cheroots and cigarillos, each valued 23 cents or over	330,704	307,542	-7.0	Dominican Republic
9018.90.80	Medical, surgical, or dental instruments and appliances	98,891	222,250	124.7	Dominican Republic
1701.11.10	Raw sugar not containing added flavoring or coloring	280,714	213,234	-24.0	Dominican Republic
6406.10.65	Footwear uppers, other than formed, of leather	200,376	196,061	-2.2	Dominican Republic
7113.19.50	Articles of jewelry and parts thereof, of precious metal except silver, except necklaces and clasps	139,028	170,422	22.6	Dominican Republic
8517.90.24	Parts of electrical telephonic switching or terminal apparatus, incorporating printed circuit assemblies	48,759	108,175	121.9	Costa Rica
0804.30.40	Pineapples, fresh or dried, not reduced in size, in crates or other packages	72,621	68,510	-5.7	Costa Rica
7213.91.30	Bars and rods, hot-rolled, not tempered or treated, of iron or nonalloy steel	62,478	59,430	-4.9	Trinidad and Tobago
2905.11.20	Methanol (Methyl alcohol), nesi	90,596	57,779	-6.2	Trinidad and Tobago
8536.20.00	Automatic circuit breakers, for a voltage not exceeding 1,000 volts	44,358	57,202	29.0	Dominican Republic
0807.19.20	Cantaloupes, fresh, not entered Aug. 1-Sept. 15	65,044	55,710	-14.3	Honduras
0302.69.40	Fresh or chilled fish, including sable, ocean perch, snapper, grouper, and monkfish	52,807	52,489	-.6	Panama
1701.11.20	Other sugar to be used for the production (other than distillation) of polyhydric alchohols	72,476	47,981	-33.8	Guatemala
2009.11.00	Frozen concentrated orange juice	38,925	39,742	2.1	Costa Rica
8516.31.00	Electrothermic hair dryers	39,346	39,296	-.1	Costa Rica
8538.90.80	Terminals, electrical splices and couplings	42,304	36,597	-13.5	Dominican Republic
2207.10.60	Undenatured ethyl alcohol for nonbeverage purposes	28,058	33,659	20.0	Jamaica
4016.93.50	Nonautomotive gaskets, washers and seals of vulcanized rubber	28,928	31,145	7.7	Costa Rica
8536.50.90	Switches nesoi, for switching or making connections to or in electrical circuits, for a voltage not exceeding 1,000 volts	15,750	30,355	92.7	Dominican Republic
0807.19.70	Other melons, if not entered Jun. 1-Nov. 30	27,105	30,189	11.4	Costa Rica
	Total of above	1,779,268	1,857,770	4.4	
	All other	1,428,575	1,366,794	-4.3	
	Total all commodities	3,207,842	3,224,564	.5	

Note.—Because of rounding, figures may not add to totals given. The abbreviation nesi stands for “not elsewhere specified or included.”

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

and by 58.8 percent from Nicaragua, the fourth-largest U.S. supplier. Falling shipments from those two countries were somewhat offset by a 16.8 percent rise of higher priced cigars from Jamaica, the third-largest U.S. supplier among all countries.

In addition to cigars, leaf tobacco, used in the manufacture of cigarettes, also enters the United States under CBERA. This product originates mostly in Guatemala, which is the second-largest U.S. supplier of this item from all countries, after Brazil.[42] In 1998, U.S. imports from Guatemala were up by 13.0 percent in volume but only 6.6 percent in value.

Sugar and sugar confectionary (HTS chapter 17) was the second-largest chapter of imports under CBERA provisions in 1997 and the third-largest chapter in 1998.[43] U.S. imports from CBERA countries have fluctuated from year to year in response to U.S. global quotas and country allocations.[44] Quota restrictions and ongoing diversification in the production and export profile of CBERA countries tended to reduce the significance of sugar and sugar confectionary as a share of both overall U.S. imports from CBERA countries and U.S. imports under CBERA provisions (see also table 2-2 and figure 2-2). In 1984, sugar accounted for more than one-third of U.S. imports under CBERA; this share plummeted to 6.5 percent in 1994 but climbed to 11.9 percent in 1997. Significantly smaller tariff rate quotas (TRQs) and smaller allocations for virtually all CBERA countries in FY 1998,[45] as well as hurricane damage in some CBERA countries, reduced this share to 8.9 percent in 1998 (table 2-7 and figure 2-3).

Several CBERA countries supply raw sugar and sugar products under the program. Most CBERA sugar originates in the Dominican Republic, which is not only the number one supplier among CBERA countries but also the largest U.S. supplier worldwide, followed by Brazil and the Philippines. In 1998, Guatemala and Panama were the sixth- and seventh-largest U.S. suppliers worldwide, respectively.

Two raw cane sugar items continued to be among the 20 leading imports under CBERA in 1998 (table 2-8), even though imports of both dropped significantly from their 1997 values (by 24.0 percent and 33. 8 percent). The principal factor was that TRQ allocations for virtually all CBERA countries were significantly lower for FY 1999 (October 1, 1998 through September 30 1999), which includes the last quarter of the calendar year.[46] The Dominican Republic shipped 39.2 percent less cane sugar in volume to the United States in 1998 than in 1997. Hurricane Mitch limited supply in Belize, Nicaragua, Honduras, and El Salvador as well.

Instruments (chapter 90) have been the fastest growing sector, other than apparel, under the program. Imports were negligible in 1984, accounting for 3.5 percent of all imports in value under CBERA in 1997 and 7.3 percent of the total in 1998. Imports in this category rose by 109.7 percent during the year under CBERA (table 2-7), whereas overall imports from CBERA countries of goods in chapter 90 increased by only 8.8 percent (table 2-2). Imports surged disproportionally under CBERA because in 1998, the Dominican Republic shifted entries away from production-sharing provisions to CBERA.[47]

Imports under chapter 90 consist principally of medical and surgical instruments (HTS subheading 9018.90.80), which in 1998 were the 2d leading item entering under CBERA (table 2-8) and the 11th leading item from CBERA countries overall (table 2-3). Furthermore, medical and surgical instruments were second on the list of items that benefited exclusively under CBERA provisions (table 3-2). Examples include blood and plasma transfusion products, blood collection sets, sterile feeding tubes, and certain dental supplies.[48] Although most of those items enter under CBERA, many also enter under production-sharing provisions and GSP. Among all U.S. suppliers, the Dominican Republic was number one, followed by Mexico, and Costa Rica was fifth.

[42] Leaf tobacco from Guatemala is imported under a tariff rate quota (TRQ) system. Guatemala is the only CBERA country that has an allocation.

[43] Of all 1998 sugar imports from CBERA countries, 84.3 percent entered under CBERA, the remainder mostly under GSP.

[44] The United States had an absolute quota system in place during the first CBERA years until 1990, when it was replaced by a TRQ system.

[45] From Oct. 1, 1997 through Sept. 30, 1998.

[46] FY 1999 allocations were lower than FY 1998 allocations not only for CBERA countries but for most countries of the world.

[47] On the other hand, Costa Rica, whose exports of medical instruments to the United States were up 27.5 percent overall in 1998, lowered the portion entered under CBERA by 52.5 percent. Such shifts from one program to another are difficult to explain. They may be prompted by considerations of the product's eligibility under each program (differences in the product capability to meet CBERA rules) and the opportunity the product provides to increase savings in duties and user fees. In some cases, companies lack awareness of the advantages a program would confer on them and avail themselves of it belatedly.

[48] Telephone interviews by USITC staff, June 16, 1997.

U.S. imports of leather footwear uppers dropped by 2.2 percent in 1998; they were the fourth leading item under CBERA in 1998 (table 2-8). Footwear upper imports, mostly from the Dominican Republic, peaked in 1994.[49] The decline thereafter is attributed to the enhanced competitiveness of Mexican footwear following the devaluation of the Mexican peso in 1994.[50]

The volume of U.S. pineapple imports from CBERA countries increased by 26.9 percent from 1997 to 1998. CBERA countries are the principal U.S. source of pineapples—especially Costa Rica, which, in value, supplied 88.0 percent of all U.S. imports from the world in 1998. Honduras supplied 10.7 percent of the total. The so-called gold pineapple, a popular yellow variety, is produced in Costa Rica and was primarily responsible for the increase in the volume sold during the year.[51] The 5.7 percent drop in the value of U.S. pineapple imports from 1997 to 1998 apparently resulted from lower prices, at least for the green variety. Hurricane Mitch had little impact on pineapple production, even in Honduras.[52]

Methyl alcohol (methanol) imports under CBERA were up by 28.0 percent in quantity in 1998. Nonetheless, they plummeted by 36.2 percent in value when average unit values of imports fell to one-half their 1997 amount during the year. Virtually all methanol from CBERA countries originates in Trinidad and Tobago, and virtually all enters under CBERA.

The value of U.S. imports of frozen orange juice under CBERA edged up by 2.1 percent in 1998. Imports from Costa Rica increased by 30.9 percent, but imports from Belize plummeted by 58.6 percent, presumably in large part because of the crop damage by Hurricane Mitch and drought during early 1998. According to representatives of the Costa Rican industry, exports to the United States increased in 1998 largely because trees had matured and soil treatments had improved, increasing yields.[53] Costa Rica was the third-largest U.S. supplier of frozen orange juice among all countries (after Brazil and Mexico), followed by Belize and Honduras.

The list of the 20 leading items imported from CBERA countries was almost identical in 1998 and 1997 except for two new items. A 20 percent increase in the value of ethyl alcohol (ethanol) imports under CBERA (28.8 percent in volume) brought that item back on the list of the 20 leading imports in 1998 for the first time since 1996. Imports from CBERA countries of ethanol, all under CBERA, accounted for 27.5 percent of U.S. imports from all countries during the year. Since 1993, Jamaica has been the second leading ethanol supplier among all countries after Saudi Arabia, and Costa Rica has generally been the third largest. Both Jamaica and Costa Rica, especially the latter, increased their ethanol entries under CBERA in 1998. However, imports from El Salvador, the sixth-largest U.S. provider of ethanol, dropped by 40.9 percent, perhaps because of sugar-crop damage or transportation problems in the wake of the hurricane.

In 1998, melons, which were up by 11.4 percent in value and 16.6 percent in volume, appeared for the first time on the list of leading imports under CBERA. Virtually all imports were entered under the program. After Mexico, four CBERA countries—Costa Rica, Panama, Guatemala, and Honduras—were the principal U.S. suppliers of melons, collectively accounting for close to one-half of total U.S. melon imports. Imports grew from each country, especially from Panama and Guatemala.

The two items that disappeared in 1998 from the 1997 list of 20 leading imports were beef and disposable hospital apparel. Beef (HTS subheading 0202.30.50) imports under CBERA continued their steep decline of recent years. In 1995, 5.6 percent of U.S. imports from all countries of this subheading came from CBERA countries; this share dropped to 2.2 percent by 1998. The decline was caused by abundant domestic beef supply in the United States and competition from U.S. imports from Canada. In 1998, imports dropped sharply from each supplier—Nicaragua, Costa Rica, and Honduras–by 47.6 percent in value and about the same in volume from all three combined. Disposable hospital apparel (HTS subheading 6210.10.50) continued to enter under CBERA, principally from Honduras, but the amount of imports no longer qualified them among the 20 leading items under CBERA in 1998.

[49] At the time CBERA was implemented, footwear was ineligible under the Act. In 1990, Section 222 of the Caribbean Basin Economic Recovery Expansion Act of 1990 authorized duty-free entry of finished footwear provided it was assembled in a CBERA country entirely from U.S.-made components.

[50] Public- and private-sector representatives, USITC staff interviews, Santo Domingo, June 8-9, 1998.

[51] Industry representatives, USITC staff interviews, San Jose, Costa Rica, June 11, 1999.

[52] Ibid.

[53] Industry representatives, USITC staff interviews, San Jose, Costa Rica, June 14, 1999.

Imports by Country

The year 1998 was the first year in which imports under CBERA declined from several beneficiaries (table 2-9). U.S. imports dropped from countries that suffered from Hurricane Mitch, including Guatemala, Honduras, Nicaragua, El Salvador, and Belize, as well as from Haiti, which was struck by Hurricane Georges. The hurricanes, however, were only one contributing factor to the declines. Belize was the only country affected by a hurricane from which both U.S. imports overall and imports under CBERA were smaller in 1998 than in 1997. At the same time, imports under CBERA declined from some other countries that were not touched by natural disasters, including Trinidad and Tobago, Panama, Guyana, and Barbados. Other factors, principally smaller sugar allocations and declines in the prices of major export items, may have played a role.

The Dominican Republic, Costa Rica, Guatemala, and Honduras continued to be leading suppliers under CBERA in 1998, as well as leading sources of overall U.S. imports from CBERA countries (table 2-4). These four countries have consistently accounted for more than two-thirds of U.S. imports under CBERA; in 1998, they accounted for nearly four-fifths of the total (figure 2-4).

Since the beginning of CBERA's implementation, the Dominican Republic has been the number one supplier under the program. Its leading role, both for U.S. imports from CBERA countries overall as well as imports entered under CBERA, can be explained by its policy of providing incentives for companies operating in FTZs, its relatively well developed infrastructure, an adequate supply of labor at competitive wages, and strong ties with the United States. Nonetheless, officials and investors believe that competitive advantages in Mexico's favor, including better infrastructure and cheaper currency, are presently clouding the country's prospects.[54]

In 1998, U.S. imports under CBERA from the Dominican Republic amounted to $1.3 billion, which, despite Hurricane Georges[55] and smaller sugar quotas, was 14.0 percent more than in 1997. Growth of imports was accounted for principally by medical instruments, electrical goods, and jewelry. The Dominican Republic accounted for 40.2 percent of all imports under CBERA in 1998, compared with 35.4 percent in 1997 (table 2-9, figure 2-4); it was the leading CBERA country supplier of 8 out of the 20 leading items imported under CBERA preferences (table 2-8). Cigars continued to be the leading CBERA item from the Dominican Republic. Medical instruments, which in 1998 were entered in larger proportions under CBERA than ever before, replaced raw sugar as the second leading item. Also notable in 1998 was the increase in imports from the Dominican Republic of circuit breakers and jewelry (table D-1).

U.S. imports under CBERA from Costa Rica amounted to $756.6 million in 1998, just 1.4 percent more than in 1997. However, Costa Rica's share of all U.S. imports under CBERA has more than doubled since CBERA's inception, from 11.4 percent in 1984 to 23.3 percent in 1997 and 23.5 percent in 1998, reflecting, in large part, rapidly increasing sales of electronic products.[56] CBERA is widely regarded as a major factor in the country's economic diversification.[57] Costa Rica supplied 6 of the 20 leading imports under CBERA in 1998, including parts of telephonic switching apparatus, pineapples, and orange juice (table 2-8).

Parts of telephonic apparatus displaced pineapples as the leading entry from Costa Rica under CBERA during the year. Entries surged by 121.9 percent (table D-1). Orange juice, handbags, and ethanol were other major items from Costa Rica, with rising imports under CBERA in 1998. In contrast, imports of several other CBERA items, including jewelry and electrical resistors, decreased. Lower prices depressed import values of pineapples and cantaloupes.

U.S. imports under CBERA from Guatemala amounted to $268.9 million in 1998, a decline of 5.2 percent from 1997. Yet, Guatemala retained its longstanding third rank among CBERA suppliers. Growth in imports of organic chemicals, vegetables, and tobacco products have partially offset the significant loss of sugar imports from Guatemala (table D-1). The category "other sugar" (HTS subheading 1701.11.20) was nonetheless the only

[54] Public- and private-sector representatives, USITC staff interviews, Santo Domingo, June 8-9, 1998.

[55] President Fernandez assessed economic damage from Hurricane Georges at $1.4 billion, nearly 10 percent of GDP (U.S. Department of State telegram, "Hurricane Disaster in the Dominican Republic," message reference No. 04751, prepared by U.S. Embassy, Santo Domingo, Sep. 29, 1998.) The hurricane caused extensive damage to 4 of the Dominican Republic's 40 foreign trade zones.

[56] Table D-1 shows that in 1990, items in the "electrical machinery" chapter accounted for 7.1 percent of imports under CBERA from Costa Rica. The comparable number in 1998 was 28.6 percent.

[57] Public- and private-sector representatives, USITC staff interviews, San Jose, Costa Rica, June 10-15, 1999.

Table 2-9
U.S. imports for consumption under CBERA, by source, 1984, 1988, 1992, 1994, 1997, and 1998

Source	1984	1988	1992	1994	1997	1998
	Value (1,000 dollars)					
Dominican Republic	222,462	248,819	567,738	751,028	1,136,523	1,294,533
Costa Rica	65,756	153,417	294,937	478,109	746,354	756,579
Guatemala	43,442	85,326	192,955	171,381	270,268	268,869
Honduras	60,198	57,608	112,512	139,838	263,814	236,073
Trinidad and Tobago	6,422	42,228	44,695	142,901	226,244	186,219
Jamaica	44,737	42,215	48,156	69,316	74,515	102,178
Panama[1]	11,787	18,241	23,753	35,141	81,064	77,453
Nicaragua[2]	-	-	40,018	80,554	135,340	72,694
El Salvador	71,986	22,485	27,249	41,126	81,799	50,206
The Bahamas[3]	-	12,013	93,324	45,062	25,132	34,914
Haiti	21,856	83,933	19,151	15,770	31,194	28,167
St. Kitts and Nevis	5,757	9,417	14,172	17,220	24,636	25,428
Guyana[4]	-	131	1,202	13,100	28,512	24,617
Barbados	13,376	19,125	15,478	21,313	24,983	20,392
Belize	4,621	19,180	23,733	13,112	34,710	19,706
Grenada	2	120	1,081	768	4,071	8,242
St. Lucia	1,413	3,007	3,957	6,077	5,263	7,802
St. Vincent and the Grenadines	55	9,990	165	1,299	2,373	3,532
Netherlands Antilles	2,504	2,917	2,964	3,214	3,862	2,775
Dominica	9	358	1,008	2,112	1,557	1,858
Aruba[5]	-	-	10	12	166	1,779
British Virgin Islands	207	56	68	11	262	333
Antigua Barbuda	114	255	324	809	522	214
Montserrat	-	118	41	886	4,679	-
Total	576,704	830,958	1,528,690	2,050,158	3,207,842	3,224,564

See footnotes at end of table.

Table 2-9—*Continued*
U.S. imports for consumption under CBERA, by source, 1984, 1988, 1992, 1994, 1997, and 1998

Source	1984	1988	1992	1994	1997	1998
			Percent of total			
Dominican Republic	38.57	29.94	37.14	36.63	35.43	40.15
Costa Rica	11.40	18.46	19.29	23.32	23.27	23.46
Guatemala	7.52	10.27	12.62	8.36	8.43	8.34
Honduras	10.40	6.93	7.36	6.82	8.22	7.32
Trinidad and Tobago	1.11	5.08	2.92	6.97	7.05	5.78
Jamaica	7.76	5.08	3.15	3.38	2.32	3.17
Panama[1]	2.04	2.20	1.55	1.71	2.53	2.40
Nicaragua[2]	-	-	2.62	3.93	4.22	2.25
El Salvador	12.48	2.71	1.78	2.01	2.55	1.56
The Bahamas[3]	-	1.45	6.10	2.20	.78	1.08
Haiti	3.79	10.10	1.25	.77	.97	.87
St. Kitts and Nevis	1.00	1.13	.93	.84	.77	.79
Guyana[4]	-	.02	.08	.64	.89	.76
Barbados	2.32	2.30	1.01	1.04	.78	.63
Belize	.80	2.31	1.55	.64	1.08	.61
Grenada	-	.01	.07	.04	.13	.26
St. Lucia	.24	.36	.26	.30	.16	.24
St. Vincent and the Grenadines	.01	1.20	.01	.06	.07	.11
Netherlands Antilles	.43	.35	.19	.16	.12	.09
Dominica	-	.04	.07	.10	.05	.06
Aruba[5]	-	-	-	.00	.01	.06
British Virgin Islands	.04	.01	-	.00	.01	.01
Antigua Barbuda	.02	.03	.02	.04	.02	.01
Montserrat	-	.01	.00	.04	.15	.00
Total	100.00	100.00	100.00	100.00	100.00	100.00

[1] Panama was suspended as a CBERA beneficiary on Apr. 9, 1988 (Presidential Proclamation 5779, Mar. 23, 1988). It was reinstated on Mar. 17, 1990 (Presidential Proclamation 6103, Feb. 28, 1990).

[2] Nicaragua was designated as a CBERA beneficiary, effective Nov. 13, 1990 (Presidential Proclamation 6223, Nov. 8, 1990).

[3] The Bahamas became a CBERA beneficiary effective Mar. 14, 1985 (Presidential Proclamation 5308, Mar. 14, 1985).

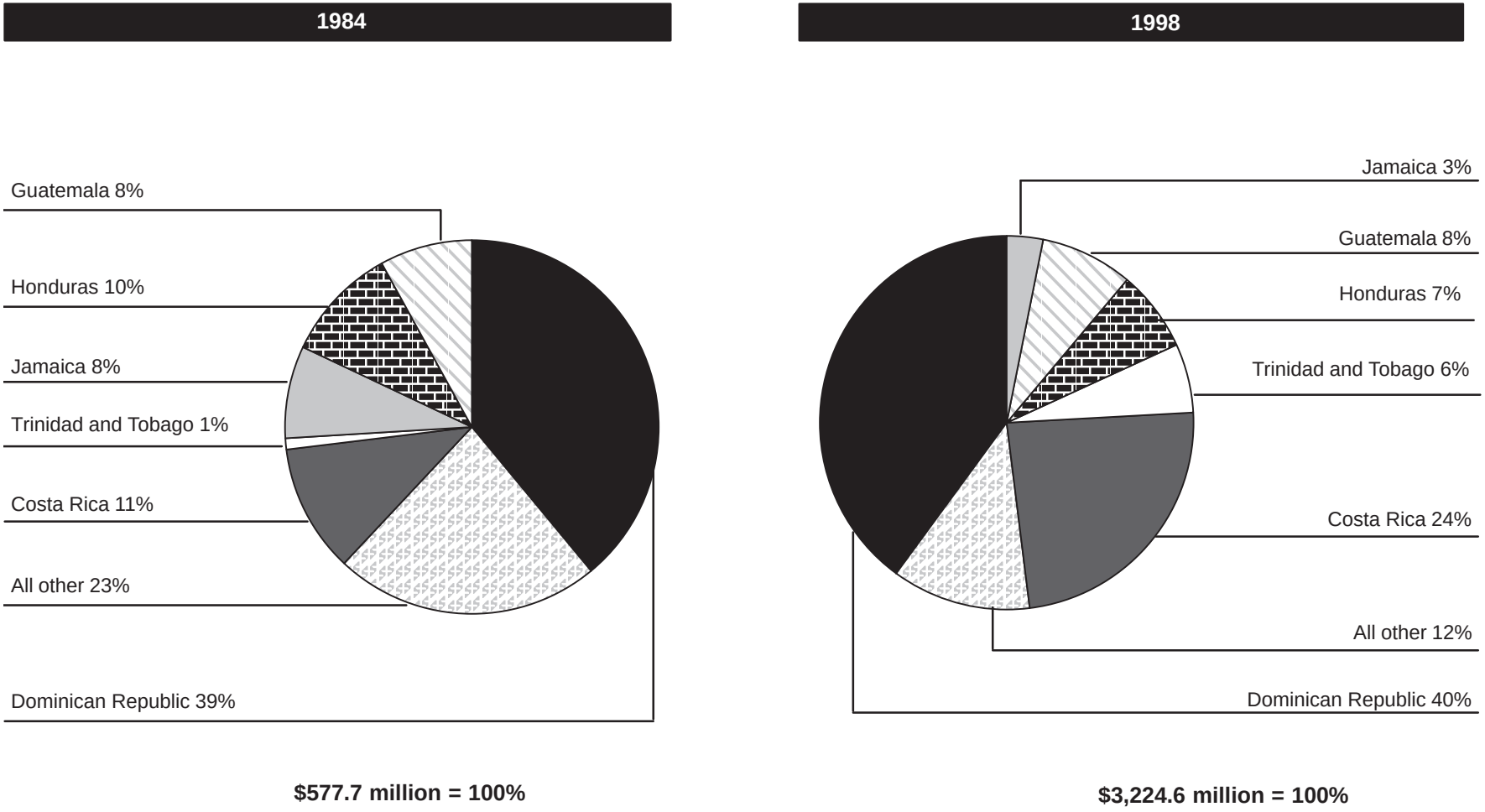
[4] Guyana became a CBERA beneficiary on Nov. 24, 1988 (Presidential Proclamation 5909, Nov. 18, 1988).

[5] Upon becoming independent of the Netherlands Antilles, Aruba was designated as a CBERA beneficiary, effective Jan. 1, 1986 (Presidential Proclamation 5458, Apr. 11, 1986).

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

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

Figure 2-4
U.S. imports for consumption under CBERA, by source, 1984 and 1998



Note.—Percentages may not add to 100 because of rounding.

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

leading item provided principally by Guatemala under CBERA (table 2-8), even though imports of this item from Guatemala shrank by 72.0 percent in value from 1997 to 1998 (table D-1).[58]

U.S. imports from Honduras under CBERA amounted to $236.1 million in 1998, 10.5 percent less than in 1997, reflecting in part the effect of Hurricane Mitch in the last quarter of the year. Imports of cigars, the leading CBERA item from that country, plummeted by 34.9 percent during the year. Import values of several other leading CBERA items, including footwear uppers, cane sugar, baseballs and softballs, and orange juice, also declined (table D-1). Imports of furniture were up, however, by 32.1 percent, and imports of cantaloupes edged up. Cantaloupes (HTS subheading 0807.19.20) constituted the only item among the 20 leading items for which Honduras was the principal CBERA supplier during 1998 (table 2-8).

Trinidad and Tobago was the fifth-ranking CBERA beneficiary in both 1997 and 1998. U.S. imports from Trinidad and Tobago declined both overall and under CBERA in 1998. Imports under CBERA amounted to $186.2 million, declining by 17.7 percent as entries under the program were reduced for two leading items that originate principally in Trinidad and Tobago: hot-rolled steel bars and rods and, especially, methanol (table 2-8). Those two items combined accounted for 78.5 percent of all imports under CBERA from Trinidad and Tobago in 1997, but for only 68.4 percent in 1998.

Plunging unit values caused a 36.2 percent drop in the value of methanol imports, even though such imports continued to rise by volume. In 1998, Trinidad and Tobago continued to be the number one U.S. supplier of methanol among all countries of the world (followed by Canada), and the only supplier under CBERA. Similarly, lower prices caused imports of hot-rolled steel bars and rods to drop by 4.9 percent in value. Yet, iron and steel bars became the number one item from Trinidad and Tobago in 1998, displacing methanol. Trinidad and Tobago was especially hard hit by declining commodity prices during the year.[59]

U.S. imports under CBERA dropped significantly from Nicaragua and El Salvador, even though overall U.S. imports from both countries edged up during the year (table 2-9). In Nicaragua's case, plummeting entries of three leading items under the program—higher-priced cigars, sugar, and meat—caused the decline. In El Salvador's case, smaller entries of sugar products and ethanol were the major cause (table D-1).

U.S. imports from Belize and Panama fell both overall as well as under CBERA. In the case of Belize, which was affected by Hurricane Mitch, sugar and orange juice were responsible for the decline. In Panama's case, sugar was principally responsible for the decline of imports under CBERA. Sugar imports from Haiti declined also, even though overall imports continued to recover from that country despite Hurricane Georges. Similarly, overall imports from Guyana were up, but imports under CBERA declined as a result of smaller entries of leading items: sugar and plywood sheets.

Jamaica was one of the few CBERA countries whose entries under CBERA were larger in 1998 than in 1997, by 37.1 percent. Consequently, Jamaica ranked as the sixth-largest beneficiary of the program, up from ninth place in 1997, largely because of rising imports of higher priced cigars and ethanol. Ethanol was the one leading item under CBERA that originated principally in Jamaica. Other leading imports under CBERA from Jamaica also increased, including yams, malt beer, and sugar (table D-1).[60]

The Bahamas was another beneficiary whose entries under CBERA were up in 1998, by 38.9 percent, owing to expandable polystyrene. This product, new from The Bahamas in 1997, became the leading import item under CBERA from that country in 1998. U.S. imports of expandable polystyrene grew fast from 1992 to 1997, principally from Canada, Korea, and Mexico. In 1998, however, The Bahamas became the second-largest source of these imports after Canada, but before Korea and Mexico.

[58] HTS subheading 1701.11.20 is not subject to quotas.

[59] Winston Dookeran, Governor of Trinidad and Tobago's Central Bank, attributed the slowing of the country's economic growth in 1998 (3.7 percent instead of the projected 5 percent) to the 8 percent decline in the terms of trade–especially to lower prices of oil, ammonia, methanol, urea, and iron and steel (*Caribbean Update*, April 1999, p. 19).

[60] Although U.S. imports of sugar increased from Jamaica, it should be noted that prolonged drought and technical problems reduced that country's sugar production to 185,000 tons from the 1998 harvest, compared with 237,000 tons from the 1997 harvest (*Caribbean Insight*, Sep. 1998).

Notable were higher 1998 import values from certain small beneficiaries under CBERA, including Grenada (electrical goods), St. Lucia (television antennas), and St. Vincent and the Grenadines (jewelry).

Exports

In 1998, U.S. exports to CBERA countries continued to rise, despite lower prices of certain major export items. Exports totaled $19.2 billion, 7.8 percent more than in 1997. CBERA countries collectively ranked sixth as an export market for the United States, ahead of such markets as the Netherlands and Taiwan, but behind the United Kingdom and Germany. Their importance among other U.S. export markets continued to rise during the year; as recently as 1996 and 1997, CBERA countries combined ranked lower, as only the ninth-largest U.S. export market. The principal causes of rapidly growing U.S. exports throughout the 1990s include rising living standards and brisk construction activity in the region, as well as rapidly increasing production-sharing arrangements and free-trade zone assembly operations of Caribbean countries with the associated expansion of infrastructure.

The Dominican Republic, Honduras, Costa Rica, and Guatemala continued to be the principal Caribbean markets for the United States, collectively responsible for 53.2 percent of all U.S. exports to CBERA countries in 1998. Panama, El Salvador, and Jamaica accounted for nearly one quarter of those exports (table 2-10).

Four of the leading export items in 1998 are included in HTS chapter 62, articles of apparel not knitted (table 2-11). One of these—parts of garments or of clothing accessories, not knitted (HTS subheading 6217.90.00)—was the number one U.S. export item to CBERA countries. Exports of those goods surged by 44.4 percent in 1998, rising especially to Honduras and El Salvador. Three additional apparel items (classified in the knitted apparel category in HTS chapter 61) were among the 20 leading exports. The apparel items were mostly semifinished products exported to be assembled in low-wage Caribbean countries and then returned to the United States for further processing, packaging, and distribution.

Floating or submersible drilling platforms, used for the discovery and exploitation of off-shore petroleum and natural gas deposits, were the fastest growing HTS 8-digit export item in 1998. Shipments amounting to $165.2 million went to the Netherlands Antilles during the year, whereas in 1997, shipments valued at $96.8 million of this equipment were destined for Trinidad and Tobago. Lower prices made certain exports to CBERA countries decline in value during 1998. Those items included petroleum products (distillate and residual fuel oils, and motor fuel), cereals (corn and wheat), and soybean meal—all major export items (table 2-11). Exports of soybean meal also dropped in volume to certain major CBERA recipients, including the Dominican Republic, where Hurricane Georges destroyed poultry and hog operations and associated demand for soybean meal as animal feed.

Apparel (both knitted and not knitted), motor vehicles, industrial machinery and parts of machinery (both electrical and nonelectrical) predominate in U.S. exports to CBERA countries, and there is a large “all other” category, which contains a wide spectrum of exports (table 2-12 and figure 2-5). The composition of U.S. exports to CBERA countries has changed in the 1990s insofar as apparel-related exports gained importance at the expense mostly of agricultural and horticultural products, mineral oils, and minerals and metals.[61]

Exports of nonelectrical machinery and mechanical equipment (HTS chapter 84), the leading category in 1998, were dispersed among several products, only one of which—parts of boring or sinking machinery (HTS subheading 8431.43.80)—qualified among the 20 leading export items based on 8-digit HTS classification.

[61] See also USITC, *Caribbean Basin Economic Recovery Act: Impact on U.S. Industries and Consumers, Thirteenth Report, 1997,* USITC publication 3132, Sept. 1998, pp. 35-41.

Table 2-10
U.S. exports to CBERA beneficiaries, by country, 1984, 1988, 1992, 1994, 1997, and 1998

Country/Market	1984	1988	1992	1994	1997	1998
	Value (1,000 dollars)					
Dominican Republic	630,599	719,161	2,062,919	2,726,393	3,821,485	3,893,812
Honduras	304,083	228,431	790,027	982,094	1,961,351	2,276,231
Costa Rica	417,641	364,258	1,317,645	1,653,090	1,962,568	2,190,169
Guatemala	369,794	306,068	1,167,411	1,304,028	1,642,248	1,851,948
Panama	730,382	316,887	998,417	1,190,189	1,466,523	1,641,385
El Salvador	380,331	230,433	727,188	910,799	1,370,344	1,479,781
Jamaica	488,463	414,168	914,200	1,044,774	1,385,367	1,272,885
Trinidad and Tobago	587,917	171,983	438,640	531,405	1,075,954	954,960
The Bahamas	546,320	368,501	691,320	653,599	789,639	774,459
Netherlands Antilles	607,814	221,508	450,123	492,028	434,626	687,304
Haiti	405,890	246,331	213,050	208,054	491,332	538,627
Aruba	(1)	58,546	282,289	267,511	222,551	334,755
Nicaragua	109,794	3,933	180,420	178,276	278,139	323,680
Barbados	232,852	87,920	122,780	153,043	259,699	256,438
Guyana	48,641	32,844	114,210	100,738	137,394	141,014
Belize	49,462	48,795	111,363	107,001	107,016	110,728
St. Vincent and the Grenadines	(2)	20,143	33,832	37,342	53,071	90,785
Antigua Barbuda	(2)	36,618	65,549	61,892	78,787	88,913
St. Lucia	(2)	38,302	79,528	77,335	81,413	85,413
British Virgin Islands	(2)	20,844	42,263	44,539	60,988	56,047
Grenada	(2)	15,323	22,983	22,865	37,970	53,532
Dominica	(2)	2,056	32,515	25,416	36,708	50,068
St. Kitts and Nevis	(2)	20,220	30,111	42,933	36,172	42,182
Montserrat	(2)	2,970	12,911	6,661	16,518	4,975
Leeward & Windward	201,336	(2)	(2)	(2)	(2)	(2)
Total	6,111,39	3,976,242	10,901,693	12,822,006	17,807,864	19,200,093

See footnotes at end of table.

Table 2-10—*Continued*
U.S. exports to CBERA beneficiaries, by country, 1984, 1988, 1992, 1994, 1997, and 1998

Country/Market	1984	1988	1992	1994	1997	1998
	Percent of total					
Dominican Republic	10.32	18.09	18.92	21.26	21.46	20.28
Honduras	4.98	5.74	7.25	7.66	11.01	11.86
Costa Rica	6.83	9.16	12.09	12.89	11.02	11.41
Guatemala	6.05	7.70	10.71	10.17	9.22	9.65
Panama	11.95	7.97	9.16	9.28	8.24	8.55
El Salvador	6.22	5.80	6.67	7.10	7.70	7.71
Jamaica	7.99	10.42	8.39	8.15	7.78	6.63
Trinidad and Tobago	9.62	4.33	4.02	4.14	6.04	4.97
The Bahamas	8.94	9.27	6.34	5.10	4.43	4.03
Netherlands Antilles	9.95	5.57	4.13	3.84	2.44	3.58
Haiti	6.64	6.20	1.95	1.62	2.76	2.81
Aruba	([1])	1.47	2.59	2.09	1.25	1.74
Nicaragua	1.80	.10	1.66	1.39	1.56	1.69
Barbados	3.81	2.21	1.13	1.19	1.46	1.34
Guyana	.80	.83	1.05	.79	.77	.73
Belize	.81	1.23	1.02	.83	.60	.58
St. Vincent and the Grenadines	([2])	.51	.31	.29	.30	.47
Antigua Barbuda	([2])	.92	.60	.48	.44	.46
St. Lucia	([2])	.96	.73	.60	.46	.44
British Virgin Islands	([2])	.52	.39	.35	.34	.29
Grenada	([2])	.39	.21	.18	.21	.28
Dominica	([2])	.05	.30	.20	.21	.26
St. Kitts and Nevis	([2])	.51	.28	.33	.20	.22
Montserrat	([2])	.07	.12	.05	.09	.03
Leeward & Windward	3.29	([2])	([2])	([2])	([2])	([2])
Total	100.00	100.00	100.00	100.00	100.00	100.00

[1] U.S. exports to Aruba not reported separately until January 1, 1988. Prior to that date, these exports were combined with the Netherlands Antilles.

[2] U.S. exports to the British Virgin Islands, St. Kitts and Nevis, Antigua Barbuda, Montserrat, Dominica, St. Lucia, St. Vincent and the Grenadines, and Grenada were not reported separately until January 1, 1988. Prior to that date, these exports were combined in the Leeward and Windward Islands.

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

Table 2-11
Leading U.S. exports to CBERA countries, 1997-98

HTS Number	Description	1997	1998	Change 1997/1998
		Value (1,000 dollars)		*Percent*
6217.90.00	Parts of garments or of clothing accessories, not knitted or crocheted, other than those of heading 6212	565,177	816,239	44.42
6203.42.40	Men's or boys' trousers and shorts, not bibs, not knitted or crocheted, of cotton, not containing 15% or more by weight of down, etc	452,938	469,367	3.63
6109.10.00	T-shirts, singlets, tank tops and similar garments, knitted or crocheted, of cotton	447,395	428,847	-4.16
6212.10.00	Brassieres, containing lace, net or embroidery	272,844	279,285	2.36
1005.90.20	Yellow dent corn	280,554	233,886	-16.63
2710.00.05	Distillate and residual fuel oils (including blends) derived from bituminous minerals, testing under 25 degrees A.P.I.	273,361	227,840	-16.65
8431.43.80	Parts for boring or sinking machinery of 8430.41 or 8430.49, nesi	177,414	225,480	27.09
2710.00.10	Distillate and residual fuel oils (including blends) derived from bituminous minerals, testing 25 degrees A.P.I. or more	242,428	224,462	-7.41
1001.90.20	Wheat & meslin other than durum or seed wheat	236,486	201,624	-14.74
8703.23.00	Motor cars & other motor vehicles for transport of persons, w/spark-ignition internal combustion reciprocating piston engine w/cyl. cap. o/1500 cc n/o 3000 cc	170,530	176,591	3.55
6204.62.40	Women's or girls' trousers, breeches and shorts, not knitted or crocheted, of cotton, nesoi	134,574	171,005	27.07
2304.00.00	Oilcake and other solid residues, resulting from the extraction of soybean oil	209,179	167,153	-20.09
6115.11.00	Panty hose and tights, knitted or crocheted, of synthetic fibers, measuring per single yarn less than 67 decitex	133,964	165,550	23.58
8905.20.00	Floating or submersible drilling or production platforms	96,804	165,209	70.66
8473.30.00	Parts and accessories of the ADP machines of heading 8471, (automatic data processing machines & units thereof): not incorporating a cathode ray tube	116,148	158,201	36.21
2710.00.15	Motor fuel, from petroleum oils and bituminous minerals, o/than crude, or preps, 70%+ by wt. from petroleum oils	218,803	143,936	-34.22
4804.11.00	Uncoated, unbleached kraftliner, in rolls or sheets	137,545	139,766	1.61
6105.10.00	Men's or boys' shirts, knitted or crocheted, of cotton	115,704	137,323	18.68
4407.10.00	Coniferous wood sawn or chipped lengthwise, sliced or peeled, of a thickness exceeding 6 mm	150,122	134,202	-10.60

Table 2-11—*Continued*
Leading U.S. exports to CBERA countries, 1997-98

HTS Number	Description	1997	1998	Change 1997/1998
		Value (1,000 dollars)		*Percent*
2401.10.20	Tobacco, not stemmed (stripped), containing over 35 percent wrapper tobacco	121,738	130,622	7.30
	Total of above	4,553,709	4,796,589	5.33
	All other	13,254,154	14,403,504	8.67
	Total all commodities	17,807,864	19,200,093	7.82

Note.—Because of rounding, figures may not add to totals shown. The abbreviation nesi stands for “not elsewhere specified or included.” The abbreviation nesoi stands for “not elswhere specified or otherwise included.”

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

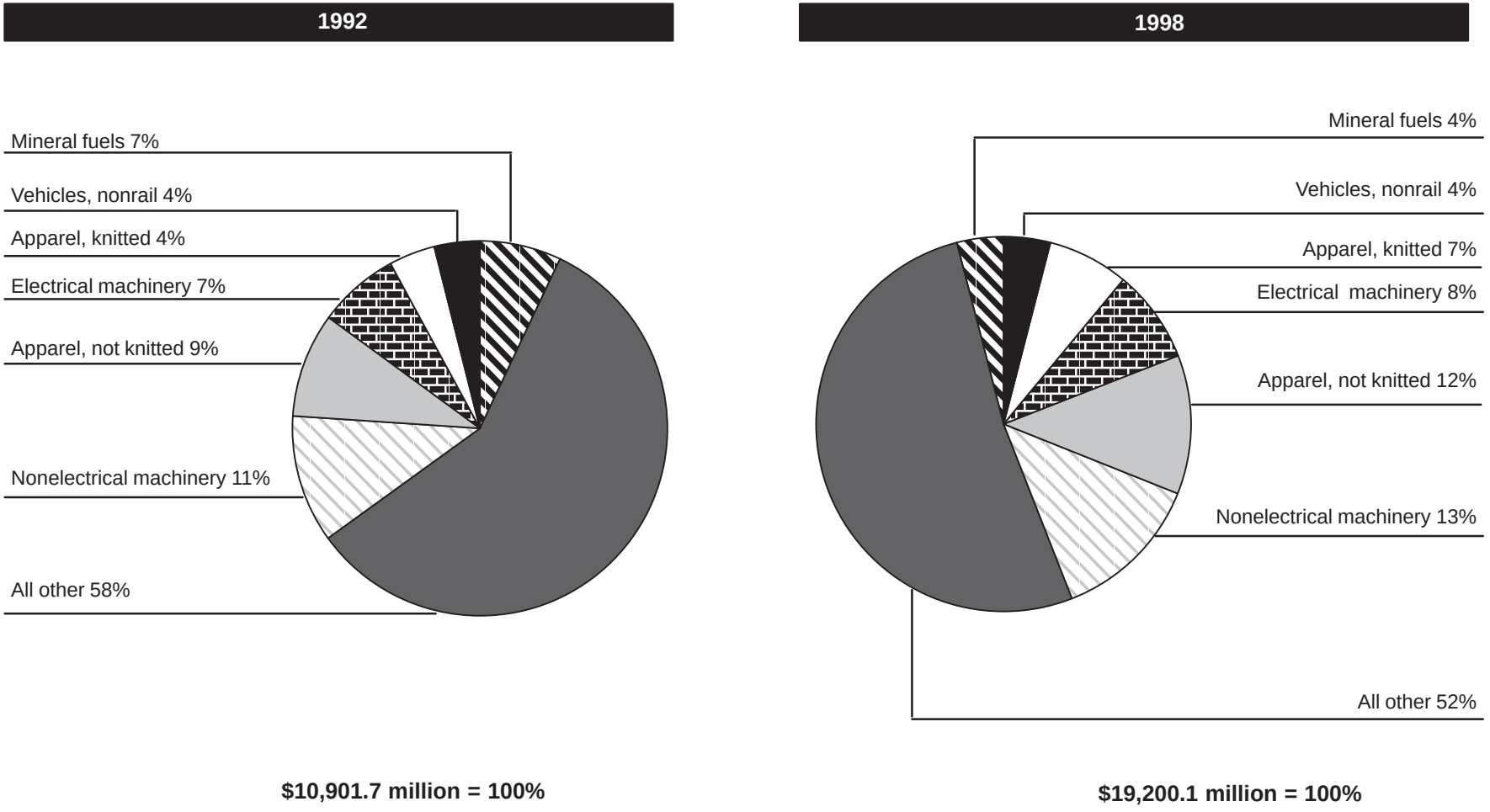
Table 2-12
Leading U.S. exports to CBERA countries, by major product categories, 1992, 1994, 1997, and 1998

HTS Chapter	Description	1992	1994	1997	1998
		Value (1,000 dollars)			
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	1,175,543	1,519,615	2,096,714	2,473,651
62	Articles of apparel and clothing accessories, not knitted or crocheted	992,032	1,424,350	2,145,227	2,315,880
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television recorders and reproducers, parts and accessories	723,160	993,680	1,254,810	1,548,832
61	Articles of apparel and clothing accessories, knitted or crocheted	470,398	613,266	1,398,051	1,418,234
87	Vehicles, other than railway or tramway rolling stock, and parts and accessories thereof	462,741	654,697	697,749	773,252
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	794,230	688,550	928,231	771,586
10	Cereals	434,910	492,300	740,436	673,609
48	Paper and paperboard, articles of paper pulp, paper or paperboard	416,921	489,713	606,874	645,068
39	Plastics and articles thereof	402,557	509,198	644,332	629,926
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof	253,181	282,588	363,826	419,184
	Total of above	6,125,674	7,667,957	10,876,250	11,669,223
	All other	4,776,019	5,154,049	6,931,614	7,530,870
	Total all commodities	10,901,693	12,822,006	17,807,864	19,200,093
		Percent of total			
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	10.78	11.85	11.77	12.88
62	Articles of apparel and clothing accessories, not knitted or crocheted	9.10	11.11	12.05	12.06
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television recorders and reproducers, parts and accessories	6.63	7.75	7.05	8.07
61	Articles of apparel and clothing accessories, knitted or crocheted	4.31	4.78	7.85	7.39
87	Vehicles, other than railway or tramway rolling stock, and parts and accessories thereof	4.24	5.11	3.92	4.03
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	7.29	5.37	5.21	4.02
10	Cereals	3.99	3.84	4.16	3.51
48	Paper and paperboard, articles of paper pulp, paper or paperboard	3.82	3.82	3.41	3.36
39	Plastics and articles thereof	3.69	3.97	3.62	3.28
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof	2.32	2.20	2.04	2.18
	Total of above	56.19	59.80	61.08	60.78
	All other	43.81	40.20	38.92	39.22
	Total all commodities	100.00	100.00	100.00	100.00

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

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

Figure 2-5
Composition of U.S. exports to CBERA countries, by major product categories, 1992 and 1998



Note.—Percentages may not add to 100 because of rounding.
Source: Compiled from official statistics of the U.S. Department of Commerce.

CHAPTER 3
Impact of CBERA on the United States and Probable Future Effects

Two issues are addressed in this chapter: the impact of the CBERA preference program on the United States in 1998 and the probable future effects of the program. Items most affected by the CBERA preferences were identified in an impact analysis. Information on CBERA-related investment in the beneficiary countries was the main basis for the write-up on probable future effects. This information was collected during a field visit to Costa Rica as well as from U.S. embassies in the other countries of the region.

Impact of CBERA on the United States in 1998

Since its implementation in 1984, CBERA has had a minimal effect on the overall economy of the United States. In each year from 1984 through 1998, the value of CBERA duty-free U.S. imports has been less than 0.04 percent of U.S. gross domestic product (GDP). As pointed out in chapter 2, the total value of U.S. imports from CBERA countries remained small in 1998, amounting to 1.9 percent of total U.S. imports.

In addition, the value of the CBERA program to beneficiary countries and its potential for affecting the U.S. economy, consumers, and industries, have fallen since its implementation because of the erosion of the margin of preference for many products.[1] Sources of this erosion include the final (through 1987) phased tariff cuts under the Tokyo Round of tariff reductions, phased tariff cuts under the Uruguay Round of trade concessions, tariff cuts and eliminations under sectoral trade negotiations, the extension of preferential trading arrangements under NAFTA and ATPA, and the erosion of the ad valorem equivalent of specific duties because of inflation.[2]

Because most U.S. imports from CBERA countries can enter the United States free of duty at general rates or under GSP, or are excluded from the program, the Commission focused its analysis of the impact of CBERA on products that can enter free of duty or at reduced duties only under CBERA and not under other programs.

It should be noted that the presence of CBERA guarantees that GSP-eligible products from CBERA beneficiary countries can enter the United States free of duty, making investment in such products more attractive than would be the case in the absence of CBERA. Investment that depends solely on GSP for duty-free preferences is riskier because of the recent uncertainties about the periodic renewals of GSP and because certain products from particular countries may exceed competitive-need limits and face loss of GSP eligibility, as discussed in chapter 1. In the analysis described in this chapter, no attempt was made to quantify those effects.

The material that follows in this section defines products that benefit exclusively from CBERA; presents quantitative estimates of the impact of CBERA on U.S. consumers, the U.S. Treasury, and U.S. industries whose goods compete with CBERA imports; and describes the U.S. imports that benefited exclusively from CBERA in 1998 and had the largest potential impact on competing U.S. industries.

Products That Benefited Exclusively From CBERA in 1998

U.S. imports of products benefiting exclusively from CBERA are defined as those that enter under

[1] The higher the ad valorem column 1-general duty rate (formerly known as the MFN duty rate) for any given product, the greater is the benefit to CBERA beneficiaries—the higher the margin of preference. CBERA beneficiaries also benefit more if the column 1-general rate is more extensively applied, that is, if fewer non-CBERA countries enjoy preferential rates.

[2] For a more detailed analysis of the erosion of the margin of preference, see USITC, *CBERA, Thirteenth Report, 1997*, pp. 53-56.

either CBERA duty-free or CBERA reduced-duty provisions and are not eligible to enter free of duty under column 1-general rates or under other programs, such as GSP. Consistent with this definition, GSP-eligible items imported from CBERA countries that entered under CBERA preferences are considered to benefit exclusively from CBERA only if they originated in a country that is not currently a designated GSP beneficiary or if imports of the item from a certain country exceeded GSP competitive-need limits.[3]

Since the implementation of the CBERA program, U.S. imports that benefit exclusively from CBERA have accounted for a relatively small portion of total U.S. imports from CBERA countries; this portion rose steadily through 1993, mainly through growth of imports of products that exceeded GSP competitive-need limits. This portion fell slightly in 1994, increased significantly in 1995 and 1996, and then returned in 1997 to roughly the level of the 1994 share. The 1998 share was slightly higher than the 1997 share (table 3-1). The "exclusively benefiting" shares were markedly higher in 1995 and 1996, mainly because of the lapse in the GSP program from August 1, 1995 through September 30, 1996, and subsequent increased use of CBERA provisions to ensure duty-free entry.[4]

[3] In 1998, the Netherlands Antilles, Aruba, Nicaragua, and The Bahamas were the only CBERA countries that were not designated GSP-beneficiary countries.

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

[4] The U.S. GSP program was not in effect from Aug. 1, 1995 through Sept. 30, 1996. Consequently, articles eligible for GSP duty-free entry were subject to ordinary column 1-general duties during this period unless the articles were eligible to enter under another preferential program, such as CBERA, and were entered under that program. The analysis used in the 1995 and 1996 CBERA reports implicitly assumed that importers did not expect the GSP program to be reinstated or the duties to be refunded; therefore, products normally eligible for GSP that entered the United States under CBERA provisions during that period were counted as having benefited exclusively from CBERA. Hence, the effects of duty-free entry of those otherwise GSP-eligible products were attributed to CBERA for the period Aug. 1, 1995 through Sept. 30, 1996, which resulted in higher estimates of the effects of CBERA than would have been the case if the GSP program had been operative during that period. See USITC, *CBERA, Twelfth Report, 1996*, pp. 35-36, for further explanation.

Because of the assumptions about GSP made in the 1995 and 1996 CBERA reports, the findings derived from the analysis in those reports are not strictly comparable to the findings in subsequent reports in this series or in reports previous to the 1995 report, despite the similar analytical approach used. Although GSP lapsed in both 1997 and 1998, the lapses were considerably shorter than in 1995 and 1996, and quick renewals were widely anticipated. Therefore, those lapses were not considered significant enough to warrant a repeat in the 1997 and current reports of the assumptions used in the 1995 and 1996 reports. The lower estimates for 1997 and 1998 derive from the assumptions used in designating items that benefit exclusively from CBERA, not from the change in actual usage.

Table 3-1
Total imports from CBERA beneficiaries, imports entered under CBERA, and imports that benefited exclusively from CBERA, 1994-98

Item	1994	1995	1996	1997	1998
Total imports from CBERA beneficiaries:					
Value (*million dollars*[1])	11,200	12,550	14,545	16,572	17,124
Imports entered under CBERA provisions:[2]					
Value (*millions dollars*[1])	2,050	2,261	2,791	3,208	3,225
Percent of total	18.3	18.0	19.2	19.4	18.8
Imports that benefited exclusively from CBERA provisions:					
Value (*million dollars*[1])	943	1,405	2,324	1,478	1,614
Percent of total	8.4	11.2	16.0	8.9	9.4

[1] Customs value.
[2] Includes articles entered free of duty or at reduced duties under CBERA provisions (table 2-6). Those provisions are discussed in ch. 1.

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

Table 3-2
Value of leading imports that benefited exclusively from CBERA, 1998
(1,000 dollars)

HTS number	Description	Customs value	C.i.f. value
2402.10.80[1]	Cigars, cheroots and cigarillos containing tobacco, each valued 23 cents or over	229,195	231,901
9018.90.80[2]	Instruments and appliances used in medical, surgical, dental or veterinary sciences, nesi, and parts and accessories thereof	214,462	216,361
6406.10.65[3]	Uppers & pts. thereof for footwear, nesi, of leather	172,557	174,668
1701.11.10[4]	Cane sugar, raw, in solid form, w/o added flavoring or coloring, subject to add. US 5 to Ch.17	125,328	132,804
7113.19.50[5]	Precious metal (o/than silver) articles of jewelry and parts thereof, whether or not plated or clad with precious metal, nesi	124,138	124,348
0804.30.40	Pineapples, fresh or dried, not reduced in size, in crates or other packages	68,510	86,743
2905.11.20[6]	Methanol (Methyl alcohol), other than imported only for use in producing synthetic natural gas (SNG) or for direct use as fuel	57,779	68,102
7213.91.30	Wire rod of Iron or nonalloy steel	59,430	63,954
2009.11.00	Orange juice, frozen, unfermented and not containing added spirit	39,742	42,391
2207.10.60	Undenatured ethyl alcohol of 80 percent vol. alcohol or higher, for nonbeverage purposes	33,659	36,017
2921.43.15	Alpha,alpha,alpha-Trifluoro-2,6-dinitro-N,N-dipropyl-p-toluidine(Trifluralin)	26,518	26,747
0710.80.97	Vegetables nesi, uncooked or cooked by steaming or boiling in water, frozen, reduced in size	21,494	26,575
6210.10.50	Nonwoven disposable apparel designed for use in hospitals, clinics, etc.	25,203	26,411
1701.11.20[7]	Cane sugar, raw, in solid form, to be used for certain polyhydric alcohols	22,990	24,440
2401.20.85	Tobacco, partly or wholly stemmed/stripped, threshed or similarly processed, not from cigar leaf , described in addl US note 5 to chap 24	22,402	22,822
8533.40.80	Electrical variable resistors, other than wirewound, including rheostats and potentiometers	20,878	21,032
0202.30.50	Frozen boneless beef, except processed	18,659	20,523
0714.10.20[8]	Cassava (manioc), fresh, chilled or dried, whether or not sliced or in the form of pellets	15,216	18,627
0201.30.50	Fresh or chilled boneless beef, except processed	16,823	17,873
4202.21.90[9]	Handbags, with or without shoulder strap or without handle, with outer surface of leather, composition or patent leather, nesi, over $20 ea.	16,592	17,581

[1] Includes only imports from the Dominican Republic, The Bahamas, and Nicaragua. Item is GSP-eligible, but imports from the Dominican Republic exceeded the competitive-need limit and thus were eligible for duty-free entry only under CBERA. Imports from The Bahamas and Nicaragua, other suppliers of this item, were included because those countries were not designated GSP beneficiaries in 1998.

[2] Includes only imports from the Dominican Republic and Bahamas. Item is GSP-eligible, but imports from the Dominican Republic exceeded the competitive-need limit and thus were eligible for duty-free entry only under CBERA. Imports from The Bahamas, another supplier of this item, were included because that country was not a designated GSP beneficiary in 1998.

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

[4] Includes only imports from the Dominican Republic and Nicaragua. Item is GSP-eligible, but imports from the Dominican Republic exceeded the competitive-need limit and thus were eligible for duty-free entry only under CBERA. Imports from Nicaragua, another supplier of this item, were included because that country was not a designated GSP beneficiary in 1998.

[5] Includes only imports from the Dominican Republic, The Bahamas, the Netherlands Antilles, and Aruba. Item is GSP-eligible, but imports from the Dominican Republic exceeded the competitive-need limit and thus were eligible for duty-free entry only under CBERA. Imports from The Bahamas, the Netherlands Antilles, and Aruba, other suppliers of this item, were included because those countries were not designated GSP beneficiaries in 1998.

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

Table 3-2—*Continued*
Value of leading imports that benefited exclusively from CBERA, 1998

[7] Includes only imports from Guatemala and Nicaragua. Item is GSP-eligible, but imports from Guatemala exceeded the competitive-need limit and thus were eligible for duty-free entry only under CBERA. Imports from Nicaragua, another supplier of this item, were included because that country was not a designated GSP beneficiary in 1998.

[8] Includes only imports from Costa Rica and Nicaragua. Item is GSP-eligible, but imports from Costa Rica exceeded the competitive-need limit and thus were eligible for duty-free entry only under CBERA. Imports from Nicaragua, another supplier of this item, were included because that country was not a designated GSP beneficiary in 1998.

[9] Subject to reduced duties under CBERA.

Note.—The abbreviation nesi stands for "not elsewhere specified or included."

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

The value of U.S. imports that benefited exclusively from CBERA increased from $1.5 billion in 1997 to $1.6 billion in 1998, or by 9 percent (table 3-1). Such imports accounted for 9.4 percent of total U.S. imports from CBERA countries in 1998, compared with 8.9 percent in 1997.

The 20 leading items that benefited exclusively from CBERA are shown in table 3-2. The most notable change in the value of such imports was for medical instruments (HTS subheading 9018.90.80) from the Dominican Republic and The Bahamas; imports of that item increased by 156 percent from 1997 to 1998. Other notable changes occurred with respect to jewelry articles and parts (HTS subheading 7113.19.50) from the Dominican Republic, The Bahamas, the Netherlands Antilles, and Aruba, up by 113 percent; Trifluralin (HTS subheading 2921.43.15), up by 100 percent; certain handbags (HTS 4202.21.90), up by 55 percent; raw cane sugar (HTS subheading 1701.11.10[5]) from the Dominican Republic and Nicaragua, up by 43 percent; sugar for processing and re-export (HTS subheading 1701.11.20[6]) from Guatemala and Nicaragua, down by 56 percent; fresh, chilled, and frozen beef (HTS subheadings 0201.30.50 and 0202.30.50), down by 43 percent; and methanol (HTS subheading 2905.11.20) from Trinidad and Tobago, down by 36 percent.

Three items were added to the list in 1998–Trifluralin and certain handbags, which experienced large import increases, and cassava (HTS subheading 0714.10.20) from Costa Rica, which lost GSP eligibility in mid-1997 and recorded a full year as a CBERA-exclusive item in 1998.

Leading imports that were identified in previous annual CBERA reports as benefiting exclusively from CBERA between 1984 and 1997 continued to rank among the leading U.S. imports in 1998. Those imports were beef (HTS subheadings 0201.30.50 and 0202.30.50), pineapples (HTS subheading 0804.30.40), and frozen concentrated orange juice (HTS subheading 2009.11.00). Fuel-grade ethyl alcohol (HTS subheading 2207.10.60) has ranked as one of the leading items benefiting exclusively from CBERA since 1985. Items that have appeared consistently among the leading imports benefiting exclusively from CBERA in the last 5 years include higher priced cigars (HTS subheading 2402.10.80),

[5] The full HTS description for subheading 1701.11.10 includes "Described in additional U.S. note 5 to this chapter and entered pursuant to its provisions." The referenced note sets out rules for the tariff-rate quota for U.S. sugar imports. Within-quota imports are subject to relatively low tariff rates and are eligible for preferences under GSP, CBERA, ATPA, NAFTA, and the U.S.-Israel Free Trade Agreement. Overquota imports are subject to much higher tariffs and are not eligible for the aforementioned preferences, except for a slight reduction from the over-quota column 1-special rate for overquota imports from Mexico.

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

medical instruments, leather footwear uppers (HTS subheading 6406.10.65), and wire rod (HTS subheading 7213.91.30).

Welfare and Displacement Effects of CBERA on U.S. Industries and Consumers in 1998

The analytical approach for estimating the welfare and displacement effects of CBERA is described in the introduction to this report and is discussed in more detail in appendix C. A range of estimates is reported, reflecting those made assuming higher substitution elasticities (upper range), and those made assuming lower substitution elasticities (lower range).

The analysis was conducted on the 20 leading items that benefited exclusively from CBERA (table 3-2).[7] Estimates of welfare and potential U.S. industry displacement effects were made. Estimates of potential U.S. industry displacement effects were small, with no industry having an upper range estimated displacement of over 5.0 percent, the cutoff used for selecting industries for further analysis.

Items Analyzed

Although a large number of products are eligible for duty-free or reduced-duty entry under CBERA, a relatively small group of products accounts for most of the imports that benefit exclusively from CBERA. Table 3-2 presents the 20 leading items that benefited exclusively from CBERA in 1998; they are ranked on the basis of their c.i.f. (customs value plus insurance and freight charges) import values.[8] Those products represented 82.5 percent of the $1.6 billion in imports that benefited exclusively from CBERA during 1998.[9] The five leading CBERA-exclusive imports in 1998 were (1) higher priced cigars from the Dominican Republic, Nicaragua, and The Bahamas; (2) medical instruments from the Dominican Republic and The Bahamas; (3) leather footwear uppers from the Dominican Republic; (4) raw cane sugar from the Dominican Republic and Nicaragua; and (5) jewelry articles and parts from the Dominican Republic, The Bahamas, the Netherlands Antilles, and Aruba. The Dominican Republic was the leading supplier of the top five items.[10] Cigars and medical instruments ranked first and sixth, respectively, in 1997.

For any particular item, the size of the U.S. market share accounted for by CBERA-exclusive imports (value of imports benefiting exclusively from CBERA relative to apparent consumption) was a major factor in determining the estimated impact on competing domestic producers;[11] market shares varied considerably in 1998 (table 3-3). For instance, the market share of CBERA-exclusive imports of pineapples was approximately 57 percent, whereas the market share of CBERA-exclusive imports of stemmed tobacco (HTS subheading 2401.20.85) was under 1 percent.

Estimated Effects on Consumers and Producers

Tables 3-4 and 3-5 present the estimated impact of CBERA tariff preferences on the U.S. economy in 1998.[12] Estimates of the gains in consumer surplus and the losses in tariff revenue, as well as measures of the potential displacement of U.S. production, are discussed below.

Effects on U.S. consumers

Fuel-grade ethyl alcohol provided the largest gain in consumer surplus ($10.0 million to $14.4 million) resulting exclusively from CBERA tariff preferences in 1998 (table 3-4). The price U.S. consumers would

[7] USITC industry analysts provided estimates of U.S. production and exports for the 20 leading items that benefited exclusively from CBERA, as well as evaluations of the substitutability of CBERA-exclusive imports and competing U.S. products.

[8] In the analysis, U.S. market expenditure shares were used to compute estimates of welfare and domestic production displacement effects. Because U.S. expenditures on imports necessarily include freight and insurance charges and duties, when applicable, the analysis, where indicated in the text and supporting tables, used c.i.f. values for duty-free items and landed, duty-paid values for reduced-duty items benefiting exclusively from CBERA, and landed, duty-paid values for the remaining imports. Technically, landed, duty-paid values are equal to c.i.f. values for items entering free of duty.

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

[10] Leading CBERA suppliers are shown in table 2-8.

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

[12] The methodology used is described in appendix C.

Table 3-3
Value of leading imports that benefited exclusively from CBERA, apparent U.S. consumption, and CBERA-exclusive market share, 1998

HTS number	Description	Imports from CBERA countries (c.i.f. value) (A)	Apparent U.S. consumption (B)[1]	Market share (A/B)
		— *(1,000 dollars)* —		*Percent*
2402.10.80	Cigars, cheroots and cigarillos containing tobacco, each valued 23 cents or over	231,901	555,701	41.73
9018.90.80	Instruments and appliances used in medical, surgical, dental or veterinary sciences, nesi, and parts and accessories thereof	216,361	6,360,490	3.40
6406.10.65	Uppers & pts. thereof for footwear, nesi, of leather	174,668	1,197,786	14.58
1701.11.10	Cane sugar, raw, in solid form, w/o added flavoring or coloring, subject to add. US 5 to Ch.17	132,804	4,205,848	3.16
7113.19.50	Precious metal (o/than silver) articles of jewelry and parts thereof, whether or not plated or clad with precious metal, nesi	124,348	4,773,332	2.61
0804.30.40	Pineapples, fresh or dried, not reduced in size, in crates or other packages	86,743	153,436	56.53
2905.11.20	Methanol (Methyl alcohol), other than imported only for use in producing synthetic natural gas (SNG) or for direct use as fuel	68,102	907,719	7.50
7213.91.30	Wire rod of iron or nonalloy steel	63,954	2,563,974	2.49
2009.11.00	Orange juice, frozen, unfermented and not containing added spirit	42,391	1,439,569	2.94
2207.10.60	Undenatured ethyl alcohol of 80 percent vol. alcohol or higher, for nonbeverage purposes	36,017	1,909,057	1.89
2921.43.15	Alpha,alpha,alpha-Trifluoro-2,6-dinitro-N,N-dipropyl-p-toluidine (Trifluralin)	26,747	(2)	(2)
0710.80.97	Vegetables nesi, uncooked or cooked by steaming or boiling in water, frozen, reduced in size	26,575	(3)	(3)
6210.10.50	Nonwoven disposable apparel designed for use in hospitals, clinics, etc.	26,411	521,581	5.06
1701.11.20	Cane sugar, raw, in solid form, to be used for certain polyhydric alcohols	24,440	(4)	(4)
2401.20.85	Tobacco, partly or wholly stemmed/stripped, threshed or similarly processed, not from cigar leaf , described in addl US note 5 to chap 24	22,822	3,243,596	.70
8533.40.80	Electrical variable resistors, other than wirewound, including rheostats and potentiometers	21,032	373,352	5.63
0202.30.50	Frozen boneless beef, except processed	20,523	2,424,454	1.58
0714.10.20	Cassava (manioc), fresh, chilled or dried, whether or not sliced or in the form of pellets	18,627	(3)	(3)
0201.30.50[5]	Fresh or chilled boneless beef, except processed	17,873	-	-
4202.21.90	Handbags, with or without shoulder strap or without handle, with outer surface of leather, composition or patent leather, nesi, over $20 ea.	17,581	376,458	[6]4.93

See footnotes at the end of the table on the following page.

Table 3-3—*Continued*
Value of leading imports that benefited exclusively from CBERA, apparent U.S. consumption, and CBERA-exclusive market share, 1998

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

[2] No U.S. production.

[3] U.S. production data not available.

[4] Most raw sugar imported under this HTS subheading is re-exported either as refined sugar or in sugar-containing products, which would qualify for a duty drawback. Comparable domestic production does not exist.

[5] Apparent consumption for HTS subheadings 0201.30.50 and 0202.30.50 were aggregated into one category and reported under HTS subheading 0202.30.50.

[6] Market share based on landed, duty-paid value.

Note.—The abbreviation nesi stands for "not elsewhere specified or included."

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

have paid for imports of ethyl alcohol from CBERA countries would have been 49 percent higher (the ad valorem duty rate adjusted for freight and insurance charges) without CBERA. Frozen concentrated orange juice provided the second-largest gain in consumer surplus ($8.3 million to $11.1 million). Without CBERA, the price of frozen concentrated orange juice from CBERA countries would have been 44 percent higher. In general, items providing the largest gains in consumer surplus also have either the highest column 1-general tariff rates or the largest volumes of imports from CBERA countries, or both.

CBERA preferences also reduced U.S. tariff revenues, offsetting much of the gain in consumer surplus. For example, for frozen concentrated orange juice, lower tariff revenues offset 38 percent to 58 percent of the gain in consumer surplus; for ethyl alcohol, the offset was 54 percent to 82 percent. For many of the other items listed in table 3-4, especially those items with low column 1-general duty rates, lower tariff revenues offset nearly all of the gain in consumer surplus.

Overall, the estimated net welfare effects of CBERA were small. The gain in consumer surplus (column A of table 3-4) was greater than the corresponding decline in tariff revenue (column B) for all of the products analyzed for which data were available except for two sugar items: (1) raw cane sugar, which did not provide a gain in consumer surplus because it was subject to a binding tariff-rate quota, and (2) sugar for processing and re-export (HTS subheading 1701.11.20), which very likely did not provide a gain to consumers because of restrictions inherent in the HTS category.[13] Of the resulting net welfare gains, the largest were for frozen concentrated orange juice ($4.7 million to $5.2 million) and ethyl alcohol ($2.5 million to $4.6 million). Frozen concentrated orange juice and ethyl alcohol also had the largest net welfare gains in 1997.[14]

Effects on U.S. producers

Estimates of the potential displacement of domestic production (table 3-5) were small for most

[13] Tariff-rate quotas (TRQs) that apply to HTS subheading 1701.11.10 set maximum sugar import levels at lower tariff rates both globally and for imports from individual countries. Overquota imports are charged much higher tariffs, which tend to be prohibitive. When in-quota import quantities are filled, a TRQ is binding, and imports subject to the TRQ are constrained. Because the TRQ for sugar is binding, the net welfare associated with duty elimination is composed solely of a transfer of tariff revenue from the U.S. Treasury to CBERA country sugar exporters; thus, the price of sugar did not change, and there was no consequent gain in consumer surplus, even after CBERA tariff reductions on sugar were implemented.

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

[14] See USITC, *CBERA, Thirteenth Report, 1997*, table 3-4, p. 49.

Table 3-4
Estimated welfare effects on the United States of leading imports that benefited exclusively from CBERA, 1998
(1,000 dollars)

HTS number	Description	Gain in consumer surplus (A)		Loss in tariff revenue (B)		Net welfare effect (A-B)	
		Upper range	Lower range	Upper range	Lower range	Upper range	Lower range
2402.10.80	Cigars, cheroots and cigarillos containing tobacco, each valued 23 cents or over	6,258	6,358	6,103	6,300	155	58
9018.90.80	Instruments and appliances used in medical, surgical, dental or veterinary sciences, nesi, and parts and accessories thereof	3,303	3,405	3,179	3,379	124	26
6406.10.65	Uppers & pts. thereof for footwear, nesi, of leather	1,196	1,200	1,184	1,191	12	8
1701.11.10[1]	Cane sugar, raw, in solid form, w/o added flavoring or coloring, subject to add. US 5 to ch.17	0	0	3,471	3,677	-3,471	-3,677
7113.19.50	Precious metal (o/than silver) articles of jewelry and parts thereof, whether or not plated or clad with precious metal, nesi	6,186	6,519	5,389	6,002	798	517
0804.30.40	Pineapples, fresh or dried, not reduced in size, in crates or other packages	1,346	1,355	1,322	1,340	24	15
2905.11.20	Methanol (Methyl alcohol), other than imported only for use in producing synthetic natural gas (SNG) or for direct use as fuel	5,912	6,483	4,600	5,583	1,312	900
7213.91.30	Wire rod of iron or nonalloy steel	644	650	634	647	10	3
2009.11.00	Orange juice, frozen, unfermented and not containing added spirit	8,2911	1,122	3,141	6,396	5,151	4,726
2207.10.60	Undenatured ethyl alcohol of 80 percent vol. alcohol or higher, for nonbeverage purposes	9,970	14,380	5,418	11,859	4,552	2,521
2921.43.15	Alpha,alpha,alpha-Trifluoro-2,6-dinitro-N,N-dipropyl-p-toluidine (Trifluralin)	([2])	([2])	([2])	([2])	([2])	([2])
0710.80.97	Vegetables nesi, uncooked or cooked by steaming or boiling in water, frozen, reduced in size	([3])	([3])	([3])	([3])	([3])	([3])
6210.10.50	Nonwoven disposable apparel designed for use in hospitals, clinics, etc.	887	915	843	899	44	17
1701.11.20[4]	Cane sugar, raw, in solid form, to be used for certain polyhydric alcohols	-	-	-	-	-	-
2401.20.85[5]	Tobacco, partly or wholly stemmed/stripped, threshed or similarly processed, not from cigar leaf , described in addl US note 5 to ch. 24	1,756	1,910	1,472	1,751	283	159
8533.40.80	Electrical variable resistors, other than wirewound, including rheostats and potentiometers	536	549	509	535	27	14
0202.30.50[6]	Frozen boneless beef, except processed	711	724	678	704	33	20
0714.10.20	Cassava (manioc), fresh, chilled or dried, whether or not sliced or in the form of pellets	([6])	([6])	([6])	([6])	([6])	([6])
0201.30.50[6]	Fresh or chilled boneless beef, except processed	-	-	-	-	-	-
4202.21.90	Handbags, with or without shoulder strap or without handle, with outer surface of leather, composition or patent leather, nesi, over $20 ea.	287	292	277	285	11	7

See footnotes at end of table.

Table 3-4—*Continued*
Estimated welfare effects on the United States of leading imports that benefited exclusively from CBERA, 1998

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

[2] Welfare and displacement effects were not calculated because there was no U.S. production in 1998.

[3] Welfare and displacement effects were not calculated because of unavailability of U.S. production data.

[4] Most raw sugar imported under this HTS subheading is re-exported either as refined sugar or in sugar-containing products, which would qualify for a duty drawback. Therefore, there is no effect on U.S. consumers and no loss of tariff revenues.

[5] Although cigarette tobacco imports are subject to tariff-rate quotas, indications are that they are not binding for CBERA countries.

[6] Analysis for HTS subheadings 0201.30.50 and 0202.30.50 is combined under HTS subheadings 0202.30.50. Although beef imports are subject to tariff-rate quotas, indications are that they are not binding for CBERA countries.

Note.—The abbreviation nesi stands for “not elsewhere specified or included.”

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

Table 3-5
Estimated displacement effects on the United States of leading imports that benefited exclusively from CBERA, 1998

HTS number	Description	U.S. domestic shipments	Reduction in domestic shipments			
			Value		Share	
			Upper range	Lower range	Upper range	Lower range
			1,000 dollars		*Percent*	
2402.10.80	Cigars, cheroots and cigarillos containing tobacco, each valued 23 cents or over	212,000	6,821	1,892	3.22	.89
9018.90.80	Instruments and appliances used in medical, surgical, dental or veterinary sciences, nesi, and parts and accessories thereof	5,300,000	12,781	1,419	.24	.03
6406.10.65	Uppers & pts. thereof for footwear, nesi, of leather	872,000	877	0	.10	0
1701.11.10[1]	Cane sugar, raw, in solid form, w/o added flavoring or coloring, subject to add. US 5 to ch.17	3,500,000	0	0	0	0
7113.19.50	Precious metal (o/than silver) articles of jewelry and parts thereof, whether or not plated or clad with precious metal, nesi	1,999,755	8,668	2,885	.43	.14
0804.30.40	Pineapples, fresh or dried, not reduced in size, in crates or other packages	59,728	2,573	1,479	4.31	2.48
2905.11.20	Methanol (Methyl alcohol), other than imported only for use in producing synthetic natural gas (SNG) or for direct use as fuel	698,000	23,282	12,047	3.34	1.73
7213.91.30	Wire rod of iron or nonalloy steel	1,999,020	1,111	96	.06	([2])
2009.11.00	Orange juice, frozen, unfermented and not containing added spirit	1,110,714	50,861	26,065	4.58	2.35
2207.10.60	Undenatured ethyl alcohol of 80 percent vol. alcohol or higher, for nonbeverage purposes	1,873,040	29,143	705	1.56	.04
2921.43.15	Alpha,alpha,alpha-Trifluoro-2,6-dinitro-N,N-dipropyl-p-toluidine (Trifluralin)	([3])	([3])	([3])	([3])	([3])
0710.80.97	Vegetables nesi, uncooked or cooked by steaming or boiling in water, frozen, reduced in size	([4])	([4])	([4])	([4])	([4])
6210.10.50	Nonwoven disposable apparel designed for use in hospitals, clinics, etc.	350,000	1,195	0	.34	0
1701.11.20[5]	Cane sugar, raw, in solid form, to be used for certain polyhydric alcohols	-	-	-	-	-
2401.20.85[6]	Tobacco, partly or wholly stemmed/stripped, threshed or similarly processed, not from cigar leaf , described in addl US note 5 to ch. 24	3,091,000	7,190	3,384	.23	.11
8533.40.80	Electrical variable resistors, other than wirewound, including rheostats and potentiometers	185,000	829	276	.45	.15
0202.30.50[7]	Frozen boneless beef, except processed	2,350,576	3,136	1,703	.13	.07
0714.10.20	Cassava (manioc), fresh, chilled or dried, whether or not sliced or in the form of pellets	([4])	([4])	([4])	([4])	([4])
0201.30.50[7]	Fresh or chilled boneless beef, except processed	-	-	-	-	-
4202.21.90	Handbags, with or without shoulder strap or without handle, with outer surface of leather, composition or patent leather, nesi, over $20 ea.	101,700	347	187	.34	.18

See footnotes at end of table.

Table 3-5—*Continued*
Estimated displacement effects on the United States of leading imports that benefited exclusively from CBERA, 1998

[1] Raw sugar imports of this category are subject to U.S. tariff-rate quotas. Because the quotas set maximum U.S. import levels, no U.S. shipments are displaced following a tariff reduction.

[2] Less than 0.005 percent.

[3] Welfare and displacement effects were not calculated because there was no U.S. production in 1998.

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

[5] Most raw sugar imported under this HTS subheading is re-exported either as refined sugar or in sugar-containing products, which would qualify for a duty drawback. Therefore, there is no comparable domestic production to be displaced.

[6] Although cigarette tobacco imports are subject to tariff-rate quotas, indications are that they are not binding for CBERA countries.

[7] Analysis for HTS subheadings 0201.30.50 and 0202.30.50 is combined under HTS subheadings 0202.30.50. Although beef imports are subject to tariff-rate quotas, indications are that they are not binding for CBERA countries.

Note.—The abbreviation nesi stands for “not elsewhere specified or included.”

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

of the individual sectors.[15] The analysis indicates that the largest potential displacement effects were for frozen concentrated orange juice (an estimated 2.4 percent to 4.6 percent of U.S. domestic shipments displaced, valued at $26.1 million to $50.9 million), pineapples (2.5 percent to 4.3 percent displaced, valued at $1.5 million to $2.6 million), methanol (1.7 to 3.3 percent displaced, valued at $12.0 million to $23.3 million), and higher priced cigars (0.9 percent to 3.2 percent displaced, valued at $1.9 million to $6.8 million). However, the estimated displacement share for the majority of the products benefiting exclusively from CBERA was less than 1.0 percent, even in the upper range of estimates.

Probable Future Effects of CBERA

As previously reported in this series, most of the effects on the U.S. economy and consumers of the one-time elimination of import duties under CBERA occurred within 2 years of the program's implementation in 1984. Other effects were expected to occur over time as a result of an increase in export-oriented investment in the region. Such investment in new production facilities or in the expansion of existing facilities may rise in response to the availability of CBERA tariff preferences. Therefore, the Commission continues to monitor CBERA-related investment in the Caribbean Basin, using investment expenditures as a proxy for future trade effects of CBERA on the United States.

Although official foreign direct investment (FDI) statistics show that FDI in the region is growing significantly,[16] it is difficult to isolate trends in investment in CBERA-eligible products alone. As a result, information on CBERA-related investment activity and trends during 1998 was obtained from a field visit to Costa Rica, U.S. embassies in the Caribbean Basin, and various published sources.

Twelve U.S. embassies representing 11 CBERA beneficiary countries[17] responded to the Commission's request for information regarding new or expansion investments in CBERA-eligible products that could result in new or increased exports to the United States under CBERA. This information is provided below, along with general information on investment activity in Central America and the Caribbean. In addition, the U.S. Embassies in Honduras and Nicaragua provided information about the effects of Hurricane Mitch on exports.

Central America

According to the U.S. Embassy in Belize, direct investment in Belize in 1998 totaled $14.9 million.[18] Of this total, the agro-processing industry represented $4.75 million, and agriculture, including citrus, represented $950,500 in investment in 1998. Investments undertaken as a direct result of CBERA totaled at least $5.6 million; those investments occurred in the citrus and papaya industries.[19]

Costa Rica reported $531 million in FDI in 1998. About 35 percent of all investment was accounted for by the hardware industry and the electronics industry, including a major investment by microprocessor producer Intel. Besides Intel, particularly large investments in products eligible for CBERA were made by Abbott Laboratories ($40 million in medical devices) and by Babyliss ($38.3 million in small electrical appliances).[20] For a complete overview on investment activity, see the case study on Costa Rica in chapter 4.

The U.S. Embassy in El Salvador reported that at least $11 million in investment was directly attributable to CBERA and the apparel special-access program. In a survey of 30 companies in El Salvador conducted by the U.S. Embassy, one-third of all companies questioned responded that their projects would not have been undertaken in the absence of CBERA. Although most of the products shipped are certain types of textiles, which are generally not eligible for CBERA tariff preferences, as much as 10 percent consists of other products, including, among others, capacitors; ethanol; cartons and plastic bags;

[15] U.S. market share, ad valorem equivalent tariff rate, and elasticity of substitution between beneficiary imports and competing U.S. production are the main factors that affect the estimated displacement of U.S. domestic shipments. In general, the larger the CBERA share of the U.S. market, ad valorem equivalent tariff rate, and substitution elasticity, the larger the displacement of domestic shipments.

[16] See table 4-3 in ch. 4, which shows foreign direct investment in CBERA beneficiaries from 1986 to 1997.

[17] The U.S. Embassy in Curacao represents both Aruba and the Netherlands Antilles.

[18] U.S. Department of State telegram, "USITC Annual Caribbean Basin Investment Survey," message reference No. 668, prepared by U.S. Embassy, Belize, June 10, 1999.

[19] Taken from a facsimile transmission received by USITC staff from the U.S. Embassy, Belize, dated June 14, 1999.

[20] U.S. Department of State telegram, "USITC Annual Caribbean Basin Investment Survey," message reference No. 1410, prepared by U.S. Embassy, San Jose, June 1, 1999.

metal and wood products, including jewelry boxes; and fresh and frozen vegetables, including melons.[21]

CBERA-related investment in Honduras was strong in 1998. According to the national maquila association, about $1.05 billion in both national and foreign investment was made in Honduras in 1998 in the maquila (temporary admission) sector as a direct result of CBERA benefits.[22] This industry focuses mostly on apparel assembly, however, and consequently is not eligible for CBERA tariff preferences. The Central Bank of Honduras estimated $72.3 million in FDI in nonmaquila CBERA-related industries in 1998, with $43.8 million in the manufacturing industry.

The U.S. Embassy in Honduras also provided information regarding the effects of Hurricane Mitch on Honduras' exporting industries. The country's agricultural sector was the most devastated by the hurricane, with losses of about $800 million. Nontraditional agricultural products most affected by the hurricane included shrimp (with losses of $43 million), melons ($13 million), milk products ($90 million), palm oil ($38 million), sugar cane ($65 million), livestock ($55 million), and basic grains ($75 million). The manufacturing sector registered losses of approximately $75 million. Damage to the maquila sector, however, was negligible.[23]

The U.S. Embassy in Nicaragua reported that total foreign investment in Nicaragua in 1998 was $643 million, less than the $753 million recorded in 1997 but much more than in the early 1990s. Regarding this amount, the U.S. Embassy wrote: "It is difficult to accurately determine whether certain investments are a result of CBERA.... What is clear is that foreign investment is promoted by the relatively easy access to the U.S. market."[24] Although much investment is in the textiles industry, which is generally not eligible for CBERA tariff preferences, CBERA-related industries today are receiving a relatively greater amount of investment than in the early 1990s. According to the U.S. Embassy, companies involved in fisheries, mining, and agricultural products stand to gain the most from access to the U.S. market through CBERA.

According to the U.S. Embassy in Nicaragua, "Flooding from Hurricane Mitch caused significant damage to the export sector: total exports in 1998 dropped by 27 percent compared to 1997."[25] Nontraditional exports declined by 55 percent during 1998. The hurricane destroyed dozens of bridges and roads, with damages of roughly $600 million. Industries facing particularly severe setbacks include shrimp farming, beans, rice, and livestock.[26]

The Government of Panama reported that investment in nontraditional fruits, including melons, totaled at least $250,000. There was only negligible investment in CBERA-related industries in free-trade zones (FTZs).[27]

The U.S. Embassy in Guatemala was not able to collect information regarding investment in CBERA-related industries. The Embassy noted that nontraditional exports, particularly nontraditional agricultural products, have been an increasingly important part of Guatemala's export mix; estimates of 1998 nontraditional exports amounted to $1,394 million.[28]

The Caribbean

According to the U.S. Embassy in the Dominican Republic, the Dominican National Free Zones Council approved about $53 million in investment in 47 new business starts in 18 different free-zone parks between July 1998 and May 1999. Of these, at least 12 new investment projects, totaling $32 million, cover products with the potential for export to the United States under CBERA, including shoes, cigars, jewelry, luggage, and leather goods. In addition, the Embassy wrote, "the number of new companies devoted to run-of-the-mill textile manufacturing slowly [has declined] as a percentage of total investment [whereas] the number of companies providing service to other free zone companies or outside the free zones is growing."[29] Although specific statistics on

[21] U.S. Department of State telegram, "USITC Annual Caribbean Basin Investment Survey," message reference No. 1866, prepared by U.S. Embassy, San Salvador, June 8, 1999.

[22] U.S. Department of State telegram, "USITC Annual Caribbean Basin Investment Survey," message reference number 2023, prepared by U.S. Embassy, Tegucigalpa, June 16, 1999.

[23] Ibid.

[24] U.S. Department of State telegram, "USITC Annual Caribbean Basin Investment Survey," message reference No. 1739, prepared by U.S. Embassy, Managua, June 18, 1999.

[25] Ibid.

[26] Ibid.

[27] U.S. Department of State telegram, "USITC Annual Caribbean Basin Investment Survey," message reference No. 2122, prepared by U.S. Embassy, Panama, June 3, 1999

[28] U.S. Department of State telegram, "USITC Annual Caribbean Basin Investment Survey," message reference No. 1653, prepared by U.S. Embassy, Guatemala, May, 1999.

[29] U.S. Department of State telegram, "USITC Annual Caribbean Basin Investment Survey," message reference No. 3131, prepared by U.S. Embassy, Santo Domingo, July, 1999.

expansion-related investments were not available, the Embassy noted that significant expansions were made by companies producing electronics and medical products in 1998. The report also indicated that improvements in electricity generation, including the recent capitalization of the state-owned electricity company, have encouraged more energy-intensive operations and are likely to encourage more investment in the future.[30]

The U.S. Embassy in Jamaica reported that total investment in Jamaica during 1998 was $63 million. Of this total, approximately 25 new investment projects, valued at $43.2 million, could benefit from CBERA. Major new investors that have the potential to benefit from CBERA include those in the manufacturing industry, such as manufacturers of motors, bedding, and furniture, and those in agricultural-related industry, including bottling and edible oils and fats.

Extensive investment figures for 1998 were not available for Haiti or Trinidad and Tobago. According to the U.S. Embassy in Haiti, companies producing nightgowns, children's apparel, and glassware invested $245,000 in 1998.[31] The U.S. Embassy in Trinidad and Tobago was not able to provide any figures on investment during 1998. However, the Embassy did report that the Central Bank of Trinidad and Tobago advised that direct U.S. investment in CBERA-related products was very limited in 1998.[32]

CBERA is likely to continue to have minimal future effects on the U.S. economy in general. As described in chapter 2 of this report, the share of total U.S. imports made up of imports from CBERA countries in 1998 was small (1.9 percent) and the share made up of imports that benefited exclusively from CBERA in 1998 was even smaller (less than 0.2 percent). The probable future effect of the new investment identified in CBERA beneficiaries is also likely to be minimal in most economic sectors.

[30] Ibid.

[31] U.S. Department of State telegram, "USITC Annual Caribbean Basin Investment Survey," message reference No. 1549, prepared by U.S. Embassy, Port Au Prince, June 8, 1999.

[32] U.S. Department of State telegram, "USITC Annual Caribbean Basin Investment Survey," message reference No. 953, prepared by U.S. Embassy, Port of Spain, June 8, 1999.

CHAPTER 4
Case Study on Costa Rica

The case study on Costa Rica was used to examine the effectiveness of CBERA in achieving its goal of promoting export diversification and export-led growth in beneficiary countries. Costa Rica's economic and trade performance since 1980 and its relationship to CBERA were analyzed. Factors that may affect levels of trade and investment were described, including the investment climate and investment- and export-promotion programs.

Costa Rica was selected as a case study because it consistently has been the second-largest CBERA beneficiary, accounting for 23 percent of U.S. imports under CBERA in 1998. In addition, Costa Rica's economy outperformed most others in the region in 1998, driven partly by a surge in foreign investment in high-technology industry.

Information for the case study was drawn primarily from a field visit to the country and from U.S. Government and other published sources. The case study should not be considered representative of the CBERA region as a whole.

Economic and Trade Performance

Costa Rica's economy grew 6.2 percent in 1998, second only to the Dominican Republic among Latin American countries.[1] Substantial foreign investment and expanding exports, driven partly by the establishment of microchip manufacturer Intel, spurred the economy. Growth in the manufacturing sector (particularly Intel) was exceeded only by construction and some services. Agricultural performance, though stronger than in 1997, was adversely affected by both El Nino and Hurricane Mitch.[2] Inflation fell slightly, from 13.3 percent in 1997 to 11.6 percent in 1998.[3]

The burden of internal government debt continued; the cost of servicing it was over 30 percent of central government revenues in 1997. To reduce this debt, the new government that entered office in May 1998 proposed the concession or sale of large public monopolies in the electricity, telecommunications, and insurance sectors.[4] However, privatization efforts have been under way for years, and progress remains slow. As of spring 1999, constitutional reforms that would permit competition in the electricity, telecommunications, and insurance sectors remain blocked by Congress.[5] Despite those problems, the Public Works Concession Law, which entered into effect in early 1998, permits state-owned companies to grant concession contracts to the private sector for public infrastructure and services projects, such as highway and bridge construction.[6]

Costa Rica has a relatively open trade regime and is strongly dependent on trade. In 1998, the value of total trade (exports and imports) was effectively equivalent to the value of GDP.[7] The country acceded to the GATT in 1990 and was a founding member of the WTO. Under the Uruguay Round, Costa Rica agreed to bind tariffs in 1999 at 50 percent on most goods, except selected agricultural commodities. In

[1] United Nations, Economic Commission for Latin America and the Caribbean, *Preliminary Overview of the Economies of Latin America and the Caribbean, 1998*, p. 83. Based on preliminary figures.

[2] Ibid., pp. 51-52.

[3] Economist Intelligence Unit, *Latin American Business Intelligence*, "Country Report," Feb. 22, 1999.

[4] U.S. Department of Commerce, *Costa Rica: Country Commercial Guide*, found at Internet address *http://www.state-usa.gov*, retrieved July 4, 1999.

[5] Business Monitor International Ltd., *Latin America Monitor, Central America*, Apr. 1999, p. 7.

[6] CINDE, "Costa Rica's Legislature Approves Concession Law for Public Works and Services," *Flash News*, found at Internet address *http://www.cinde.or.cr/pub/news*, retrieved July 6, 1999; and U.S. Department of Commerce, *Costa Rica: Investor Attitude Study*, Nov. 1998.

[7] U.S. Department of State telegram, "Growth and Trade Roundup For Costa Rica's Economy," message reference No. 669, prepared by U.S. Embassy, San Jose, Mar. 16, 1999.

addition, it eliminated quantitative restrictions and requirements for import licenses and permits.[8]

Costa Rica has also opened its trade regime regionally. It is a member of the Central American Common Market (CACM), which includes Guatemala, El Salvador, Honduras, and Nicaragua. With the exception of primarily agricultural products, there are no duties on products traded among members. The CACM has a free-trade agreement with the Dominican Republic. Costa Rica also has a free-trade arrangement with Mexico and is negotiating free-trade agreements with Panama and Chile. Costa Rica has strongly supported the initiative to form a Free Trade Agreement of the Americas (FTAA) by 2005. From May 1997 to April 1998, Costa Rica served as the pro tempore president in the FTAA process.[9]

Trends in Trade

During the period 1980-97, total Costa Rican trade grew nearly 230 percent. After initial declines, both exports and imports grew gradually over the period (table 4-1). Costa Rica registered a trade deficit throughout most of the period, but registered a surplus in 1997.

The United States is Costa Rica's largest trading partner. Indeed, the importance of the United States as a destination for Costa Rica's exports grew steadily throughout the period; the United States accounted for 36 percent of Costa Rica's exports in 1980 and 54 percent in 1997 (figure 4-1). Costa Rican exports to the EU and the rest of the world (ROW) remained fairly stable over the period, but the share destined for Latin America and the Caribbean (LAC) declined from 33 percent in 1980 to 14 percent in 1997.

Costa Rican imports followed fairly similar trends (figure 4-2). The relative importance of the United States as a source for Costa Rican imports also grew; the United States accounted for 34 percent of Costa Rica's imports in 1980 and 54 percent in 1997. The share of Costa Rican imports supplied by LAC declined from 37 percent in 1980 to 28 percent in 1997, and the shares from both the EU and the ROW fell only slightly. The increasing importance of the United States as a trading partner probably reflects the growth over the period of U.S. investment in Costa Rican production-sharing operations and free-trade zones. Analysis of the top items in bilateral trade suggests that many of the largest U.S. exports to Costa Rica, such as textiles and apparel and electrical components, are transformed into new products that are re-imported by the United States.

U.S. imports from and exports to Costa Rica grew gradually from 1980 to 1998 (table 4-2).[10] The United States registered a trade deficit with Costa Rica throughout most of the period.

The composition of Costa Rican exports to the world diversified significantly from 1980 to 1997 (figure 4-3). In 1980, food and live animals accounted for 64 percent of Costa Rican exports. In 1997, this category remained the largest among exports, but represented just 46 percent of total exports. Whereas coffee was the largest food export in 1980, exports of fruits and vegetables rose over 460 percent to become the largest food export in 1997, accounting for 65 percent of total exports. Apparel was the second-largest export in 1997, rising from 2 percent of total exports in 1980 to nearly 20 percent in 1997. The relative importance of exports of machinery and transport equipment also rose substantially, from 4 percent of total exports in 1980 to 9 percent in 1997, reflecting large increases in components of telecommunications apparatus and electrical apparatus and components. The export share of miscellaneous manufactured articles rose slightly, from 4 percent in 1980 to 6 percent in 1997, reflecting primarily increases in medical instruments, jewelry, and travel handbags.

Because over half of Costa Rica's exports are destined for the U.S. market, shifts in the composition of Costa Rica's exports to the United States between 1980 and 1997 reflect the changes in composition of total exports described above, except that the changes in the bilateral relationship tend to be more pronounced. The share of Costa Rican exports to the United States accounted for by food and live animals declined significantly, from 84 percent in 1980 to 37 percent in 1997, but those items continued to represent the largest export category. Apparel represented the second-largest export in 1997, rising

[8] For more information on Costa Rica's trade regime, see USTR, *1999 National Trade Estimate Report on Foreign Trade Barriers*, pp. 77-81.

[9] U.S. Department of Commerce, *Costa Rica: Country Commercial Guide*, found at internet address *http://www.state-usa.gov*, retrieved July 4, 1999; and CINDE, "Unexplored Business Opportunities in Costa Rica," found at Internet address *http://www.cinde.or.cr/inv_opp*, retrieved May 27, 1999.

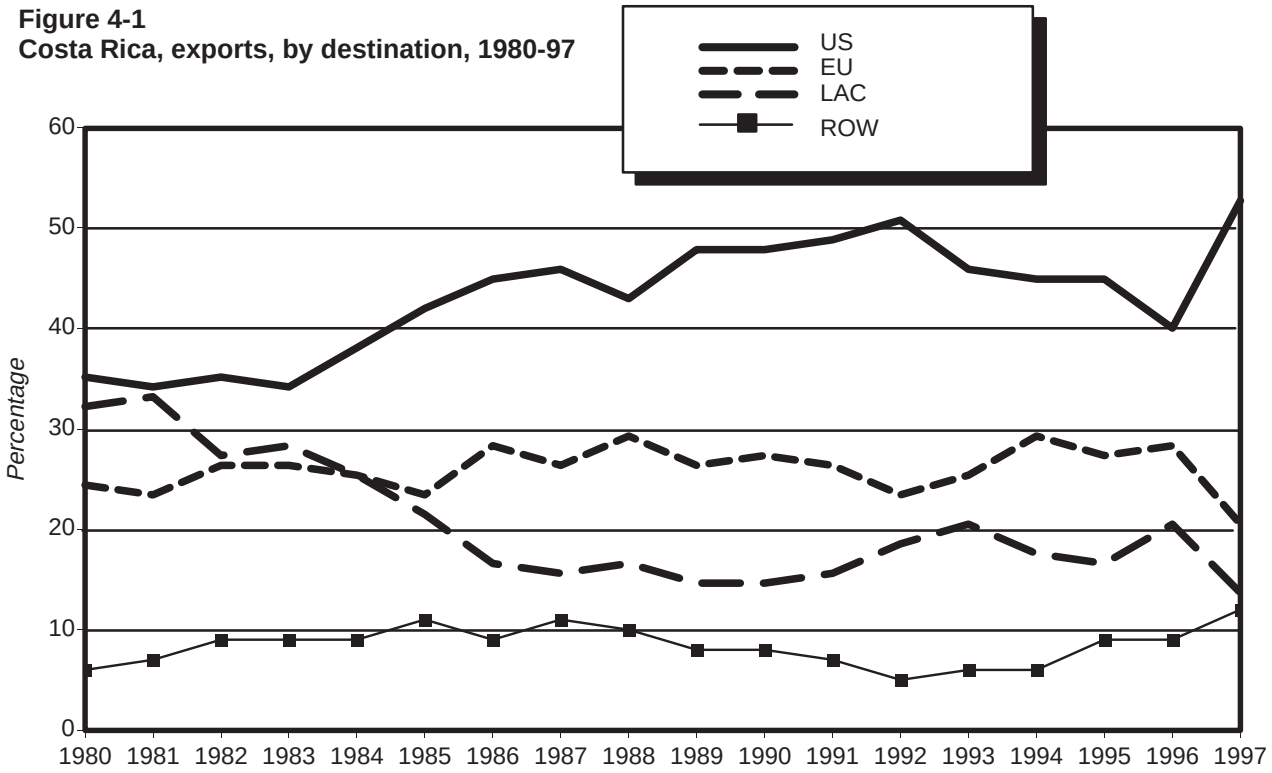
[10] Both tables 4-1 and 4-2 show trade between Costa Rica and the United States, but the data do not match exactly because the sources of the data are different. Statistical differences result for a variety of reasons, such as timing differences, valuation differences, and the handling of transshipments.

Table 4-1
Costa Rica: Total exports, total imports, direction of trade, and trade balance, 1980-97

	Exports					Imports					Trade balance
Year	Total	US	EU	LAC	ROW	Total	US	EU	LAC	ROW	Total
	1,000 dollars		*Percent of total*			*1,000 dollars*		*Percent of total*			*1,000 dollars*
1980	1,110,482	36	25	33	6	1,511,514	34	12	37	17	-401,032
1981	1,075,728	35	24	34	7	1,171,520	35	14	37	15	-95,792
1982	947,555	36	27	28	9	873,701	39	12	41	8	73,854
1983	932,578	35	27	29	9	981,522	41	12	37	10	-48,944
1984	1,034,019	39	26	26	9	1,086,375	39	14	34	13	-52,356
1985	1,011,513	43	24	22	11	1,121,150	36	16	32	16	-109,637
1986	1,208,314	46	29	17	9	1,188,535	41	15	27	18	19,779
1987	1,239,566	47	27	16	11	1,469,532	42	14	26	18	-229,966
1988	1,277,033	44	30	17	10	1,502,901	43	12	31	13	-225,868
1989	1,550,515	49	27	15	8	2,016,333	49	11	27	14	-465,818
1990	1,571,329	49	28	15	8	2,255,447	51	11	22	16	-684,118
1991	1,746,546	50	27	16	7	2,331,882	51	10	23	15	-585,336
1992	1,959,074	52	24	19	5	2,895,376	52	12	21	15	-936,302
1993	2,082,260	47	26	21	6	3,431,493	50	12	22	16	-1,349,233
1994	2,426,521	46	30	18	6	3,587,970	53	10	24	13	-1,161,449
1995	3,036,002	46	28	17	9	3,669,430	50	13	27	10	-633,428
1996	3,169,300	41	29	21	9	4,061,297	54	10	27	10	-891,997
1997	4,639,458	54	21	14	12	3,938,777	54	10	28	8	700,681

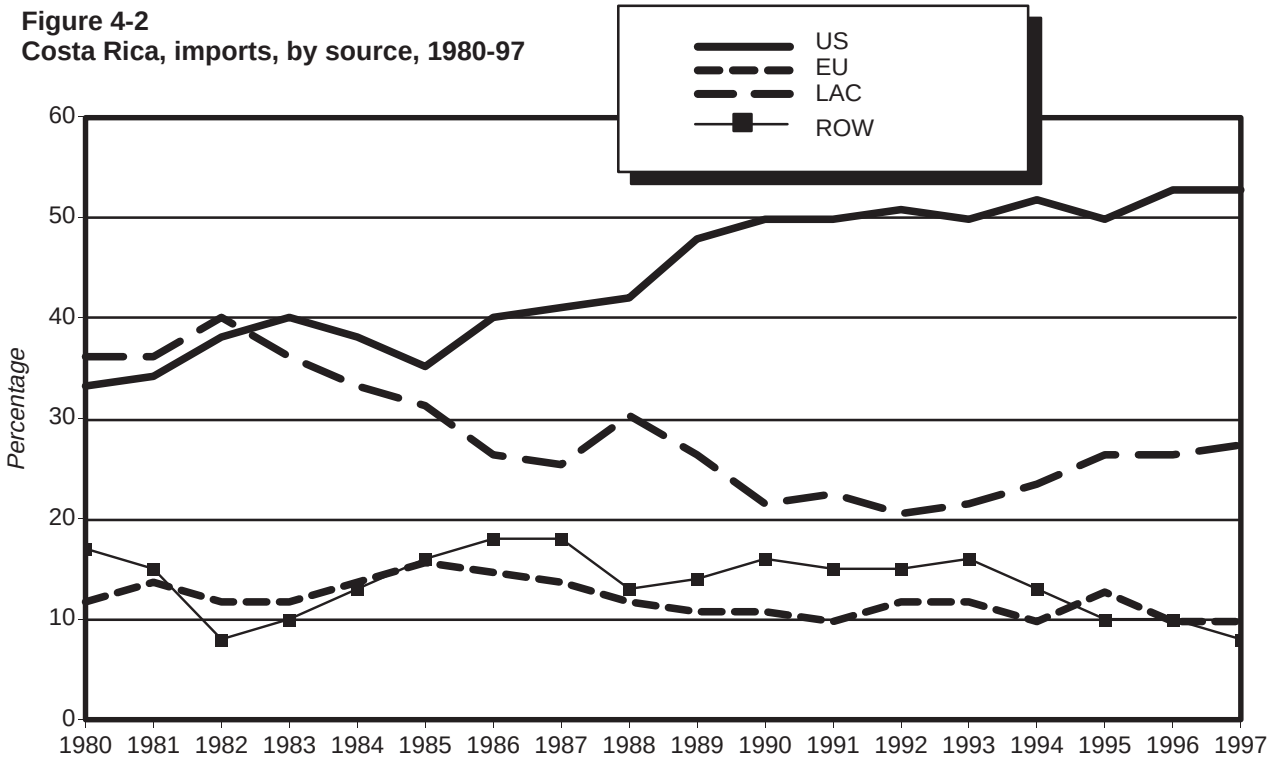
Source: Compiled from official statistics of Statistics Canada, *World Trade Analyzer*, CD-ROM, 1999.

Figure 4-1
Costa Rica, exports, by destination, 1980-97



Source: Based on data in table 4-1.

Figure 4-2
Costa Rica, imports, by source, 1980-97



Source: Based on data in table 4-1.

Table 4-2
Costa Rica: U.S. imports, U.S. exports, and trade balance, 1980, 1984, 1988, 1992, 1997, and 1998
(Million dollars)

Year	Imports	Exports	Trade balance
1980	357	493	136
1984	469	418	-51
1988	778	684	-94
1992	1,402	1,318	-84
1996	1,963	1,778	-185
1997	2,322	1,963	-359
1998	2,742	2,190	-552

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

from just 1 percent of exports to the United States in 1980 to 35 percent in 1997. The relative importance of exports of machinery and transport equipment, as well as miscellaneous manufactured articles, also rose substantially between 1980 and 1997.

Investment Climate and Export Promotion

Costa Rica offers investors a long history of political, economic, and social stability; a strategic location between two continents with access to two oceans; a productive workforce; adequate infrastructure; special incentives to operate in free-trade zones; a transparent legal system; and a relatively open, nondiscriminatory foreign investment regime. Costa Rica generally accords national treatment to foreign investments and allows unrestricted remittances, free currency conversion, and binding international arbitration of investment disputes. Costa Rica is currently developing alternative dispute resolution options to facilitate the resolution of commercial disagreements.[11]

There are few significant barriers to investment in Costa Rica. Some sectors remain reserved to the state, for example, electricity, telecommunications, petroleum, and insurance. Also, Costa Rica is listed on USTR's watch list of countries to be monitored for IPR protection because of its alleged inadequate protection of copyrights and deficient patent law.[12]

One of Costa Rica's major attractions as a destination for investment is its skilled, well-educated, easily trained, and productive workforce, which is increasingly a draw for investment in high-tech operations. The Costa Rican Government has long supported public education and has strongly emphasized improving high-tech education and English language skills.[13]

U.S. investors noted that infrastructure in Costa Rica is adequate, particularly telecommunications and power generation. However, roads, ports, and airports increasingly need upgrades. In addition, some U.S. companies indicated that Costa Rican ports are expensive compared with other ports in Latin America.[14] The major Costa Rican airport is now undergoing a $200 million renovation.[15]

Costa Rica currently administers one major export incentive program: tax exemptions for operating in FTZs. U.S. investors support proposed changes to the FTZ regime, which include an extended period of income tax exemption for companies that make additional investment, increased benefits for investments in less developed regions, and provisions to allow some domestic sales.[16] Costa Rica offered two other export incentive programs in the past–export contract and temporary admission (maquila). Under the export contract system,

[11] U.S. Department of Commerce, *Costa Rica: Country Commercial Guide*, found at Internet address *http://www.stat-usa.gov*, retrieved July 4, 1999; and U.S. Department of Commerce, *Costa Rica: Investor Attitude Study*, Nov. 1998.

[12] USTR, "USTR Announces Results of Special 301 Annual Review," press release, Apr. 30, 1999.

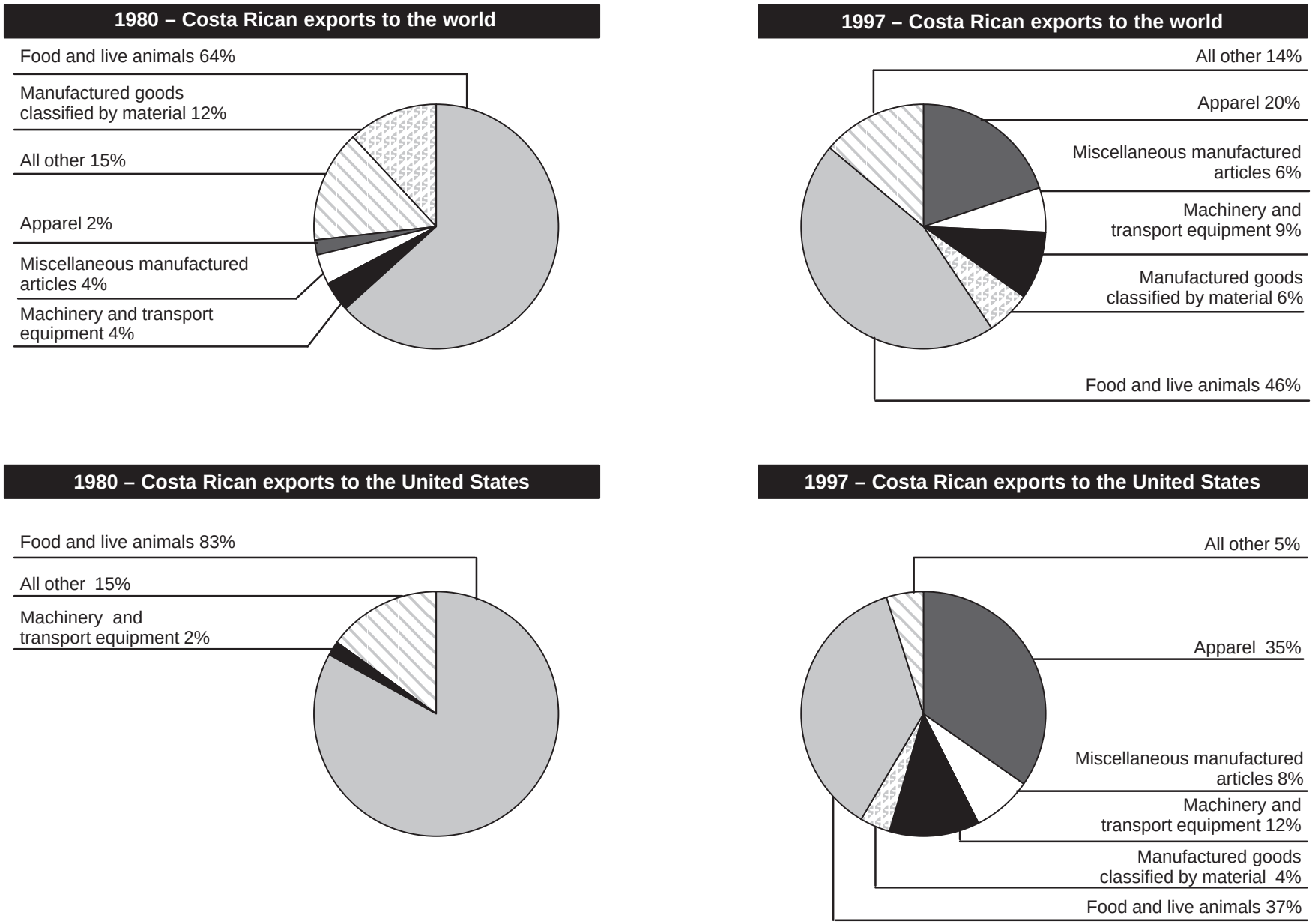
[13] U.S. Department of Commerce, *Costa Rica: Investor Attitude Study*, Nov. 1998; and public- and private-sector representatives, USITC staff interviews, San Jose, June 11 and 14, 1999.

[14] U.S. Department of Commerce, *Costa Rica: Investor Attitude Study*, Nov. 1998.

[15] CINDE, "Costa Rica: A Newcomer in the World of High Tech," *Costa Rica Investment News*, found at Internet address *http://www.cinde.or.cr/pub/newsletter/october1998*, retrieved May 27, 1999.

[16] U.S. Department of Commerce, *Costa Rica: Investor Attitude Study*, Nov. 1998.

Figure 4-3
Costa Rica: Composition of exports, 1980 and 1997



Note.—Percentages may not add to 100 because of rounding.

Source: Compiled from official statistics of Statistics Canada, *World Trade Analyzer,* 1980-97, CD-ROM, 1999.

exporters received tax credits equivalent to 15 percent of the value of nontraditional exports. This program, however, was closed to new companies in 1996 and is being phased out by September 1999 for companies already operating under the program. The legislation allowing maquila enterprises also lapsed in 1996, but maquilas located in FTZs continue to receive the same benefits.[17]

Procomer, the Costa Rican Foreign Trade Corporation, is the official entity responsible for the promotion of exports and investment in Costa Rica. Procomer promotes exports through commercial fairs, trade missions, and marketing support and by generating and disseminating a wide range of trade information. It operates a one-stop shop for both exporters and importers, where it provides information and advice on the procedures and documents related to exporting and importing. Procomer promotes investment in Costa Rica abroad and advises foreign investors on specific projects.[18]

CINDE (Costa Rica Investment and Trade Development Board), a nonprofit organization, is also dedicated to promoting investment in Costa Rica. It targets investment by larger firms (of more than $1 million with at least 50 employees) in industry and services. CINDE advises foreign investors on logistics and human capital and serves as a mediator between the Government and investors when substantive issues arise. CINDE operates an office in New York to provide assistance to investors.[19]

The Costa Rican Government and CINDE have been credited with helping to make Costa Rica an attractive investment site. In a major study examining Intel's decision to invest in Costa Rica, CINDE's well-prepared, targeted approach and the Government's strong commitment were cited as being very important in Intel's decision.[20] Separately, during fieldwork in Costa Rica, U.S. embassy officials indicated that U.S. investors regularly express confidence in the Costa Rican Government to continue to provide a favorable investment climate and to respond to economic problems as they arise.[21] According to one company official, Costa Rica "is consistent in actually delivering what they announce as investment conditions."[22]

Investment Activity

Foreign direct investment (FDI) in Costa Rica has increased steadily and significantly throughout the 1990s (table 4-3). In 1997, Costa Rica ranked first among CBERA beneficiaries as a recipient of FDI. In 1998, Costa Rica registered an estimated $531.1 million in FDI; over one-quarter was accounted for by an investment by Intel Corporation, and another 20 percent was directed toward the banana sector.[23] Intel's investment represents the largest FDI in Costa Rica's history.

The United States is the largest foreign investor in Costa Rica.[24] U.S. investment amounted to $418.6 million and accounted for 78 percent of total FDI in Costa Rica in 1998. U.S. investment in industry, including electronics and textiles, accounted for an estimated 79 percent of total U.S. FDI; agriculture, including bananas, fruits, ornamental plants, and wood, accounted for 9 percent; and tourism and other services accounted for the remaining 12 percent.[25]

A large portion of FDI in industry, including Intel's, is directed to FTZs. The manufacturing sectors represented in FTZs include textiles and apparel, electronics, metallurgy, medical devices, agriculture and agroindustry, and jewelry.[26] Table 4-4 shows how FTZs have grown over the period 1986-98 in exports, investment, number of companies, and number of employees. Between 1997 and 1998, investment in FTZs grew 31 percent, to $639.4 million. As of June 1999, there were 218 companies

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[17] U.S. Department of Commerce, *Costa Rica: Country Commercial Guide*, found at Internet address *http://www.stat-usa.gov*, retrieved July 4, 1999.

[18] Procomer, "Costa Rican Foreign Trade Corporation," pamphlet.

[19] Representatives of CINDE, USITC staff interview, San Jose, June 11, 1999.

[20] Debora Spar, Foreign Investment Advisory Service (a joint facility of the International Finance Corporation and the World Bank), *Attracting High Technology Investment, Intel's Costa Rican Plant*, Occasional Paper 11, April 1998.

[21] U.S. Embassy officials, USITC staff interview, San Jose, June 11, 1999.

[22] CINDE, *Flash News*, March 1998, found at Internet address *http://www.cinde.or.cr/pub/news/mar98508_m.html*, retrieved July 6, 1999.

[23] Ministerio de Comercio Exterior (COMEX), preliminary estimates, March 1999.

[24] U.S. Department of Commerce, *Costa Rica: Country Commercial Guide*, found at Internet address *http://www.stat-usa.gov*, retrieved July 4, 1999.

[25] Ministerio de Comercio Exterior (COMEX), preliminary estimates, March 1999.

[26] U.S. Department of Commerce, *Costa Rica : Country Commercial Guide*, found at Internet address *http://www.stat-usa.gov*, retrieved July 4, 1999.

Table 4-3
Foreign direct investment inflows, by host regions and by economies, 1986-97
(*Million dollars*)

Host region/economy	1986-91 (annual average)	1992	1993	1994	1995	1996	1997[1]
World	159,331	175,841	217,559	242,999	331,189	337,550	400,486
Developing countries	29,090	51,108	72,528	95,582	105,511	129,813	148,944
Latin America and the Caribbean	9,460	17,611	17,247	28,687	31,929	43,755	56,138
CBERA	691	1,348	1,542	2,075	2,090	2,203	2,571
Antigua and Barbuda	42	20	15	25	32	19	28
Aruba	53	-37	-18	-73	-6	85	196
Bahamas	7	-	27	23	107	87	89
Barbados	9	14	9	13	12	13	18
Belize	12	16	9	15	21	22	23
Costa Rica	118	226	247	298	396	410	500
Dominica	13	21	13	22	54	18	20
Dominican Republic	105	180	225	360	404	394	250
El Salvador	17	15	16	23	38	25	41
Grenada	12	23	20	19	20	18	22
Guatemala	127	94	143	65	75	77	130
Guyana	3	147	70	107	74	81	90
Haiti	5	-2	-3	-	7	4	3
Honduras	44	48	27	35	50	63	80
Jamaica	61	142	78	117	167	175	180
Netherlands Antilles	31	40	11	22	10	11	17
Nicaragua	-	15	39	40	70	85	92
Panama	-115	139	156	354	179	238	340
St. Kitts and Nevis	25	13	14	15	20	17	25
St. Lucia	29	41	34	32	30	23	45
St. Vincent and the Grenadines	8	15	31	47	31	18	42
Trinidad and Tobago	85	178	379	516	299	320	340

[1] Estimated by UNCTAD.

Source: UNCTAD, FDI/TNC database found in *World Investment Report 1998: Trends and Determinants*.

in 9 FTZs, of which 174 were active, that is, not setting up or closing down.[27]

Intel first announced its plans to invest in Costa Rica in 1996. Construction began in 1997, and production commenced in early 1998. Intel's investment in Costa Rica is expected to reach $500 million when the project is complete and to generate $3 billion in exports by the year 2000. Currently, the company operates two microprocessor assembly and testing plants, which employ 2,100 workers. Intel intends to construct a total of four plants, which are expected to employ 3,500 workers.[28]

A significant amount of new investment in Costa Rica reflects companies that have been established to supply and service Intel, rather than to export their own products. However, a thriving industrial base, including some high-technology companies, existed in

[27] Procomer representatives, USITC staff interview, San Jose, June 11, 1999.

[28] Intel representative, USITC staff interview, San Jose, June 14, 1999; CINDE, *Costa Rica Investment News*, Oct. 1998, found at Internet address *http://www.cinde.or.cr/pub/newsletter/october1998*, retrieved May 27, 1999; and United Nations, Economic Commission for Latin America and the Caribbean, *Foreign Investment in Latin America and the Caribbean*, 1998 Report, pp. 46-47.

Table 4-4
Free-trade zones: Total exports, investment, number of companies, and number of employees, 1986-98

Year	Exports	Investment	Number of companies	Number of employees
		——-Million dollars——-		
1986	7	26.3	11	1,500
1987	20	34.0	20	2,200
1988	42	78.4	28	4,600
1989	77	88.9	40	5,200
1990	94	116.6	56	7,000
1991	145	147.9	88	11,200
1992	215	157.6	119	13,600
1993	274	205.7	127	18,500
1994	345	262.2	148	22,600
1995	428	320.7	183	25,400
1996	643	341.9	191	24,200
1997	891	487.2	203	25,710
1998	1,932	639.4	219	27,200

Source: Compiled from Procomer, "Estadisticas de exportacion de zonas francas," Apr. 14, 1999.

Costa Rica prior to Intel and continues to increase exports to the United States, particularly electronics and medical equipment. For example, exports of components of telecommunications equipment, electronic filters, and resistors are increasing rapidly. According to the U.S. Embassy, a U.S. company producing miniature high-precision electromechanical components is currently expanding in Costa Rica to take advantage of local skills.[29] Conair, which exports primarily hair dryers to the United States, is also expanding its production facilities.[30] In the medical equipment sector, Baxter Healthcare intends to invest $3 million in 1999 to expand its production of disposable medical devices and will transfer some production lines to Costa Rica from the Dominican Republic.[31] Abbott Laboratories plans to invest $60 million in a new medical devices plant and to begin manufacturing operations in December 1999 with about 1,000 employees.[32] In 1998, Firestone opened a new plant to expand exports of tires, including exports to the United States.[33] Wood products, especially doors, are also growing in importance.

In addition to industrial products, nontraditional agricultural exports continue to grow. For example, orange juice exports have grown recently because trees have reached full maturity and soil treatments have improved, thus increasing yields. Exports of orange juice are expected to expand because of increased orange supplies to Costa Rican juice-processing plants from Nicaragua, where groves are maturing.[34] Other agricultural products that show healthy yet fluctuating exports include pineapples, melons, yams, palm hearts, and cut flowers.

Another recent investment trend in Costa Rica is the establishment of regional headquarters by major U.S. companies. For example, Proctor and Gamble plans to invest $60 million to set up a global business services center in San Jose. The center is scheduled to open during the summer of 2000 with about 500 employees, who will provide data processing, payroll, procurement, and financial services and customer logistics.[35] Motorola, which is closing its manufacturing operation in Costa Rica because of changing demand, intends to maintain a regional headquarters for all sales and marketing for Central America.[36] Lucent Technologies, Microsoft, and

[29] U.S. Embassy officials, USITC staff interview, San Jose, June 11, 1999.

[30] CINDE, *Flash News*, Mar. 1998, found at Internet address *http://www.cinde.or.cr/pub/news/mar98508_m.html*, retrieved May 27, 1999.

[31] CINDE, " Medical Devices, Expand Your Operation: A Financially Healthy Way to Grow," pamphlet.

[32] Ibid.

[33] "Firestone Doubles Tire Exports," *Caribbean Update*, June 1999.

[34] Company representatives, USITC staff interview, San Jose, June 14, 1999.

[35] CINDE, *Flash News*, found at Internet address *http://www.cinde.or.cr/pub/news/p&g_m.html*, retrieved July 6, 1999.

[36] "Motorola to Close Plant," *Caribbean Update*, Oct. 1998.

Oracle also recently announced plans to open regional headquarters in San Jose.[37]

Intel's decision to invest has significantly affected overall investment in Costa Rica. As noted above, Intel has already attracted numerous companies to Costa Rica to supply and service Intel's facilities. More important, however, is the validation Intel gives to Costa Rica as a favorable site for investment. Intel's reputation for conducting thorough, detailed site selections is recognized by companies worldwide. Furthermore, although high-technology firms were established in Costa Rica before Intel arrived, Intel adds size and a recognizable name to Costa Rica's high-technology industry. Intel's investment has and is likely to continue to attract new FDI to Costa Rica, particularly in high-technology production.[38]

Although officials interviewed during fieldwork indicated that the Costa Rican apparel sector has been adversely affected by NAFTA, investment activity in Costa Rica outside of this sector has probably not been adversely affected. Some interviewees suggested that electronics firms and auto parts companies may have been affected, but they could not cite any specific evidence. Other sources said that NAFTA was not an issue outside the apparel sector because Costa Rica offers the investor a more productive, educated, and easily trained workforce than Mexico. Accordingly, high-volume production typically is directed to Mexico, whereas precision or high-quality component manufacturing comes to Costa Rica. Nonetheless, all the officials who were interviewed agreed that NAFTA parity is essential for the continued health of the apparel industry in Costa Rica.[39]

Effectiveness of CBERA

Since 1980, the composition of Costa Rica's exports has diversified significantly, from traditional products like coffee and bananas to a wide mix of agricultural and industrial goods, including high-technology products. The recent opening of Intel's microprocessor plant marks a new level of production in the country.

Public- and private-sector officials credited several factors for this fundamental change in the Costa Rican economy. They claimed that CBERA played a critical role in the transformation. Local export incentives and a friendly investment climate were also important, but CBERA provided the spark that "changed the attitude of the country"[40] and initiated an examination of alternative ways to develop.

During fieldwork, several officials briefly summarized their views about Costa Rica's evolution from a producer of traditional agricultural products to a high-technology exporter.[41] According to interviewees, prior to CBERA's enactment, Costa Rica produced primarily traditional agricultural products for export and relied on the traditional domestic and Central American markets. The Costa Rican Government enacted export incentive programs, including tax incentives for operating in FTZs, but because the FTZs were located on each coast, away from San Jose and the infrastructure required to conduct a viable business, they did not attract investment.[42]

Costa Rican officials said that CBERA was implemented during a period of economic slowdown, when traditional markets were small and stagnant. The program provided a way of focusing attention toward the U.S. market and on the opportunities afforded by export of nontraditional products. According to interviewees, not until CBERA was fully implemented did companies really begin to use the local export-incentive programs. Indeed, the legislation covering FTZs was soon modified.[43]

Officials interviewed during the fieldwork indicated that the agricultural sector was probably the first to diversify after CBERA's enactment. CBERA encouraged the production of nontraditional agricultural products, such as ornamental plants, flowers, nuts, and fruits and vegetables, including melons, asparagus, and berries. Later, according to field interviews, a new relationship with the United States began to develop in the industrial sector with the growth of textile and apparel production-sharing operations, even though this sector was not eligible

[37] "Investment Guide to Central America," *Latin Trade*, July 1999, p. 78; and CINDE, *Flash News*, Oct. 1998, found at Internet address *http://www.cinde.or.cr/pub/newsletter/october1998/flashnews.html*, retrieved May 27, 1999.

[38] U.S. Embassy and private-sector representatives, USITC staff interviews, San Jose, June 11 and 14, 1999. Also, see USITC, *Caribbean Basin Economic Recovery Act: Impact on U.S. Industries and Consumers, Twelfth Report 1996*, USITC publication 3058, Sept. 1997, p. 52.

[39] Public- and private-sector representatives, USITC staff interviews, San Jose, June 11 and 14, 1999.

[40] "Central American Tiger," *World Trade*, March 1998, found at Internet address *http://www.proquest.umi.com*, retrieved May 27, 1999.

[41] Representatives of CINDE, the Central Bank of Costa Rica, and Saret FTZ, USITC staff interviews, San Jose, June 11 and 14, 1999.

[42] Ibid.

[43] Ibid.

for CBERA preferences. CBERA trade preferences, however, did encourage other industries to develop. Moreover, to avoid reliance on the low-wage textiles and apparel sector and to take advantage of a relatively educated workforce, the Government of Costa Rica, interviewees said, tried to promote investment in more advanced industries, such as electronics and medical devices. According to field interviews, that type of operation expanded in FTZs. After several years, however, the Government decided that the assembly operations were not contributing to the country's industrialization process and redirected Costa Rica's investment strategy toward high technology. Costa Rican officials said this new strategy has culminated in the latest wave of high-technology investment.[44]

Almost all public- and private-sector officials who were interviewed agreed that CBERA has been instrumental in the evolution of the Costa Rican economy over the past 15 years and continues to represent U.S. commitment to the region. Although CBERA remains important in current investment-promotion efforts, its role may be diminishing. Today, other incentives are probably more important in motivating growth.[45] Indeed, many high-technology products, including Intel's micro-processors, are exported to the United States duty free under the International Technology Agreement. Costa Rican officials are now supporting broader market opening through the FTAA initiative and other regional free-trade agreements to promote economic growth.[46]

[44] Ibid.

[45] Public- and private-sector representatives, USITC staff interviews, San Jose, June 11 and 14, 1999.

[46] Private-sector representative, USITC staff interview, San Jose, June 11, 1999. See also section on "Economic and Trade Performance," earlier in this case study.

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

CHAPTER 5
Summary of the ATPA Program

ATPA authorizes the President to grant certain unilateral preferential trade benefits to Bolivia, Colombia, Ecuador, and Peru in the form of reduced-duty or duty-free treatment of eligible products imported into the customs territory of the United States, based on importer claims for this treatment. ATPA preferential tariffs are scheduled to remain in effect through December 3, 2001, 10 years after the date of enactment. The World Trade Organization (WTO) renewed the United States' temporary waiver for the program on October 14, 1996 until December 4, 2001.[1] The following sections summarize ATPA provisions concerning beneficiaries, trade benefits, and qualifying rules, and the relationship between ATPA and the U.S. Generalized System of Preferences (GSP).

Beneficiaries

Colombia, Bolivia, Peru, and Ecuador are eligible to be designated by the President for ATPA benefits;[2] the President can terminate such designations or suspend or limit a country's ATPA benefits at any time.[3] In determining whether to designate a country for ATPA benefits, the President must take into account whether that country has met the criteria for U.S. narcotics cooperation certification.[4] By 1993, all four countries had been designated for full ATPA benefits.[5]

ATPA beneficiaries are required, among other things, to afford internationally recognized worker rights as defined under the GSP program and to provide effective protection of intellectual property rights (IPR), including copyrights for film and television material.[6] To date, ATPA benefits have not been withdrawn from any country on the basis of worker rights, inadequate protection of IPR, or lack of U.S. certification for cooperation on narcotics.[7] None of the ATPA beneficiaries was the subject of a GSP review in 1998.[8] In April 1998, the United States Trade Representative (USTR) conducted a review of country practices pertaining to IPR protection under the so-called Special 301 provisions of the Trade Act of 1974, as amended, and placed 32 countries, including Colombia and Peru, on the watch list of countries to be monitored for progress in implementing commitments with regard to IPR protection and for providing comparable market access for U.S. intellectual property products. In addition, the USTR placed Ecuador on the priority watch list for IPR monitoring.[9] In April 1999, the USTR placed 37 countries, including Bolivia, Colombia, and Ecuador, on the watch list, and elevated Peru to the priority watch list for IPR monitoring.[10]

Trade Benefits Under ATPA

ATPA affords preferential rates of duty below the column 1-general duties, formerly known as most-favored nation (MFN) duties,[11] to most products of Andean countries by reducing these tariff rates either to free or, for a small group of products, by 2.5 percent ad valorem.[12] For some products, duty-free

[1] A waiver is required because benefits are not extended on a most-favored-nation (MFN) basis. Decision of the WTO General Council of Oct. 14, 1996 (WT/L/184 and WT/L/289).

[2] 19 U.S.C. 3202(b).

[3] 19 U.S.C. 3202(e).

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

[5] Bolivia and Colombia were designated for ATPA benefits in 1992; Ecuador and Peru were designated in 1993.

[6] 19 U.S.C. 3202(c). For more details, see chapter 1.

[7] See ch. 9 below for a discussion of U.S. certification for ATPA beneficiaries in 1998.

[8] A petition on the IPR practices of Peru was submitted on June 20, 1999. Staff interview with USTR, July 14, 1999.

[9] USTR, "USTR Announces Results of Special 301 Annual Review," press release 98-44, May 1, 1998.

[10] USTR, "USTR Announces Results of Special 301 Annual Review," press release, 99-41, Apr. 30, 1999.

[11] For some products, the general or normal trade relations rate is free.

[12] General note 3(c) to the HTS summarizes the special tariff treatment for eligible products of designated countries under various U.S. trade programs, including ATPA. General note 11 covers ATPA.

entry under ATPA is subject to certain conditions in addition to basic preference eligibility rules. Imports of sugar and beef, like those of some other agricultural products, remain subject to any applicable and generally imposed U.S. quotas and food-safety requirements.[13] Although not eligible for duty-free entry, certain leather handbags, luggage, flat goods (such as wallets and portfolios), work gloves, and leather wearing apparel from ATPA countries are eligible to enter at reduced rates of duty.[14] Not eligible for any ATPA preferential duty treatment by law are most textiles and apparel, certain footwear, canned tuna, petroleum and petroleum derivatives, certain watches and watch parts, certain sugar products, and rum.[15]

Qualifying Rules

To be eligible for ATPA treatment, ATPA products must either be wholly grown, produced, or manufactured in a designated ATPA country or be "new or different" articles made from substantially transformed non-ATPA inputs.[16] The cost or value of the local (ATPA region) materials and the direct cost of processing in one or more ATPA countries must total at least 35 percent of the appraised customs value of the product at the time of entry. ATPA countries are permitted to pool their resources to meet the local-value-content requirement and to count inputs from Puerto Rico, the U.S. Virgin Islands, and countries designated under the Caribbean Basin Economic Recovery Act (CBERA)[17] in full toward the value threshold. In addition, goods with an ATPA content of 20 percent of the customs value and the remaining 15 percent attributable to U.S.-made (excluding Puerto Rican) materials or components[18] and those undergoing "double substantial transformation" are deemed to meet the 35 percent local-value-content requirement.[19]

ATPA and GSP

The four ATPA beneficiaries are also GSP beneficiaries. ATPA and GSP are similar in many ways, and many products may enter the United States free of duty under either program. However, the two programs differ in several ways that tend to make Andean producers prefer the more liberal ATPA; the reasons are identical to those described in the section on CBERA and GSP in chapter 1. First, ATPA covers more tariff categories than GSP: unless specifically excluded, all products entering the United States under ATPA can receive a tariff preference. Second, by law, U.S. imports under ATPA are not subject to GSP competitive-need and country-income restrictions. Under GSP, products that achieve a specified market penetration in the United States (the competitive need limit) may be excluded from GSP eligibility; products so restricted under GSP may continue to enter free of duty under ATPA. Countries may lose all GSP privileges once their national income grows to exceed a specified amount. Third, ATPA qualifying rules for individual products are more liberal than those of GSP. GSP requires that 35 percent of the value of the product be added in a single beneficiary or in a specified association of GSP-eligible countries, whereas ATPA allows regional aggregation within ATPA plus U.S. content. In addition to the many benefits of using ATPA over GSP, suppliers have increasingly come to make use of ATPA to avoid any risk of losing duty-free access to the U.S. market when GSP is not in effect, most recently, from May 31 to August 5, 1997, and from June 30 to October 21, 1998.[20]

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

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

[15] 19 U.S.C. 3203(b).

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

[17] CBERA beneficiaries are listed in ch. 1.

[18] 19 U.S.C. 3203(a).

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

[20] See ch. 1 for details on GSP's expiration. See ch. 6 for an analysis of the trends in the use of GSP and ATPA.

CHAPTER 6
U.S. Trade with the ANDEAN Region

Introduction

This chapter covers U.S. trade with the four countries that are designated as ATPA beneficiaries: Bolivia, Colombia, Ecuador, and Peru. The principal purpose of the chapter is to examine U.S. imports under ATPA preferential provisions in 1998. However, because U.S. imports under ATPA represent only a small portion of total U.S. imports from the region,[1] and because they are affected by other factors and programs, such as GSP, imports under ATPA are analyzed in the context of overall bilateral trade between the United States and ATPA beneficiaries.

In this chapter trade is discussed on a 2-digit Harmonized Tariff Schedule (HTS) chapter and an 8-digit HTS subheading basis in terms of (a) two-way trade, (b) overall U.S. imports from the beneficiaries, (c) the portion of U.S. imports that enter under ATPA preferences, and (d) U.S. exports to ATPA countries. The role of individual beneficiary countries as sources of and destinations for this trade is also covered. When so indicated, developments during 1998 are discussed in the context of longer term trends, for which 1994 is used as a base year of comparison.[2] For an in depth analysis of long-term trade trends, see last year's report.[3]

The year 1998 was marked by sharply lower revenues from major exports by ATPA countries—including petroleum products, coffee, cocoa, shrimp, and bananas–owing in part to lower world market prices and in part to El Nino-related climactic limitations on production and trade. These factors caused a decline in overall U.S. imports from ATPA countries for the year—the first annual decrease since 1992. Imports entered under ATPA provisions were less affected, even though prices of metal-based goods, including refined copper cathodes (the number one import item) and unwrought zinc, also dropped.

[1] In 1998, imports under ATPA accounted for 19.7 percent of overall U.S. imports from ATPA countries.

[2] In 1992, Colombia and Bolivia were the only countries designated under ATPA. During 1993, Ecuador and Peru were also designated, but 1994 was the first full year during which all four countries enjoyed ATPA treatment.

[3] USITC, *Andean Trade Preference Act: Impact on U.S. Industries and Consumers, Fifth Report, 1997,* USITC publication 3132, Sept. 1998.

Notable in the context of U.S. trade relations with ATPA countries is the agreement the United States, the four ATPA countries, and Venezuela signed on October 30, 1998, establishing the U.S.-Andean Community Trade and Investment Council. The Council, which will be composed of ministerial-level representatives from the member governments, will address key trade issues, such as the Free Trade Area of the Americas (FTAA) negotiation, protection of intellectual property rights, trade issues under the Andean Trade Preference Act, and matters of mutual interest in the World Trade Organization (WTO).[4]

Two-Way Trade

The United States mostly registered a trade surplus with the ATPA countries in the 1990s, except in the years 1990, 1991, and 1996. In 1998, the U.S. surplus amounted to $309.1 million (table 6-1 and figure 6-1).

The importance of ATPA countries as a market for U.S. exports grew in this period; their collective share rose from 0.9 percent of the world market in the first 2 years of the decade to 1.4 percent in 1995, and again in 1998. Meanwhile, the collective share of ATPA countries as a supplier of the U.S. market remained largely unchanged, hovering around 1 percent of total U.S. imports throughout the period; it was 0.9 percent in 1998.

Total Imports

Total U.S. imports from ATPA countries (including both the portion affected and unaffected by ATPA preferences) amounted to $8.4 billion in 1998, 3.6 percent less than in 1997. The decline was caused by lower prices, affecting a broad spectrum of leading imports from ATPA countries–petroleum products, coffee, shrimp, bananas—products that do not enter under ATPA provisions. In 1998, ATPA countries collectively were the 23d-largest supplier of U.S. imports from the world–larger than Ireland but smaller than Belgium.

[4] USTR, "The United States and Andean Community Create New Trade and Investment Partnership," press release 98-97, Oct. 30, 1998.

Table 6-1
U.S. trade with ATPA countries, 1990-98

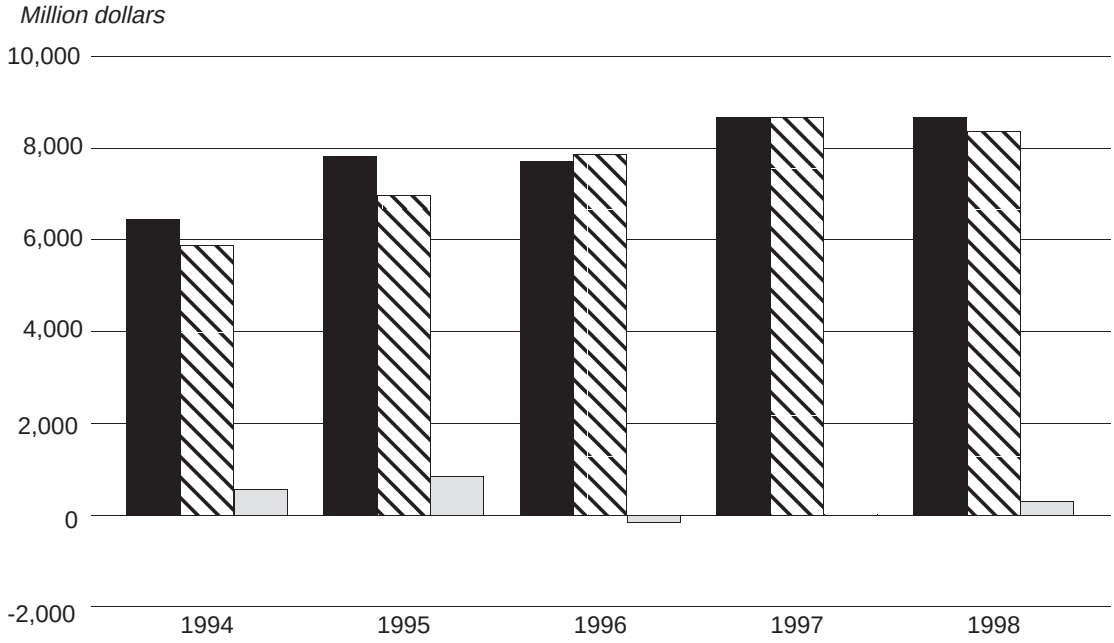
Year	U.S. exports[1]	Share of U.S. exports to the world	U.S. imports[2]	Share of U.S. imports from the world	U.S. trade balance
	Million dollars	*Percent*	*Million dollars*	*Percent*	*Million dollars*
1990	3,534.2	.9	5,438.6	1.1	-1904.4
1991	3,798.2	.9	4,969.5	1.0	-1171.3
1992	5,319.7	1.3	5,058.7	1.0	261.0
1993	5,359.1	1.2	5,282.3	.9	76.7
1994	6,445.0	1.3	5,879.5	.9	565.5
1995	7,820.2	1.4	6,968.7	.9	851.4
1996	7,718.7	1.3	7,867.6	1.0	-148.9
1997	8,681.8	1.3	8,673.6	1.0	8.2
1998	8,670.1	1.4	8,361.0	.9	309.1

[1] Domestic exports, f.a.s. basis.

[2] Imports for consumption, customs value.

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

Figure 6-1
U.S. trade with ATPA countries, 1994-98



Items	1994	1995	1996	1997	1998
U.S. exports	6,445.0	7,820.2	7,718.7	8,681.8	8,670.1
U.S. imports	5,879.5	6,968.7	7,867.6	8,673.6	8,361.0
U.S. trade balance	565.5	851.4	-148.9	8.2	309.1

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

Product Composition and Leading Items

Table 6-2 shows the changes in major product categories of total imports from ATPA countries in 1994-98. Figure 6-2 shows that the composition of imports in 1998 was not significantly different from that of 1994. Table 6-3 lists the 20 leading U.S. import items during 1997 and 1998 on an 8-digit HTS subheading basis, ranked by their 1998 import value. Only a few items in table 6-3—petroleum oils, distillate and residual fuel oils, and apparel—are dutiable under column 1-general duty rates of the HTS, formerly known as MFN duty rates. Other leading items, while dutiable, are eligible for ATPA tariff preferences, including cut flowers and refined copper cathodes.[5] The remaining items on the list are free under column 1-general duty rates, including coffee, shrimp and prawns, and bananas.

Mineral fuels (HTS chapter 27) were the leading HTS category (table 6-2 and figure 6-2), and petroleum oils (HTS subheading 2709.00.20) were the number one U.S. import item from ATPA countries in 1998 (table 6-3). Colombia contributed 73.8 percent, and Ecuador 17.4 percent, of total chapter 27 imports. Among ATPA beneficiaries, only Colombia and Ecuador currently have economically recoverable reserves of petroleum.

Since 1996, the relative significance of petroleum-based imports from ATPA countries has declined. In 1996, chapter 27 products accounted for 40.7 percent of U.S. imports from these countries, in 1997 for 33.8 percent, and in 1998 for 28.7 percent. This trend, which was caused by falling crude oil prices, accelerated in 1998, when unit values of petroleum oils imported from ATPA countries plunged by 32.6 percent. Consequently, even though the United States imported 22.5 percent more barrels of petroleum oils from these countries than in 1997, those imports dropped in value by 17.5 percent.

Goods of HTS chapter 9 constitute the third-largest category from ATPA countries, with coffee accounting for the bulk of imports (table 6-2 and figure 6-2). Coffee not roasted, not decaffeinated (HTS subheading 0901.11.00) was the second leading import item from ATPA countries in 1998 (table 6-3). Although the volume of imports was up during the year by 5.6 percent, the value of imports fell by 18.6 percent, because of lower prices. More than four-fifths of coffee imports from ATPA countries originated in Colombia, and some 15 percent in Peru.

A large portion of fish (HTS chapter 3) imports consists of shrimp, which is the third leading import item from ATPA countries. The coastal areas of Ecuador, Peru, and Colombia provide ideal conditions for shrimp aquaculture. Production has grown steadily in the region for many years, despite a leveling off of prices. Shrimp imports from ATPA countries dropped by 3.0 percent in value in 1998, even though they edged up by 2.8 percent in volume. Although imports from Ecuador dipped in value, Ecuador remained the leading source of U.S. shrimp imports in 1998 not only among ATPA countries but among all countries of the world.[6] Notable is the 26.5 percent decline in value of U.S. shrimp imports from Colombia during the year.

Fresh bananas, the fourth leading item from ATPA countries, are responsible for some 95 percent of imports in the edible fruits and nuts category (HTS chapter 8). Banana imports from ATPA countries increased by 11.4 percent in 1998 in volume, but only by 4.5 percent in value, indicating once again lower unit values. Ecuador remained the principal supplier in terms of value, not only among ATPA countries but among all countries of the world, even though El Nino and consequent flooding damaged its banana crop during the year. Ecuador enjoys longstanding U.S. investment in the production and distribution of bananas. Notably, Ecuador was among the countries that requested in 1997 a WTO dispute-settlement panel[7] to examine the importation, sale, and distribution of bananas in the European Union (EU).[8]

Other major import groups from ATPA countries—precious metals and stones, and jewelry (HTS chapter 71); cut flowers (HTS chapter 6); and copper and copper articles (HTS chapter 74)—have a significant component of ATPA-eligible items; therefore, imports classified in those chapters will be discussed separately below under "Imports under ATPA Preferences." The two apparel chapters (HTS 61 and HTS 62), which contain primarily dutiable tariff items that are not eligible for ATPA preferences, are addressed immediately below.

[5] Those leading articles that enter free of duty under ATPA are discussed under "Imports under ATPA" later in this chapter.

[6] Ecuador was the leading source of imports from all countries in volume, but Thailand was the leading source in value, both in 1997 and 1998.

[7] The others were the United States, Mexico, Honduras, and Guatemala. They were joined later by Panama.

[8] See ch. 2 for a discussion of 1998 developments in the WTO dispute settlement issue.

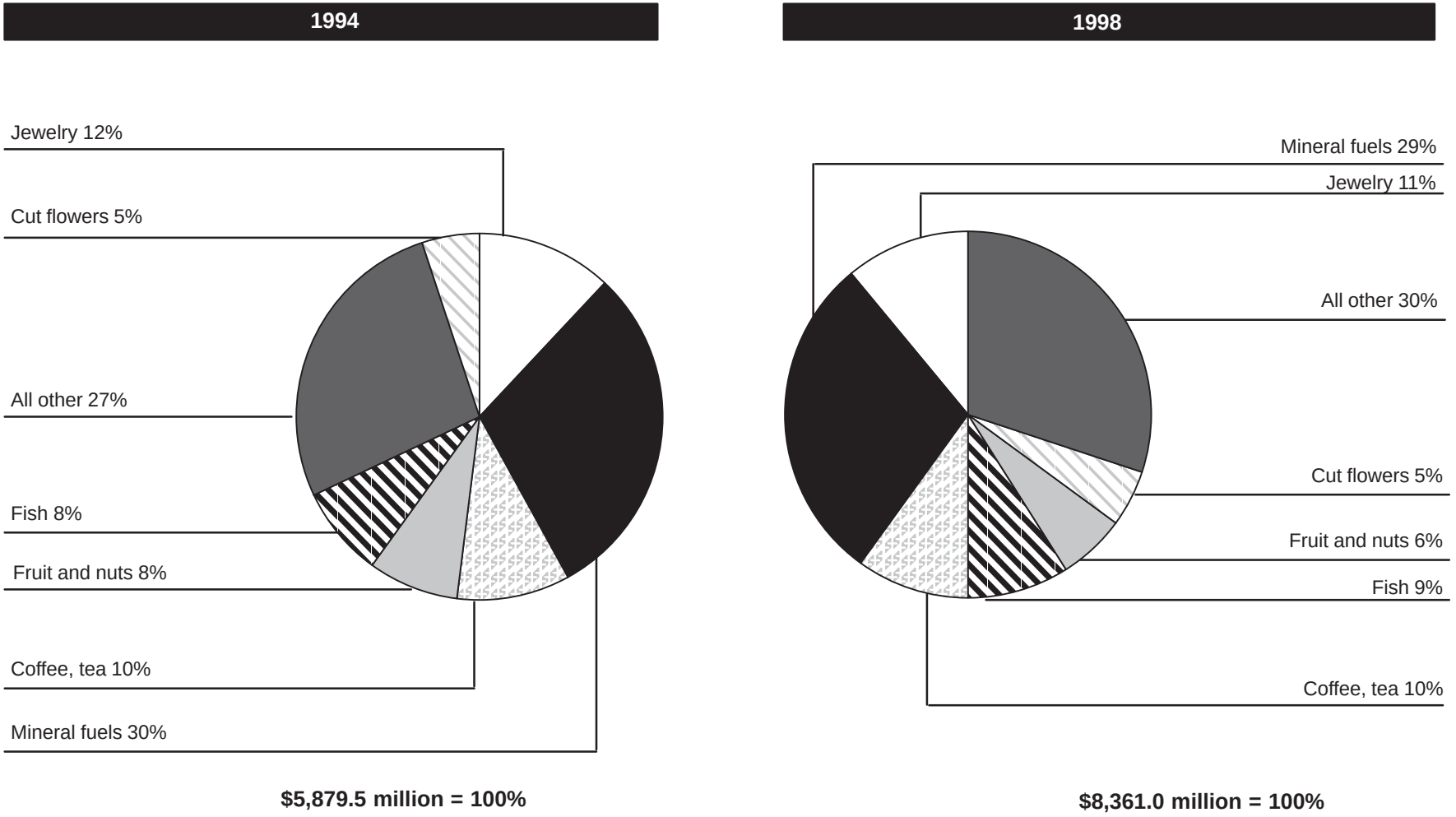
Table 6-2
Leading U.S. imports for consumption from ATPA countries, by major product categories, 1994-98

HTS Chapter	Description	1994	1995	1996	1997	1998
		Value (1,000 dollars)				
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	1,758,544	2,442,637	3,200,265	2,928,673	2,397,896
71	Natural or cultured pearls, precious or semiprecious stones, precious metals; precious metal clad metals, articles thereof; imitation jewelry; coins	492,178	588,903	670,858	596,926	912,388
09	Coffee, tea, mate and spices	686,217	755,975	640,163	1,009,732	834,876
03	Fish and crustaceans, molluscs and other aquatic invertebrates	586,047	601,109	511,913	759,982	729,590
08	Edible fruit and nuts; peel of citrus fruit or melons	448,269	442,859	416,361	487,308	516,568
06	Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage	298,111	373,539	437,836	446,675	454,385
61	Articles of apparel and clothing accessories, knitted or crocheted	223,443	261,207	235,202	320,815	370,696
62	Articles of apparel and clothing accessories, not knitted or crocheted	262,254	250,948	246,367	245,172	242,985
74	Copper and articles thereof	60,464	60,389	163,915	257,242	240,448
29	Organic chemicals	4,046	15,391	61,030	161,051	132,313
	Total	4,819,573	5,792,957	6,583,911	7,213,574	6,832,145
	All other	1,059,932	1,175,772	1,283,735	1,459,989	1,528,892
	Total all commodities	5,879,505	6,968,729	7,867,646	8,673,564	8,361,036
		Percent of total				
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	29.91	35.05	40.68	33.77	28.68
71	Natural or cultured pearls, precious or semiprecious stones, precious metals; precious metal clad metals, articles thereof; imitation jewelry; coins	8.37	8.45	8.53	6.88	10.91
09	Coffee, tea, mate and spices	11.67	10.85	8.14	11.64	9.99
03	Fish and crustaceans, molluscs and other aquatic invertebrates	9.97	8.63	6.51	8.76	8.73
08	Edible fruit and nuts; peel of citrus fruit or melons	7.62	6.35	5.29	5.62	6.18
06	Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage	5.07	5.36	5.57	5.15	5.43
61	Articles of apparel and clothing accessories, knitted or crocheted	3.80	3.75	2.99	3.70	4.43
62	Articles of apparel and clothing accessories, not knitted or crocheted	4.46	3.60	3.13	2.83	2.91
74	Copper and articles thereof	1.03	.87	2.08	2.97	2.88
29	Organic chemicals	.07	.22	.78	1.86	1.58
	Total	81.97	83.13	83.68	83.17	81.71
	All other	18.03	16.87	16.32	16.83	18.29
	Total all commodities	100.00	100.00	100.00	100.00	100.00

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

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

Figure 6-2
Composition of U.S. imports for consumption from ATPA countries, by major product categories, 1994 and 1998



Note.—Percentages may not add to 100 because of rounding.

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

Table 6-3
Leading U.S. imports for consumption from ATPA countries, 1997-98

HTS Number	Description	1997	1998	Change
		-Value (1,000 dollars)-		Percent
2709.00.20	Petroleum oils and oils from bituminous minerals, crude, testing 25 degrees A.P.I. or more	1,319,426	1,088,453	-17.51
0901.11.00	Coffee, not roasted, not decaffeinated	887,124	721,985	-18.62
0306.13.00	Shrimps and prawns, cooked in shell or uncooked, dried, salted or in brine, frozen	656,445	636,767	-3.00
0803.00.20	Bananas, fresh or dried	417,858	436,467	4.45
2710.00.05	Distillate and residual fuel oils (including blends) derived from bituminous minerals, testing under 25 degrees A.P.I.	357,104	367,522	2.92
7108.12.10	Gold, nonmonetary, bullion and dore	139,667	292,616	109.51
2709.00.10	Petroleum oils and oils from bituminous minerals, crude, testing under 25 degrees A.P.I.	344,406	265,417	-22.93
7403.11.00	Cathodes and sections of cathodes, of refined copper	214,643	212,614	-0.95
9999.95.00	Informal entries under $1251	152,831	199,328	30.42
0603.10.60	Roses, fresh cut	184,291	195,895	6.30
0603.10.70	Chrysanthemums, standard carnations, anthuriums and orchids	147,827	147,359	-0.32
2713.11.00	Coke, petroleum, not calcined	222,270	139,054	-37.44
2710.00.10	Distillate and residual fuel oils (including blends) derived from bituminous minerals, testing 25 degrees A.P.I. or more	111,932	122,552	9.49
7108.13.70	Other semimanufactured forms of nonmonetary gold	41,299	115,021	178.50
2701.12.00	Coal, bituminous, whether or not pulverized, but not agglomerated	97,527	108,552	11.30
9801.00.10	U.S. goods returned without having been advanced in value or improved in condition while abroad	99,090	106,278	7.25
2711.29.00	Petroleum gases and other gaseous hydrocarbons, except natural gas	111,698	100,205	-10.29
6110.20.20	Sweaters, pullovers and similar articles, knitted or crocheted, of cotton, nesoi	71,057	96,152	35.32
0901.12.00	Coffee, not roasted, decaffeinated	99,588	91,589	-8.03
6105.10.00	Men's or boys' shirts, knitted or crocheted, of cotton	77,489	81,686	5.42
	Total	5,753,572	5,525,513	-3.96
	All other	2,919,992	2,835,524	-2.89
	Total all commodities	8,673,564	8,361,036	-3.60

Note.—The abbreviation nesi stands for "not elsewhere specified or included." The abbreviation nesoi stands for "not elsewhere specified or otherwise included."

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

Textiles and Apparel

The ATPA countries are a small but growing source of U.S. imports of textile and apparel articles, almost all of which are ineligible for duty-free entry under the ATPA program.[9] In 1998, U.S. imports of textiles and apparel from ATPA countries grew by 6 percent, to $679 million, up from $643 million in 1997. Although ATPA countries supplied only 1 percent of U.S. textile and apparel imports in 1998, the sector has recently increased its share of U.S. imports from the region. As ATPA apparel companies invest more in manufacturing technology and focus on enhancing and expediting production and delivery times, they are becoming an increasingly attractive sourcing alternative. Sector imports in 1998 came chiefly from Colombia (59 percent) and Peru (36 percent). Such imports consisted primarily of apparel (91 percent) and will therefore be referred to as apparel imports in the remainder of this section, unless otherwise indicated.

Apparel imports from Colombia grew by 3.6 percent in 1998, to $398 million, down from a 13.4 percent increase in 1997. This 1998 slowdown can be attributed in part to increased price competition from the East Asian countries that devalued their currencies. Greater competition from apparel exports from Mexico that benefit from duty advantages under NAFTA may also partly explain the slowed growth in 1998 U.S. apparel imports from Colombia. In addition, a recent decline in Colombia's domestic-market demand, which trade sources claim has constrained cash flow and hampered business operations,[10] could also have been a factor.

A major portion of U.S. apparel imports from Colombia involves production sharing, in which U.S. firms ship garment parts there for sewing and then re-import the assembled garments under a special U.S. tariff provision. This provision, HTS 9802.00.80, provides a duty exemption for U.S. components that are returned to the United States as parts of goods assembled abroad.[11] Colombia is the only ATPA country currently subject to U.S. import quotas for textiles and apparel. Of the two quotas in place in 1998, Colombia filled the quota for men's and boys' wool suits; the other quota, covering cotton print cloth, was largely unfilled.[12]

The apparel industry in Colombia comprises about 4,000 registered firms, of which about 120 firms, including 30 to 40 production-sharing operations with U.S. firms, produce apparel for export.[13] The industry employs about 300,000 employees and indirectly supports another 600,000 workers, or roughly 2 percent of the country's population.[14] With easy ocean access to Miami, FL., apparel production-sharing operations in Colombia offer shorter lead times and more competitive transportation costs than Asian competitors do. Garments entered under the HTS 9802.00.80 provision constituted about two-thirds of the apparel imports from Colombia in 1998. To compete with Asian apparel manufacturers, the apparel industry in Colombia is also focusing on manufacturing high-quality, high-end apparel products.[15]

U.S. apparel imports from Peru have risen steadily in recent years. They almost doubled from 1994 to 1998, rising from $131 million to $246 million. The 1998 level also represented a 10 percent increase over the previous year. Slightly more than two-thirds of the 1998 imports consisted of knit cotton shirts. Many of the knit shirts are made from soft-hand Peruvian pima cotton, a high-grade, long-staple fiber known for its softness and found in Peru's mountainous areas. Several U.S. merchandising and retail catalogue companies with widely recognized brand names have played a major role in fostering the growth in imports of such knit shirts from Peru. Further expansion of that trade depends on effective use of Peruvian cotton as a promotional or advertising tool.

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[9] Textiles and apparel subject to textile quota agreements are excluded from duty-free treatment under ATPA; they include articles of cotton, other vegetable fibers, wool, manmade fibers, and silk blends.

[10] Dr. Roque Ospina, "Colombia," *Apparel Industry International*, found at Internet address *http://www.aiimag.com/aiieng/archives/1198/nstor9.html*, retrieved Feb. 25, 1999.

[11] HTS 9802.00.80 is the successor provision to item 807.00 of the Tariff Schedules of the United States

[11]—*Continued*
(TSUS). In 1989, the United States replaced the TSUS with the HTS as the basis for classifying imported goods for duty and other customs purposes.

[12] In August 1995, the United States established quotas and "special access limits" (SALs) for products from Colombia. The SALS were established under the HTS 9802.00.80 tariff provision and provided, in addition to reduced duties, greater market access for certain garments assembled from U.S.-made and -cut fabric. The quotas and SALs for the underwear and women's suits expired on December 31, 1997.

[13] U.S. Department of State, "Colombia-Textile Sector - IMI980223: Market Research Reports," prepared by U.S. Embassy, Bogota, Feb. 23, 1998, found at Internet address http://www.stat-usa.gov, retrieved June 2, 1998.

[14] "The Andean Region," *Apparel Industry Magazine*, Oct. 1997, p. 28, found at Internet address *http://proquest.umi.com*, retrieved July 8, 1998.

[15] Sylvia Reyes, Colombia Trade Bureau, telephone conversation with USITC staff, June 11, 1998.

Peru's cut-and-sew apparel industry consists of about 14,200 firms, 200 of which are considered to be medium- or large-sized firms. The industry has 120,000 production workers, and another 80,000 workers provide support services to the production sector. The export sector of the industry uses modern technology in producing apparel to buyer specifications. In general, however, productivity in Peru's apparel-manufacturing industry remains relatively low. Despite efforts to modernize apparel plants, efficiency stands at only 50 to 55 percent of the world average for similar plants. Efficiency at the so-called micro enterprises in the apparel industry is even lower, amounting to no more than 20 to 25 percent.[16]

U.S. imports of apparel from Ecuador declined by 22 percent in 1998, to $18.7 million. The leading items in this trade included men's or boys' bathrobes and dressing gowns, sweaters and pullovers, and women's or girls knitted or crocheted swimwear of synthetic fibers. U.S. imports of apparel from Bolivia rose by 35 percent in 1998, totaling $17.2 million. Leading items from Bolivia included knitted or crocheted men's or boys' shirts of cotton and sweaters and pullovers of wool.

Imports by Country

Table 6-4 shows overall U.S. imports from each ATPA country from 1994 to 1998. In 1998, declining commodity prices and resulting smaller values of petroleum-based products and coffee depressed overall U.S. import values from all ATPA countries except for Bolivia, which was not affected. Throughout the period, Colombia was the leading source of U.S. imports from ATPA countries, contributing well above one-half of the total. Although imports from Colombia were down by 3.8 percent in 1998, largely because of declining oil and coffee prices, Colombia still accounted for 53.1 percent of collective imports from ATPA countries.[17]

Ecuador, which had been the second-ranking source of U.S. imports among ATPA countries from 1994 to 1997, was displaced by Peru and fell to third place in 1998. Imports from Ecuador dropped by 17.1 percent from their 1997 value, reflecting the country's overall poor economic performance. The causes of economic problems included low petroleum prices, the adverse effects of the international financial crisis, and El Nino-related climactic effects on crops and fish.[18] Total U.S. imports from Ecuador declined, including mineral fuels, coffee, cocoa, and jewelry.[19]

Peru's share of total U.S. imports from ATPA countries continued to increase markedly, from 13.3 percent of the total in 1994 to 19.7 percent in 1997, and 23.0 percent in 1998. Even though Peru also was affected by shrinking values of mineral fuels and coffee, larger shipments to the United States in other product areas offset those losses.[20] Peru (like Bolivia) has experienced a mining boom in recent years, as Latin American countries liberalized their foreign-investment and mining laws in the early 1990s.[21] By 1996, Peru overtook Brazil to become the largest gold-mining country in Latin America, while remaining the world's second-largest producer of silver, after Mexico. In 1998, Peru's exports to the United States of ores, articles made of precious metals, zinc, and tin continued to rise, some of them sharply. Peru's wearing apparel (HTS chapter 61 and 62) shipments to the United States also continued to grow during the year.

Bolivia is by far the smallest U.S. supplier among ATPA countries (table 6-4). Bolivia accounted in 1994 for 4.4 percent of all U.S. imports from ATPA countries; this share dropped to 2.5 percent of the total by 1997. In 1998, imports edged up, raising Bolivia's share to 2.6 percent. Unlike the other ATPA countries, Bolivia was not affected by falling petroleum and coffee prices.

Dutiability

In 1998, the dutiable share of total U.S. imports from ATPA countries was 31.8 percent, compared with 33.6 percent in 1997 and 42.9 percent in 1996 (table 6-5). The average rate of duty was 3.94 percent ad valorem, and duty revenues amounted to $105.0 million. Less than 1 percent of imports, in terms of value, entered under reduced-duty ATPA provisions in each year (table 6-6). Products eligible for reduced duties are limited to luggage and handbags of leather, work gloves, flat goods, and leather wearing apparel.

[16] U.S. Department of State telegram, "Department of Labor Wage Study for the Apparel Industry," message reference No. 001287, prepared by the U.S. Embassy, Lima, Peru, Mar. 2, 1999.

[17] See also the section "Imports under ATPA" later in this chapter.

[18] U.S. Embassy officials, USITC staff interviews, Quito, Ecuador, June 15, 1999.

[19] See also the section "Imports under ATPA" later in this chapter.

[20] Ibid.

[21] See for example, D.R. Wilburn, "Annual Review 1997, Exploration," *Mining Engineering*, vol. 50, no. 5, May 1998, pp. 51-60.

Table 6-4
U.S. imports for consumption from ATPA countries, by source, 1994-98

Source	1994	1995	1996	1997	1998
	Value (1,000 dollars)				
Colombia	3,132,398	3,807,348	4,421,492	4,614,873	4,441,685
Peru	779,945	965,370	1,202,788	1,705,929	1,925,291
Ecuador	1,709,790	1,939,218	1,975,027	2,139,354	1,773,919
Bolivia	257,373	256,795	268,339	213,408	220,142
Total	5,879,505	6,968,729	7,867,646	8,673,564	8,361,036
	Percent of total				
Colombia	53.3	54.6	56.2	53.2	53.1
Peru	13.3	13.9	15.3	19.7	23.0
Ecuador	29.1	27.8	25.1	24.7	21.2
Bolivia	4.4	3.7	3.4	2.5	2.6
Total	100.0	100.0	100.0	100.0	100.0

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

Table 6-5
U.S. imports for consumption from ATPA countries: Dutiable value, calculated duties, and average duty, 1994-98

Source	1994	1995	1996	1997	1998
Dutiable value *(1,000 dollars)*[1]	2,261,297	2,970,978	3,379,043	2,915,126	2,661,246
Dutiable as a share of total *(percent)*	38.5	42.6	42.9	33.6	31.8
Calculated duties *(1,000 dollars)*[1]	85,467	86,325	87,124	95,374	104,950
Average duty (*percent*)[2]	3.78	2.91	2.58	3.27	3.94

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

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

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

Duty-Free Imports

Duty-free imports entered in one of the following ways: (1) unconditionally free under column 1-general tariff rates (44.0 percent of all imports); (2) conditionally free under GSP (2.3 percent); (3) conditionally free under production sharing, that is, chapter HTS 98 (1.9 percent); (4) conditionally free under ATPA (19.4 percent); or (5) under other provisions (0.8 percent).

In 1998, the 4.6 percentage point increase in the portion of duty-free entries under ATPA raised the total duty-free portion of U.S. imports from ATPA countries to 68.2 percent from 66.4 percent in 1997. The largest component of duty-free imports—the portion unconditionally free under column 1-general tariff rates—declined because of the lower prices of coffee, shrimp, and bananas (table 6-6).

Imports Under ATPA

U.S. imports under ATPA provisions increased to $1.6 billion in 1998, rising to 19.7 percent of overall imports from ATPA countries from 15.1 percent in 1997.[22] Growth of this duty-free ATPA portion of imports is attributable to larger imports of certain ATPA-eligible items, the introduction of some new items under the program during the year, and a shift of certain imports that were previously entered under GSP to ATPA in 1998.

[22] Numbers cited hereinafter as imports under ATPA provisions, although predominantly free of duty, may include a minimal amount of imports that are dutiable under ATPA at reduced rates.

Table 6-6
U.S. imports for consumption from Bolivia, Colombia, Ecuador, and Peru, by duty treatment, 1994-98

Item	Bolivia	Colombia	Ecuador	Peru	ATPA total	Share of total
			1,000 dollars			*Percent*
1994:						
Total imports	257,373	3,132,398	1,709,790	779,945	5,879,505	100.0
Dutiable value[1]	12,425	1,312,104	591,338	210,192	2,126,059	36.2
ATPA reduced duty	684	19,635	102	10	20,432	.3
Duty-free value[2]	244,948	1,820,294	1,118,452	569,753	3,753,446	63.8
MFN[3]	115,185	1,070,386	1,007,929	270,876	2,464,376	41.9
GSP[4]	37,418	88,754	37,267	176,012	339,451	5.8
ATPA[5]	91,156	392,007	72,803	107,420	663,386	11.3
Production sharing[6]	853	145,550	254	9,013	155,670	2.6
Other duty free[7]	336	123,597	199	6,432	130,563	2.2
1995:						
Total imports	256,795	3,807,348	1,929,218	965,370	6,968,729	100.0
Dutiable value[1]	18,974	1,716,998	766,565	360,541	2,863,078	41.1
ATPA reduced duty	1,317	21,715	138	6	23,176	.3
Duty-free value[2]	237,821	2,090,350	1,172,653	604,829	4,105,653	58.9
MFN[3]	137,083	1,330,470	1,000,602	273,575	2,741,730	39.3
GSP[4]	15,470	75,737	23,125	113,908	228,240	3.3
ATPA[5]	82,783	477,546	147,721	207,563	915,613	13.1
Production sharing[6]	2,106	169,028	907	185	172,226	2.5
Other duty free[7]	379	37,569	298	9,598	47,844	.7
1996:						
Total imports	268,338	4,421,492	1,975,027	1,202,788	7,867,645	100.0
Dutiable value[1]	30,656	2,108,721	783,551	456,115	3,379,043	42.9
ATPA reduced duty	1,468	23,489	226	22	25,205	.3
Duty-free value[2]	237,682	2,312,771	1,191,476	746,673	4,488,602	57.1
MFN[3]	126,128	1,520,542	941,542	277,798	2,866,010	36.4
GSP[4]	2,446	45,538	17,837	64,788	130,609	1.7
ATPA[5]	104,323	537,057	218,193	385,276	1,244,849	15.8
Production sharing[6]	2,102	126,148	1,676	1,018	130,944	1.7
Other duty free[7]	2,683	83,486	12,228	17,793	116,190	1.5
1997:						
Total imports	213,408	4,614,873	2,139,354	1,705,929	8,673,564	100.0
Dutiable value[1]	33,492	1,662,344	692,408	526,881	2,915,126	33.6
ATPA reduced duty	1,882	25,157	139	45	27,224	.3
Duty-free value[2]	179,916	2,952,528	1,446,946	1,179,048	5,758,438	66.4
MFN[3]	90,957	2,041,264	1,195,364	566,376	3,893,961	44.9
GSP[4]	18,885	78,162	17,312	140,910	255,271	2.9
ATPA[5]	65,730	579,205	215,247	424,057	1,284,238	14.8
Production sharing[6]	2,874	159,759	2,178	427	165,238	1.9
Other duty free[7]	1,469	94,148	16,845	47,279	159,740	1.8

See footnotes at end of table.

Table 6-6—*Continued*
U.S. imports for consumption from Bolivia, Colombia, Ecuador, and Peru, by duty treatment, 1994-98

Item	Bolivia	Colombia	Ecuador	Peru	ATPA total	Share of total
			1,000 dollars			*Percent*
1998:						
Total imports	220,142	4,441,685	1,773,919	1,925,291	8,361,036	100.0
Dutiable value[1]	34,989	1,736,822	441,474	447,961	2,661,246	31.8
ATPA reduced duty	1,070	24,800	308	8	26,187	0.3
Duty-free value[2]	185,152	2,704,863	1,332,445	1,477,330	5,699,790	68.2
MFN[3]	108,453	1,795,720	1,081,552	682,198	3,667,923	43.9
GSP[4]	7,773	42,645	14,579	125,054	190,051	2.3
ATPA[5]	68,559	685,088	232,694	632,668	1,619,010	19.4
Production sharing[6]	258	155,813	2,210	292	158,572	1.9
Other duty free[7]	109	25,597	1,411	37,118	64,234	.8

[1] Dutiable value excludes the U.S. content entering under HTS heading 9802.00.80 and misreported imports.

[2] Calculated as total imports less dutiable value, including U.S. Virgin Islands' imports.

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

[4] Reduced by the value of unconditionally duty-free imports and ineligible items that were misreported as entering under the GSP program.

[5] Reduced by the value of unconditionally duty-free imports and ineligible items that were misreported as entering under ATPA.

[6] HTS 9802.00.60 and 9802.00.80. Refers to the value of nondutiable exported and returned U.S.-origin products or components.

[7] Calculated as a remainder, and represents imports entered free of duty under special rate provisions.

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

Product Composition and Leading Items

Fresh-cut flowers (HTS chapter 6) have been the leading category of articles imported under ATPA (table 6-7 and figure 6-3), as well as a leading overall import category from the Andean region for many years (table 6-2 and figure 6-2). A strong U.S. economy, a decline in certain cut-flower prices, and the development of nontraditional flower outlets such as supermarkets and street vendors, raised U.S. demand for cut flowers and contributed to the expansion of cut-flower imports, which surged most rapidly in the early 1990s. The competitive edge of ATPA countries in meeting rising U.S. demand is attributable to a favorable climate for growing flowers, relatively low production costs, adequate air-freight service and distribution infrastructure, and duty-free treatment under ATPA.[23] In 1998, virtually all flower imports entered under ATPA.[24]

Yet, despite their ATPA-assisted rapid growth, fresh-cut-flower imports diminished during the ATPA years as a share of all imports under ATPA, from 43.3 percent in 1994 to 32.9 percent in 1997 and 27.5 percent in 1998. The drop in share occurred because ATPA countries have diversified their economies and imports of some other product categories under ATPA—such as copper articles, jewelry, canned fish—have grown even faster (table 6-7 and figure 6-3). The year 1998 was the first year in which a cut-flower product was not the leading HTS 8-digit import item under ATPA. Nonetheless, the list of 20

[23] Colombia, the principal flower producer among ATPA countries, became eligible for ATPA in 1992.

[24] Eligibility for duty-free entry under ATPA does not preclude the obligation to pay compensatory duties under U.S. law. For years, encompassing the ATPA period, affirmative determinations in antidumping and countervailing duty cases filed by U.S. flower interests resulted in compensatory duties that varied considerably according to the source of imports in ATPA countries. See ch. 7 for more details.

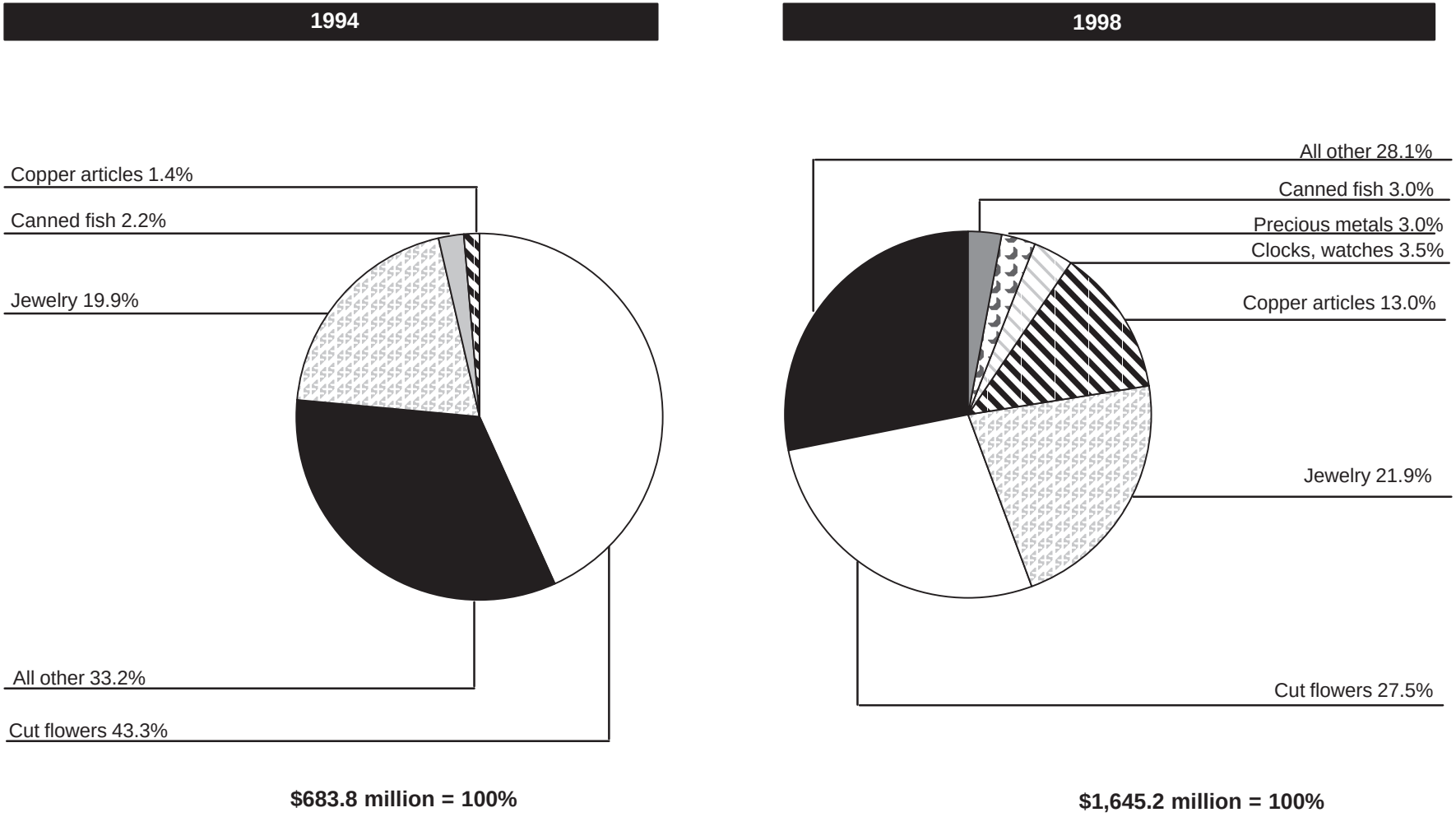
Table 6-7
Leading U.S. imports for consumption under ATPA, by major product categories, 1994-98

HTS Chapter	Description	1994	1995	1996	1997	1998
		Value (1,000 dollars)				
06	Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage	296,368	371,882	435,871	444,922	451,926
71	Natural or cultured pearls, precious or semiprecious stones, precious metals; precious metal clad metals, articles thereof; imitation jewelry; coins	136,267	177,124	245,316	219,040	360,970
74	Copper and articles thereof	9,679	26,512	105,608	187,826	214,196
91	Clocks and watches and parts thereof	938	1,137	781	559	56,852
28	Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, of radioactive elements or of isotopes	86	417	2,261	72,259	49,998
16	Edible preparations of meat, fish, crustaceans, molluscs or other aquatic invertebrates	14,984	39,442	61,232	51,129	49,603
07	Edible vegetables and certain roots and tubers	18,181	27,020	37,544	39,757	46,367
39	Plastics and articles thereof	35,136	39,435	44,673	42,676	43,578
79	Zinc and articles thereof	14,234	7,040	37,634	22,777	43,233
17	Sugars and sugar confectionary	27,654	64,220	74,692	33,944	41,443
	Total of above	553,526	754,230	1,045,612	1,114,889	1,358,168
	All other	130,291	184,559	224,442	237,967	287,028
	Total all commodities	683,817	938,789	1,270,054	1,352,855	1,645,196
		Percent of total				
06	Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage	43.34	39.61	34.32	32.89	27.47
71	Natural or cultured pearls, precious or semiprecious stones, precious metals; precious metal clad metals, articles thereof; imitation jewelry; coins	19.93	18.87	19.32	16.19	21.94
74	Copper and articles thereof	1.42	2.82	8.32	13.88	13.02
91	Clocks and watches and parts thereof	.14	.12	.06	.04	3.46
28	Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, of radioactive elements or of isotopes	.01	.04	.18	5.34	3.04
16	Edible preparations of meat, fish, crustaceans, molluscs or other aquatic invertebrates	2.19	4.20	4.82	3.78	3.02
07	Edible vegetables and certain roots and tubers	2.66	2.88	2.96	2.94	2.82
39	Plastics and articles thereof	5.14	4.20	3.52	3.15	2.65
79	Zinc and articles thereof	2.08	.75	2.96	1.68	2.63
17	Sugars and sugar confectionary	4.04	6.84	5.88	2.51	2.52
	Total of above	80.95	80.34	82.33	82.41	82.55
	All other	19.05	19.66	17.67	17.59	17.45
	Total all commodities	100.00	100.00	100.00	100.00	100.00

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

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

Figure 6-3
Composition of U.S. imports for consumption under ATPA, by major product categories, 1994 and 1998



Note.—Percentages may not add to 100 because of rounding.
Source: Compiled from official statistics of the U.S. Department of Commerce.

leading imports under the program continued to include four cut-flower products (table 6-8).[25]

In 1998, Colombia provided four-fifths of cut-flower imports under ATPA in terms of value and was the principal source of all four flower items in table 6-8: roses,[26] chrysanthemums,[27] other cut flowers suitable for bouquets, and miniature carnations. U.S. companies own approximately 17 percent of total Colombian flower production and account for nearly 20 percent of total exports to the United States.[28] Ecuador provided mainly roses and other cut flowers suitable for bouquets under the program (see also table D-2).

Precious metals, gemstones, and jewelry (HTS chapter 71) made up the second leading import category both under ATPA provisions and in overall imports from ATPA countries (table 6-2 and figures 6-2 and 6-3). Some 60 percent of goods in this HTS chapter enters unconditionally free of duty (gemstones, gold, and silver). Peru was the principal source of four leading chapter 71 import items under ATPA, and Colombia was the leading source of one such item (table 6-8). In 1998, the category's share in overall imports under ATPA rose to 21.9 percent from 16.2 percent in 1997 (table 6-7 and figure 6-3). This increase resulted from surging imports of fabricated articles of gold other than jewelry or goldsmith wares (HTS subheading 7115.90.30)[29] from Colombia (table D-2) and of semimanufactured gold (HTS subheading 7108.13.70) and of articles of jewelry (HTS subheading 7113.19.50) from Peru. In recent years, U.S. and European jewelry producers have established assembly plants, mostly in Peru and Bolivia, to take advantage of the local population's special skills in producing gold and silver handicrafts at low labor cost and of eligibility under ATPA for duty-free treatment in the United States. Major jewelry distributors are also buying locally made jewelry with styles unique to the indigenous populations of the Andes. Nonetheless, such imports from Bolivia declined in 1998, even though HTS chapter 71 is the leading category of imports from that country.

Copper-based articles (HTS chapter 74) are the third leading group of imports under ATPA (table 6-7 and figure 6-3), and they are also a leading group of overall imports from ATPA countries (table 6-2 and figure 6-2). Virtually all copper-based imports enter under ATPA, and virtually all originate in Peru (table D-2). The surge of such imports in the 1990s is attributable to a sharp increase in foreign investment in Peru's copper industry, in response to liberalized mining and investment laws and opportunities for low-cost production (copper deposits are typically richer in Peru than in the United States).

For the first time in 1998, refined copper cathodes were the number one item on the list of leading imports under ATPA, pushing fresh-cut roses to second place (table 6-8). Entries of this item under ATPA increased by 65.5 percent in volume but only by 26.6 percent in value because of lower prices. Part of the increase is attributable to the fact that a portion for which GSP privileges were claimed in 1997 was entered under ATPA in 1998. In mid-1997, Peru's exports of cathodes exceeded the GSP competitive-need limit; thus, they were no longer eligible for GSP benefits. Peru was the sole U.S. supplier of refined copper cathodes under ATPA during the year, and the third-largest U.S. supplier among all countries, after Canada and Mexico.

Other leading import items under ATPA in 1998 included tuna not in cans and fresh and chilled fish mostly from Ecuador; plastic nonadhesive plates and sheets from Colombia; cane sugar from all ATPA countries but principally from Peru; asparagus,[30] mostly from Peru; and zinc plates and sheets, also from Peru.

The list of leading imports under ATPA (table 6-8) contains three items that were new in 1998: parts of watch cases of precious metals (HTS subheading 9111.90.40), pigments (HTS subheading 3212.90.00), and unwrought zinc (HTS subheading 7901.11.00). Peru was the sole U.S. supplier of parts of watch cases not only among ATPA countries but among all countries (except for Switzerland, which supplied negligible amounts). All such imports from Peru entered under ATPA. However, because of special circumstances, those items reportedly have been imported solely for their gold content. Those imports are not likely to be repeated.

Peru was the only ATPA-country supplier of unwrought zinc imports, and the third-largest supplier among all countries of the United States in 1998. The

[25] Items whose duty-free ATPA treatment had a potentially significant impact on the U.S. industry in 1998 (roses, chrysanthemums, and asparagus) are covered separately in chapter 7.

[26] For more detail on imports of roses, see chapter 7.

[27] For more detail on imports of chrysanthemums, see chapter 7.

[28] Manatt, Phelps, and Phillips, *The Colombia Flower Industry, Background Briefing Book*, June, 1999.

[29] May include wires, stamping, beads, cast shapes, native-style jewelry, or decorative articles produced by small artisans.

[30] For more detail on imports of asparagus, see ch. 7.

Table 6-8
Leading U.S. imports for consumption under ATPA, 1997-98

HTS Number	Description	1997	1998	Change, 1997/1998	Leading ATPA source
		Value (1,000 dollars)		*Percent*	
7403.11.00	Cathodes and sections of cathodes, of refined copper	158,790	200,984	26.6	Peru
0603.10.60	Roses, fresh cut	184,116	195,740	6.3	Colombia
0603.10.70	Chrysanthemums, standard carnations, anthuriums and orchids	147,786	147,339	-.3	Colombia
7108.13.70	Other semimanufactured forms of nonmonetary gold	41,299	115,021	178.5	Peru
0603.10.80	Cut flowers and flower buds suitable for bouquets, nesi	75,825	70,812	-6.6	Colombia
7113.19.10	Rope and chain for jewelry, of precious metal except silver	68,014	66,107	-2.8	Peru
7113.19.50	Articles of jewelry and parts thereof, of precious metal except silver, except necklaces and clasps	55,254	64,244	16.3	Peru
7115.90.30	Gold (including metal clad with gold) articles, other than jewelry or goldsmiths' wares	11,855	57,589	385.8	Colombia
9111.90.40	Parts of watch cases, of precious metal or of metal clad with precious metal	-	48,383	N/A	Peru
2843.30.00	Gold compounds	70,366	48,139	-31.6	Colombia
1604.14.40	Tunas and skipjack, not in airtight containers	47,261	46,114	-2.4	Ecuador
3212.90.00	Pigments dispersed in nonaqueous media, in liquid or paste form, used in making paints; dyes & coloring matter packaged for retail sale	2,923	39,560	1,253.3	Colombia
0603.10.30	Miniature (spray) carnations, fresh cut	36,801	37,647	2.3	Colombia
3921.12.11	Nonadhesive plates, sheets, film, foil, strip	30,957	31,120	.5	Colombia
1701.11.10	Raw sugar not containing added flavoring or coloring	20,884	28,269	35.4	Peru
7113.19.29	Gold necklaces and neck chains, other than rope or mixed links	19,117	24,648	28.9	Peru
7901.11.00	Zinc, not alloyed, unwrought, containing 99.99% or more by weight of zinc	4,858	24,242	399.0	Peru
0709.20.90	Asparagus, fresh or chilled, not reduced in size, not entered Sept. 15-Nov.15	19,804	23,201	17.2	Peru
0302.69.40	Fresh or chilled fish, including sable, ocean perch, snapper, grouper, and monkfish	18,307	22,192	21.2	Ecuador
7905.00.00	Zinc, plates, sheets, strip and foil	17,894	16,769	-6.3	Peru
	Total of above	1,032,112	1,308,120	26.7	
	All other	320,743	337,077	5.1	
	Total all commodities	1,352,855	1,645,196	21.6	

Note.—Because of rounding, figures may not add to totals shown. The abbreviation nesi stands for "not elsewhere specified or otherwise included."

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

volume of overall imports of this item more than doubled in value, even though the prices declined. Imports entering under ATPA increased even faster than overall imports, making unwrought zinc a leading ATPA import item in 1998. The increase of these imports under ATPA to nearly five times their 1997 value resulted from a shift of entries under GSP to ATPA.[31]

Imports under ATPA of pigments began in small quantities in 1997. Colombia supplied nearly half of all U.S. imports from all countries in 1998, and it was the only supplier among ATPA countries. All such imports were entered under ATPA.

The new items on table 6-8 replaced three others on the 1997 list[32] that no longer qualified as leading imports under ATPA in 1998: wood articles, mainly from Ecuador; leather bags and cases, mainly from Colombia; and unrefined copper.

Imports by Country

The ranking of the beneficiaries based on the amount of their 1998 entries under ATPA (table 6-9) is the same as their ranking based on overall U.S. imports (table 6-4): Colombia, Peru, Ecuador, and Bolivia. However, the relative importance among ATPA countries of Peru and Bolivia as beneficiaries of the program is comparatively larger than their importance as overall U.S. suppliers (tables 6-4 and 6-9).

Peru can principally be credited with the 1998 increase of total U.S. imports under ATPA provisions. Entries under the program from Peru continued to grow much faster during the year than those from the other ATPA countries. Peru accounted for 15.7 percent of U.S. imports under ATPA in 1994; its share of this total grew steeply each year to 34.1 percent in 1997 and 38.5 percent in 1998 (table 6-9). In 1998, Peru provided 10 of the 20 leading tariff items under ATPA shown in table 6-8, including refined copper cathodes, jewelry and precious metals and stones, several gold products, asparagus, precious-metal watch-case parts, and unwrought zinc. The surge in 1998 imports of semimanufactured forms of nonmonetary gold and first-time imports of watch-case parts were mainly responsible for Peru's growing importance as an ATPA beneficiary (see also table D-2). In 1998, Peru's participation in ATPA almost equaled Colombia's (table 6-9).

[31] Almost half of the imports were entered under ATPA in 1998, whereas in 1997, such imports still entered principally under GSP.

[32] USITC, *Andean Trade Preference Act: Impact on U.S. Industries and Consumers, Fifth Report, 1997,* USITC publication 3132, Sept. 1998, table 6-8, p. 109.

Table 6-9
U.S. imports for consumption under ATPA, by source, 1994-98

Rank	Source	1994	1995	1996	1997	1998
		Value (1,000 dollars)				
1	Colombia	411,642	499,262	560,546	605,472	709,889
2	Peru	107,430	207,569	385,298	460,992	632,676
3	Ecuador	72,905	147,859	218,419	217,437	233,002
4	Bolivia	91,840	84,100	105,791	68,955	69,630
	Total	683,817	938,789	1,270,054	1,352,855	1,645,196
		Percent of total				
1	Colombia	60.20	53.18	44.14	44.76	43.15
2	Peru	15.71	22.11	30.34	34.08	38.46
3	Ecuador	10.66	15.75	17.20	16.07	14.16
4	Bolivia	13.43	8.96	8.33	5.10	4.23
	Total	100.00	100.00	100.00	100.00	100.00

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

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

Colombia, whose Government professes a high regard for benefits derived from ATPA,[33] remained the leading source of imports under ATPA for the year. However, Colombia's once commanding share shrank from 60.2 percent of the total in 1994 to 44.8 percent in 1997 and 43.2 percent in 1998. One major cause for the decline in the 1998 share might have been the strength of the Colombian peso, which made its exports relatively expensive.[34]

Another cause of Colombia's declining significance in ATPA trade was the receding weight of flowers in this trade. Flowers are Colombia's largest nontraditional export.[35] Colombia was the source of eight leading tariff items under ATPA in 1998 (table 6-8). Four of the items were flowers; the others were nonadhesive plates, gold compounds and articles, and pigments.

Declines in imports from Colombia of certain cut flowers was offset by surging imports of gold articles and pigments—the latter virtually new during the year (see also table D-2). The same four companies were the source of both gold articles and pigments imported to the United States from Colombia. In the early 1990s, only Colombia's Central Bank had the right to export gold. After this restriction had been lifted, the four companies began to export gold articles, principally to Miami, FL., where they are collected from several other countries and used to make jewelry and other articles.[36]

In 1998, growth of U.S. imports from Ecuador under ATPA continued to slow as overall U.S. imports from that country declined, reflecting the effects of El Nino and the country's overall economic problems during the year, as mentioned earlier. Also, major imports under ATPA, such as tuna not in cans, continued to decline as El Nino depressed supply. Other major entries under ATPA, such as cut flowers, increased, but only moderately. Ecuador's share in U.S. imports under ATPA was 14.2 percent, compared with its peak share of 17.2 in 1996 (table 6-9, figure 6-4). Ecuador was the source of two leading tariff items under ATPA in 1998: tuna not in cans and fish (table 6-8).

The value of U.S. imports from Bolivia under ATPA increased only slightly in 1998. Bolivia's share of combined U.S. imports under ATPA continued to fall, to 4.2 percent of the total (table 6-9, figure 6-4). All major imports under the program were jewelry items, and their decline alone explains Bolivia's shrinking role as an ATPA beneficiary (table D-2). Bolivian officials interviewed by United States International Trade Commission (USITC) staff in 1997 attributed the plight of their jewelry exports to a tax imposed in 1995 on domestic gold. This tax, according to Bolivians then questioned by USITC staff,[37] caused jewelry makers to switch from the use of domestic gold to tax-free imported gold as an input for jewelry. The resulting higher costs reduced the competitiveness of Bolivian jewelry and adversely affected their exports.[38]

Exports

The virtually uninterrupted growth of U.S. exports to ATPA countries stopped in 1998; exports totaled $8.7 billion, 0.1 percent less than in 1997 (table 6-1). Colombia alone was responsible; exports were up to all other ATPA countries (table 6-10). As in 1997, ATPA countries combined ranked 18th as a U.S. export market in 1998, ahead of such markets as Malaysia and Italy but behind Australia and Saudi Arabia.

The ranking of ATPA countries as U.S. export markets was the same as their ranking as U.S. suppliers—Colombia, Peru, Ecuador, and Bolivia (table 6-9). Colombia and Ecuador, however, are comparatively more significant in the ATPA community as markets for U.S. exports than they are as sources of U.S. imports. The contrary is true for Peru.

Colombia accounted for 53.7 percent of U.S. exports to ATPA countries in 1998. As on the U.S. import side, Colombia lost some of its dominant share among ATPA markets to the other three ATPA countries. Peru accounted for 23.0 percent, Ecuador for 18.8 percent, and Bolivia for 4.5 percent of the total (table 6-10).

[33] Representatives of the public and private sectors, USITC staff interviews, Bogota, Colombia, June 7-10, 1999.

[34] Ibid.

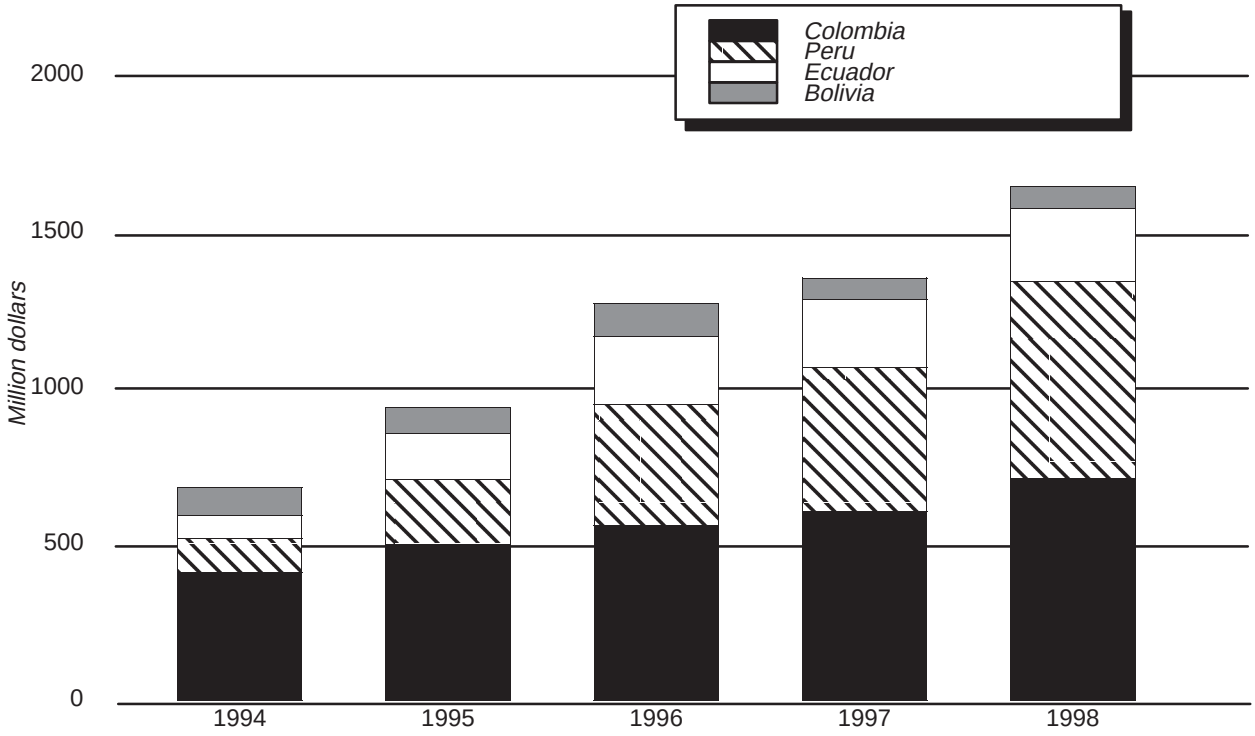
[35] According to the industry, "The Colombian flower industry is extremely reliant on the U.S. market, and the industry's survival depends on its profitability here. ATPA preferences - which give Colombia no market advantages over U.S. or other producers - help to offset the enormous currency and inflation risks borne by Colombian exporters. Without them, U.S. sales would be largely uneconomical" (Source: Manatt, Phelps and Phillips, *The Colombia Flower Industry, Background Briefing Book,* June, 1999).

[36] Industry representatives, USITC staff interviews, Bogota, Colombia, June 8, 1999.

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

[38] This tax was raised to 4 percent in March 1997.

Figure 6-4
U.S. imports for consumption under ATPA, by source, 1994-98



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

Table 6-10
U.S. exports to ATPA countries, 1994-98

Country	1994	1995	1996	1997	1998
	Value (1,000 dollars)				
Colombia	3,779,659	4,448,541	4,517,570	5,024,535	4,657,748
Peru	1,358,516	1,715,902	1,709,896	1,886,570	1,991,049
Ecuador	1,127,434	1,449,494	1,228,471	1,486,460	1,628,753
Bolivia	179,406	206,269	262,804	284,189	392,518
Total	6,445,015	7,820,206	7,718,742	8,681,754	8,670,068
	Percent of total				
Colombia	58.64	56.89	58.53	57.87	53.72
Peru	21.08	21.94	22.15	21.73	22.96
Ecuador	17.49	18.54	15.92	17.12	18.79
Bolivia	2.78	2.64	3.40	3.27	4.53
Total	100.00	100.00	100.00	100.00	100.00

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

Electrical and nonelectrical machinery, equipment, and parts dominate U.S. exports to ATPA countries, together accounting for more than one-third of the total. Machinery and parts exports are dispersed among several products; only a few qualified in 1998 among the 20 leading export items based on 8-digit HTS classification (table 6-11). Mining machinery (for boring and sinking) and parts were the number one export item to ATPA countries both in 1997 and 1998, with exports 52.7 percent higher in 1998 than in 1997. Ecuador was the leading market in 1998, followed by Colombia, Bolivia, and Peru.

Electrical communications (transmission) apparatus was the number two U.S. export item during the year, with exports up by 48.0 percent to ATPA countries combined. Colombia was by far the leading market among ATPA countries, but exports surged most rapidly (almost tripled) to Ecuador. Data-processing machines and parts were fourth in 1998. Their exports to the combined ATPA market were down by 6.0 percent; they declined to all ATPA countries.

The list of leading exports to ATPA countries also contains cereals and other agricultural items—crude soybean oil and soybean oil extracts, and cotton. The list also includes a paper product, a plastic product (polyethylene), and nonmonetary gold.[39] Airplanes were the fastest growing export item during the year; their exports surged by 952.9 percent. Nonmonetary gold items (mostly to Bolivia and Peru) and helicopters newly appeared in 1998 among the leading export items.

[39] Nonmonetary gold is subject to two-way trade and more important on the U.S. import side from ATPA countries. See also import section.

Table 6-12 and figure 6-5 show the composition of exports to ATPA countries by 2-digit HTS categories. In 1998, exports of machinery were followed by agricultural products, plastics, chemicals, vehicles, and aircraft.[40] There was a large "all other" category too, which contains a wide spectrum of exports.

Both nonelectrical machinery (HTS chapter 84) and electrical machinery (HTS chapter 85) exports as a group declined during the year, especially to Colombia—the leading ATPA market for those exports—and to Peru. Exports of plastics and related articles (HTS chapter 39), which had grown steadily in the 1990s through 1997, also fell in 1998, as did chemicals and motor vehicle exports.

Unlike machinery and plastics, cereal exports as a group (HTS chapter 10) were up by 38.0 percent in 1998, even though falling prices depressed export values. Yellow corn was the third leading export item, and wheat was the fifth. Exports of corn to the ATPA market, of which Colombia was the principal destination, increased by 22.6 percent in metric tons but by only 4.3 percent in value (table 6-11). Exports of wheat rose by 33.0 percent in metric tons but by only 7.0 percent in value. The year 1998 was the first year in recent memory when Colombia and Ecuador bought significant amounts of rice from the United States. Rice exports to ATPA countries (Peru also bought some) were up by 648.7 percent in kilograms but by only 589.3 percent in value. El Nino-related problems may have increased demand for cereals in the region.

[40] See also USITC, *Andean Trade Preference Act: Impact on U.S. Industries and Consumers, Fifth Report, 1997,* USITC publication 3132, Sept. 1998, p. 111.

Table 6-11
Leading U.S. exports to ATPA countries, 1997-98

HTS Number	Description	1997	1998	Change, 1997/1998
		— Value (1,000 dollars) —		Percent
8431.43.80	Parts for boring or sinking machinery of 8430.41 or 8430.49, nesi	309,233	472,201	52.70
8525.20.90	Transmission apparatus incorp. reception app. (other than transceivers) for radiotelephony, radiotelegraphy, radiobroadcasting or television	154,518	228,719	48.02
1005.90.20	Yellow dent corn	174,305	181,855	4.33
8473.30.00	Parts and accessories of the ADP machines of heading 8471, (automatic data processing machines & units thereof): not incorporating a cathode ray tube	187,498	176,261	-5.99
1001.90.20	Wheat & meslin other than durum or seed wheat	133,467	147,054	10.18
4804.11.00	Uncoated, unbleached kraftliner, in rolls or sheets	164,871	119,335	-27.62
3100.00.00	Fertilizer and fertilizer materials	96,254	108,134	12.34
1006.10.00	Rice in the husk (paddy or rough)	14,892	102,651	589.32
8803.30.00	Parts of airplanes and helicopters, nesoi	66,769	98,313	47.24
2304.00.00	Oilcake and other solid residues, resulting from the extraction of soybean oil	112,016	97,480	-12.98
5201.00.10	Cotton, not carded or combed, having a staple length under 28.575 mm, (1-1/8 inches)	72,971	92,875	27.28
8802.40.00	Airplanes and other powered aircraft, nesoi, with an unladen weight over 15,000 kg	8,500	89,500	952.94
8474.90.00	Parts for the machinery of heading 8474	64,052	76,660	19.68
8802.12.00	Helicopters, with an unladen weight over 2,000 kg	-	67,032	N/A
8431.39.80	Parts suitable for use solely or principally with the machinery of heading 8428, nesoi	-	66,411	N/A
1507.10.00	Crude soybean oil, whether or not degummed	28,252	62,714	121.98
8525.20.30	Transceivers nesi, for radiotelephony, radiotelegraphy or radiobroadcasting	86,114	59,826	-30.53
3901.10.00	Polyethylene having a specific gravity of less than 0.94, in primary forms	80,535	58,304	-27.60
7108.13.50	Gold (including gold plated with platinum), nonmonetary, in semimanufactured forms (except gold leaf)	4,668	54,011	([1])
7108.12.10	Gold, nonmonetary, bullion and dore	26,643	51,406	92.95
	Total of above	1,785,557	2,410,743	35.01
	All other	6,896,197	6,259,325	-9.24
	Total all commodities	8,681,754	8,670,068	-0.13

[1] Percent change exceeds 10,000 percent.

Note.—Because of rounding, figures may not add to totals shown. The abbreviation nesi stands for “not elsewhere specified or included.” The abbreviation nesoi stands for “not elsewhere specified or otherwise included.”

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

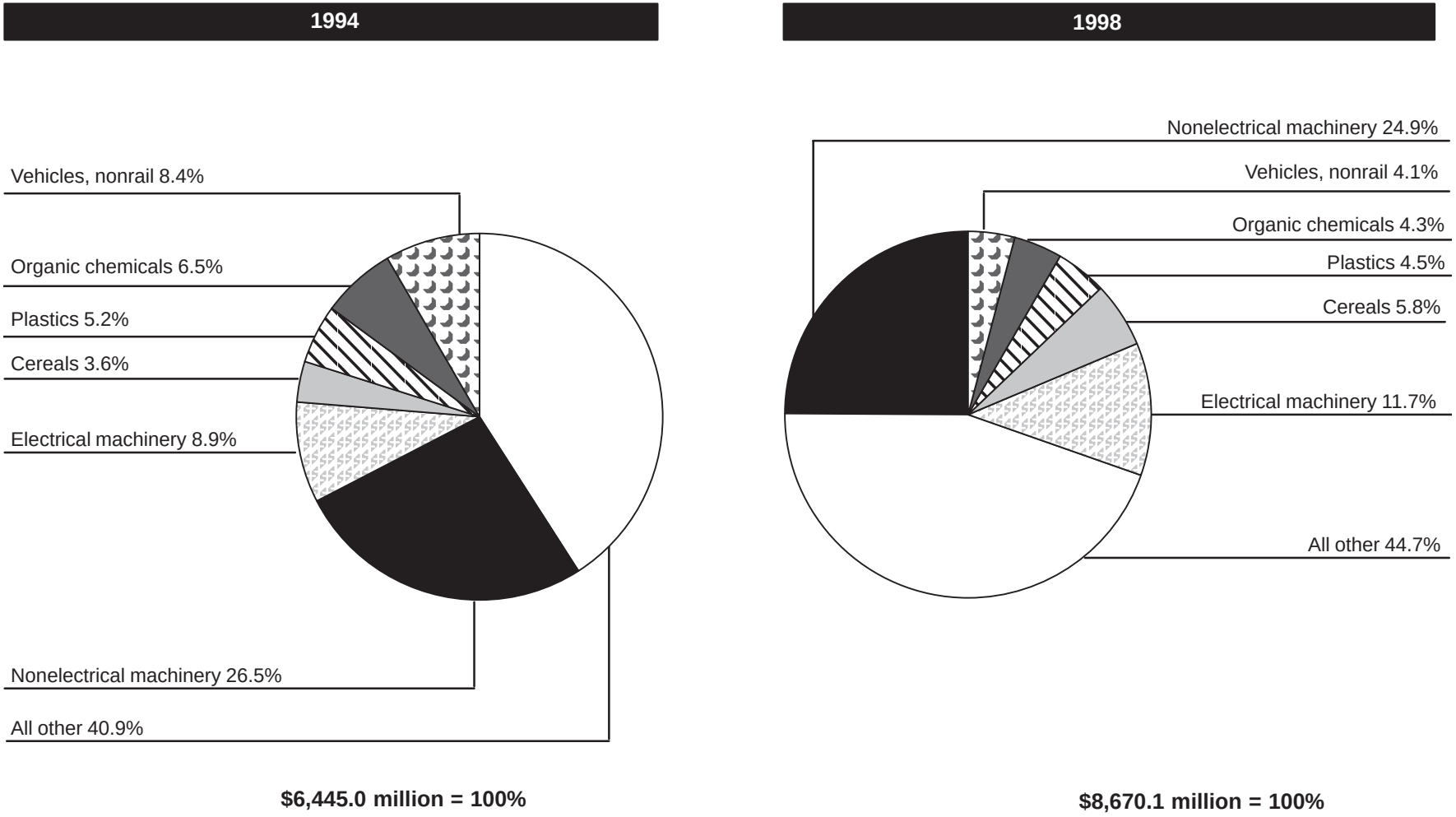
Table 6-12
Leading U.S. exports to ATPA countries, by major product categories, 1994-98

HTS Chapter	Description	1994	1995	1996	1997	1998
		Value (1,000 dollars)				
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	1,705,375	1,855,747	1,887,436	2,247,209	2,158,671
85	Electrical machinery and equipment and parts thereof; sound records and reproducers, television recorders and reproducers, parts and accessories	574,853	772,256	863,194	1,180,874	1,017,754
10	Cereals	232,343	471,209	603,810	361,991	499,602
39	Plastics and articles thereof	332,401	445,312	380,033	434,977	386,741
29	Organic chemicals	421,246	535,333	448,371	453,264	376,097
87	Vehicles, other than railway or tramway rolling stock, and parts and accessories thereof	540,370	508,524	367,707	408,628	358,902
88	Aircraft, spacecraft, and parts thereof	186,440	127,364	115,591	123,251	313,133
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof	169,888	220,089	221,963	263,179	265,848
48	Paper and paperboard; articles of paper pulp, paper or paperboard	195,497	306,277	270,755	308,721	260,464
38	Miscellaneous chemical products	129,268	160,690	169,182	177,471	176,781
	Total of above	4,487,681	5,402,800	5,328,042	5,959,566	5,813,993
	All other	1,957,334	2,417,406	2,390,701	2,722,188	2,856,076
	Total all commodities	6,445,015	7,820,206	7,718,742	8,681,754	8,670,068
		Percent of total				
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	26.46	23.73	24.45	25.88	24.90
85	Electrical machinery and equipment and parts thereof; sound records and reproducers, television recorders and reproducers, parts and accessories	8.92	9.88	11.18	13.60	11.74
10	Cereals	3.61	6.03	7.82	4.17	5.76
39	Plastics and articles thereof	5.16	5.69	4.92	5.01	4.46
29	Organic chemicals	6.54	6.85	5.81	5.22	4.34
87	Vehicles, other than railway or tramway rolling stock, and parts and accessories thereof	8.38	6.50	4.76	4.71	4.14
88	Aircraft, spacecraft, and parts thereof	2.89	1.63	1.50	1.42	3.61
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof	2.64	2.81	2.88	3.03	3.07
48	Paper and paperboard; articles of paper pulp, paper or paperboard	3.03	3.92	3.51	3.56	3.00
38	Miscellaneous chemical products	2.01	2.05	2.19	2.04	2.04
	Total of above	69.63	69.09	69.03	68.64	67.06
	All other	30.37	30.91	30.97	31.36	32.94
	Total all commodities	100.00	100.00	100.00	100.00	100.00

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

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

Figure 6-5
Composition of U.S. exports to ATPA countries, by major product categories, 1994 and 1998



Note.—Percentages may not add to 100 because of rounding.
Source: Compiled from official statistics of the U.S. Department of Commerce.

CHAPTER 7
Impact of ATPA on the United States and Probable Future Effects

Two issues are addressed in this chapter: the impact of the ATPA preference program on the United States in 1998 and the probable future effects of the program. Items most affected by the ATPA preferences were identified in an impact analysis and specific U.S. industries were examined. Information on ATPA-related investment in the beneficiary countries was the main basis for the write-up on probable future effects. This information was collected during field visits to Colombia and Ecuador as well as from U.S. embassies in the other countries of the region.

Impact of ATPA on the United States in 1998

Since its implementation in 1992, ATPA has had a minimal effect on the overall economy of the United States. In each year from 1992 through 1998, the value of ATPA duty-free U.S. imports has been less than 0.02 percent of U.S. gross domestic product. As pointed out in chapter 6, the total value of U.S. imports from ATPA countries remained small in 1998, amounting to 0.9 percent of total U.S. imports.

In addition, the value of the ATPA program to beneficiary countries and its potential for affecting the U.S. economy, consumers, and industries have fallen since the implementation of the program because of the erosion of the margin of preference for many products.[1] Sources of this erosion include phased tariff cuts under the Uruguay Round of trade concessions, tariff cuts and eliminations under sectoral trade negotiations, the extension of preferential trading arrangements under NAFTA, and the erosion of the ad valorem equivalent of specific duties because of inflation.[2]

Because most U.S. imports from ATPA countries can enter the United States free of duty at general rates or under GSP or are excluded from the program, the Commission focused its analysis of the impact of ATPA on products that can enter free of duty or at reduced duties only under ATPA and not under other programs.

It should be noted that the presence of ATPA guarantees that GSP-eligible products from ATPA beneficiary countries can enter the United States free of duty, making investment in such products more attractive than would be the case in the absence of ATPA. Investment that depends solely on GSP for duty-free preferences is riskier because of the recent uncertainties about the periodic renewals of GSP and because certain products from particular countries may exceed competitive-need limits and face loss of GSP eligibility, as discussed in chapter 5. Those effects have not been as pronounced for ATPA as they have been for CBERA because CBERA is permanent but ATPA expires in 2001. In the analysis described in this chapter, no attempt was made to quantify those effects.

The material that follows in this section defines products that benefit exclusively from ATPA; presents quantitative estimates of the impact of ATPA on U.S. consumers, the U.S. Treasury, and U.S. industries whose goods compete with U.S. imports under ATPA; and describes the U.S. imports that benefited exclusively from ATPA in 1998 and had the largest potential impact on competing U.S. industries.

Products That Benefited Exclusively From ATPA in 1998

U.S. imports of products benefiting exclusively from ATPA are defined as those that enter under

[1] The higher the ad valorem column 1-general duty rate (formerly known as the MFN duty rate) duty rate for any given product, the greater is the benefit to ATPA beneficiaries—the higher the margin of preference. ATPA beneficiaries also benefit more if the column 1-general rate is more extensively applied, that is, if fewer non-ATPA countries enjoy preferential rates.

[2] For a more detailed analysis of the erosion of the margin of preference, see USITC, *ATPA, Fifth Report, 1997*, p. 132.

either ATPA duty-free or ATPA reduced-duty provisions and are not eligible to enter free of duty under column 1-general rates or under other provisions, such as GSP. Consistent with this definition, GSP-eligible items imported from ATPA countries that entered under ATPA preferences are considered to benefit exclusively from ATPA only if imports of the item from a certain country exceeded GSP competitive-need limits.[3]

Since the implementation of the ATPA program, U.S. imports that benefit exclusively from ATPA have accounted for a relatively small portion of total U.S. imports from ATPA countries; this portion was substantially higher in 1995 and 1996 than in the first 3 years of the program before falling in 1997 to a level above the pre-1995 level and rising substantially in 1998 (see table 7-1). The "exclusively benefiting shares were markedly higher in 1995 and 1996, due mainly to the lapse in the GSP program from August 1, 1995 through September 30, 1996, and subsequent increased use of ATPA provisions to ensure duty-free entry.[4]

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

[4] The U.S. GSP program was not in effect from Aug. 1, 1995 through Sept. 30, 1996. Consequently, articles eligible for GSP duty-free entry were subject to ordinary column 1-general duties during this period unless the articles were eligible to enter under another preferential program, such as ATPA, and were entered under that program. The analysis used in the 1995 and 1996 ATPA reports implicitly assumed that importers did not expect the GSP program to be reinstated or the duties to be refunded; therefore, products normally eligible for GSP that entered the United States under ATPA provisions during that period were counted as having benefited exclusively from ATPA. Hence, the effects of duty-free entry of those otherwise GSP-eligible products were attributed to ATPA for the period Aug. 1, 1995 through Sept. 30, 1996, which resulted in higher estimates of the effects of ATPA than would have been the case if the GSP program had been operative during that period. See USITC, *ATPA, Fourth Report, 1996*, pp. 71-72, for further explanation.

Because of the assumptions about GSP made in the 1995 and 1996 ATPA reports, the findings derived from the analysis in those reports are not strictly comparable to the findings in subsequent reports in this series or in reports previous to the 1995 report, despite the similar analytical approach used. Although GSP lapsed in both 1997 and 1998, the lapses were considerably shorter than in 1995 and 1996, and quick renewals were widely anticipated. Therefore, those lapses were not considered significant enough to warrant a repeat in the 1997 and current reports of the assumptions used in the 1995 and 1996 reports. The lower estimates for 1997 and 1998 derive from the assumptions used in designating items that benefit exclusively from ATPA, not from the change in actual usage.

Table 7-1
Total imports from ATPA beneficiaries, imports entered under ATPA, and imports that benefited exclusively from ATPA, 1994-98

Item	1994	1995	1996	1997	1998
Total imports from ATPA beneficiaries:					
Value (*million dollars*[1])	5,880	6,969	7,868	8,674	8,361
Imports entered under ATPA provisions:[2]					
Value (*millions dollars*[1])	684	939	1,270	1,353	1,645
Percent of total	11.6	13.5	16.1	15.6	19.7
Imports that benefited exclusively from ATPA provisions:					
Value (*million dollars*[1])	288	699	1,033	635	915
Percent of total	4.9	10.0	13.1	7.3	10.9

[1] Customs value.
[2] Includes articles entered free of duty and at reduced duties under ATPA provisions (table 6-6), Those provisions are discussed in ch. 5.

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

Table 7-2
Value of leading imports that benefited exclusively form ATPA, 1998

(1,000 dollars)

HTS number	Description	Customs value	C.i.f. value
0603.10.60	Roses, fresh cut	195,740	237,891
7403.11.00[1]	Refined copper cathodes and sections of cathodes	200,984	206,778
0603.10.70[2]	Chrysanthemums, standard carnations, anthuriums and orchids, fresh cut	143,225	173,162
7108.13.70	Gold (including gold plated with platinum), nonmonetary, in semimanufactured forms (except gold leaf), nesi	115,021	115,112
1604.14.40	Tunas and skipjack, not in airtight containers, not in oil, in bulk or in immediate containers weighing with contents over 6.8 kg each	46,114	48,591
9111.90.40	Parts of watch cases, of precious metal or of metal clad with precious metal	48,383	48,433
2843.30.00[3]	Gold compounds	34,257	34,280
0709.20.90	Asparagus, nesi, fresh or chilled	23,201	33,200
7905.00.00[1]	Zinc, plates, sheets, strip and foil	16,769	17,470
4202.91.00[4]	Cases, bags and containers nesi, with outer surface of leather, of composition leather or patent leather	13,261	13,884
0709.20.10[1]	Asparagus, fresh or chilled, not reduced in size, if entered September 15 to November 15, inclusive, and transported to the U.S. by air	6,726	9,714
7306.20.60	Iron or nonalloy steel tubing of a kind used for drilling for oil/gas	7,207	7,577
9111.10.00	Watch cases of precious metal or of metal clad with precious metal	6,044	6,082
7113.19.21[1]	Gold rope necklaces and neck chains	5,949	5,954
6908.90.00	Glazed ceramic flags and paving, hearth or wall tiles; glazed ceramic mosaic cubes and the like, nesi	5,146	5,872
4202.11.00[4]	Trunks, suitcases, vanity & all other cases, occupational luggage & like containers, surface of leather, composition or patent leather	4,522	4,761
4202.21.90[4]	Handbags, with or without shoulder strap or without handle, with outer surface of leather, composition or patent leather, nesi, over $20 ea.	4,400	4,480
7109.00.00[1]	Base metals or silver clad with gold, but not further worked than semimanufactured	3,787	3,789
7317.00.55	Iron or steel, nails, tacks, corrugated nails, staples & similar arts., of one piece construction, made of round wire, nesi	3,424	3,728
7228.60.80	Alloy steel (o/than tool), bars and rods, cold-formed	2,711	2,847

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

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

[3] Includes only imports from Colombia for the second half of 1998. Item is GSP-eligible, but imports from Colombia exceeded the competitive-need limit and thus were eligible for duty-free entry only under ATPA in the second half of the year.

[4] Subject to reduced duties under ATPA provisions.

Note.—The abbreviation nesi stands for “not elsewhere specified or included.”

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

The value of U.S. imports that benefited exclusively from ATPA increased from $635 million in 1997 to $915 million in 1998, an increase of 44 percent (table 7-1). Such imports accounted for 10.9 percent of total U.S. imports from ATPA countries in 1998, compared with 7.3 percent in 1997.

The 20 leading items that benefited exclusively from ATPA are shown in table 7-2. The most notable change in the value of such imports was for semimanufactured gold (HTS subheading 7108.13.70), which increased by 179 percent from 1997 to 1998. Large increases in exclusively benefiting imports from Peru of copper cathodes (HTS subheading 7403.11.00), up by 93 percent, zinc plates (HTS subheading 7905.00.00), up by 117 percent, and gold rope (HTS subheading 7113.19.21), up by 200 percent, represent a special case. Peru, having exceeded the competitive-need limits for those items, lost GSP eligibility for them on July 1, 1997. Therefore, only 6 months of imports of those items benefited exclusively from ATPA in 1997, whereas a full year of imports was counted in 1998.

Four items were added to the list in 1998–parts of precious-metal watch cases (HTS subheading 9111.90.40), precious-metal watch cases (HTS subheading 9111.10.00), and alloy steel bars and rods (HTS subheading 7228.60.80)—all of which experienced large import increases, and gold compounds (HTS subheading 2843.30.00) from Colombia, which lost GSP eligibility in mid-1998 and recorded a half year as an ATPA-exclusive item.

Leading imports that were identified in previous annual ATPA reports as benefiting exclusively from ATPA between 1992 and 1997 continued to rank among the leading U.S. imports in 1998. Those imports were fresh-cut chrysanthemums, standard carnations, anthuriums, and orchids (chrysanthemums, etc.) and fresh-cut roses, which have consistently ranked among the leading items benefiting exclusively from ATPA since the inception of the program.

Welfare and Displacement Effects of ATPA on U.S. Industries and Consumers in 1998

The analytical approach for estimating the welfare and displacement effects of ATPA is described in the introduction to this report and is discussed in more detail in appendix C. A range of estimates is reported, reflecting those made assuming higher substitution elasticities (upper range), and those made assuming lower substitution elasticities (lower range).

The analysis was conducted on the 20 leading items that benefited exclusively from ATPA (table 7-2).[5] Estimates of welfare and potential U.S. industry displacement effects were made. Industries that experienced estimated displacement of over 5 percent of the value of U.S. production, based on upper range estimates, were selected for further analysis.

Items Analyzed

Although a large number of products are eligible for duty-free or reduced-duty entry under ATPA, a relatively small group of products accounts for most of the imports that benefit exclusively from ATPA. Table 7-2 presents the 20 leading items that benefited exclusively from ATPA in 1998; they are ranked on the basis of their c.i.f. import values.[6] Those products represented 97 percent of the $915 million in imports that benefited exclusively from ATPA during 1998.[7] The five leading ATPA-exclusive imports in 1998 were (1) fresh-cut roses, (2) copper cathodes from Peru, (3) chrysanthemums, etc. from Colombia, (4) semimanufactured gold, and (5) tunas and skipjack. Colombia was the leading supplier of each of the two flower subheadings, Peru was the leading supplier of copper cathodes and semimanufactured gold, and Ecuador was the leading supplier of tunas and skipjack.[8] Fresh-cut roses and copper cathodes ranked first and third, respectively, in 1997.

[5] USITC industry analysts provided estimates of U.S. production and exports for the 20 leading items that benefited exclusively from ATPA, as well as evaluations of the substitutability of ATPA-exclusive imports and competing U.S. products.

[6] In the analysis, U.S. market expenditure shares were used to compute estimates of welfare and domestic production displacement effects. Because U.S. expenditures on imports necessarily include freight and insurance charges and duties, when applicable, the analysis, where indicated in the text and supporting tables, used c.i.f. values for duty-free items and landed, duty-paid values for reduced-duty items benefiting exclusively from ATPA, and landed, duty-paid values for the remaining imports. Technically, landed, duty-paid values are equal to c.i.f. values for items entering free of duty.

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

[8] Leading ATPA suppliers are shown in table 6-8.

For any particular item, the size of the U.S. market share accounted for by ATPA-exclusive imports (value of imports benefiting exclusively from ATPA relative to apparent consumption) was a major factor in determining the estimated impact on competing domestic producers;[9] market shares varied considerably in 1998 (table 7-3). For instance, the market share of ATPA-exclusive imports of chrysanthemums, etc. was approximately 73 percent, whereas the market share of ATPA-exclusive imports of iron or steel nails (HTS subheading 7317.00.55) was 0.31 percent.

Estimated Effects on Consumers and Producers

Tables 7-4 and 7-5 present the estimated impact of ATPA tariff preferences on the U.S. economy in 1998.[10] Estimates of the gains in consumer surplus and the losses in tariff revenue, as well as measures of the potential displacement of U.S. production, are discussed below.

Effects on U.S. consumers

Fresh-cut roses provided the largest gain in consumer surplus ($13.4 million to $13.6 million) resulting exclusively from ATPA tariff preferences in 1998 (table 7-4). The price U.S. consumers would have paid for imports of fresh-cut roses from ATPA countries would have been 5.9 percent higher (the ad valorem duty rate adjusted for freight and insurance charges) without ATPA. Chrysanthemums, etc. provided the second-largest gain in consumer surplus ($9.4 million to $9.5 million). Without ATPA, the price of imports of chrysanthemums, etc. from ATPA countries would have been 5.7 percent higher. In general, items providing the largest gains in consumer surplus also have either the highest column 1-general tariff rates or the largest volumes of imports, or both.

ATPA preferences also reduced U.S. tariff revenues, offsetting much of the gain in consumer surplus. For example, for asparagus, lower tariff revenues offset 73 percent to 83 percent of the gain in consumer surplus; for glazed ceramic tiles (HTS subheading 6908.90.00), the offset was about 78 percent to 89 percent. For most of the other items listed in table 7-4, lower tariff revenues offset nearly all the gain in consumer surplus; this typically occurs when column 1-general duty rates are relatively low, as is the case with most ATPA-exclusive items.

Overall, the estimated net welfare effects of ATPA were small. The gain in consumer surplus (column A of table 7-4) was greater than the corresponding decline in tariff revenue (column B) for all of the products analyzed for which data were available. Of the resulting estimated net welfare gains, the largest were for asparagus (HTS subheadings 0709.20.10 and 0709.20.90) ($374,000 to $933,000), fresh-cut roses ($499,000 to $686,000), and chrysanthemums, etc. ($332,000 to $429,000). Asparagus and fresh-cut roses also had the largest net welfare gains in 1997.[11]

Effects on U.S. producers

Estimates of the potential displacement of domestic production (table 7-5) were small for most of the individual sectors.[12] The analysis indicates that the largest potential displacement effects were for chrysanthemums, etc. (an estimate of 1.2 percent to 7.6 percent of U.S. domestic shipments displaced, valued at $0.5 million to $2.9 million), asparagus (2.1 percent to 7.6 percent displaced, valued at $2.6 million to $9.3 million), and fresh-cut roses (1.1 percent to 7.0 percent displaced, valued at $1.2 million to $7.2 million). However, the estimated displacement share for the majority of the products benefiting exclusively from ATPA was less than 1.0 percent, even in the upper range of estimates.

Special circumstances in the gold market

Imports of precious-metal watch cases and parts of precious metal watch cases came from Peru only in 1998. Before that year there had been no imports from Peru of either item. Likewise, there have been no imports in 1999, nor are there likely to be any. According to the two companies[13] that accounted for the bulk of those imports from Peru, a local regulation in 1998 allowed a refund of the value-added tax for

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

[10] The methodology used is described in appendix C.

[11] See USITC, *ATPA, Fifth Report, 1997*, p. 126.

[12] U.S. market share, ad valorem equivalent tariff rate, and elasticity of substitution between beneficiary imports and competing U.S. production are the main factors that affect the estimated displacement of U.S. domestic shipments. In general, the larger the ATPA share of the U.S. market, ad valorem equivalent tariff rate, and substitution elasticity, the larger the displacement of domestic shipments.

[13] USITC staff contacts with company officials, June 1998.

Table 7-3
Value of leading imports that benefited exclusively from ATPA, apparent U.S. consumption, and ATPA exclusive market share, 1998

HTS number	Description	Imports from ATPA countries (c.i.f. value) (A)	Apparent U.S. consumption (B)[1]	Market share (A/B)
		(1,000 dollars)		*Percent*
0603.10.60	Roses, fresh cut	237,891	366,484	64.91
7403.11.00	Refined copper cathodes and sections of cathodes	206,778	5,248,520	3.94
0603.10.70	Chrysanthemums, standard carnations, anthuriums and orchids, fresh cut	173,162	236,426	73.24
7108.13.70	Gold (including gold plated with platinum), nonmonetary, in semimanufactured forms (except gold leaf), nesi	115,112	500,836	22.98
1604.14.40	Tunas and skipjack, not in airtight containers, not in oil, in bulk or in immediate containers weighing with contents over 6.8 kg each	48,591	750,758	6.47
9111.90.40[2]	Parts of watch cases, of precious metal or of metal clad with precious metal	48,433	–	–
2843.30.00	Gold compounds	34,280	1,040,730	3.29
0709.20.90[3]	Asparagus, nesi, fresh or chilled	33,200	239,081	17.95
7905.00.00	Zinc, plates, sheets, strip and foil	17,470	311,593	5.61
4202.91.00	Cases, bags and containers nesi, with outer surface of leather, of composition leather or patent leather	13,884	227,095	[4]6.32
0709.20.10[3]	Asparagus, fresh or chilled, not reduced in size, if entered September 15 to November 15, inclusive, and transported to the U.S. by air	9,714	–	–
7306.20.60	Iron or nonalloy steel tubing of a kind used for drilling for oil/gas	7,577	144,417	5.25
9111.10.00[2]	Watch cases of precious metal or of metal clad with precious metal	6,082	–	–
7113.19.21	Gold rope necklaces and neck chains	5,954	175,459	3.39
6908.90.00	Glazed ceramic flags and paving, hearth or wall tiles; glazed ceramic mosaic cubes and the like, nesi	5,872	1,416,265	.41
4202.11.00	Trunks, suitcases, vanity & all other cases, occupational luggage & like containers, surface of leather, composition or patent leather	4,761	170,090[4]	2.97
4202.21.90	Handbags, with or without shoulder strap or without handle, with outer surface of leather, composition or patent leather, nesi, over $20 ea.	4,480	376,458	[4]1.27
7109.00.00[2]	Base metals or silver clad with gold, but not further worked than semimanufactured	3,789	–	–
7317.00.55	Iron or steel, nails, tacks, corrugated nails, staples & similar arts., of one piece construction, made of round wire, nesi	3,728	1,195,958	.31
7228.60.80	Alloy steel (o/than tool), bars and rods, cold-formed	2,847	425,583	.67

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

[2] Indications are that these items were imported to be melted down for their gold content. Total imports of these 3 items are equal to about 1.7 percent of the value of U.S. gold refinery production in 1998. See discussion in the text for further explanation.

[3] Apparent consumption for HTS subheadings 0709.20.10 and 0709.20.90 were aggregated into one category and reported under HTS subheading 0709.20.90.

[4] Market share based on landed, duty-paid value.

Note.–The abbreviation nesi stands for "not elsewhere specified or included."

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

Table 7-4
Estimated welfare effects on the United States of leading imports that benefited exclusively from ATPA, 1998
(1,000 dollars)

HTS number	Description	Gain in consumer surplus (A)		Loss in tariff revenue (B)		Net welfare effect (A-B)	
		Upper range	Lower range	Upper range	Lower range	Upper range	Lower range
0603.10.60	Roses, fresh cut	13,369	13,572	12,683	13,073	686	499
7403.11.00	Refined copper cathodes and sections of cathodes	1,964	1,982	1,918	1,954	45	28
0603.10.70	Chrysanthemums, standard carnations, anthuriums and orchids, fresh cut	9,431	9,536	9,002	9,205	429	332
7108.13.70	Gold (including gold plated with platinum), nonmonetary, in semimanufactured forms (except gold leaf), nesi	5,092	5,279	4,592	4,942	500	336
1604.14.40	Tunas and skipjack, not in airtight containers, not in oil, in bulk or in immediate containers weighing with contents over 6.8 kg each	183	183	181	182	2	1
9111.90.40[1]	Parts of watch cases, of precious metal or of metal clad with precious metal	-	-	-	-	-	-
2843.30.00	Gold compounds	1,523	1,671	1,351	1,631	172	40
0709.20.90[2]	Asparagus, nesi, fresh or chilled	5,599	6,294	4,665	5,920	933	374
7905.00.00	Zinc, plates, sheets, strip and foil	485	499	452	478	33	21
4202.91.00	Cases, bags and containers nesi, with outer surface of leather, of composition leather or patent leather	192	195	186	191	6	4
0709.20.10[2]	Asparagus, fresh or chilled, not reduced in size, if entered September 15 to November 15, inclusive, and transported to the U.S. by air	-	-	-	-	-	-
7306.20.60	Iron or nonalloy steel tubing of a kind used for drilling for oil/gas	77	78	75	77	2	1
9111.10.00[1]	Watch cases of precious metal or of metal clad with precious metal	-	-	-	-	-	-
7113.19.21	Gold rope necklaces and neck chains	278	292	245	271	33	22
6908.90.00	Glazed ceramic flags and paving, hearth or wall tiles; glazed ceramic mosaic cubes and the like, nesi	600	674	468	597	132	77
4202.11.00	Trunks, suitcases, vanity & all other cases, occupational luggage & like containers, surface of leather, composition or patent leather	70	71	67	69	2	1
4202.21.90	Handbags, with or without shoulder strap or without handle, with outer surface of leather, composition or patent leather, nesi, over $20 ea.	76	77	73	75	3	2
7109.00.00[1]	Base metals or silver clad with gold, but not further worked than semimanufactured	-	-	-	-	-	-
7317.00.55	Iron or steel, nails, tacks, corrugated nails, staples & similar arts., of one piece construction, made of round wire, nesi	10	10	10	10	([3])	([3])
7228.60.80	Alloy steel (o/than tool), bars and rods, cold-formed	110	115	99	108	11	7

[1] Indications are that these items were imported to be melted down for their gold content. No analysis was performed on these items because of special circumstances in the gold market. See discussion in the text for further explanation.

[2] Analysis for HTS subheadings 0709.20.10 and 0709.20.90 is combined under HTS subheading 0709.20.90.

[3] Less than $500.

Note.—The abbreviation nesi stands for "not elsewhere specified or included."

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

Table 7-5
Estimated displacement effects on the United States of leading imports that benefited exclusively from ATPA, 1998

HTS number	Description	U.S. domestic shipments	Reduction in domestic shipments: Value, Upper range	Reduction in domestic shipments: Value, Lower range	Reduction in domestic shipments: Share, Upper range	Reduction in domestic shipments: Share, Lower range
			1,000 dollars		*Percent*	
0603.10.60	Roses, fresh cut	103,429	7,194	1,166	6.96	1.13
7403.11.00	Refined copper cathodes and sections of cathodes	4,143,100	7,111	3,949	.17	.10
0603.10.70	Chrysanthemums, standard carnations, anthuriums and orchids, fresh cut	37,957	2,881	466	7.59	1.23
7108.13.70	Gold (including gold plated with platinum), nonmonetary, in semimanufactured forms (except gold leaf), nesi	121,961	4,225	1,483	3.46	1.22
1604.14.40	Tunas and skipjack, not in airtight containers, not in oil, in bulk or in immediate containers weighing with contents over 6.8 kg each	645,000	744	427	.12	.07
9111.90.40[1]	Parts of watch cases, of precious metal or of metal clad with precious metal	-	-	-	-	-
2843.30.00	Gold compounds	990,662	6,417	32	.65	(2)
0709.20.90[3]	Asparagus, nesi, fresh or chilled	122,225	9,250	2,574	7.57	2.11
7905.00.00	Zinc, plates, sheets, strip and foil	291,291	2,163	1,200	.74	.41
4202.91.00	Cases, bags and containers nesi, with outer surface of leather, of composition leather or patent leather	28,383	79	30	.28	.10
0709.20.10[3]	Asparagus, fresh or chilled, not reduced in size, if entered September 15 to November 15, inclusive, and transported to the U.S. by air	-	-	-	-	-
7306.20.60	Iron or nonalloy steel tubing of a kind used for drilling for oil/gas	106,500	244	127	.23	.12
9111.10.00[1]	Watch cases of precious metal or of metal clad with precious metal	-	-	-	-	-
7113.19.21	Gold rope necklaces and neck chains	136,640	720	239	.53	.18
6908.90.00	Glazed ceramic flags and paving, hearth or wall tiles; glazed ceramic mosaic cubes and the like, nesi	591,336	1,047	449	.18	.08
4202.11.00	Trunks, suitcases, vanity & all other cases, occupational luggage & like containers, surface of leather, composition or patent leather	51,208	69	26	.14	.05
4202.21.90	Handbags, with or without shoulder strap or without handle, with outer surface of leather, composition or patent leather, nesi, over $20 ea	101,700	68	25	.07	.03
7109.00.00[1]	Base metals or silver clad with gold, but not further worked than semimanufactured	-	-	-	-	-
7317.00.55	Iron or steel, nails, tacks, corrugated nails, staples & similar arts., of one piece construction, made of round wire, nesi	854,000	31	16	(2)	(2)
7228.60.80	Alloy steel (o/than tool), bars and rods, cold-formed	420,000	494	258	.12	.06

[1] Indications are that these items were imported to be melted down for their gold content. No analysis was performed on these items because of special circumstances in the gold market. See discussion in the text for further explanation.

[2] Less than 0.005 percent.

[3] Analysis for HTS subheadings 0709.20.10 and 0709.20.90 is combined under HTS subheading 0709.20.90.

Note.—The abbreviation nesi stands for “not elsewhere specified or included.”

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

exports of certain items fabricated in Peru, including gold items and textiles. The Government of Peru terminated the program for gold items in mid-1998 because of alleged fraud; gold not mined in Peru was being used to claim a tax refund, and "old" gold was used to claim the refund when only "newly-mined" gold was eligible. According to the importers, the items were purchased for their gold content and melted down upon importation. The U.S. Customs Service was notified of the situation, but indicated that the items should retain their original classification as watch cases and parts of watch cases.

There are indications that gold-clad metals (HTS subheading 7109.00.00) also were imported for the purpose of extracting the gold content.[14] As such, the three items should be analyzed as part of the gold market. However, the market for gold has unique characteristics (such as the overwhelming predominance in the market of existing gold stocks relative to current gold production) that call for analysis whose extent is beyond the scope of this study. It is possible to say that the impact of imports of those three items was likely to be very small, given that the value of imports of those items was only 1.7 percent of the value of U.S. gold refinery production in 1998.

Highlights of U.S. Industries Most Affected by ATPA

Industries having estimated displacements of 5 percent or more, based on upper range estimates, were chosen for further analysis. In 1998, only a few products that benefited exclusively from ATPA met this criterion: chrysanthemums, etc., fresh-cut roses, and asparagus. An industry-by-industry analysis of the items most significantly affected in 1998 follows.

Fresh-Cut Flowers

Fresh-cut flowers traditionally have been a major component of U.S. imports from ATPA countries as well as under the ATPA program and represent an important economic activity of ATPA beneficiary countries. Fresh-cut roses (HTS subheading 0603.10.60) were the 10th leading U.S. import item from ATPA countries in 1998, accounting for 2.3 percent of the total of such imports. Fresh-cut chrysanthemums, etc. (HTS subheading 0603.10.70) ranked 11th among such imports, with a share of 1.8 percent that year. Fresh-cut roses were the second leading U.S. import item that entered free of duty under the ATPA program in 1998, accounting for 11.9 percent of the total value of such imports. Fresh-cut chrysanthemums, etc. were third, accounting for about 9.0 percent. ATPA countries supplied just over 90 percent of the total value of U.S. imports of fresh-cut roses and just over 91 percent of the total value of U.S. imports of chrysanthemums, etc. in 1998. Virtually all U.S. imports of the two fresh-cut flower categories considered here from beneficiary countries were entered free of duty under ATPA. U.S. imports of the subject fresh-cut flowers from ATPA countries are concentrated between Colombia and Ecuador, with Colombia dominating, particularly in chrysanthemums, etc.

Fresh-cut flowers have gained in importance in the economies of ATPA countries, particularly those of Colombia and Ecuador, and have become a major nontraditional agricultural export item for those countries. Colombia has become the second leading fresh-cut flower exporter, trailing only the Netherlands.[15] The United States is the principal fresh-cut flower export market for those countries, accounting for 78 percent of the total value ($544.4 million) of Colombian exports in 1997.[16]

U.S. imports of cut flowers from ATPA beneficiary countries have been subject to various antidumping and countervailing duties in recent years. U.S. imports of fresh-cut pompon chrysanthemums (HTS subheading 0603.10.7010) from Peru are subject to a countervailing duty of 17.53 percent ad valorem, effective October 27, 1986.[17] U.S. imports of fresh-cut pompon chrysanthemums, other fresh-cut chrysanthemums (HTS subheading 0603.10.7020), and fresh-cut standard carnations (HTS subheading 0603.10.7030) from Ecuador are subject to antidumping duties ranging from 0.51 to 5.89 percent ad valorem, effective March 1, 1993.[18] The duties on imports from Peru and Ecuador were unchanged in 1998.[19] The antidumping duties on U.S. imports of fresh-cut pompon chrysanthemums, other chrysanthemums, standard carnations, and miniature

[14] USITC staff contacts with industry representatives, June 1998.

[15] USITC staff conversation with Philip Nowers, managing director, Colombia Flowers Council, June 17, 1999.

[16] *Super Floral Advisor*, pamphlet published by Colombia Flowers Council, p. 2

[17] 52 F.R. 13491.

[18] 61 F.R. 37044.

[19] U.S. Department of Commerce, "Final Results of Administrative Reviews," found at Internet address *http://www.ita.doc.gov/import_admin/records/stats/finalrev.txt,* retrieved Aug. 20, 1998.

carnations (HTS subheading 0603.10.30) from Colombia were modified as a result of an administrative review conducted by the U.S. Department of Commerce and published in the Federal Register on June 10, 1998.[20] Those imports from Colombia are now subject to antidumping duties ranging from 0.11 to 9.06 percent ad valorem, effective retroactively to March 1, 1996.

On May 28, 1999, the Department of Commerce announced in the Federal Register (64 FR 28975) the revocation of the antidumping order on fresh-cut flowers from Colombia because the domestic interested parties have withdrawn their participation in the sunset review in full. The antidumping order will cease to apply on merchandise from Colombia entered, or withdrawn from warehouse, on or after January 1, 2000.

Transportation costs for cut flowers from ATPA countries are high, especially so when transportation costs from Miami (the main port of entry) to other U.S. destinations are included. Therefore, the roughly 7 percent duties forgone make up a much smaller portion of the final cost to consumers, mitigating the impact of ATPA. Much of the current high market share of imports from ATPA countries was attained before ATPA was implemented, especially for chrysanthemums, etc. The remaining U.S. growers have differentiated their product to some extent by offering services not available from importers (such as quick turnaround times on special orders). Despite those factors, the high market share held by imports from ATPA countries means that the small advantages they have from ATPA may translate into a modest impact on U.S. growers. However, looking at the flower-growing industry as a whole, U.S. grower diversification into flower types that are not imported in significant volumes or into flower types that are not imported means that the absence of ATPA duties on roses and chrysanthemums, etc. may not have such a great impact on the industry as a whole.

U.S. market and trade developments during 1998 for the two subject fresh-cut flower categories are analyzed in greater detail below.

Fresh-cut roses

U.S. imports of fresh-cut roses in 1998 were dutiable at the column 1-general rate of 7.2 percent ad valorem. Such imports were eligible for duty-free treatment under ATPA, CBERA, NAFTA, and the United States-Israel Free Trade Area. Imports of fresh-cut roses are not eligible for duty-free entry under GSP.

U.S. sales of domestically produced fresh-cut roses (including hybrid tea and sweetheart) declined from 388.6 million blooms, valued at $122.5 million, in 1997 to 325.3 million blooms, valued at $106.5 million, in 1998. The production area declined by 1.6 percent, to 33,446 thousand square feet in 1998.[21]

U.S. consumption of fresh-cut roses declined slightly to 1.3 billion blooms, valued at $323.9 million, in 1998, or by 2.3 percent in quantity and 2.5 percent in value. Imports from all sources accounted for about three-quarters of the quantity and two-thirds of the value of U.S. consumption in 1998. ATPA countries supplied 69 percent of the quantity and 61 percent of the value of such consumption. Colombia, the leading import supplier, accounted for 47 percent of the quantity and 43 percent of the value, while Ecuador, the second leading import supplier, accounted for 22 percent of the quantity and 18 percent of the value of consumption in 1998.[22]

U.S. imports of fresh-cut roses from all sources totaled $218 million in value in 1998, up by 5 percent from the previous year's level. Colombia and Ecuador, both ATPA beneficiary countries, were the leading suppliers, accounting for 64 percent and 26 percent, respectively, of the total value in 1998. Bolivia accounted for a minor share (less than 0.1 percent), whereas Peru supplied no imports of fresh-cut roses in 1998. U.S. imports of fresh-cut roses from all ATPA sources totaled $196 million in 1998, a rise of 6 percent from the previous year, virtually all of which entered free of duty under ATPA. Colombia supplied 68 percent of the fresh-cut rose imports under the ATPA program in 1998, and Ecuador accounted for 32 percent.

The increase in U.S. imports of fresh-cut roses from ATPA sources resulted from a combination of a strong U.S. demand for roses and a continuing shift by growers from carnations to other flowers, including

[20] 63 F.R. 31724.

[21] U.S. Department of Agriculture, National Agricultural Statistics Service, *Floriculture Crops, 1998 Summary*, June 1999. Data for 1998 and revised data for 1997 are based on the decennial Census of Horticultural Specialties and are not comparable with data reported in earlier years. Quantities represent the number of blooms sold.

[22] Estimated by the staff of the U.S. International Trade Commission based on data from the U.S. Department of Agriculture and the U.S. Department of Commerce.

roses, prompted by demand shifts as well as by disease problems in Colombia affecting carnations.[23] U.S. consumers of roses benefited from the increased supplies of roses from ATPA countries and from lower prices for roses from ATPA countries compared to domestically produced roses.

Fresh-cut chrysanthemums, etc.

U.S. imports of fresh-cut chrysanthemums, etc. were dutiable in 1998 at the column 1-general rate of 6.9 percent ad valorem. Such imports were eligible for duty-free treatment under the GSP (excluding Colombia, which exceeded the competitive-need limits), ATPA, CBERA, NAFTA, and the United States-Israel Free Trade Area. In 1998, virtually all U.S. imports of fresh-cut chrysanthemums, etc. from Colombia entered free of duty under the ATPA program. Most imports entering free of duty from Ecuador were entered under ATPA, with a minor amount entered under GSP in 1998.

U.S. sales of domestically produced fresh-cut chrysanthemums, etc. declined in quantity from 163.0 million blooms in 1997 to 157.9 million blooms in 1998, or by 3.1 percent.[24] However, the value of U.S. production of such flowers increased from $43.6 million in 1997 to $44.2 million in 1998, or by 1.4 percent. Among the major flowers in this category, wholesale prices for pompon chrysanthemums rose by 0.1 percent, standard chrysanthemums increased by 10.7 percent, and standard carnations decreased by 1.3 percent in 1998. Because the rise in prices of certain flowers along with the rise in quantities sold of those flowers outweighed the decline in the quantity sold and the lower price for standard carnations, there was an overall increase in value for this category in 1998. The combined production area for the flowers in this category declined slightly (by 7.6 percent), to 32 million square feet in 1998.

U.S. consumption of fresh-cut chrysanthemums, etc. increased in 1998 to $199.6 million, an increase of 3.2 percent. Imports from all sources accounted for 81.0 percent of the value of consumption in 1998, down slightly from the 1997 shares. Imports from all ATPA countries supplied 73.8 percent of the value of total U.S. consumption in 1998. Imports from Colombia, by far the leading import supplier, accounted for 71.7 percent of the value of such consumption, down slightly from its share the previous year.

U.S. imports of fresh-cut chrysanthemums, etc. from all sources fell from $162.1 million in 1997 to $161.6 million in 1998. The decline was accounted for mainly by reduced imports of standard carnations and chrysanthemums from Colombia. Among ATPA beneficiary countries, Colombia was, by far, the leading supplier (accounting for 89 percent of the total value in 1998) and Ecuador was the third leading supplier (2 percent). Bolivia and Peru accounted for relatively insignificant shares. ATPA beneficiary countries supplied $147.4 million of U.S. imports of chrysanthemums, etc. in 1998, down slightly from the previous year. Colombia was the leading supplier under the program (97 percent of the value of such U.S. imports under ATPA in 1998).

Fresh or Chilled Asparagus

U.S. imports of fresh or chilled asparagus in 1998 entered under HTS subheading 0709.20.10 were dutiable at the column 1-general rate of 5.0 percent ad valorem; imports under subheading 0709.20.90 were dutiable at the column 1 rate of 22.5 percent ad valorem. Imports entered under HTS subheading 0709.20.90 were eligible for duty-free entry under GSP, excluding Peru, which exceeded the competitive-need limit. Imports entered under HTS subheading 0709.20.10 are eligible for duty-free entry under GSP only if they originate in least developed beneficiary developing countries, none of which are ATPA beneficiaries.[25]

U.S. imports of fresh or chilled asparagus[26] rose by 31 percent, from $71.0 million in 1997 to $92.9 million in 1998, with increased shipments from Mexico[27] and Peru accounting for the bulk of the rise.

[23] USITC staff telephone interview with Philip Nowers, managing director, Colombia Flower Council, June 24, 1999.

[24] U.S. Department of Agriculture, National Agricultural Statistics Service, *Floriculture Crops, 1998 Summary*, June 1999. Data for 1998 and revised data for 1997 are based on the decennial Census of Horticultural Specialties and are not comparable with data reported in earlier years.

[25] For a more detailed description of tariff programs applicable to imports of fresh or chilled asparagus, see USITC, *ATPA, Fifth Report 1997*, pp. 131-132.

[26] Includes HTS subheadings 0709.20.10 and 0709.20.90. Fresh or chilled asparagus entered under HTS item 0709.20.10 is the same product as that entered under 0709.20.90, except that it has not been reduced in size, has been entered from September 15 to November 15, and has been transported to the United States by air.

[27] Effective Jan. 1, 1999, all imports of fresh or chilled asparagus from Mexico entered under subheading 0709.20.10 are free of duty.

Other important foreign suppliers include Colombia, Chile, and Argentina. U.S. imports of fresh or chilled asparagus from ATPA countries rose by 11 percent, from $27.6 million in 1997 to $30.7 million in 1998, with imports from Peru and Colombia accounting for 84 percent and 16 percent, respectively, of total imports from ATPA countries in 1998. Peru has remained the leading Andean source of fresh asparagus, supplying about 28 percent of the total value of U.S. imports in 1998, compared with 32 percent in 1997.

U.S. production of fresh-market asparagus rose by 25 percent, from $134.8 million in 1997 to $167.9 million in 1998.[28] The leading states producing fresh-market asparagus are California, Washington, and Michigan. Virtually all California production is intended for fresh-market sales. Washington is the largest producer for the processed market; production in Michigan goes for processing use as well. U.S. per capita consumption of fresh asparagus is forecasted to amount to 0.7 pounds in 1998, the same as in 1997, up slightly from an annual average of 0.6 pounds reported throughout the 1986-96 period.[29]

The impact of ATPA on the U.S. asparagus industry has been negligible. About 85 percent of imports from ATPA countries enter between July and January, when U.S. production is very low. Harvested acreage of all asparagus was the same or up slightly for two of the three major fresh-market asparagus-producing States in 1998. Acreage in Washington was down in 1998 as a result of a severely weather-damaged crop. The value of production for fresh-market use in 1998 was up by 25 percent over production in 1997 and by 62 percent over production in 1996. The value of production for all uses in 1998 was $210.7 million, up by 16 percent from 1997 and by 35 percent from 1996. Members of the U.S. asparagus industry have increased investment in promotion and product innovation in recent years as a means to stimulate consumer demand for asparagus. Finally, the growth of fresh-asparagus exports from ATPA countries to the United States is expected to slow in the near future, especially as U.S. tariffs for Mexican asparagus shipments fall under NAFTA.[30] Mexico continues to be the most important source of U.S. fresh-asparagus imports, with a transportation advantage to U.S. markets that is believed to offset any existing production advantages in ATPA countries.[31]

The impact of ATPA on U.S. consumers has been significant. Peruvian asparagus enters the United States principally when the U.S.-produced fresh-asparagus supply is low, resulting in an increased supply of fresh asparagus in the marketplace over a greater number of months. This extended product availability throughout most of the year is believed to have been partly responsible for the slight rise in U.S. per capita consumption.[32] Also, it seems to have benefited the overall consumption of all asparagus[33] and resulted in lower prices for consumers. Further, an influx of asparagus imports prior to the normal U.S. shipping season is believed to have resulted in the elimination of early-season price premiums.[34]

Probable Future Effects of ATPA

As previously reported in this series, most of the effects on the U.S. economy and consumers of the one-time elimination of import duties under a preference program like ATPA would occur within 2 years of the program's implementation. Other effects were expected to occur over time as a result of an increase in export-oriented investment in the region. Such investment in new production facilities or in the expansion of existing facilities may rise in response to the availability of ATPA tariff preferences. Therefore, the Commission continues to monitor ATPA-related investment in the Andean region, using investment

[28] USDA, National Agricultural Statistics Service, *Vegetables*, Pub. No. Vg 1-2 (99), January 1999, pp. 31-32.

[29] USDA, Economic Research Service, *Vegetables and Specialties—Situation and Outlook Report*, Pub. No. VGS-275, July 1998, pp. 12-13.

[30] Duties on asparagus from Mexico were zero in 1998 for white asparagus entered any time of the year and on any asparagus entered from July 1 through Dec. 31. For asparagus entered during the month of January, the rate was 11.6 percent, and if entered from Feb. 1 through June 30, the rate was 16.6 percent. The non-zero rates are being phased to zero as of Jan. 1, 2008.

[31] USDA, ERS, *Vegetables and Specialties–Situation and Outlook Report*, Pub. No. VGS-273, November 1997, pp. 22-24.

[32] USITC staff contacts with Perry DeKryger, Executive Director, Michigan asparagus industry, July 1997, and Mike Harker, Executive Director, Washington Asparagus Commission, July 1999.

[33] Ibid.

[34] *Vegetables and Specialties–Situation and Outlook Report*, Pub. No. VGS-273, November 1997, pp. 22-26.

expenditures as a proxy for future trade effects of ATPA on the United States.[35]

Official foreign direct investment (FDI) statistics show that FDI in the region fell from 1996 to 1997;[36] preliminary data show that FDI increased in 1998.[37] Because it is difficult to isolate trends in investment in ATPA-eligible products alone, information on ATPA-related investment activity and trends during 1998 was obtained from fieldwork in Colombia and Ecuador, U.S. embassies in the Andean region, and various published sources.

All four of the U.S. embassies in ATPA beneficiary countries responded to the Commission's request for information regarding new or expansion investments in ATPA-eligible products. Of the four, three were able to provide information regarding new or expansion investment. The U.S. Embassy in Colombia reported that Colombian exports to the United States under ATPA have increased in value and market share every year since 1993. Although the Embassy was not able to provide specific figures concerning investment in 1998, the Embassy did cite some new products being exported under ATPA, such as frozen asparagus, frozen orange juice, certain ceramic products, certain pigments, and chewing gum. In addition, the Embassy wrote, "Government and private officials tell post that the ATPA program has often been used as a political tool to favor certain sectors, making it less attractive to many Colombian investors."[38] A field visit to Colombia revealed that exports are also growing in tubes for extracting oil, iron cable, small industrial heaters, nails, thumbtacks, gold, hosing nylon, platinum, gelatin capsules, mushrooms, and cool weather fruits.[39]

Although the U.S. Embassy in Ecuador was unable to provide specific data regarding investment in ATPA-related industries, the Embassy reported that ATPA's duty-free market access provisions have had only a marginal impact on Ecuador's overall export performance and economic climate. However, the Embassy also stated that ATPA has helped to stimulate nontraditional agriculture and the economic diversification and development of many parts of rural Ecuador.[40] Indeed, fieldwork in Ecuador indicated that nontraditional agricultural exports are increasing, particularly cut flowers. Although the amount is small, exports are also growing for mangoes, pineapples, melons, papayas, asparagus, peppers, broccoli, potatoes, hearts of palm, quinua, and fruit juices.[41]

The U.S. Embassy in Peru was also unable to provide specific data regarding investment in ATPA-related industries. However, the Embassy wrote, "The government and private business associations have actively promoted the (ATPA) program.... Government trade officials continually emphasize the importance of the program in enabling Peru to broaden its export base."[42] The Embassy explained that most Peruvian exporters were aware of ATPA preferences, and exports of such products as fresh-cut flowers and asparagus got their start largely because of ATPA.[43]

ATPA is likely to continue to have minimal future effects on the U.S. economy in general. As described in chapter 6 of this report, the share of total U.S. imports made up of imports from ATPA countries in 1998 was small (0.9 percent). Imports that benefited exclusively from ATPA in 1998 made up an even smaller share–just 0.09 percent. The probable future effect of the new investment identified in Bolivia, Colombia, Ecuador, and Peru is also likely to be minimal in most economic sectors.

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[35] The methodology of using investment to assess the probable future economic effects on the United States was developed as part of the Commission's reporting requirement on the Caribbean Basin Economic Recovery Act (CBERA). For a more detailed discussion of the methodology, see USITC, CBERA, *First Report, 1984-85*, USITC publication 1907, Sept. 1986, p. 4-1.

[36] See table 8-3 in chapter 8, which shows foreign direct investment in ATPA beneficiaries from 1986 to 1997.

[37] United Nations, Economic Commission for Latin America and the Caribbean, *Foreign Investment in Latin America and the Caribbean*, 1998, p. 41.

[38] U.S. Department of State telegram, "USITC Annual Andean Investment Survey: Colombia," message reference No. 5762, prepared by U.S. Embassy, Bogota, June 8, 1999.

[39] Representatives from the Colombian Ministry of Foreign Trade and ANALDEX, USITC staff interviews, Bogotà, June 8, 1999. For more information on investment activity in Colombia, see the case study on Colombia in chapter 8.

[40] U.S. Department of State telegram, "USITC Annual Andean Investment Survey: Ecuador," message reference No. 1916, prepared by U.S. embassy, Quito, May ,1999.

[41] For more information on investment activity in Ecuador, see the case study on Ecuador in chapter 8.

[42] U.S. Department of State telegram, "Andean Investment Survey Peru," message reference No. 3996, prepared by U.S. Embassy, Lima, July 1, 1999.

[43] Ibid.

CHAPTER 8
Case Studies on Colombia and Ecuador

The case studies on Colombia and Ecuador were used to examine the effectiveness of ATPA in achieving its goal of promoting export-led growth and export diversification in beneficiary countries. The two countries' economic and trade performance since 1990 and their relationships to ATPA were analyzed. Factors that may affect levels of trade and investment were described, including the investment climate and investment- and export-promotion programs.

Colombia was selected as a case study because it consistently has been the largest ATPA beneficiary. Ecuador, although a smaller beneficiary, has also benefited from the program; in 1998, Ecuador's exports under ATPA increased 7 percent while total exports to the United States declined.

Information for the case studies was drawn primarily from field visits to each country and from U.S. Government and other published sources. Each of the case studies should be considered unique, and not representative of the ATPA region as a whole.

Case Study: Colombia

Economic and Trade Performance

In 1998, Colombia's nominal GDP was $96.9 billion, an increase of 3.0 percent from 1997. Colombia's economic problems continued in 1998, with a weakening currency, falling oil prices, a civil war, and languishing external demand playing major roles in the economic slowdown. Colombia's official 1998 unemployment rate was 16 percent, up from 13.3 percent in 1997. Colombia's 17.7 percent rate of inflation for 1997 met the Central Bank's stated goal for the first time since the Bank became independent in 1991. Inflation in 1998 rose to 18 percent, significantly above the Bank's 16 percent goal.[1] Forecasts for real-GDP growth in 1999 are pessimistic, ranging from -0.1 to 2.0 percent.[2]

Two of the largest issues facing the 1998 Colombian economy were low oil prices, which may have cost the economy over $1 billion, and a civil war, which may have cost the economy over $4 billion.[3] Slow growth in the agricultural sector[4] was also a concern. Although the agricultural sector grew by 1.5 percent in 1998, noncoffee output fell by nearly 2 percent. Rural violence, bad credit, and foreign competition were major factors in the production slowdown. Other industries encountering problems include manufacturing, which grew by only 1.3 percent in 1998, and construction, which contracted by 7.3 percent.[5]

Colombia's expanding national debt has also remained a problem; it was 10 times greater in 1998 than in 1993.[6] The government fiscal deficit was 3.9 percent of GDP for 1997 and was projected to be as high as 5 percent for 1998.[7] The increase in the national debt has been caused principally by efforts to fund the national economic plan and by constitutionally mandated transfers of central government funds to local governments. The Colombian Government's practice of deficit spending and the Central Bank's recent attempts to reduce inflation have contributed to consistently high interest

[1] U.S. Department of State, *1998 Country Report on Economic Policy and Trade Practices: Colombia*, found at Internet address *http://www.state.gov/www/issues/economic/trade_reports/wha/98/colombia98.html*, retrieved on June 29, 1999. This report, which was written in January 1999, used statistics for the first 10 months of 1998 and estimates for November and December to provide aggregate 1998 data.

[2] "Outlook in Colombia," *Business Latin America*, Mar. 8, 1999.

[3] "Colombia's Latest Horror," *The Economist*, Jan. 30, 1999, p. 33.

[4] The agricultural sector grew by 0.7 percent in 1997 and 1.5 percent in 1998.

[5] "Outlook in Colombia," *Business Latin America*, Mar. 8, 1999.

[6] Information for spending prior to 1993 is not available. The Economist Intelligence Unit, *Country Profile: Colombia, 1998-99*, p. 33, reference table 1.

[7] U.S. Department of State, *1998 Country Report on Economic Policy and Trade Practices: Colombia*, found at Internet address *http://www.state.gov/www/issues/economic/trade_reports/wha/98/colombia98.html*, retrieved on June 29, 1999.

rates and have reinforced the current economic slowdown that started in mid-1996. On November 17, 1998, just 2 months after entering office, President Pastrana declared an economic state of emergency in order to prevent a run on the Colombian banking system.

For years, the Colombian peso had been subject to revaluation pressures resulting from large inflows of foreign capital, including cocaine trade profits. After July 1997, the peso began to fall sharply against the U.S. dollar. In January 1998, the peso reached the top of its announced exchange-rate band. The band was shifted upward by 9 percentage points 9 months later, in September 1998, where it has remained since.[8] However, to keep the currency stable, the Government increased interest rates, an action that has had detrimental effects on both economic growth and investment.[9]

Privatization has been a priority for the Colombian Government over the past 5 years. For example, almost half of foreign direct investment (FDI) in Colombia was in the privatization of their electricity production, distribution, and generation firms. Other industries that have been privatized include telecommunications, water, and gas. Although FDI increased from 1997 to 1998, officials note that some privatization that took place in 1997 appears in 1998 statistics.[10]

Colombia joined the General Agreement on Tariffs and Trade (GATT) in 1981 and ratified the WTO treaty on March 30, 1995. In 1991, the Colombian Government instituted *Apertura*, which represented a major shift in Colombian international trade policy. *Apertura* was a two-stage economic liberalization plan for tariff reduction, financial deregulation, and privatization. The program eliminated import licenses for most Colombian products; one exception was agricultural imports, for which *Apertura* created a price-band system to determine tariffs. As part of *Apertura*, Colombia also enacted an antidumping statute and a more flexible foreign-exchange regime. The program implemented labor-reform laws to provide easier contracting mechanisms, and deregulated investment for almost all sectors of the Colombian economy except national defense. After *Aperatura*, Colombia instituted *Salto Social* (1994), an economic reform program that was intended to help Colombia's working class. Colombia's economy fell below the necessary levels of growth needed to fund the program, however, and *Salto Social* was abandoned in 1997.[11]

Colombia continues to pursue regional trade agreements with its trading partners. Colombia is a member of the Latin American Integration Association, Andean Community, and Group of Three (G-3), which includes Colombia, Mexico, and Venezuela, and has bilateral trade agreements with Chile, Panama, and the Caribbean Community (CARICOM). Colombia actively participates in negotiations for the FTAA, and is a member of each of the nine negotiating groups and three subcommittees.[12]

Trends in Trade

Colombia's total trade grew by 112 percent, from $12.8 billion in 1990 to $27.2 billion in 1997 (table 8-1).[13] Colombian imports increased by 163 percent, from $5.8 billion in 1990 to $15.1 billion in 1997. Colombia's exports increased by 71 percent, from $7.1 billion in 1990 to $12.1 billion in 1997. Consequently, Colombia's trade surpluses in 1990 and 1991 switched to trade deficits thereafter; this shift was due largely to an increase in demand for foreign products. Colombia's trade deficit with the world reached $3 billion in 1997, a 47 percent increase over the previous year.

The United States has been Colombia's principal trading partner. Since 1990, however, the United States has become relatively less important as a trading partner (table 8-1). For example, the share of Colombian exports to the United States fell from a 1990 high of 48 percent to 39 percent in 1997. Likewise, the importance of the United States as a

[8] U.S. Department of State, *1998 Country Report on Economic Policy and Trade Practices: Colombia*, found at Internet address *http://www.state.gov/www/issues/economic/trade_reports/wha/98/colombia98.html*, retrieved on June 29, 1999.

[9] Additional information on interest rates is presented later in this chapter in the discussion of Colombia's investment climate and export promotion.

[10] For more information on Colombian FDI, see the investment activity section in this chapter. Representative from COINVERTIR, USITC staff phone conversation, July 23, 1999.

[11] U.S. Department of State, *1998 Country Report on Economic Policy and Trade Practices: Colombia*, found at Internet address *http://www.state.gov/www/issues/economic/trade_reports/wha/98/colombia98.html*, retrieved on June 29, 1999.

[12] U.S. Trade Representative staff, telephone conversation with USITC staff, June, 25, 1999.

[13] Total trade is calculated by adding imports and exports; conversion to dollars is at average annual exchange rates. Compiled from official statistics of Statistics Canada, *World Trade Analyzer*, CD-ROM 1999.

Table 8-1
Colombia: Total exports, total imports, direction of trade, and trade balance, 1990-97

	Exports					Imports					Trade balance
Year	Total	US	EU	LAC	ROW	Total	US	EU	LAC	ROW	Total
	1,000 dollars		*Percent of total*			*1,000 dollars*		*Percent of total*			*1,000 dollars*
1990	7,079,151	48	27	16	10	5,762,721	43	20	18	19	1,316,430
1991	7,522,038	41	27	23	9	5,570,277	38	21	21	20	1,951,761
1992	7,308,293	41	26	25	8	7,818,924	41	19	22	17	-510,631
1993	7,774,402	42	23	24	10	9,771,302	37	20	24	18	-1,996,900
1994	9,339,400	37	30	22	11	12,149,499	37	21	23	19	-2,810,099
1995	10,968,236	36	25	28	11	13,739,189	38	19	26	17	-2,770,953
1996	11,879,950	40	23	28	10	13,950,345	39	19	24	18	-2,070,395
1997	12,084,051	39	22	29	10	15,129,285	40	19	24	17	-3,045,234

Source: Compiled from official statistics of Statistics Canada, *World Trade Analyzer,* CD-ROM, 1999.

source for Colombian imports declined from 43 percent in 1990 to 40 percent in 1997. As shown in table 8-2,[14] bilateral trade increased significantly between 1990 and 1997 and then declined marginally in 1998. U.S. exports to Colombia increased by 153 percent from 1990 to 1997, then decreased slightly in 1998, reflecting recessionary influences. U.S. imports from Colombia increased by 46 percent from 1990 through 1997, but dropped in 1998. Colombia has had a trade deficit with the United States consistently since 1992.

During this time, the EU became slightly less important as a trading partner. The percentage of Colombian exports to Latin America and the Caribbean (LAC), however, nearly doubled from 1990 to 1997 (figure 8-1). Also, LAC grew steadily as a source for Colombian imports (figure 8-2), probably reflecting trade liberalization among members of the Andean Community in the 1990s. The trade shift away from the EU was particularly prominent after 1994. Colombian trade with the rest of the world has remained relatively constant since 1990.

The composition of Colombian exports to the world has changed somewhat since 1990 (figure 8-3). The mineral fuels, lubricants, and related materials category has consistently been the most important since 1990, but has decreased in relative importance from 38 percent of export value in 1990 to 32 percent in 1998. The food and live animals category has dropped slightly in importance since 1990, from 33.0 percent (1990) to 31.5 percent (1997). One important diversification signal is that chemicals and related products jumped almost threefold, from 3.4 percent (1990) to 9.2 percent (1997). The production of medicaments, especially veterinary medicaments, has played a primary role in this change. Exports of textiles and apparel accounted for fewer overall shipments from Colombia in 1997 than they did at the beginning of the decade.

The composition of Colombian exports to the United States was somewhat different from that of Colombia's exports to the world (figure 8-3). In 1997, three categories (minerals fuels, food, and crude materials, with the latter including flowers) accounted for nearly 70 percent of Colombian world exports but more than 80 percent of Colombian exports to the United States. In terms of percentage of trade, the United States imports relatively more mineral fuels than Colombia exports to the world. A large increase has occurred in the crude materials sector; since 1990, it grew from 6.1 percent (1990) to 9.7 percent (1997), primarily as a result of the increase in fresh-cut flowers (the bulk of that sector). Also, the value of U.S. imports of flowers from Colombia has grown dramatically from 1990 to 1997. Chemical sector exports to the United States have more than tripled since 1990, from 0.9 percent (1990) to 3.3 percent (1997). From 1997 to 1998, exports of certain chemical products surged, including (with 1997-98 growth rates in parentheses) (1) paint and allied products (1,253.3 percent), (2) inorganic pigment (132.5 percent), (3) industrial organic chemicals (120.5 percent), and (4) plastic materials and resins (34.0 percent).

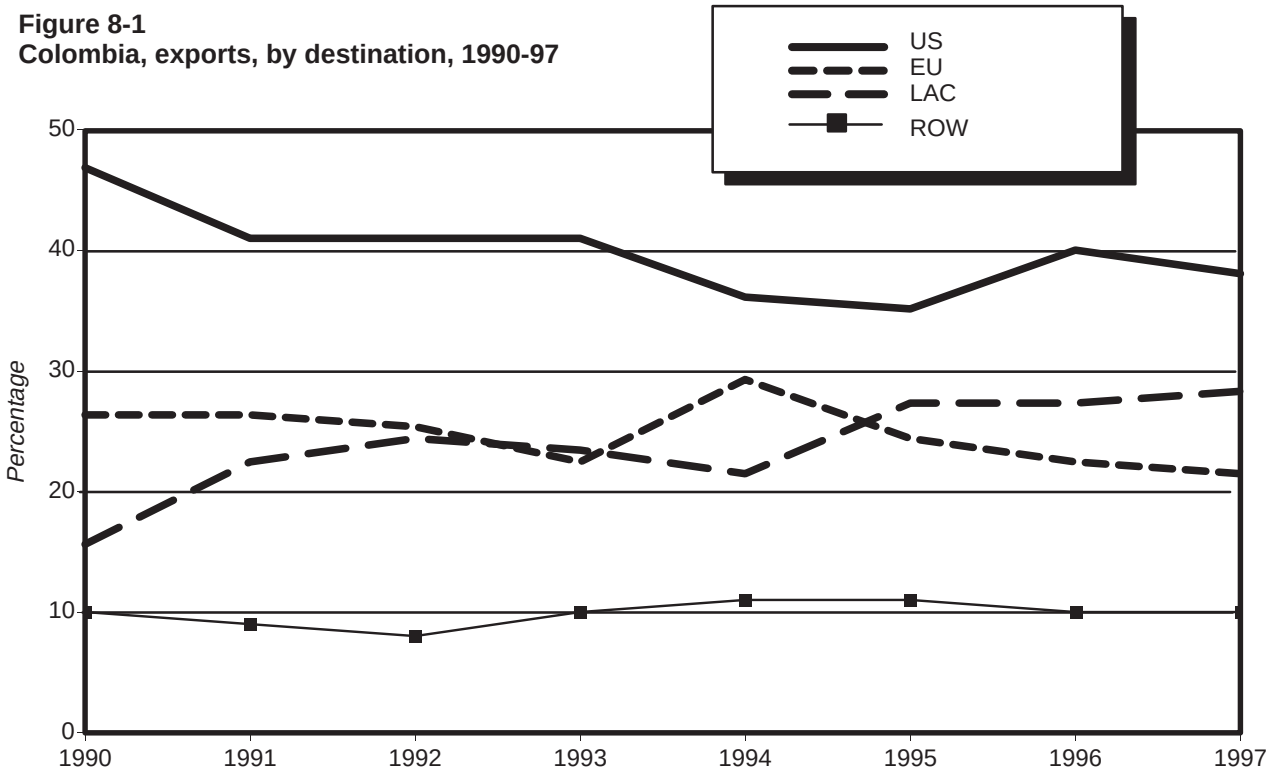
[14] Both tables 8-1 and 8-2 show trade between Colombia and the United States, but the data do not match exactly because the sources of the data are different. Statistical differences result for a variety of reasons, such as timing differences, valuation differences, and the handling of transshipments.

Table 8-2
Colombia: U.S. imports, U.S. exports, and trade balance, 1990, 1992, 1994, 1996, 1997, and 1998
(Million dollars)

Year	Imports	Exports	Trade balance
1990	3,154	1,985	-1,169
1992	2,888	3,200	312
1994	3,132	3,780	647
1996	4,421	4,518	96
1997	4,614	5,025	409
1998	4,442	4,658	216

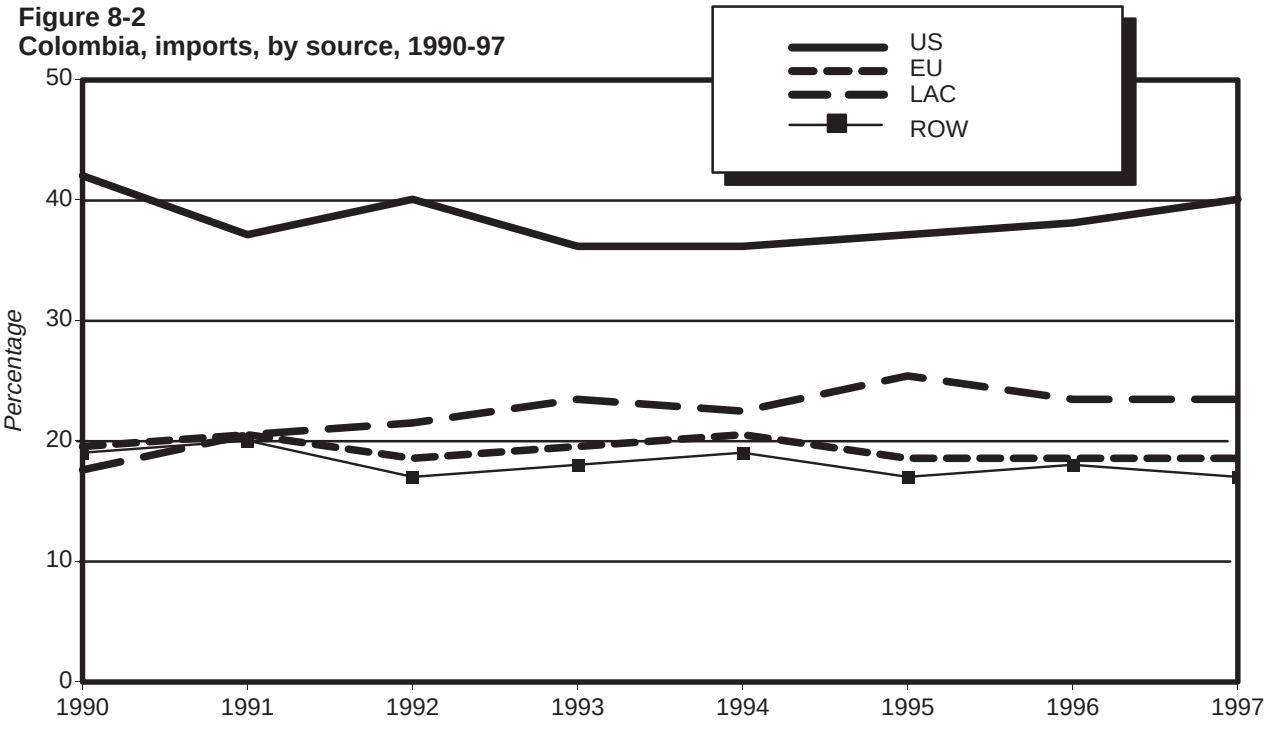
Source: Compiled by the staff of the U.S. International Trade Commission from official statistics of the U.S. Department of Commerce.

Figure 8-1
Colombia, exports, by destination, 1990-97



Source: Based on data in table 8-1.

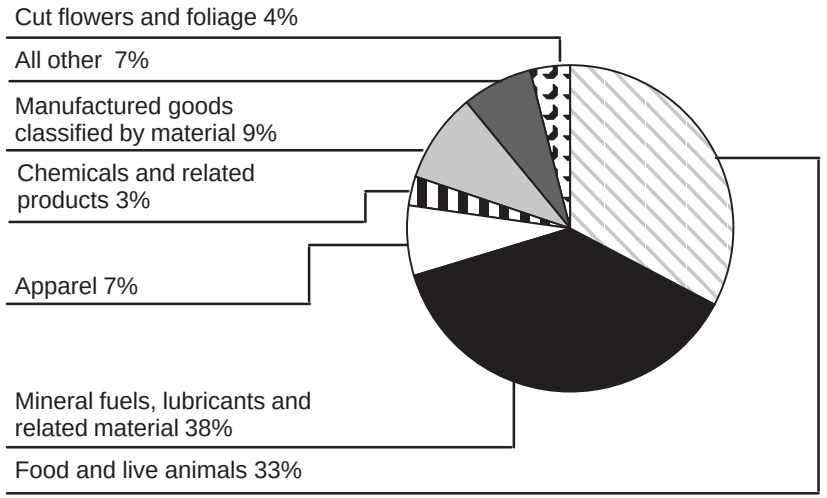
Figure 8-2
Colombia, imports, by source, 1990-97



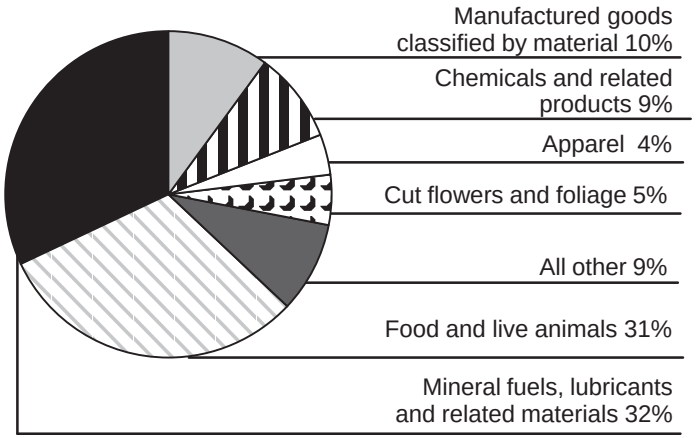
Source: Based on data in table 8-1.

Figure 8-3
Colombia: Composition of exports, 1990 and 1997

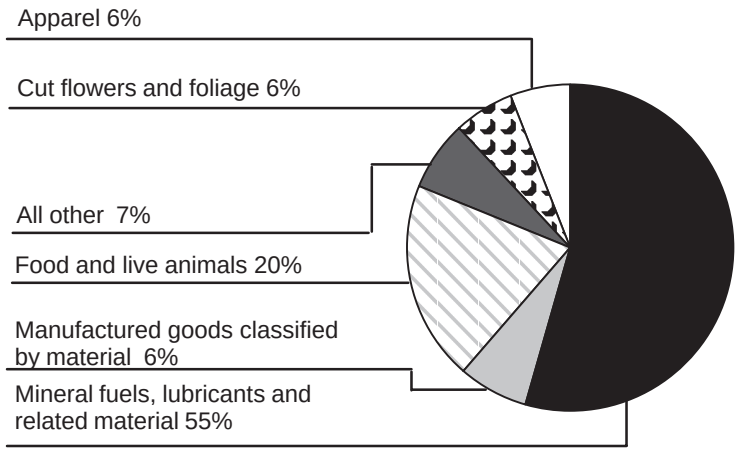
1990 – Colombian exports to the world



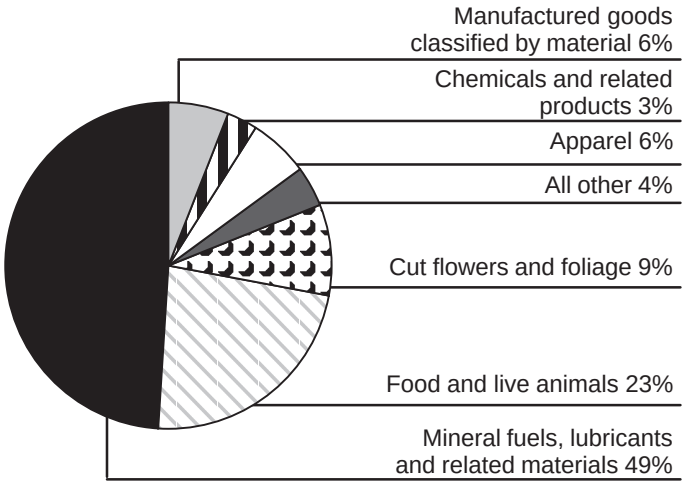
1997 – Colombian exports to the world



1990 – Colombian exports to the United States



1997 – Colombian exports to the United States



Note.—Percentages may not add to 100 because of rounding.

Source: Compiled from official statistics of Statistics Canada, *World Trade Analyzer,* 1980-97, CD-ROM, 1999.

Investment Climate and Export Promotion

Investment Climate

According to a report from the U.S. Department of Commerce, Colombia has traditionally been considered an attractive medium- and long-term market for foreign investment.[15] Colombia does not have any significant barriers to foreign investment. Foreign and national investors receive equal treatment, with 100 percent foreign ownership allowed in nearly all industries.[16] However, recent problems have significantly diminished Colombia's appeal to foreign interests.

Violence and insecurity, stemming from the continuing armed conflict between the Government of Colombia and various guerrilla insurrection groups, are prime concerns. In a Colombian Government survey of multinationals, nearly one-third (32.9 percent) responded that violence and insecurity are the most significant disincentives to investment in Colombia.[17] According to police figures, rebels carried out 1,726 attacks in 1998, representing a 12-percent increase over 1997.[18] Rebels are also considered responsible for half of the 2,609 kidnaping cases reported in Colombia in 1998.[19] At the end of 1998, plans for peace negotiations between major rebel forces, most notably the Revolutionary Armed Forces of Colombia (FARC), and Colombian President Pastrana were under way. The future effects of the peace process have been ambiguous, creating uncertainty for potential investors.[20]

Political and economic instability is a second major issue for foreign investors in Colombia. Beyond the political ramifications evident in the dispute between the rebels and the government, the increased legal clout of Colombia's indigenous groups has also caused problems for investors. For example, a dam project financed in part by Sweden, Canada, and Russia was disbanded at the order of the Colombian constitutional court. Furthermore, the court directed the company to compensate a local Indian tribe for damage resulting from the project.[21] Economic instability, including high interest rates and a continued recession, has created disincentives for foreign investors. On November 29, 1998, Colombia's interest rates reached their highest real level since 1983; average interest rates reached 37.3 percent.[22] Those rates posed a significant hindrance to prospective foreign investment and encouraged the resultant "tight money" situation; the latter has also made the investment situation in Colombia considerably less attractive.[23] The worldwide economic downturn in 1998 discouraged investment from Venezuela and Ecuador as well as domestic investment in Colombia.[24]

Taxes were another major concern for foreign investors in 1998. As a report from the U.S. Department of State explained, "Colombia has had several tax reforms over the last few years and the new administration of President Andres Pastrana is already proving itself no exception....Uncertainty created by the constant changes in the tax regime negatively affects investment flows."[25] Colombia began to address this tax uncertainty problem in December 1995 when the Colombian Congress passed legislation authorizing the government to guarantee a tax rate for up to 10 years when entering into contracts. In return for the guarantee, corporations

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[15] U.S. Department of Commerce, *Country Commercial Guides, USDOC, International Trade Administration,* found at Internet address *http://www.stat-usa.gov/*, retrieved on June 29, 1999.

[16] To discourage money laundering, Colombia prohibits FDI in real estate except in connection with other investment practices. U.S. Department of State, *1998 Country Report on Economic Policy and Trade Practices: Colombia*, found at Internet address *http://www.state.gov/www/issues/economic/trade_reports/wha/98/colombia98.html*, retrieved on June 29, 1999.

[17] The second-most-cited concern was political and economic instability (20 percent), followed by taxes (15 percent), and bureaucracy (8 percent). "Management Alert in Colombia," *Business Latin America,* May 10, 1999.

[18] "At war over peace in Colombia," *Business Latin America,* May 17, 1999.

[19] Ibid.

[20] U.S. Embassy official, USITC staff interview, Bogotá, June 8, 1999.

[21] The Embera Indian tribe argued that the project impeded migrations of fish, eliminating a main source of protein in their diets. "Eternal dam-nation," *Business Latin America*, Mar. 29, 1999.

[22] "Overview—1.1 Financial Conditions," *Financing Foreign Operations,* Nov. 30, 1999.

[23] Representative from the Colombian-American Chamber of Commerce, USITC staff interview, Bogotá, June 9, 1999.

[24] Venezuela is reported to have closed the border in May 1999. Ecuador has been in a financial and economic crisis since late 1998, so exports to that country are down.

[25] U.S. Department of State, *1998 Country Report on Economic Policy and Trade Practices: Colombia,* found at Internet address *http://www.state.gov/www/issues/economic/trade_reports/wha/98/colombia98.html*, retrieved on June 29, 1999.

pay a 2 percent fee in addition to the guaranteed tax rate.[26]

To encourage more investment, Colombia formally broke up its 51-year-old monopoly on long-distance and international telecommunication services in November 1998. Orbital, a new private consortium, was placed in charge of telecommunication services. A second competitor, ETB, also entered the market in December 1998. Those privatization efforts not only encouraged investment but also helped the Government of Colombia fulfill obligations undertaken through the WTO Agreement on Basic Telecommunications.[27] All of those developments have strengthened the pattern of privatization established by Colombia in 1994, when the Government of Colombia moved to encourage investment through the privatization of five free-trade zones (FTZs).

Colombia has also taken action to address investors' concerns regarding the smuggling of illegal narcotics. Colombia signed an agreement with U.S. Customs to implement a program that started in 1996 with the flower sector and was extended in 1997 to all sectors. The program focuses on eliminating illicit drugs from legal trade by improving security standards. The program starts with the producer, but follows the chain of exports through all modes of transportation, and is subsequently carried out by ports and airlines. Most critical, each company must be certified by U.S. Customs to ensure that it meets certain designated security standards, which guarantee there is no contact with drugs anywhere en route. The U.S. Customs program began in Bogotá but has now expanded to Cali and Medellin, Colombia's major industrial areas.[28]

Colombia does not have a bilateral investment treaty (BIT) with the United States. No BIT negotiations were held in 1998, and none are currently scheduled for 1999. The major barrier to initiating a BIT with Colombia involves Colombian constitutional references to expropriation without indemnification. In June 1999, Colombia's Congress removed those references from the Constitution.[29]

Colombia was placed on the USTR's watch list of countries to be monitored for progress in implementing commitments with regard to IPR protection and for providing comparable market access for U.S. intellectual property products in 1998 and 1999. Key issues that earned Colombia a place on the list involve Colombia's problems with copyright enforcement, especially border controls against the importation of pirated CDs, and insufficient pharmaceutical patent protection. At the end of 1998, Colombia faced elevation to the special watch list but avoided the designation by following through on pledges to take action against pirate cable operators and other violators of IPR regulations.[30]

Colombia's economic infrastructure is considered relatively well developed. Air routes are advanced, a necessity considering the difficult geography of Colombia's main economic centers. Energy resources, inland waterways, and telecommunications are also well developed relative to most Latin American countries. Colombia's major seaports have also become much more efficient since they were privatized in 1994. Colombia's roads are not as well developed in comparison with the rest of its infrastructure. Furthermore, security concerns force domestic and international firms to rely on more expensive air transportation for goods and services rather than on land transportation.

Export and Investment Promotion

Two institutions are designated to assist in export promotion and investment in Colombia: Proexport and COINVERTIR (Invest in Colombia Corporation). Although both organizations assist in some aspects of investment and exportation for domestic and international firms, there is no one-stop resource for investors.

Proexport, founded in 1992 as part of the Colombian Government Trade Bureau, promotes nontraditional Colombian exports by assisting companies to break into foreign markets, providing them with pertinent information, and exploring opportunities abroad. The agency has 18 regional

[26] U.S. Department of State, *1998 Country Report on Economic Policy and Trade Practices: Colombia*, found at Internet address *http://www.state.gov/www/issues/economic/trade_reports/wha/98/colombia98.html*, retrieved on June 29, 1999.

[27] U.S. Department of State telegram, "Long-Distance and International Calling Opens in Colombia," message reference No. 13211, prepared by U.S. Embassy, Bogotá, Nov. 30, 1998.

[28] Proexport official, USITC staff interview, Bogotá, June 9,1999.

[29] U.S. Department of State telegram, "Constitutional Reform Removes Expropriation without Compensation," message reference No. 6178, prepared by U.S. Embassy, Bogotá, June 1999.

[30] U.S. Department of State telegram, "Colombia—Results of Special 301," message reference No. 31949, prepared by U.S. Secretary of State, Washington, Feb. 1999.

offices, including 4 in Europe and 2 in Asia; most are in the United States.

Proexport's primary methods for promoting exports include (1) providing commercial information and developing market intelligence (market studies), (2) preparing missions for exporters, (3) bringing buyers from other countries into Colombia,[31] (4) studying other international markets, (5) supporting exporters to obtain quality management system registration/ISO9000, (6) working with small- and medium-sized enterprises about to begin exporting, (7) designing new tools to support trade abroad,[32] (8) teaching firms how to export and take advantage of preferential agreements, and (9) changing the culture of enterprises to become more export oriented. Proexport also offers a business library and two self-advisory programs to assist in penetration of international markets.

COINVERTIR is a nonprofit corporation designed to promote and facilitate foreign investment in Colombia.[33] More specifically, through a variety of activities, it advises current and prospective investors about how to invest in Colombia. For example, the organization publishes a basic "how to invest" guide, which provides critical information for firms considering FDI.[34] Also, COINVERTIR works with current and prospective investors facing difficulties or roadblocks. COINVERTIR is currently conducting a survey of 150 investors to get information on investor problems.[35] Finally, COINVERTIR finds matches between Colombian and foreign firms.[36]

[31] For example, Proexport attended 83 trade fairs in 1998. Found at Internet site *http://www.proexport.com/ProexportEnglish/index.htm*, retrieved on July 23, 1999.

[32] Proexport's Internet site provides the following example, showing how Proexport has created "export units," which are essential tools in the development of commercial promotional strategies, providing business leaders crucial aid in forming mid-term and long-term export programs. The purpose is to give the priority to the exporter that designs and executes an export program. In 1997, a total of 70 percent of Proexport's Export Units undertook activities, and for 1998 that percentage is expected to jump to 80 percent. Found at Internet site *http://www.proexport.com/Proexport English/index.htm*, retrieved on July 23, 1999.

[33] Funding is split between private monies, where new members pay for the first 5 years, and public monies from the Planning Department. Found at Internet site *http://www.coinvertir.org.co/ingles/pages/coinvertir/who.html*, retrieved on July 23, 1999.

[34] Representative from COINVERTIR, USITC staff interview, Bogotá, June 8, 1999.

[35] Ibid.

[36] For example, CEVECOR, a Canadian printing company, was matched with a local company. COINVERTIR facilitated their finding an appropriate alliance.

Investment Activity

Among ATPA beneficiary countries, Colombia had the largest FDI in 1997, $2.4 billion, although this number represents a 26 percent decline from 1996 (table 8-3). Colombia was the largest ATPA recipient of FDI in 1995 and 1997 and was second behind Peru in 1994 and 1996. Before 1993, Colombia was almost exclusively the recipient of the largest amount of FDI among ATPA beneficiary countries.

Foreign investment in Colombia has grown dramatically since the early 1990s, from $729 million (1992) to $2.4 billion (1997). The latest 1998 FDI data indicate that the distribution of investment in Colombia is heavily tilted toward electricity, gas, and water (57.3 percent), primarily reflecting the privatization of state enterprises.[37] Financial establishments (17.8 percent), manufacturing (13.8 percent), and commerce, restaurants, and hotels (5.7 percent) also grew significantly.[38]

The United States is the largest foreign investor in Colombia, accounting for 38 percent of accumulated FDI (not including portfolio and petroleum).[39] U.S. investments in Colombia, however, have dropped over the last 4 years by almost 50 percent. In 1998, only 2.1 percent of all FDI in Colombia originated in the United States.

Industries showing strong growth in ATPA-related investment in 1998 were nonmetallic minerals, chemicals, rubber and plastics, gold, and pigments used for dyes. In the gold industry alone, there was $500,000 of investment in 1998 by four domestic producers.[40] In the pigments industry, the largest producer invested more than $200,000 in technology and training in 1998.[41] Industry observers have noted that serious difficulties in the financial sector last year made it difficult to secure loans; as a result, there were few significant investments in 1998.[42]

The Colombian flower industry has been a key recipient of foreign investment since ATPA's inception, and consequently, it remains one of the more dominant products in Colombia's export

[37] Representative from COINVERTIR, USITC staff interview, Bogotá, June 9, 1999.

[38] COINVERTIR, *Foreign Investment in Colombia: Report 1998*, (May 1999), table 2, "Net FDI History by Sector," p. 2.

[39] U.S. Department of Commerce, *Colombia: Country Commercial Guide*, found at Internet address http://www.*stat-usa.gov/*, retrieved on June 29, 1999.

[40] Representatives from ANALDEX, USITC staff interview, Bogotá, June 8, 1999.

[41] Ibid.

[42] Ibid.

Table 8-3
Foreign direct investment inflows, by host regions and by economies, 1986-97

(*Million dollars*)

Host region/economy	1986-91 (annual average)	1992	1993	1994	1995	1996	1997[1]
World	159,331	175,841	217,559	242,999	331,189	337,550	400,486
Developing countries	29,090	51,108	72,528	95,582	105,511	129,813	148,944
Latin America and the Caribbean	9,460	17,611	17,247	28,687	31,929	43,755	56,138
ATPA	658	1165	2,222	5,412	5,196	7,824	5,524
Bolivia	40	122	124	130	374	474	500
Colombia	455	729	959	1,667	2,317	3,322	2,447
Ecuador	134	178	469	531	470	447	577
Peru	29	136	670	3,084	2,035	3,581	2,000

[1] Estimated by UNCTAD.

Source: UNCTAD, FDI/TNC database found in *World Investment Report 1998: Trends and Determinants*.

economy. Growth in flower industry employment has been about 3 percent a year, a marked contrast with Colombia's overall employment statistics.[43] Since ATPA took effect, the total value of Colombian flower exports to the United States has grown by about 4.8 percent each year.[44]

Representatives from the Colombian-American Chamber of Commerce identified several products that benefit from ATPA and are likely to increase in terms of exports, although none cited specific 1998 investment. Those products include fungicides and herbicides, PVC resin and packaging films, PVC for upholstery use, agricultural products (cashews, macadamia nuts), ceramic tiles, tubular products, galvanized lines for electrical purposes, fiberglass insulation, cookies and confectionery products, and chewing gum.

Other interviewees reported that the following crops also have export potential: heart of palm, African palm oil, yucca, and tropical fruits (pineapple, guava, passion fruit, and brown sugar cane). A business person in Colombia's private sector reported that gold mining has huge potential, but gold mines are spread out and located in areas of heavy guerrilla activity; hence, security is an issue.[45]

Other products with significant potential for export to the United States under ATPA include asparagus,[46] frozen orange juice, shrimp, and mushrooms. For mushrooms, the United Nations has promoted a production model in which every byproduct of Colombian mushrooms is usable. Over the past 2 years, a Japanese mission has visited and wants to create an International Center for Tropical Mushrooms with Zetas de Colombia, a local mushroom-producing firm.[47]

Effectiveness of ATPA

Colombia is the largest and most economically diversified of ATPA beneficiaries. Since 1990, the composition of Colombian exports to the United States has diversified only slightly. In 1997, mineral fuels still accounted for nearly 50 percent of

[43] Manatt, Phelps & Phillips, *The Colombia Flower Industry (ASOCOLFLORES)*, June 1999, p. 1.

[44] Ibid, p. 2.

[45] Representatives from ANALDEX, USITC staff interview, Bogotá, June 8, 1999.

[46] CCI reports that, currently, there are 100 hectares in cultivation for asparagus, with the next crop expected late June. Further, another asparagus firm produces on 120 hectares, with large potential for expansion. Asparagus is not expanding as much as PLANTE wishes. Projects are small (50-60 hectors), but want to expand to 1-2,000 hectares. Representative from CCI, USITC staff interview, Bogotá, June 9, 1999.

[47] Colombian Coffee Federation supports this project. It is currently studying which varieties of mushrooms to produce in Colombia. Although mushrooms are already produced domestically, there is much room for expansion. Representative from Patino and Associates, USITC staff interview, Bogotá, June 8, 1999.

Colombian exports to the United States. However, according to public- and private-sector interviewees, ATPA has provided incentives for the growth of nontraditional exports from Colombia to the United States, particularly in the agricultural sector. The program has also provided Colombian businesses with the opportunity to increase exports of nontraditional processed agricultural and manufactured goods, such as ceramic tiles and tubes for extracting oil, which had not previously been possible. Although such exports under ATPA account for a relatively small portion of Colombia's total exports, according to the Vice Minister of Trade in Colombia, every increase provides some economic benefit.[48]

ATPA has been important in promoting diversification of Colombia's economy since the early 1990s. For example, Proexport reports that all of Colombia's new investment strategies have been based on its preferential agreements with other countries, including ATPA.[49] Certain growth areas, such as asparagus, have been a direct result of ATPA.[50] Furthermore, ATPA has had positive effects on the local labor market. Industry observers note that there have been direct employment effects of the program; they believe that ATPA generates jobs, increases wages, and draws labor away from illicit activities.[51] For example, in the flower sector, wages are 15 to 20 percent greater than the minimum wage. Currently, there are 125,000 employees in the flower industry; of those, 75,000 are directly related jobs and 50,000 are in flower-related industries.[52] Asparagus has a similar record for employment.[53]

Despite ATPA's importance to Colombian exporters, public- and private-sector representatives believe that firms in Colombia are not taking full advantage of the program. During fieldwork, they cited several reasons for Colombia's underutilization of ATPA. First, several officials said the termination date for the program—December 4, 2001—does not provide enough time for an adequate incentive to invest. They strongly urged that ATPA be extended beyond its legislatively mandated termination date. Another concern is that ATPA is a unilateral program, rather than an agreement. Thus, ATPA benefits can be withdrawn at any time. This lack of guaranteed continuance of existing duty-free status for Andean country goods has caused uncertainty among potential investors.[54] Third, many Colombian businesses fail to produce with export markets in mind; their failure to take export issues into account limits growth for Colombian trade. For example, orange juice is produced domestically and could be exported, but the industry has not explored export opportunities.[55] The fourth factor, raised as early as the first USITC field trip to Colombia in connection with this series of reports,[56] is that ATPA does not cover two important products: apparel and footwear. A desire exists to expand the coverage of eligible ATPA products to those goods.[57] Finally, several business persons said that for Colombia to take better advantage of the program in the future, the Colombian Government needs to expand its export-promotion efforts.[58]

Despite the problems, substantial progress has been made since the last USITC field visit 2 years ago. At that time, Colombia had not been certified as cooperating with U.S. drug authorities, which seriously undermined investor confidence.[59] Also, there was still a lack of knowledge of the program in 1997, and no interviewees could cite an ATPA-related investment.

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[48] Representative from Ministry of Foreign Trade, USITC staff interview, Bogotá, June 8, 1999.

[49] Representatives of Proexport, USITC staff interview, Bogotá, June 8, 1999.

[50] Representative from USAID, USITC staff interview, Bogotá, June 8, 1999.

[51] Representatives from CCI, and the Colombian-American Chamber of Commerce, USITC staff interview, Bogotá, June 9, 1999.

[52] Representative from ASOCOFLORES, USITC staff interview, Bogotá, June 9, 1999. Jobs in flower-related industries include shipping services, production of cardboard boxes, rubber bands, and fertilizer, to name a few.

[53] Representative from Proexport, USITC staff interview, Bogotá, June 8, 1999.

[54] This factor was frequently mentioned by Colombian officials and business people during the conduct of USITC staff interviews in Bogotá, June 7-10, 1999. In fact, as the legislative termination of the ATPA program is approached in late 2001, the uncertainty of continued preferences and the shorter period of time remaining for investors to recoup their investment further inhibit the investment potential associated with the preference program.

[55] Representative from Patino and Associates, USITC staff interview, Bogota, June 8, 1999.

[56] See USITC, *Annual Report on the Impact of the Andean Trade Preference Act on U.S. Industries and Consumers and on Drug Crop Eradication and Substitution, First Report*, USITC Publication 2814, Sept. 1994.

[57] Neither of these issues is unique to Colombia. Similar concerns/desires have been expressed by each of the other ATPA beneficiary countries. It is interesting to note that reports have circulated of the European Union's giving consideration to an extension of its preferential program to Andean nations. The EU program is currently slated to expire in 2000. USITC staff interviews, Bogotá, June 8-9, 1999.

[58] Representatives from Colombian-American Chamber of Commerce, USITC staff interview, Bogotá, June 8, 1999.

[59] USITC, *Andean Trade Preference Act: Fourth Report*, p. 86.

The importance of ATPA to Colombian trade is recognized by both U.S. and Colombian authorities.[60] Because the series of economic reforms that have taken place in Colombia have coincided with the implementation of the ATPA preference program, it is difficult to isolate the effect of ATPA trade preferences on Colombian product diversification. The new presidential administration has begun to encourage more diversification and export development.[61] ATPA has also had beneficial effects on public welfare and on the environment; for example, ATPA-related jobs have improved the socioeconomic situation of individuals who perhaps would not have had other employment opportunities.[62] Those economic welfare benefits could have long-term positive effects.[63] Industry representatives emphasized that ATPA is critical while Colombia is in recession; one firm executive characterized ATPA exports as "fundamental" to Colombia's survival.[64] Nevertheless, since the initiation of ATPA, aggregate statistics do not show a significant diversification of exports.

Case Study—Ecuador

Economic and Trade Performance

The Ecuadoran economy grew an estimated 0.8 percent during 1998, its lowest level during the 1990s.[65] Falling oil prices, damage from El Nino, political uncertainties associated with a Presidential election, and external financing problems resulting from the international economic crisis during the last half of 1998 were largely responsible for the poor performance.[66] The fiscal deficit doubled in 1998 to 5.4 percent of GDP, and inflation rose from 31 percent in 1997 to 43 percent in 1998, the highest level in Latin America.[67] Total exports declined significantly in 1998, largely because of falling oil prices, the Asian economic crisis, El Nino, and political and economic problems.[68] Conditions worsened in early 1999 with the near collapse of the banking system, which resulted in the declaration of a state of emergency.[69] In March 1999, banks were closed for 9 days and deposits were frozen for up to 1 year.[70] The IMF has predicted a 5 to 7 percent decline in growth in 1999.[71]

Throughout the 1990s, Ecuador's chronic budget deficits and slow progress in implementing market-oriented structural reforms have limited growth prospects.[72] It remains among the last of Latin American nations in privatization. The government plays a large role in the economy and participates in about 165 companies engaged in transport, storage, energy, communications, agriculture, industry, mining, tourism, finance, and services.[73] However, in April 1998, the constitution was redrafted to expand private-sector participation in "strategic sectors" formerly reserved exclusively for the state.[74] More recently, the new government, which took office in August 1998, has announced plans to privatize basic telecommunications and electricity in 1999 and to increase private-sector involvement in the petroleum sector.[75] Also, the President is supporting a law that would grant him the

[60] Representatives from ANALDEX, CCI, and ASOCOFLORES, USITC staff interviews, Bogota, June 8-10, 1999.

[61] For a basis of comparison, refer to the USITC's fifth report on ATPA, which points out that sources in Colombia were unaware of any investment in ATPA-related industries in 1997. USITC, *Andean Trade Preference Act: Fifth Report*, 1997, p. 134.

[62] Representatives from ASOCOFLORES, USITC Staff interview, Bogota, June 9, 1999.

[63] Ibid.

[64] Representatives from ALFANGREZ, and the Colombian-American Chamber of Commerce, USITC staff interview, Bogotá, June 9, 1999.

[65] Economist Intelligence Unit, *Latin America Business Intelligence*, "Country Reports," Feb. 16, 1999.

[66] United Nations, Economic Commission for Latin America and the Caribbean, *Preliminary Overview of the Economies of Latin America and the Caribbean, 1998*, Dec. 1998, p. 39.

[67] Economist Intelligence Unit, *Latin America Business Intelligence*, "Country Reports," Feb. 16, 1999.

[68] U.S. Department of State telegram, "Ecuador Devalues; Not Isolated From Global Turmoil in Financial Markets," message reference No. 3941, prepared by U.S. Embassy, Quito, Sept. 14, 1998; and representatives from the Camara de Commercio de Guayaquil, USITC staff interview, Guayaquil, June 17, 1999.

[69] "Ecuador, Economy and Politics," *Latin American Weekly Report*, Mar. 23, 1999.

[70] Economist Intelligence Unit, *Latin America Business Intelligence*, "Business Latin America," Mar. 22, 1999.

[71] U.S. Embassy representatives, USITC staff interview, Quito, June 15, 1999.

[72] U.S. Department of Commerce, *Ecuador: Country Commercial Guide*, found at Internet address *http://www.stat-usa.gov*, retrieved May 5, 1999.

[73] Economist Intelligence Unit, *Latin America Business Intelligence*, "Investing, Licensing, and Trading Conditions Abroad," Dec. 30, 1999.

[74] Ibid.

[75] Ibid.

power to privatize by decree, replacing the currently slow, burdensome privatization process.[76]

Ecuador substantially liberalized its trade regime in the early 1990s by reducing tariffs, simplifying its tariff structure, eliminating most nontariff surcharges, and enacting a maquila (temporary admission) law. In January 1996, it joined the WTO and bound its tariff rates at 30 percent or less. Ecuador's average applied tariff rate is currently about 13 percent ad valorem. Ecuador has not yet fully implemented its WTO accession obligations to eliminate remaining nontariff barriers, and many still exist, including problems with import-licensing procedures for agricultural products.[77]

In addition to joining the WTO, Ecuador has been opening its trade regime regionally. Long a member of the Andean Community, which is a customs union that imposes a common external tariff, Ecuador also has a trade agreement with Chile, and is negotiating a free-trade arrangement with Mercosur through its membership in the Latin American Integration Association (LAIA).[78] Ecuador also actively participates in the working groups negotiating an FTAA.[79]

Trends in Trade

During the period 1990-97, Ecuador's total trade increased by 108 percent. Ecuador's exports and imports both grew gradually, by 90 percent and over 130 percent, respectively (table 8-4).

The United States is Ecuador's largest trading partner. However, the importance of the United States as a destination for Ecuador's exports and as a source of Ecuador's imports has declined since 1990 (figures 8-4 and 8-5). The United States accounted for over half of Ecuador's exports in 1990, but only 39 percent in 1997. The share of Ecuador's exports to LAC increased over the same period (omitting 1990) and remained fairly stable to the EU and the rest-of-the-world (ROW). The United States supplied 37 percent of Ecuador's imports in 1990, which declined to 32 percent in 1997. Likewise, the EU and ROW declined in importance as suppliers. On the other hand, the share of Ecuador's imports supplied by LAC increased from 21 percent to 34 percent, making up for the declines in shares by the other major suppliers. Trade liberalization among members of the Andean Community during the 1990s has probably been responsible for the shifts in the importance of the United States and LAC as Ecuador's trading partners.

Although the United States has declined in importance as a trading partner of Ecuador, in general bilateral trade has increased gradually from 1990 to 1998 (table 8-5).[80] The 17 percent decline in U.S. imports from Ecuador in 1998 mirrors the decline in total Ecuadoran exports reported by Ecuador's Central Bank. Those declines in 1998 resulted from the decrease in the price of oil exports, the effects of El Nino, and the poor performance of the economy.[81]

The composition of Ecuadoran exports to the world diversified slightly between 1990 and 1997. Historically, petroleum has been Ecuador's largest export, followed by traditional agricultural products, including bananas, shrimp, canned and fresh fish, coffee, and cocoa. In 1990, the main categories of Ecuadoran exports were petroleum, accounting for more than 50 percent of total exports; agricultural products (excluding fish and seafood), accounting for 28 percent; and fish and seafood, accounting for 16 percent (figure 8-6). Together, those categories constituted 96 percent of Ecuador's exports in 1990. By 1997, they accounted for 87 percent of total exports; petroleum-related products had declined to 30 percent of the total whereas both food categories had increased slightly. The share of exports accounted for by crude materials also increased during that time (exports of cut flowers and foliage rose by nearly 700 percent), as did various manufactured goods, including wood and paper products, textiles, and rubber tires. The share of exports accounted for by the "all other" category increased from 2 percent in 1990 to over 6 percent in 1997, primarily reflecting rising exports of chemicals and pharmaceuticals, vehicles, apparel, and nonmonetary gold.

[76] Representatives of CORPEI, USITC staff interview, Guayaquil, June 17, 1999.

[77] For more information on Ecuador's trade regime, see USTR, *1999 National Trade Estimate Report on Foreign Trade Barriers*, pp. 87-92.

[78] Economist Intelligence Unit, *Latin American Business Intelligence*, "Investing, Licensing and Trading Conditions Abroad," Dec. 30, 1998.

[79] U.S. Department of Commerce, *Ecuador: Country Commercial Guide*, found at Internet address *http://www.stat-usa.gov*, retrieved May 5, 1999.

[80] Both tables 8-4 and 8-5 show trade between Ecuador and the United States, but the data do not match exactly because the sources of the data are different. Statistical differences result for a variety of reasons, such as timing differences, valuation differences, and the handling of transshipments.

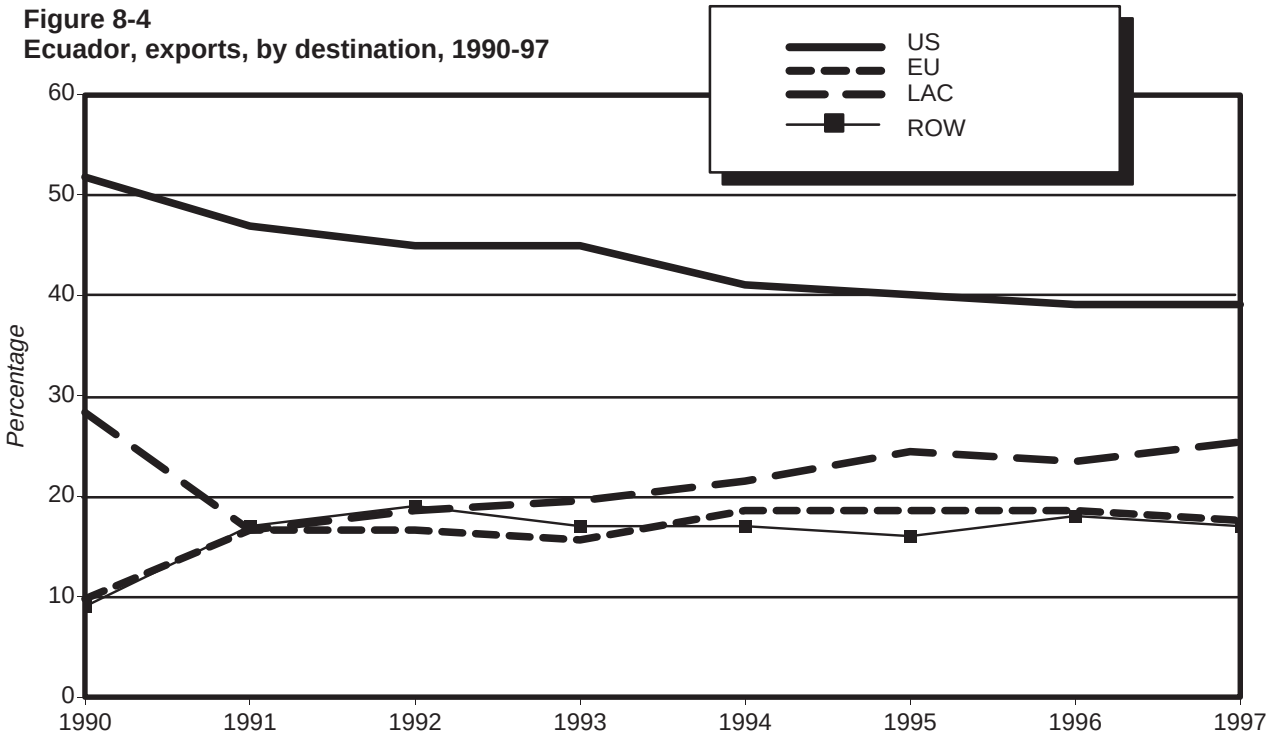
[81] Representative of Camara de Commercio de Guayaquil, USITC staff interview, Guayaquil, June 17, 1999.

Table 8-4
Ecuador: Total exports, total imports, direction of trade, and trade balance, 1990-97

	Exports					Imports					Trade balance
Year	Total	US	EU	LAC	ROW	Total	US	EU	LAC	ROW	Total
	1,000 dollars		*Percent of total*			*1,000 dollars*		*Percent of total*			*1,000 dollars*
1990	2,890,085	52	10	29	9	2,049,678	37	22	21	20	840,407
1991	3,002,865	48	17	17	17	2,771,120	35	25	20	20	231,745
1992	3,273,998	46	17	19	19	3,019,596	33	24	21	21	254,402
1993	3,143,990	46	16	20	17	3,044,484	32	25	21	22	99,506
1994	4,092,927	42	19	22	17	4,105,754	30	18	28	24	-12,827
1995	4,788,756	40	19	25	16	4,575,706	33	18	30	19	213,050
1996	5,261,605	39	19	24	18	3,988,815	33	17	34	16	1,272,790
1997	5,509,868	39	18	26	17	4,765,247	32	17	34	16	744,621

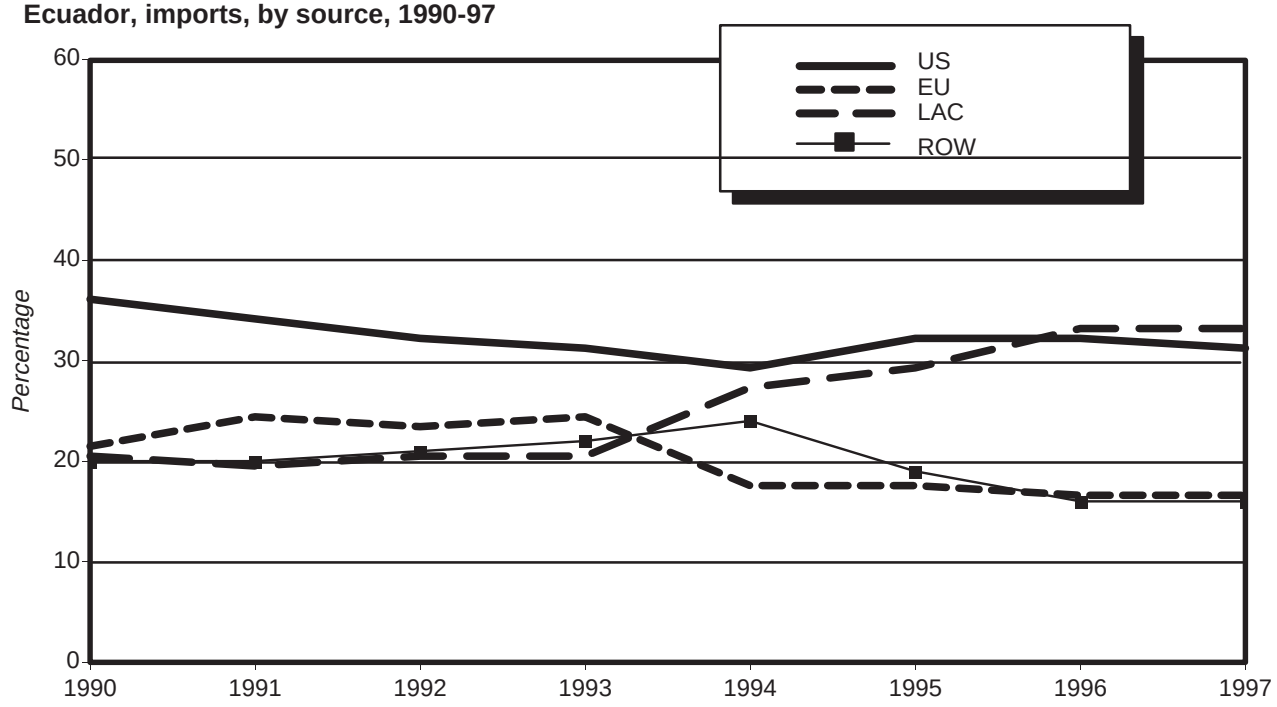
Source: Compiled from official statistics of Statistics Canada, *World Trade Analyzer*, CD-ROM, 1999.

Figure 8-4
Ecuador, exports, by destination, 1990-97



Source: Based on data in table 8-4.

Figure 8-5
Ecuador, imports, by source, 1990-97



Source: Based on data in table 8-4.

Table 8-5
Ecuador: U.S. imports, U.S. exports, and trade balance, 1990, 1992, 1994, 1996, 1997, and 1998

(Million dollars)

Year	Imports	Exports	Trade balance
1990	1,358	659	-699
1992	1,323	947	-375
1994	1,710	1,127	-582
1996	1,975	1,228	-747
1997	2,139	1,486	-653
1998	1,774	1,629	-145

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

The composition of Ecuador's exports to the United States diversified only marginally between 1990 and 1997. Exports of the top three categories—petroleum, agricultural products (excluding fish and seafood), and fish and seafood—represented 97 percent of Ecuador's exports to the United States in 1990, and still accounted for 92 percent in 1997. Declining shares in exports of petroleum and agricultural products were partly matched by an increase in the share of fish and seafood exports. Crude materials rose from 2 percent of total exports to the United States in 1990 to 5 percent in 1997, reflecting a nearly 600 percent increase in exports of cut flowers and foliage.

Investment Climate and Export Promotion

Ecuador offers a relatively open foreign-investment regime. Full repatriation of profits and capital is permitted. Certain limitations apply to foreign investment in the following areas: petroleum, mining, fishing, electricity, telecommunications, media, and strategic sectors related to national security. However, changes to the constitution made in April 1998 expanded the scope for private participation in those sectors and also guaranteed equal treatment for foreign and national investors. A Bilateral Investment Treaty with the United States has guaranteed national treatment for U.S. companies since its implementation in May 1997.[82]

Political and economic conditions in the country over the past few years have damaged investor confidence. The quick succession of three presidents between 1997 and 1998 created an uncertain investment climate. In 1998, economic conditions worsened and resulted in a major banking crisis in 1999. Within 6 weeks in early 1999, the currency was devalued by 40 percent and interest rates climbed to over 90 percent.[83] The economic crisis choked off investment and growth, as sources of financing for companies dried up. In addition, to narrow the fiscal deficit, the Government implemented a new tax law on January 1, 1999; the new law replaced the income tax with a 1 percent tax on most banking transactions. (The income tax has since been reinstated.) U.S. companies operating in Ecuador strongly oppose the measure because the U.S. Internal Revenue Service grants foreign tax credits only on income taxes.[84]

Official corruption and a nontransparent, cumbersome legal environment, which affect the settlement of disputes, also concern foreign investors.[85] Furthermore, investors face weak enforcement of intellectual property rights (IPR), although Ecuador has made large advances in IPR protection over the past 2 years. In April 1999, USTR removed Ecuador from the priority watch list and placed it on the watch list of countries to be monitored for IPR protection as part of this year's annual Special 301 review of country IPR practices.[86] In September 1997, the Ecuadorian Congress repealed the Law for the Protection of Representatives, Agents, and Dealers of Foreign Enterprises (Dealers' Act),

[82] U.S. Department of Commerce, *Ecuador: Country Commercial Guide*, found at Internet address *http://www.stat-usa.gov*, retrieved May 5, 1999; and Economist Intelligence Unit, *Latin American Business Intelligence*, "Investing, Licensing and Trading Conditions Abroad," Dec. 30, 1998.

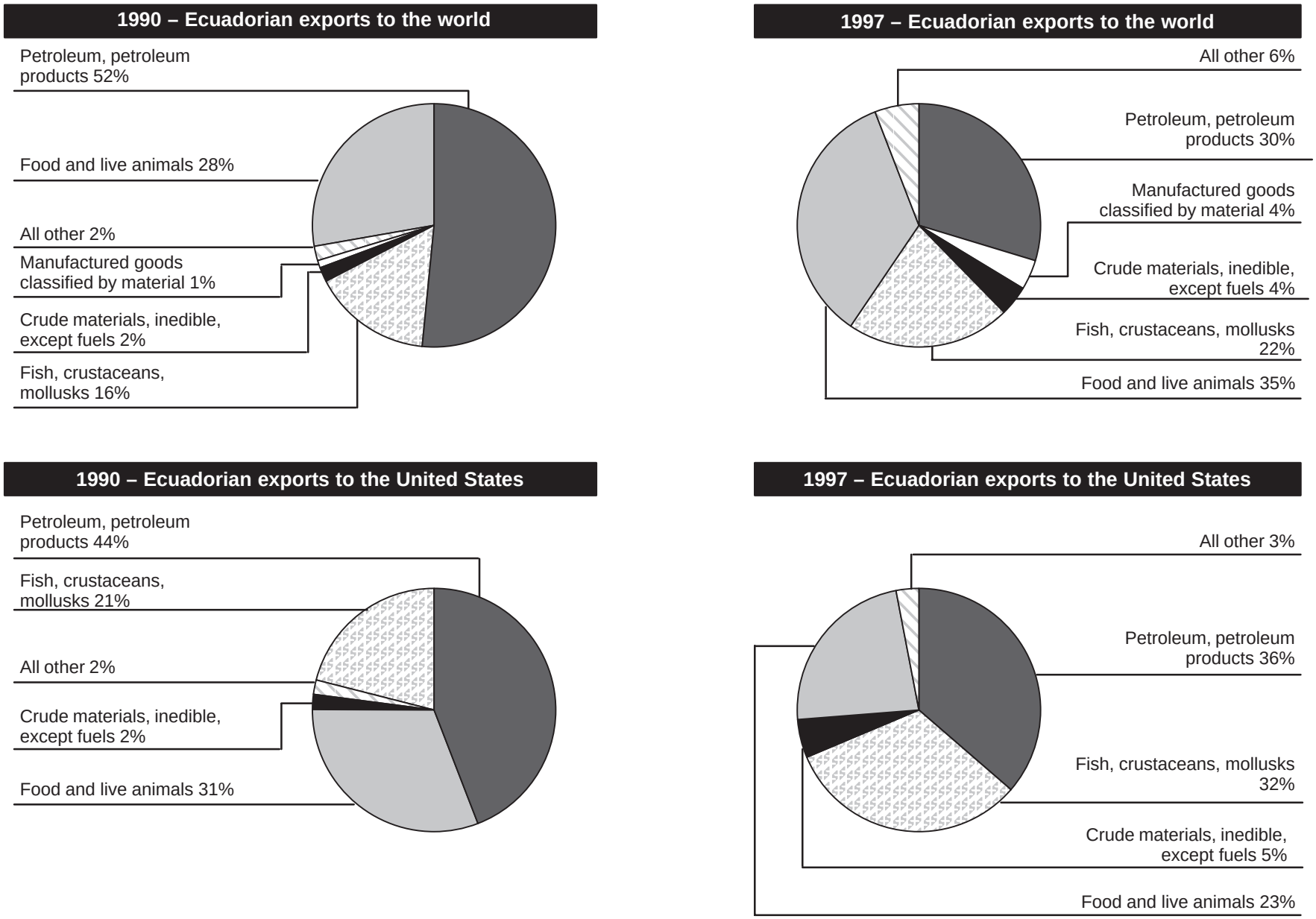
[83] Economist Intelligence Unit, *Latin American Business Intelligence*, "Business Latin America," Mar. 15, 1999.

[84] U.S. Department of State telegram, "Ecuador: U.S. Firms Cry "Foul" Over New Tax Law," message reference No. 5000, prepared by U.S. Embassy, Quito, Dec. 3, 1998.

[85] U.S. Department of Commerce, *Ecuador: Country Commercial Guide*, found at Internet address *http://www.stat-usa.gov*, retrieved May 5, 1999.

[86] USTR, "USTR Announces Results of Special 301 Annual Review," press release, Apr. 30, 1999.

Figure 8-6
Ecuador: Composition of exports, 1990 and 1997



Note.—Percentages may not add to 100 because of rounding.

Source: Compiled from official statistics of Statistics Canada, *World Trade Analyzer,* 1980-97, CD-ROM, 1999.

which imposed discriminatory restrictions on foreign companies in their dealings with their Ecuadorian agents. The law, however, continues to be applied.[87]

Although the illegal smuggling of narcotics in legitimate export shipments remains a concern of businesses, it is currently being addressed by a new program sponsored by U.S. Customs. (Colombia is participating in the same program.[88]) The Business Anti-Smuggling Coalition, whose current members come primarily from the flower and fish industries, is taking steps to implement the new program, which was introduced in Ecuador during the spring 1999.[89]

Ecuador enacted laws providing for free-trade zones and maquilas in the early 1990s, but they are not widely used. In general, infrastructure is considered adequate, although expansion of certain transportation facilities may be required shortly. Also, the flower industry supports an Open Skies agreement with the United States, because current flight restrictions have resulted in freight charges twice as high as Colombia faces.[90]

In May 1998, the Corporation for the Promotion of Exports and Investments (CORPEI), a private, nonprofit institution, began operations. The purpose of CORPEI is to diversify production and encourage economic growth in Ecuador through the promotion of exports and investment. Before CORPEI existed, there was no formal, central institution for trade and investment promotion in Ecuador. Since its founding, the organization has concentrated on its first mission–to promote exports. CORPEI promotes exports by setting up trade missions to other countries, by participating in trade fairs, and by conducting and disseminating market research to identify new export opportunities. CORPEI often works with individual companies or sectors to locate markets and provide guidance on marketing strategies. Currently, CORPEI is in the process of establishing five offices worldwide: in Brussels, China, the United States, Colombia, and Peru. The institution has also signed an agreement with the Ministry of Foreign Affairs that calls for about 15 of Ecuador's embassies around the world to provide staff for CORPEI's use.[91]

CORPEI is beginning to address its second major mission: investment promotion. Its goal is to attract investment that will generate exports in agroindustry and value-added products. CORPEI first plans to study Ecuador's legal structure governing investment to determine if any laws need to be modified to build a more attractive investment climate. Eventually, it intends to provide assistance to investors facing any kind of bureaucratic roadblock.[92]

Investment Activity

In Ecuador, FDI increased during the early 1990s, stabilized in the mid-1990s, and increased by nearly 30 percent from 1996 to 1997 (table 8-3). Recent statistics from the Central Bank of Ecuador indicate FDI fell from $566 million in 1997 to an estimated $531 million in 1998. Most of the investment has been directed to the oil sector. Nonoil investment worth nearly $50 million in 1998 focused on financial services, food processing, the chemical and pharmaceutical industries, and machinery and vehicle manufacturing. The United States is the largest foreign investor in Ecuador.[93]

Most investments in the production of ATPA-eligible products have related to flowers and the agricultural sector. The cut-flower industry has shown the most dramatic increase. Ecuador is currently the world's largest exporter of roses and the third-largest exporter of flowers, after the Netherlands and Colombia.[94] From 1997 to 1998, flower production increased by 450 hectares, from 2,250 hectares in 1997 to 2,700 in 1998, reflecting an investment of approximately $10-12 million in 1998. Total exports of fresh-cut flowers grew by 8 percent in value and 15 percent in volume from 1997 to 1998, 70 percent of which was destined for the U.S. market. El Nino affected about 15 percent of flower production in 1998, and the local financial crisis stifled investment because of the lack of short-term and long-term financing.[95]

[87] U.S. Department of State telegram, "Special 301 Notification: Ecuador," message reference No. 80039, prepared by the U.S. Department of State, Washington, May 1, 1999.

[88] For an explanation of the program, see the previous case study on Colombia.

[89] Representatives from the U.S. Embassy and Expoflores, USITC staff interviews, Quito, June 15-16, 1999.

[90] Representatives of Expoflores, USITC staff interview, Quito, June 16, 1999.

[91] Representative of CORPEI, USITC staff interview, Guayaquil, June 17, 1999.

[92] Ibid.

[93] U.S. Department of State telegram, "Ecuador: 1999 Investment Climate Statement," message reference No. 1985, prepared by U.S. Embassy, Quito, May 17, 1999.

[94] U.S. Department of State telegram, "Ecuador: USITC Annual Andean Investment Survey," message reference No. 1916, prepared by U.S. Embassy, Quito, May 12, 1999.

[95] Expoflores, "La Flor de Ecuador," Key Figures, Mar. 1999; and Representatives of Expoflores, USITC staff interview, Quito, June 16, 1999.

Agricultural exports have also been expanding and diversifying. For example, although small, exports of fruit juices, mangoes, pineapples, asparagus, peppers, broccoli, and quinua have steadily increased to the United States over the past 4 years.[96] Those products have potential for important growth as do tobacco, tropical fruits such as melons and papayas, and vegetables, including beans, lettuce, organic vegetables, small potatoes, and hearts of palm. Substantial increases in mango exports are anticipated in 3 to 4 years, after trees mature. Exports of hearts of palm are also expected to increase; currently 4,000 hectares are under cultivation, and 8,000 hectares are coming into production. Like flower production, production of most agricultural products suffered from El Nino and faces constraints on expansion because of the lack of financing.[97]

Exports of wood products to the United States are also expanding. Plywood, particle board, and moldings are increasing and are expected to increase more rapidly once the effects of the Asian Financial Crisis on Ecuador's competitiveness fade. Exports of several new products to the United States are likely. For example, recently a company opened to produce MDF, medium density fiberboard. Also, in an effort to expand to more value-added products, the Wood Products Association is working with CORPEI to expand furniture exports to the United States. The goal is to increase exports of furniture from about $500,000 each year to $3 million in the next 2 to 3 years.[98]

The fish and shrimp industry is the third largest in Ecuador and represents about 23 percent of total exports. Over the years, consistent and stable investments have been made to maintain operations and keep up with technology. Some diversification into new products is currently taking place. For example, Ecuador now exports precooked shrimp and shrimp stuffed with crabmeat.[99]

Other areas for possible expansion include hemp fibers, tagua, and bamboo-guadua. Tagua, also referred to as vegetable ivory, is the dried, hard inner layer of the coconut of the ivory palm, a species native to the tropical forests of Ecuador. Tagua is exported in the form of button blanks, and is used to produce buttons as well as other trinkets. Bamboo-guadua is a bamboo product that can be used in housing construction (e.g., to substitute for steel frames), scaffolding, jewelry, musical instruments, combs, and eating utensils.[100]

Although investment has not yet begun, the end of the border war with Peru in October 1998 resulted in an agreement to attract private investment to the region as a means to cement lasting peace. The U.S. Embassy in Lima has identified agricultural products, including fruits, vegetables, and cotton, and fish products, such as shrimp farming and frozen fish processing, as the most promising sectors for investment.[101]

Effectiveness of ATPA

Since 1990, the composition of Ecuador's exports has changed only marginally. Oil, bananas, shrimp, coffee, and cocoa continue to account for the vast majority of Ecuador's exports. Nonetheless, ATPA has encouraged diversification into the production of primarily flowers and nontraditional agricultural products. Representatives of the flower industry credited ATPA with helping the industry develop a strong position in the U.S. market. Members of the wood-products industry indicated that tariff preferences under both ATPA and GSP are crucial to their success, since competitiveness can be based on a difference of only cents. Although those products do not yet constitute a significant portion of total exports, their production has substantially boosted the standard of living in poor, rural areas.

Almost all public- and private-sector officials who were interviewed agreed that Ecuador does not take full advantage of ATPA tariff preferences. They cited several reasons. First, they indicated that there is a general lack of knowledge about how to export, particularly in the agriculture sector, which is composed of many small producers. The extent of the problem was recently revealed when the Chamber of Commerce of Guayaquil received an overwhelming response to its new courses on (1) how to export, (2) how to attend international trade fairs, and (3) how to conduct electronic business. Although private

[96] Data supplied by the Camara de Agricultura, based on Central Bank figures.

[97] Representatives of the public and private sectors, USITC staff interviews, Quito and Guayaquil, June 15-17, 1999.

[98] Representatives of the Asociacion Industriales de la Madera, USITC staff interview, Quito, June 16, 1999.

[99] Representatives of Camara de Pesqueria and CORPEI, USITC staff interviews, Guayaquil, June 17, 1999.

[100] Representatives of Camara de Comercio de Quito and CORPEI, USITC staff interviews, Quito and Guayquil, June 16-17, 1999.

[101] U.S. Department of State telegram, "Peace Creates Investment Opportunities," message reference No. 262, prepared by U.S. Embassy, Lima, Jan. 14, 1999.

chambers of commerce have provided some assistance, one person indicated that the long absence of a centralized, government entity to provide guidance and support has contributed to the problem. Recently, public- and private-sector officials worked together to establish CORPEI to help fill this void, but it remains a very new institution, and more work needs to be done.[102]

A second, related constraint is lack of knowledge about how to access the U.S. market. Several sources again pointed out that a government institution should be responsible for conducting market research studies, providing support for finding U.S. partners, and providing guidance on how to market effectively in the United States. CORPEI intends to provide such assistance.[103]

Other constraints addressed were (1) the financial crisis, which has blocked access to loans and credits for investment; (2) the poor investment climate, which has failed to attract investment in export-oriented products; (3) the fact that ATPA is a unilateral program rather than a bilateral agreement, which creates uncertainty for investors; and (4) a lack of technical knowledge about compliance with U.S. standards and product specifications in the agriculture sector. However, several examples, including mangoes, were cited of products where progress in meeting U.S. technical requirements, although slow and costly, had been made.[104]

[102] Public- and private-sector representatives, USITC staff interviews, Quito and Guayaquil, June 15-17, 1999.
[103] Ibid.
[104] Ibid.

Although some officials thought there was still a lack of knowledge of the ATPA program, others believed it had been adequately promoted. Indeed, some officials thought that awareness of ATPA has grown alongside an awakening realization that diversification and exports are important for economic growth. In particular, during the economic crisis, depressed domestic demand has forced producers to look at alternative markets and products. Some interviewees added that it is crucial that ATPA be extended beyond its December 2001 expiration date, to permit further progress in export diversification in Ecuador.[105]

The trade data and findings from the fieldwork indicate that ATPA has had a minimal effect overall on the diversification of Ecuador's exports and on economic growth. However, although progress has been slow, ATPA has played a key role in stimulating diversification into flowers and nontraditional agricultural products. Political and economic conditions and an underdeveloped exporter culture have constrained broader progress. The creation of CORPEI, however, reflects an official recognition of the importance of promoting exports and attracting investment in export-oriented products and more value-added production. Indeed, despite CORPEI's short life, the wood-products industry credited it with providing valuable support in expanding exports of wood products to the United States. Although ATPA's role in stimulating export diversification has been important, other factors, such as political stability and a strong economy, must also be present to ensure long-term structural changes.

[105] Ibid.

CHAPTER 9
Impact of ATPA on Drug-Related Crop Eradication And Crop Substitution

Overview

According to the U.S. Department of State, cocaine remains "our most serious drug threat" and "dominates the U.S. drug scene" in comparison with other drugs.[1] All of the world's coca production takes place in the Andean region, and Colombia is the source of virtually all the cocaine shipped into the United States.[2]

The main goal of ATPA is to promote broad-based economic growth and development in the Andean countries. Specifically, the program aims to develop sustainable economic alternatives to coca cultivation and cocaine production by offering Andean products broader access to the U.S. market. To assess the effectiveness of the program in reaching its goal, ATPA requires that the Commission, "in conjunction with other agencies," provide "an assessment... regarding...the estimated effect [of ATPA]...on the drug-related crop eradication and crop substitution efforts of the beneficiary countries." This chapter is structured in two parts. The first part describes the scope of the analysis and a summary of findings pertaining to the ATPA reporting requirement on eradication and substitution. The second part addresses specific crop eradication and alternative development efforts in individual beneficiary countries during 1998.

The Commission relied on other organizations, both government and private, for information in preparing its assessment. A fact-finding field trip to Colombia and Ecuador provided information on the impact of ATPA from representatives of foreign governments and the private sector. The Commission also used unclassified embassy reports and published reports from, and interviews with, relevant U.S. Government agencies on drug-crop control and alternative development in the Andean region.

During 1998, ATPA continued to have a small indirect but positive effect on beneficiary countries' drug-control efforts. However, the Commission recognizes that ATPA is only one element in a multifaceted effort to combat the drug problem, and it notes that no precise estimate of the impact of ATPA on drug-related crop eradication and crop substitution or alternative development is possible.

Eradication and Substitution/Alternative Development

An underlying objective of ATPA is to support the efforts that beneficiary countries are making to stem the supply of illicit drugs. Previous reports in this series have addressed the difficulty of determining any direct connection between crop substitution and coca reduction.[3] Further linkage between supply-control efforts by beneficiary countries and ATPA is therefore particularly tenuous. It is not possible to infer a causal relationship from the evidence available.[4]

Thus, despite progress, both crop-eradication programs and alternative development efforts in the region appear so far to be only marginally effective in controlling the supply of illicit drugs leaving the region and entering the United States. Significant

[1] U.S. Department of State, *International Narcotics Control Strategy Report* (hereinafter, *INCSR*), Mar. 1999, pp. 11, 13.

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

[3] USITC, *First Report*, p. 63; *Second Report*, pp. 45-46; *Third Report*, p. 39, *Fourth Report*, pp. 98-99, *Fifth Report*, p. 164.

[4] Office of National Drug Control Policy (ONDCP), Executive Office of the President, *Crop Substitution in the Andes*, Rensselaer Lee and Patrick Clawson, Dec. 1993, p. 4. This paper maintained that "no significant decline of coca and cocaine production can probably be expected for 10 to 20 years," given then-present unfavorable trends and conditions in the region.

inroads into reducing the illicit drug supply have yet to be achieved by beneficiary countries.[5]

Bolivia, Colombia, and Peru, however, are all currently engaged in promoting crop control efforts through alternative development programs. Bolivia implemented a 5-year narcotics control plan in early 1998 that continues to rely on alternative development.[6] Colombia launched a new national drug control strategy that focuses heavily on alternative development;[7] and Peru encouraged the expansion of its effective U.S.-Peru alternative development project in 1998.[8]

In 1998, the United Nations International Drug Control Program (UNDCP) announced plans to assist Bolivia, Colombia, and Peru in the elimination of coca cultivation. The plan includes 15 projects, with an estimated value of $1.8 billion, in the three countries and focuses on "placing crop elimination and alternative development programs in the context of global strategies," rather than on duplicating the efforts of national programs.[9] The countries are expected to provide 51 percent of the financing for the projects. In addition, UNDCP has estimated that $1.6 billion would be required for national and bilateral law enforcement efforts (interdiction, crop eradication, precursor control) and $100 million for demand reduction, which are not specific components of the UNDCP programs.[10]

Eradication

In 1995, the National Security Council recommended that international drug control priorities shift from drug interdiction to drug eradication. Since that time, the United States has increased its efforts at eradication, primarily targeting coca cultivation in the South American Andes. In 1998, the U.S. budget for international drug control, including crop eradication, was $500 million. The Andean countries are also helping to finance and implement eradication programs.[11]

In accordance with the Foreign Assistance Act (FAA),[12] the U.S. Department of State's Bureau for International Narcotics and Law Enforcement Affairs publishes an annual report that provides the factual basis for the Presidential determinations on antinarcotics cooperation. The FAA requires the State Department to report annually on certain aspects of U.S. narcotics control strategy and, in its annual report, to identify major illicit drug-producing countries, major drug-transit countries, and major money- laundering countries. In its annual report, the *International Narcotics Control Strategy Report* (*INCSR*), the Department of State evaluates the extent to which countries worldwide are meeting the objectives of the 1988 United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (U.N. Convention). The *INCSR* also provides the factual basis for Presidential determinations affecting foreign assistance and multilateral banking assistance to drug-producing countries.[13] Consideration of whether a country has cooperated fully with the United States or has taken adequate steps on its own to achieve full compliance with the U.N. Convention underlies the required Presidential determination certifying compliance.[14]

The 1999 *INCSR* includes the four ATPA countries among those determined to be major drug-producing or drug-transit countries, or both. In 1999, on the basis of information contained in the *INCSR* report, the President fully certified Bolivia, Colombia, Ecuador, and Peru as complying with the U.N. Convention.[15]

Major gains were made in drug eradication in 1998, as evidenced by the continuing downward trend in illicit coca production. In 1998, 33,095 hectares of Andean coca were eradicated, representing a 12 percent increase over that year in the number of hectares eradicated (table 9-1). That progress was the

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[5] ONDCP, Executive Office of the President, *The National Drug Control Strategy: 1999*, Feb. 1999, found at Internet address *http://www.whitehousedrugpolicy.gov/policy/99ndcs/contents.html*, retrieved on July 6, 1999.

[6] *INCSR*, p. 79.

[7] Ibid, p. 96.

[8] Ibid, p. 117.

[9] U.S. Department of State telegram, "Drugs: UNDCP Major Donors Group Meeting," message reference No. 7029, prepared by U.S. Mission, Vienna, Nov. 5, 1998.

[10] Ibid.

[11] The Lindesmith Center, "Foreign Policy in Focus: Coca Eradication," found at Internet address *http:// www.lindesmith.org/library/coffin2.html*, retrieved May 5, 1999.

[12] 22 U.S.C. 2291.

[13] Section 490 of the FAA requires a "factual basis for the Presidential narcotics certification determinations for major drug-producing and/or drug-transit countries;" the *INCSR* provides this basis. *INCSR*, p. xli.

[14] Two levels of certification are possible: full certification and national interest certification. The latter is used where a country cannot be certified under the standards required for full compliance, and where "vital national interests of the United States require" that assistance be provided and the United States not vote against multilateral development lending to that country.

[15] The White House, Presidential Determination No. 99-15, Feb. 26, 1999, contained in *INCSR*, p. x.

Table 9-1
Coca cultivation and eradication in the Andean region, 1991-98
(Hectares)

Item	Bolivia	Colombia	Ecuador[1]	Peru	Total
1991:					
Cultivated	53,386	38,472	120	120,800	212,778
Eradicated	5,486	972	80	0	6,538
Net	47,900	37,500	40	120,800	206,240
1992:					
Cultivated	50,649	38,059	([1])	129,100	217,808
Eradicated	5,149	959	([1])	0	6,108
Net	45,500	37,100	0	129,100	211,700
1993:					
Cultivated	49,600	40,493	([1])	108,800	198,893
Eradicated	2,400	793	([1])	0	3,193
Net	47,200	39,700	0	108,800	195,700
1994:					
Cultivated	49,200	49,610	([1])	108,600	207,410
Eradicated	1,100	4,910	([1])	0	6,010
Net	48,100	44,700	0	108,600	201,400
1995:					
Cultivated	54,093	59,650	([1])	115,300	229,043
Eradicated	5,493	8,750	([1])	0	14,243
Net.	48,600	50,900	0	115,300	214,800
1996:					
Cultivated	55,612	72,800	([1])	95,659	224,071
Eradicated	7,512	5,600	([1])	1,259	14,371
Net	48,100	67,200	0	94,400	209,700
1997:					
Cultivated	52,800	98,500	([1])	72,262	223,562
Eradicated	7,026	19,000	([1])	3,462	29,488
Net	45,800	79,500	0	68,800	194,074
1998:					
Cultivated	49,620	115,450	0	58,825	223,895
Eradicated	11,620	[2]13,650	0	7,825	33,095
Net	38,000	101,800	0	51,000	190,800

[1] Although small amounts of poppy and coca fields have been found, Ecuador is primarily a transit country for cocaine.

[2] Source for 1998 Colombian eradication figure: GAO, *Narcotics Threat from Colombia Continues to Grow,* June 1999

Source: U.S. Department of State, *International Narcotics Control Strategy Report*, Mar. 1999, pp. 84, 106, 112, and 123.

result of the largest-ever eradication effort in the Andean region. Both Bolivia and Peru eradicated record amounts of coca in 1998.[16]

In 1998, total coca cultivation in the region was at its lowest level in 10 years, despite a surge in Colombian production.[17] Colombian net cultivation climbed by 28 percent, from 79,500 hectares in 1997 to 101,800 hectares in 1998, and doubled compared with 1995. This marked increase in 1998 was the result of various factors, including unusually adverse weather conditions, which canceled a number of drug eradication missions, and a mid-year plane crash that also delayed missions.[18] Overall, in 1998, net coca cultivation in the Andean countries fell by 2 percent, to 190,800 hectares. The largest decline occurred in Peru, where net coca cultivation fell by 26 percent in 1998. Peruvian net cultivation has declined by 56 percent from 1995 levels. In 1998, coca cultivation in Bolivia dropped by 17 percent, its largest 1-year decline, primarily because of forced eradication by the Bolivian Government.[19]

Substitution/Alternative Development

The two aspects of supply management that are explicitly cited in the statute are drug-related crop eradication and crop substitution. The latter has more realistically evolved into a policy of alternative development, where through an explicit linkage to limiting coca cultivation, farmers are encouraged to begin cultivation of other agricultural products to create alternative income and employment.[20] Coca production is currently taking place in areas that were mostly jungle and subject to poor weather conditions not necessarily conducive for growing alternative crops. That situation, together with infrastructure deficiencies such as the lack of proper roads to link the region with the rest of the country, has made alternative development very difficult.[21] In fact, there is no single commodity that can compete with coca in terms of profitability, ease of cultivation, frequency of harvesting, and market access.[22] As a strategy, the concept of alternative development has come to replace that of crop substitution, and remains highly touted:

> *For plant-derived drugs, we stand our best chance [of resolving the drug problem] if we eliminate the first stage, cultivation, altogether. When crops are destroyed or abandoned, no drugs can enter the system....therefore we have had to work closely with the governments of certain key countries to develop interdiction and alternative development programs tailored to the political realities of specific situations.*[23]

Alternative development programs, in conjunction with eradication efforts, currently constitute U.S. policy in assisting ATPA beneficiary countries to meet their targets of reducing illicit coca production.[24]

Country Profiles

Bolivia

In early 1998, the Government of Bolivia implemented a new 5-year counternarcotics plan, the first comprehensive counternarcotics plan the country has ever adopted. The year was also successful in terms of the level of eradication and the reduction in

[16] Total cultivation is the net annual cultivation estimate plus the amount of harvestable, active fields eradicated during the year and the amount of fields abandoned. Eradication may be defined as government-sponsored reduction of coca cultivation by uprooting, cutting off, or applying chemical herbicides to kill the plants.

[17] The *INCSR* report did not provide data on Colombian coca eradication for 1998. The GAO report, which supplied the 1998 eradication data for Colombia, does not provide an explanation of the high figure for Colombian drug eradication (19,000 hectares) in 1997 or for the 1998 figure (13,650 hectares). The GAO report mainly focuses on the increase in Colombian cultivation.

[18] Representative from Bureau of International Narcotics and Law Enforcement Affairs (INL), USITC staff interview, Washington, May, 18, 1999.

[19] *INCSR*, p. 16.

[20] Conversation with U.S. Department of State officials, Washington, May 18, 1997. Neither the annual ONDCP *National Drug Control Strategy* nor the *INCSR* mention the term "crop substitution."

[21] Former President of ASOCOFLORES, USITC staff interview, Bogotá, June. 8, 1999.

[22] The current success of the Peruvian "airbridge denial" program and the resulting drop in coca leaf prices are an indication of the susceptibility of coca to market forces. A discussion of the effects of falling coca leaf prices is included later in the chapter.

[23] *INCSR*, p. 7.

[24] "The success (of past eradication programs) has demonstrated...that a multi-faceted strategy combining interdiction, eradication, and *alternative development* (emphasis added) offers the encouraging possibility that world levels of coca will actually be brought down to the minimum necessary for legitimate...purposes." *INCSR*, p. 8.

the amount of coca cultivated. In addition, legislative and regulatory reform progressed, and law enforcement efforts improved with increased arrests and drug and chemical seizures in 1998.

The 5-year counternarcotics plan consists of four parts: eradication, interdiction, alternative development, and prevention. One goal of the program is to eradicate all illicit coca by the year 2002. Under the eradication program, 90,000 acres of coca fields will be destroyed at a cost of $108 million. Funds for improving roads and plans for granting credits and training farmers to grow alternative crops are also included in the program. In addition, for the past several years, coca farmers have been paid $2,500 for every 2.5 hectares that they eradicate. However, U.S. and Bolivian officials believe that the farmers continued to cultivate coca deeper in the jungle. Under the new program, farmers will not receive compensation for eradicating coca.[25]

Bolivia experienced its largest ever 1-year decline in net coca cultivation in 1998. Eradication by the Bolivian Government brought coca cultivation down by 17 percent, to a 10-year low of 38,000 hectares by the end of 1998. Since 1994, net cultivation has decreased by 21 percent, with 77 percent of the reduction occurring in 1998.[26] Because of the new counternarcotics plan, which phased out individual compensation for voluntary eradication, most of the eradication in 1998 was involuntary and uncompensated.[27]

The Bolivian Government has concentrated its eradication efforts in the Chapare region, where cultivation was reduced by 25 percent, to 23,500 hectares.[28] The region now supports three times more licit agricultural production than coca cultivation. Importantly, farmers' net income from licit crops increased by 52 percent in 1998.[29] Almost all the coca produced in the Chapare goes to illegal cocaine production. The remaining cultivation in Bolivia occurs in the Yungas (14,200 hectares) and in other areas, such as in the Apolo region (300 hectares). Cultivation in the Yungas region exceeds the legal limit of 12,000 hectares for legitimate consumption, and it is suspected by the U.S. Government that the majority of the coca produced there is made into cocaine products.[30] This excess cultivation in the Yungas region has not yet been addressed by the Bolivian Government.[31]

Legislative and regulatory measures included in a comprehensive judicial reform package have been put into place over the past 2 years to ensure prosecution of criminals and to safeguard the system from criminal infiltration. The New Code of Criminal Procedures is the only initiative that remains pending and is being debated in the Bolivian Senate. With respect to enforcement, a shift in enforcement responsibilities resulted in improved efforts in 1998. Previously, the Bolivian Ministry of Government was responsible for all aspects of the counternarcotics effort. According to the changes effected by the current government, the Secretariat for Social Defense[32] is now in charge of all interdiction forces in Bolivia, including the special military task forces, and the Minister of Agriculture is responsible for eradication and alternative development.[33]

Colombia

Despite government initiatives to address the narcotics problem, Colombia is now the largest cultivator of coca, with 80 percent of the world's supply of cocaine either produced in or traveling through the country.[34] Colombia now cultivates 53 percent of the coca in the Andean region,[35] moving from third place behind Bolivia and Peru in 1994 to first place ahead of Peru in 1997. The growth of Colombian coca cultivation reflects the long-term strategy of drug syndicates to integrate vertically and to lessen their dependence on less reliable sources from outside the country.[36] In addition, Colombian

[25] *INCSR*, p. 80; and *The New York Times* on the Web, "Bolivians Show New Resolve in War Against $Cocaleros,'" found at Internet address *http://www.ishius.com/boldrugs.html*, retrieved May 5, 1999.

[26] Bolivia actually increased net cultivation in 1995 from 48,100 hectares in 1994 to 48,600 in 1995 and returned to 1994 levels in 1996. Therefore, the 21 percent reduction occurred in 1997 and 1998. *INCSR*, p. 84.

[27] *INCSR*, p. 79

[28] Ibid.

[29] U.S. Department of State, *INL Country Programs—Bolivia*, found at Internet address *http://www.state.gov/www/global/narcotics_law/fs_bolivia.html*, retrieved on July 2, 1999.

[30] *INCSR*, p. 79.

[31] Ibid.

[32] The Secretariat for Social Defense, although still part of the Ministry of Government, was granted Vice-Ministerial status and therefore has more autonomy and responsibility.

[33] *INCSR*, p. 81.

[34] U.S. Department of State, *INL Country Programs – Colombia*, found at internet address *http://www.state.gov/www/global/narcotics_law/fs_colombia.html*, retrieved on July 2, 1999.

[35] U.S. General Accounting Office, *Drug Control: Narcotics Threat from Colombia Continues to Grow*, GAO/NSIAD-99-136, June 1999, p. 6.

[36] *INCSR*, p. 3.

cultivation of opium poppy has increased. Although Colombian heroin accounts for less than 2 percent of the global production potential, it has captured 70 percent of the heroin market in the eastern United States.[37] The United Nations estimates that drugs contribute approximately 5 percent of GDP to the local Colombian economy.[38]

Coca cultivation in Colombia has increased over the past 3 years and is predicted to continue to increase; if it does, a 50 percent jump in cocaine production could occur over the next 2 years.[39] Net coca cultivation has increased 128 percent in Colombia since 1994. Between 1997 and 1998, net cultivation increased by 28 percent, from 79,500 hectares to 101,800 hectares.[40] Most of the increase occurred in the known cultivation areas of Caqueta and Putumayo and in previously unknown areas of Norte de Santander and San Lucas.[41] Although the Colombian Government sprayed a larger area than ever before—over 65,000 hectares of coca and 3,000 hectares of opium poppy—cultivation increased in regions outside the targeted areas, resulting in an overall increase in coca production.[42]

Colombia is currently the largest recipient of U.S. counternarcotics assistance. Certain U.S. counternarcotics assistance was restricted in 1996 and 1997 because Colombia was not certified by the President as cooperating with U.S. counternarcotics efforts. In 1998, President Clinton did not certify Colombia, but granted a "vital national interests waiver" to allow Colombia to continue to receive counternarcotics aid in recognition of the importance of cooperation in meeting counternarcotics goals. Criteria such as the completion of an integrated national counternarcotics strategy and demonstration of respect for human rights were established to measure Colombia's progress in 1998.[43]

In 1998 the Colombian Government launched several important initiatives to confront the drug problem, and in February 1999, Colombia was certified as fully cooperating with the United States in antidrug efforts.[44] Such initiatives included the opening of peace talks with the insurgents; the development of a national drug control strategy; the establishment of a joint military-police task force to combat drug traffickers; the development of a new counternarcotics unit within the Colombian army that will be fully screened for human rights abuses; and the implementation of legislative reforms on extradition, money laundering, and asset forfeiture.[45] In October 1998, the Colombian Government outlined its national strategy—entitled "An Integrated Policy on Drugs for Peace"—to address the following issues: implementation of alternative crop development, eradication and interdiction efforts needed to reduce illegal drug production, legislation and institutional reforms to combat drug-trafficking organizations, demand-reduction programs to control Colombian consumption of illicit drugs, environmental actions, and efforts to strengthen international cooperation in dealing with illegal drug-trafficking activities.[46] Although the Government of Colombia faces several challenges in meeting its goals—mainly institutional weaknesses in the military, government corruption, budgetary constraints, and a weak judicial system—it has made a concerted effort to cooperate with antidrug efforts.[47]

Both insurgent and paramilitary groups have increased their involvement in illegal drug-trafficking activities, thereby limiting the Government of Colombia in its counternarcotics efforts. These groups, mainly FARC, formally known as "Fuerza Armadas Revolucionaria de Colombia" (Revolutionary Armed Forces of Colombia) and ELN, formally known as "Ejercito de Liberacion Nacional" (National Liberation Army), have an estimated 20,000 personnel and exercise some degree of control over

[37] ONDCP, Executive Office of the President, *The National Drug Control Strategy: 1999, Chapter 4: Reducing the Supply of Illegal Drugs*, found at Internet address *http://www.whitehousedrugpolicy.gov/policy/99ndcs/ivg.html*, retrieved on July 14, 1999.

[38] U.S. Embassy representative, USITC staff interview, Bogotá, June 8, 1999.

[39] U.S. General Accounting Office, *Drug Control: Narcotics Threat from Colombia Continues to Grow*, GAO/NSIAD-99-136, June 1999, p. 2.

[40] "Major Coca & Opium Production Nations: Cultivation and Production Estimates, 1994-98," Central Intelligence Agency, Feb. 1999, p. 5.

[41] Caqueta and Putumayo are located in southern Colombia. Norte de Sandtander and San Lucas are located in northern Colombia and are controlled by insurgents. U.S. General Accounting Office, *Drug Control: Narcotics Threat from Colombia Continues to Grow*, GAO/NSIAD-99-136, June 1999, p. 6.

[42] Factors that contributed to this recent increase in cultivation are discussed earlier in this chapter. *INCSR*, p. 96.

[43] Ibid, p. 97.

[44] The White House, Presidential Determination No. 99-15, Feb. 26, 1999, contained in *INCSR*, p. x.

[45] U.S. General Accounting Office, *Drug Control: Narcotics Threat from Colombia Continues to Grow*, GAO/NSIAD-99-136, June 1999, p. 2.

[46] Ibid, p. 15.

[47] Ibid.

approximately 40 percent of Colombian territory.[48] An alliance between FARC and ELN and the increased difficulty of distinguishing between insurgents and drug traffickers exacerbates the Colombian Government's problems with maintaining and implementing effective counterdrug operations. The Colombian military, in particular, has been ineffective in dealing with the situation because of several weaknesses, including the lack of a long-term strategy, ineffective leadership, poor morale, and inadequate equipment, training, and logistics.[49] Much of that situation is attributable to a lack of resources, evidenced by the fact that FARC pays three times the wage rate paid to Colombian army conscripts. Consequently, "the army has been defeated in virtually every large-scale encounter with FARC."[50]

PLANTE, formally known as "Plan Nacional de Desarrollo Alternative" (National Plan for Alternative Development), is the Colombian Government agency that leads alternative development efforts.[51] It is designated to reduce public participation in illicit drug production and move labor into sustainable alternative development. President Pastrana's Administration—which entered into office in August 1998—intends to strengthen alternative development as one of the main pillars of the new national plan against drugs.

PLANTE tries to identify the areas where illicit crops are grown, determine infrastructure needs, and identify the licit crops that would best substitute for the illicit crops. PLANTE is currently working with 26 regional municipalities on this project and plans to sign alternative development agreements with all of the communities. Such agreements require voluntary eradication and cooperation with PLANTE on alternative development. PLANTE will coordinate the eradication efforts and use satellite photography to assess progress made by the communities. If there is no voluntary eradication, the Colombian Government will forcibly eradicate, a change in policy that represents a major movement in ideology for Colombia.[52] In addition, PLANTE is participating in the peace process through a $3 billion project called PLANCOLOMBIA.[53]

In December 1998, PLANTE signed an agreement with Corporacion Colombia International (CCI), reflecting PLANTE's increased interest in engaging the private sector in alternative development projects. The goal of CCI, a private organization created in the early 1990s, is to establish and develop productive businesses, with a focus on agro-industrial projects. The CCI also provides technical support and is currently spearheading investment in asparagus in conflict areas. With CCI's assistance, exports of asparagus have climbed from just under $90,000 (1993) to $3.8 million (1998).[54] Other products proposed for alternative development projects include African palm oil, rubber, cool-weather berries, cacao, hearts of palm, broccoli, organic coffee, and ornamental fish from the Amazon.[55]

In September 1998, the U.S. and Colombian governments approved a 3-year $15 million program that will focus on alternative development in areas growing poppy crops, but it will also grant $500,000 to PLANTE for projects in the coca area. Both organic coffee and cool-climate fruits for juices have been proposed as likely products for alternative development in the poppy area.[56]

Ecuador

Although it is possible to grow coca in Ecuador, it has never been an indigenous crop. Ecuador cooperated with the United States and eradicated most of its limited coca crop in the mid-1980s. Because no major quantities of coca are believed to be produced in the country, crop control is not an issue.[57] The

[48] Ibid, p. 7.

[49] U.S. General Accounting Office, *Drug Control: Narcotics Threat from Colombia Continues to Grow*, GAO/NSIAD-99-136, June 1999, p. 15.

[50] DeYoung, Karen, "Colombia's U.S. Connection Not Winning Drug War," *The Washington Post*, July 6, 1999, p. A-1.

[51] PLANTE is one of the country's largest efforts to take a stand in the war on drugs. This program goes beyond simple crop substitution and aims at social and economic development, such as technological assistance, health, education, public service, transportation, infrastructure, production projects, employment, housing, marketing, credit, and institutional strengthening in affected areas.

[52] A new PLANTE administration that took over in the fall of 1998 led to new support for this initiative and a change in policy. Representatives from PLANTE, USITC staff interview, Bogotá, June 8, 1999.

[53] PLANCOLOMBIA is a term describing the Government's renewed dedication to peace and investment in Colombia's future; PLANTE represents one agency working under the PLANCOLOMBIA paradigm.

[54] CCI representative, USITC staff interview, Bogotá, June 9, 1999.

[55] PLANTE representative, USITC staff interview, Bogota, June 8, 1999.

[56] USAID representative, USITC staff interview, Bogota, June 8, 1999.

[57] Illicit operations in Ecuador have begun using seedbeds, which are small trays where many coca plants can be planted and cultivated until the plants are strong enough to be replanted in the soil. The seedbeds are started in Ecuador and then sent to Colombia to mature. This is a very recent development, however, and there are very few farmers working with seedbeds in this fashion.

Government of Ecuador continues to allow aerial reconnaissance missions to search for new cultivation and processing sites. Ecuador, however, continues to be a major transit country for cocaine, primarily from Colombia, destined for the United States and Europe.[58] Ecuador is also used to import essential chemicals for cocaine production and to launder money.[59] For this reason, the Government of Ecuador has made some significant policy efforts to crack down on illegal chemical usage through CONSEP (National Council for the Control of Drugs in Ecuador).

CONSEP is the Government agency responsible for developing and implementing policies on drug control in Ecuador. CONSEP recently developed a 4-year National Plan on drugs, which covers all aspects of narcotics trafficking. Programs include (1) chemical controls, (2) prevention of consumption, (3) rehabilitation, (4) control of drug traffic, (5) prevention of money laundering, and (6) collection of statistics to coordinate with international organizations.

Although a chemical control program has been in effect since 1990, in 1998 CONSEP began implementing the program more aggressively to reduce or eliminate misuse of the product. On November 18, 1998, a new bylaw (a regulation implementing a law) was enacted to regulate prohibited chemicals that could be used for illicit purposes.[60] The bylaw sets down the criteria that a company must meet to obtain a special license that authorizes possession of those chemicals. Companies must provide information such as the amount of the chemicals needed and the intended use of each restricted chemical. For the first time, amounts were assigned to allowable imports and exports of prohibited chemicals. According to CONSEP, the law has "closed the doors" of many companies conducting illicit activities.[61] Indeed, the National Police[62] attributed the 40 percent decline in cocaine-processing labs in 1998 to the more stringent chemical controls.[63] By the end of 1999, CONSEP hopes to know how much of those chemicals are required for legitimate purposes; that information could eliminate chemical overstocks that contribute to the drug trade.

It is difficult to control the chemical industry because many of the chemicals used most often in cocaine production also have extensive commercial and industrial applications.[64] Also, Ecuador and Colombia have promoted different lists of chemicals to be monitored, hindering cooperation between their respective chemical control policies.[65] For example, Ecuador has 18 chemicals on its list, whereas Colombia has 30. Also, Ecuadorian police lack the resources and information to fight drug production effectively.[66]

In general, those involved in illicit activities are more conscious of what the Government of Ecuador is doing since the strict chemical control regime went into effect. However, Ecuador's proximity to its neighbors Colombia and Peru could contribute to continued illicit activities. Processing labs are active because enforcement is inadequate and the Ecuadorian justice system is considered corrupt.[67] Furthermore, in 1998, drug use in Ecuador was made legal.[68] Although the increase in drug use in Ecuador has been moderate thus far, observers fear that legalization could lead to increased drug use and drug trafficking.[69]

Peru

Eradication of coca in Peru reached an all-time record of 7,825 hectares in 1998.[70] Peruvian coca

[57]–*Continued*
It should not be a problem in the next year or two, but it could develop into a problem. The seedbeds are used along Ecuador's border with Colombia (Sucumbios), a very dangerous area. The Ecuadoran military has a presence there, but because Colombian guerrillas cross the border, it is dangerous and difficult to get statistics regarding illicit acitivities. Representative from the Narcotics Affairs Section (NAS), U.S. Embassy, USITC staff interview, Quito, June 15, 1999.

[58] *INCSR*, p. 107.

[59] Representative from Ecuador National Police, USITC staff interview, Quito, June 16, 1999.

[60] The original law was passed on September 17, 1990.

[61] Representative from CONSEP, USITC staff interview, Quito, June 16, 1999.

[62] The Ecuadorian police are not directly connected with CONSEP. However, they coordinate actions and information with CONSEP to efficiently control illicit drugs. Representative from NAS, U.S. Embassy, USITC staff interview, Quito, June 15, 1999.

[63] Representative from the Ecuadorian National Police, USITC staff interview, Quito, June 16, 1999.

[64] Representatives from CONSEP, USITC interview, Quito, June 16, 1999.

[65] Representative from Ecuador National Police, USITC staff interview, Quito, June 16, 1999.

[66] For example, the police went unpaid for three months during Ecuador's financial crisis in the spring of 1999. Representative from NAS, U.S. Embassy, USITC staff interview, Quito, June 15, 1999.

[67] Representatives from CONSEP, USITC interview, Quito, June 16, 1999.

[68] Ibid.

[69] Representative from CONSEP and the National Police of Ecuador, USITC staff interviews, Quito, June 16, 1999.

[70] This figure is almost double the Peruvian Government target of 4000 hectares. *INCSR*, p. 117.

cultivation declined by 26 percent in 1998, yielding a total reduction of 56 percent since 1995 (table 9-1). Currently, an estimated 51,000 hectares of coca cultivation remain, down from an estimated 115,300 hectares in 1995.

CONTRADROGAS—Peru's executive counternarcotics policy office—drafted a national plan in 1997 calling for the reduction of coca production by 50 percent by the year 2001 and the elimination of all production within 10 years. The U.S. and Peruvian governments agreed that the best way to achieve those goals is by effectively enforcing counternarcotics law and sharing the cost of an alternative development program. Both tactics were successful in 1998.

The Government of Peru has a two-part counternarcotics strategy, which is considered to have been an outstanding success over the last few years.[71] The Peruvian program to intercept aircraft carrying cocaine base and money between Peru and Colombia in conjunction with Peruvian National Police efforts against drug traffickers have led to coca-leaf price drops. With the price of coca leaf below a coca farmer's cost of production, a growing number of farmers have been abandoning coca cultivation and engaging in alternative development projects.[72] However, in August 1998, coca-leaf prices began to increase, possibly reflecting new transportation methods; new markets for Peruvian drugs; natural market forces; and, possibly, increased cocaine hydrochloride production in Peru.[73]

The U.S.-Peru alternative development plan continued to expand in 1998. For example, the Peruvian and U.S. governments administered a program in which loans of up to $140 were granted to small farmers in the Apurimac Valley who were trying to improve or invest in their own commercial or agricultural businesses outside of coca. Between mid-1997 and mid-1998, 1,255 clients received credit. The program also intends to build up sustainable micro-financing and community banking services for the poor.[74]

Although the United States previously had pledged $25 million for alternative development in 1998, in August, 1998, the United States signed an agreement for only $14 million.[75] The Peruvian Government has also developed its own domestic alternative development projects. The Ministry of Economy and Finance has joined with the Ministry of the Presidency on legislation to open production and commercial opportunities in the jungles of Peru.[76]

Effectiveness of ATPA

The difficulty of isolating the direct effects of ATPA on coca-crop reduction has been pointed out in previous reports in this series.[77] The fact that coca-eradication and crop-substitution programs have been going on for years in the region and that many such programs predate ATPA makes it difficult to isolate effects solely attributable to ATPA.

Physical and economic infrastructure, such as paved roads, storage facilities, processing plants, and financing in Andean coca-producing areas are generally inadequate to meet the requirements of alternative legal crops and industries. The fact that coca production does not require pesticides, fertilizers, roads, or financing underscores the difficulty. Moreover, development of an infrastructure better able to support alternatives to drug production tends to be slowed by concerns that the potential benefits of development might profit the coca producers themselves. In other words, paved roads and other infrastructure improvements will facilitate transportation of coca in addition to other goods. Such development may also cause environmental damage.

In addition, wages in coca-producing areas in Colombia, for example, are 20 percent higher than average, making employment much more attractive in coca.[78] There are, however, some instances in which labor is being drawn from illicit to licit activities. For example, both coastal areas—which are large drug transit zones—draw employees into shrimp production, offering employees an alternative to working in conflict areas.[79] Similarly, the flower

[71] *INCSR*, p. 117.

[72] This issue was discussed in depth in USITC, *Andean Trade Preference Act: Impact on the United States, Fifth Report*, USITC Publication 3132, Sept. 1998, pp. 161-163.

[73] Ibid.

[74] U.S. Department of State telegram, "Harvesting More than Hope in Peru's Apurimac Valley," message reference No. 4783, prepared by U.S. Embassy, Lima, July 22, 1999.

[75] U.S. Department of State telegram, "IDB Drug Control Consultative Group Preparations: INL Acting A/S Beers Meeting with Government of Peru," message reference No. 5909, prepared by U.S. Embassy, Lima, Sept. 4, 1998.

[76] Ibid.

[77] For example, *Second Report, 1994*, p. 48.

[78] Wages are also higher in areas where there is a high amount of violence. Former President of ASOCOFLORES, USITC staff interview, Bogotá, June 9, 1999.

[79] Representative from PROEXPORT, USITC staff interview, Bogotá, June 7, 1999.

industry supports 125,000 jobs, which pay wages greater than the minimum wage.[80] According to the Colombian flower industry, although flowers cannot be grown in coca-producing regions, the sector "sustains major pockets of employment and protects against the flight of unemployed workers to illicit sectors of the economy."[81]

For alternative crops or industries to challenge coca production, a sufficient quantity and quality of product for market must be guaranteed to make use of economies of scale and to secure a place in both the domestic and import markets, especially for a large market such as the United States.[82] In the initial ATPA years, that guarantee was difficult to accomplish largely because of a lack of knowledge about viable alternative crops and the lack of adequate infrastructure. However, opportunities for selling locally have been increasing. Evidence of successful alternative development programs (e.g., USAID efforts in the Chapare in Bolivia and in the Apurimac in Peru) continues to highlight their potential against illicit coca cultivation. Furthermore, the political steps taken by the governments of Peru, Colombia, and Ecuador in 1998 show a continued and even revitalized commitment to deterring illegal coca cultivation.

The year under review marks the completion of more than three-quarters of the currently legislated life of ATPA. As mentioned previously, considerable interest has been expressed by Andean nations in prolonging or expanding ATPA; that interest is an indication of the perceived beneficial effects of ATPA. Although it is difficult to illustrate the positive impact of ATPA other than anecdotally, the success of eradication and alternative development efforts in the Andean region appears to be spreading. Furthermore, in 1998, Andean beneficiaries acknowledged plans and programs to encourage more alternative development in 1999 and beyond. Continued success in those efforts, coupled with political reform, could help to reduce the supply of illicit drugs to the United States.

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[80] See ch. 8 for more information regarding the effect of the flower sector on the Colombian economy.

[81] Manet, Phelps & Phillips, *The Colombia Flower Industry (ASOCOFLORES)*, p. 1, 1999.

[82] In fact, most of the alternative crops that are being introduced in the Andean region have yet to be of sufficient quantity to be exported to the United States.

APPENDIX A
Federal Register Notices

pursuant to Public Law 104–333. The 28 members represent business, educational, cultural, and environmental entities; municipalities surrounding Boston Harbor, and Native American interests. The purpose of the Council is to adviser and make recommendations to the Boston Harbor Islands Partnership with respect to the development and implementation of a management plan and the operation of the Boston Harbor National Recreation Area.

The Agenda for this meeting is as follows:

1. Approval of minutes from December 3, 1998, and March 4, 1999.
2. Comments to the Partnership on the preferred alternative from the draft general management plan and environmental impact statement.
3. Discussion regarding the organizational representation on the Council.
4. Election of remaining interest group representatives.
5. Comments on Logan Airport improvements.
6. Approval of the Annual Report.
7. Proposed letter of support for MWRA funding request to the Browne Fund.

The meeting is open to the public. Further information concerning Council meetings may be obtained from the Superintendent, Boston Harbor Islands. Interested persons may make oral/written presentations to the Council or file written statements. Such requests should be made at least seven days prior to the meeting to: Superintendent, Boston Harbor Islands NRA, 408 Atlantic Ave., Boston, MA, 02110, telephone (617) 223–8667.

Dated: March 16, 1999.

Bruce Jacobson,

Superintendent, Boston Harbor Islands NRA.

[FR Doc 99–7142 Filed 3–23–99; 8:45 am]

BILLING CODE 4310–70–01–M

INTERNATIONAL TRADE COMMISSION

Agricultural Tillage Tools From Brazil (Inv. No. 701–TA–223 (Review))

AGENCY: United States International Trade Commission.

ACTION: Termination of five-year review.

SUMMARY: The subject five-year review was initiated in December 1998 to determine whether revocation of the existing countervailing duty order would be likely to lead to continuation or recurrence of a countervailable subsidy and of material injury to a domestic industry. On March 8, 1999, the Department of Commerce published notice that it was revoking the order because no domestic interested party responded to its notice of initiation by the applicable deadline (64 FR 10993, March 8, 1999). Accordingly, pursuant to section 207.69 of the Commission's Rules of Practice and Procedure (19 CFR § 207.69), the subject review is terminated.

EFFECTIVE DATE: March 8, 1999.

FOR FURTHER INFORMATION CONTACT: Vera Libeau (202–205–3176), Office of Investigations, U.S. International Trade Commission, 500 E Street SW, Washington, DC 20436. Hearing-impaired individuals are advised that information on this matter can be obtained by contacting the Commission's TDD terminal on 202–205–1810. Persons with mobility impairments who will need special assistance in gaining access to the Commission should contact the Office of the Secretary at 202–205–2000. General information concerning the Commission may also be obtained by accessing its internet server (http://www.usitc.gov).

Authority: This review is being terminated under authority of title VII of the Tariff Act of 1930; this notice is published pursuant to section 207.69 of the Commission's rules (19 CFR § 207.69).

By order of the Commission.

Issued: March 17, 1999.

Donna R. Koehnke,

Secretary.

[FR Doc. 99–7183 Filed 3–23–99; 8:45 am]

BILLING CODE 7020–02–P

INTERNATIONAL TRADE COMMISSION

[Investigation No. 332–352]

Andean Trade Preference Act: Effect on the U.S. Economy and on Andean Drug Crop Eradication

AGENCY: United States International Trade Commission.

ACTION: Notice of opportunity to submit comments in connection with 1998 annual report.

EFFECTIVE DATE: March 17, 1999.

FOR FURTHER INFORMATION CONTACT: Joanne Guth (202–205–3264), Country and Regional Analysis Division, Office of Economics, U.S. International Trade Commission, Washington, DC 20436.

Background

Section 206 of the Andean Trade Preference Act (ATPA) (19 U.S.C. 3204) requires that the Commission submit annual reports to the Congress regarding the economic impact of the Act on U.S. industries and consumers and, in conjunction with other agencies, the effectiveness of the Act in promoting drug-related crop eradication and crop substitution efforts of the beneficiary countries. Section 206(b) of the Act requires that each report include:

(1) The actual effect of ATPA on the U.S. economy generally as well as on specific domestic industries which produce articles that are like, or directly competitive with, articles being imported under the Act;

(2) The probable future effect that ATPA will have on the U.S. economy generally and on domestic industries affected by the Act; and

(3) The estimated effect that ATPA has had on drug-related crop eradication and crop substitution efforts of beneficiary countries.

In addition, in this year's report the Commission plans to examine the effectiveness of ATPA in promoting export-oriented growth and diversification of production in the beneficiary countries.

Notice of institution of the investigation and the schedule for such reports was published in the **Federal Register** of March 10, 1994 (59 FR 11308). The Commission's sixth annual report on ATPA, covering calendar year 1998, is to be submitted by September 30, 1999.

Written Submissions

The Commission does not plan to hold a public hearing in connection with the preparation of the sixth annual report. However, interested persons are invited to submit written statements concerning the matters to be addressed in the report. Commercial or financial information that a party desires the Commission to treat as confidential must be submitted on separate sheets of paper, each clearly marked "Confidential Business Information" at the top. All submissions requesting confidential treatment must conform with the requirements of section 201 of the Commission's Rules of Practice and Procedure (19 CFR 201.6). All written submissions, except for confidential business information, will be made available for inspection by interested persons in the Office of the Secretary to the Commission. To be assured of consideration by the Commission, written statements relating to the Commission's report should be submitted at the earliest practical date and should be received no later than June 25, 1999. The Commission's rules do not authorize filing of submissions

with the Secretary by facsimile or electronic means.

Address all submissions to Office of the Secretary, U.S. International Trade Commission, 500 E St., SW, Washington, DC 20436. Hearing-impaired persons are advised that information on this matter can be obtained by contacting the Commission's TDD terminal on (202) 205–1810.

Issued: March 17, 1999.

By order of the Commission.

Donna R. Koehnke,

Secretary.

[FR Doc. 99–7186 Filed 3–23–99; 8:45 am]

BILLING CODE 7020–02–P

INTERNATIONAL TRADE COMMISSION

[Investigation No. 332–227]

Annual Report on the Impact of the Caribbean Basin Economic Recovery Act on U.S. Industries and Consumers

AGENCY: United States International Trade Commission.

ACTION: Notice of opportunity to submit comments in connection with 1998 annual report.

EFFECTIVE DATE: March 17, 1999.

FOR FURTHER INFORMATION CONTACT: Joanne Guth (202–205–3264), Country and Regional Analysis Division, Office of Economics, U.S. International Trade Commission, Washington, DC 20436.

Background

Section 215(a) of the Caribbean Basin Economic Recovery Act (CBERA) (19 U.S.C. 2704(a)) requires that the Commission submit annual reports to the Congress and the President regarding the economic impact of the Act on U.S. industries and consumers. Section 215(b)(1) requires that the reports include:

(1) The actual economic effect of CBERA on the U.S. economy generally as well as on specific industries which produce articles that are like, or directly competitive with, articles being imported under the Act; and

(2) The probable future effect of CBERA on the U.S. economy generally and on industries affected by the Act.

In addition, in this year's report the Commission plans to examine the effectiveness of CBERA in promoting export-oriented growth and diversification of production in the beneficiary countries.

Notice of institution of the investigation and the schedule for such reports was published in the **Federal Register** of May 14, 1986 (51 FR 17678). The fourteenth report, covering calendar year 1998, is to be submitted by September 30, 1999.

Written Submissions

The Commission does not plan to hold a public hearing in connection with the fourteenth annual report. However, interested persons are invited to submit written statements concerning the matters to be addressed in the report. Commercial or financial information that a party desires the Commission to treat as confidential must be submitted on separate sheets of paper, each clearly marked "Confidenti ! Business Information" at the top. All submissions requesting confidential treatment must conform with the requirements of section 201.6 of the Commission's Rules of Practice and Procedure (19 CFR 201.6). All written submissions, except for confidential information, will be made available for inspection by interested persons in the Office of the Secretary to the Commission. To be assured of consideration by the Commission, written statements relating to the Commission's report should be submitted at the earliest practical date and should be received no later than June 25, 1999. The Commission's rules do not authorize filing of submissions with the Secretary by facsimile or electronic means.

Address all submissions to the Secretary to the Commission, U.S. International Trade Commission, 500 E St., SW, Washington, DC 20436. Hearing-impaired persons are advised that information on this matter can be obtained by contacting the Commission's TDD terminal on (202) 205–1810.

Issued: March 17, 1999.

By order of the Commission.

Donna R. Koehnke,

Secretary.

[FR Doc. 99–7185 Filed 3–23–99; 8:45 am]

BILLING CODE 7020–02–P

INTERNATIONAL TRADE COMMISSION

Textiles From Columbia and Thailand [Invs. Nos. 701–TA–C and D (Review)], Frozen Concentrated Orange Juice From Brazil [Inv. No. 701—TA–184 (Review)], Calcium Hypochlorite From Japan [Inv. No. 731–TA–189 (Review)], Castor Oil Products From Brazil [Inv. No. 104–TAA–20 (Review)], Red Raspberries From Canada [Inv. No. 731–TA–196 (Review)]

AGENCY: United States International Trade Commission.

ACTION: Termination of five-year reviews.

SUMMARY: The subject five-year reviews were initiated in December 1998 to determine whether revocation of the existing countervailing duty or antidumping duty orders or termination of the suspension agreements would be likely to lead to continuation or recurrence of dumping or a countervailable subsidy and of material injury to a domestic industry. On February 26, 1999, the Department of Commerce published notice that it was revoking the orders because no domestic interested party responded to its notice of initiation by the applicable deadline (64 FR 9473, February 26, 1999). Accordingly, pursuant to section 207.69 of the Commission's Rules of Practice and Procedure (19 CFR 207.69), the subject reviews are terminated.

EFFECTIVE DATE: February 26, 1999.

FOR FURTHER INFORMATION CONTACT: Vera Libeau (202–205–3176), Office of Investigations, U.S. International Trade Commission, 500 E Street SW, Washington, DC 20436. Hearing-impaired individuals are advised that information on this matter can be obtained by contacting the Commission's TDD terminal on 202–205–1810. Persons with mobility impairments who will need special assistance in gaining access to the Commission should contact the Office of the Secretary at 202–205–2000. General information concerning the Commission may also be obtained by accessing its internet server (http://www.usitc.gov).

Authority: These reviews are being terminated under authority of title VII of the Tariff Act of 1930; this notice is published pursuant to section 207.69 of the Commission's rules (19 CFR 207.69).

Issued: March 17, 1999.

APPENDIX B
Summary of Submissions in Response to *Federal Register* Notices

Submissions for the Record
Investigation No. 332-227 CBERA

Commonwealth Development Corporation (CDC)[1]

The submission from the Commonwealth Development Corporation (CDC) refuted the allegations made by Florida Citrus Mutual in last year's report. The CDC writes, "CDC has investments in over four hundred (400) companies. One of these companies is Del Oro, an 8,000 acre orange farm with a six (6) million box processing plant in northwestern Costa Rica....Contrary to Florida Citrus Mutual's (FCM) (sic) suggestions, CDC has not and is not providing loans to Del Oro on terms which are inconsistent with commercial requirements." CDC also reports that Del Oro has created more than 250 permanent jobs and an additional 400 jobs during the harvest. CDC also points out that according to last year's USITC report, CDC's exports of frozen orange juice from Costa Rica and Belize are not a threat to U.S. industry. CDC believes that similar results will be found in 1998.

American Apparel Manufacturers Association (AAMA)[2]

The submission from the AAMA argues for legislation that will enhance the US/CBI trading relationship. AAMA highlights CBERA's successes, but points out that there has been a gradual erosion of CBI benefits over the past 9 years because of changes in the international trading system, the forging of new trade alliances, and the elimination of the 936 tax credit program. AAMA's submission also indicates that NAFTA has had an impact on apparel exports to the United States and, as a result, Mexico is now the single-largest source of apparel for the U.S. market. In addition, the report notes that the hurricanes of September and October 1998 destroyed large parts of Central America and the Caribbean Basin. AAMA feels that those developments have made it necessary for the enactment of immediate legislation during 1999, legislation that will make the US/CBI trade relationship "more appropriate for the economic situation at the beginning of the next millennium."

The Rubber and Plastic Footwear Manufacturers Association (RPFMA)[3]

The submission by the RPFMA attempts to highlight the adverse effects that CBERA (or CBI II) has had on the rubber footwear and slipper industry. According to the RPFMA, "Although each of the Commission's earlier reports lauded the over-all impact of CBI II, we regret to note that the Commission has failed to call attention to the negative impact which this program has had on the rubber footwear and slipper industry." More specifically, the industry has been "dealt a severe blow by the elimination of its duty-free exemption for imports from the Caribbean made with American components." The association concludes by admitting that "it will be difficult, if not impossible to undo the unfortunate experience which the rubber footwear and slipper industry has had under CBI II." However, RPFMA feels that a discussion of the rubber footwear and slipper industry's history in the

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[1] Submission to the Commission by Robert G. Kalik, Esq., Counsel to the Commonwealth Development Corporation, received June 25, 1999.

[2] Submission to the Commission by the American Apparel Manufacturers Association, received June 25, 1999.

[3] Submission to the Commission by Mitchell J. Cooper, Counsel, Rubber and Plastic Footwear Manufacturers Association, received April 1, 1999.

USITC's report would be very helpful to both the Congress and the Executive Branch, considering recent efforts to expand duty-free preferences to all rubber footwear and slippers from the Caribbean.

Submissions for the Record Investigation No. 332-352 ATPA

The Rubber and Plastic Footwear Manufacturers Association (RPFMA)[4]

The submission from the RPFMA argues that a free-trade agreement with Latin America would pose a threat to the rubber footwear and slippers industry. According to the RPFMA, "The elimination of duties on Latin American rubber footwear and slippers could cause havoc for the domestic industry...." The association points out that the duty elimination under CBI II has resulted in an increase in rubber footwear and slippers from the Caribbean from 200,000 pairs in 1990 to almost 12 million pairs in 1998. Consequently, RPFMA contends that any agreement for a free-trade area in the Americas should provide an exemption for the rubber footwear and slipper industry.

The Tile Council of America[5]

According to the Tile Council of America, ATPA has had a negative impact on the U.S. ceramic tile industry because of increased imports of low-priced ceramic tile from Colombia. During 1998, imports of ceramic tile from Colombia reached 10,182,000 square feet, compared with 7,222,000 square feet in 1992.[6] In addition to the volume of ceramic tile imports from Colombia, the per unit value of the Colombian tile has remained extremely low relative to tile produced in the United States. The per unit value of Colombian ceramic tile has been less than half of the average unit value of domestic shipments during 1992-98. Thus, according to the submission, large added volumes of low-priced and underpriced ceramic tile from Colombia have resulted in a direct loss of revenue and market share by U.S. producers.

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[4] Submission to the Commission by Mitchell J. Cooper, Counsel, Rubber and Plastic Footwear Manufacturers Association, received April 5, 1999.

[5] Submission to the Commission by Keith R. Marino, Counsel to the Tile Council of America, Inc., received June 24, 1999.

[6] Colombia was designated an ATPA beneficiary on July 2, 1992.

APPENDIX C
Technical Notes to Chapters 3 and 7

This section presents the methodology used to estimate the impact of CBERA and ATPA on the U.S. economy in 1998. The economic effects of CBERA/ATPA duty reductions[1] were evaluated with a comparative static analysis. Since CBERA/ATPA tariff preferences were already in effect in 1998, the impact of the program was measured by comparing the market conditions currently present (duty-free entry, or 20 percent reduced-duty entry, for eligible products entered under CBERA/ATPA provisions) with those that might have existed under full tariffs (i.e., no CBERA/ATPA tariff preferences). Thus, the analysis provides an estimate of what the potential costs and benefits to the U.S. economy would have been if CBERA/ATPA had not been in place during 1998. However, the material on welfare and displacement effects, in the section titled "Analytical Approach" in the Introduction and in this appendix, discusses the impact of CBERA/ATPA in terms of duty reductions, rather than the "removal" of duty eliminations already in place.[2] The effects of a duty reduction and a duty imposition are symmetrical and lead to results that are equivalent in magnitude but opposite in sign.[3] Thus, the discussion is framed with respect to the implementation of duty reductions simply for clarity.

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

The CBERA/ATPA and non-CBERA/non-ATPA import demand curves, D_c and D_n, and the demand curve for domestic output, D_d, are all assumed to be downward sloping with a constant elasticity of demand.[4] It is assumed that the CBERA/ATPA import supply curve to the U.S. market, the non-CBERA/non-ATPA import supply curve, and the domestic industry supply curve, S_c, S_n, and S_d, are all horizontal, that is, perfectly elastic. The assumption of perfectly elastic supply curves greatly simplifies computation although it leads to an upward bias in the estimates of the welfare and domestic displacement effects on the U.S. economy.[5]

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

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

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[1] Although the term *duty reduction* is used, the methodology employed in the analysis for this report applies equally to a duty elimination (which is a duty reduction in the full amount of the duty).

[2] Most comparative static analyses are used to evaluate the effects of an event that has not already happened—such as a proposed tariff elimination. This comparative analysis evaluates the effects of an event that has already happened—CBERA duty elimination has been in effect since 1984, and ATPA since 1992. The method described in this section can be used in either situation.

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

[4] The subscripts c, n, and d refer to CBERA/ATPA imports, non-CBERA/non-ATPA imports, and U.S. output, respectively.

[5] Since CBERA/ATPA imports account for a very small share of U.S. domestic consumption in most sectors, even the upper range estimates were very small. Assuming upward-sloping supply curves would have resulted in even lower estimates.

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

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

The net welfare effect of CBERA/ATPA is equal to the increase in consumer surplus plus the decrease in tariff revenue—the trapezoid P_cabP_c' minus the rectangle P_cacP_c' in panel a, that is, triangle abc.[6] The dollar amount by which CBERA/ATPA imports displace U.S. output is measured by the rectangle $Q_d'deQ_d$ in panel c.

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

(1) $$(Q_c / Q_c') = (P_c / P_c')^{\varepsilon cc}$$

(2) $$(Q_n / Q_n') = (P_c / P_c')^{\varepsilon nc}$$

(3) $$(Q_d / Q_d') = (P_c / P_c')^{\varepsilon dc}$$

Given that $P_c = P_c'(1+t)$, these can be restated as

(1)′ $$(Q_c / Q_c') = (1+t)^{\varepsilon cc}$$

(2)′ $$(Q_n / Q_n') = (1+t)^{\varepsilon nc}$$

(3)′ $$(Q_d / Q_d') = (1+t)^{\varepsilon dc}$$

where ε_{ij} is the uncompensated elasticity of demand for good i with respect to price j. The values for the elasticities ε_{cc}, ε_{nc}, and ε_{dc} are derived from the following relations:

(4) $$\varepsilon_{cc} = V_c\eta - V_n\sigma_{cn} - V_d\sigma_{cd}$$

(5) $$\varepsilon_{nc} = V_c(\sigma_{nc} + \eta)$$

(6) $$\varepsilon_{dc} = V_c(\sigma_{dc} + \eta)$$

where the V_i's are market shares for CBERA/ATPA imports, non-CBERA/non-ATPA imports, and domestic output, respectively, η is the aggregate demand elasticity, and the σ_{ij}'s are the elasticities of substitution between the ith and jth products.[7] Estimates of the aggregate demand elasticities were taken from the literature.[8] Ranges of potential net welfare and industry displacement estimates are reported. The reported ranges reflect a range of assumed substitutabilities between CBERA/ATPA products and competing U.S. output. The upper range estimates reflect the assumption of high

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[6] Welfare effects typically include a measure of the change in producer surplus. The change in producer surplus for CBERA/ATPA producers was not considered in this analysis because the focus of the analysis was on the direct effects of CBERA/ATPA provisions on the United States.

[7] Equations (4) through (6) are derived from P.R.G. Layard and A.A. Walters, *Microeconomic Theory* (New York: McGraw-Hill, 1978).

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

substitution elasticities. The lower range estimates reflect the assumption of low substitution elasticities.[9]

Given equations (1)′ through (4)′, one can derive the following equations for calculating the changes in consumer surplus, tariff revenue, and domestic output:

Consumer surplus (where k is a constant)

$$\text{area of trapezoid } P_c abP_c' = \int_{P_c'}^{P_c} kP_c^{\varepsilon_{cc}} dP_c$$

$$= [1/(1+\varepsilon_{cc})]\,[(1+t)^{(1+\varepsilon_{cc})} - 1\,]P_c'Q_c' \quad \text{if } \varepsilon_{cc} \neq -1$$

$$= k \ln(1+t) \quad \text{if } \varepsilon_{cc} = -1$$

Tariff revenue from U.S. imports from CBERA/ATPA partners

$$\text{area of rectangle } P_c acP_c' = (P_c - P_c')Q_c$$

$$= P_c'tQ_c \quad \text{given } P_c = P_c'(1+t)$$

$$= tP_c'Q_c'(1+t)^{\varepsilon_{cc}} \quad \text{given } Q_c = Q_c'(1+t)^{\varepsilon_{cc}}$$

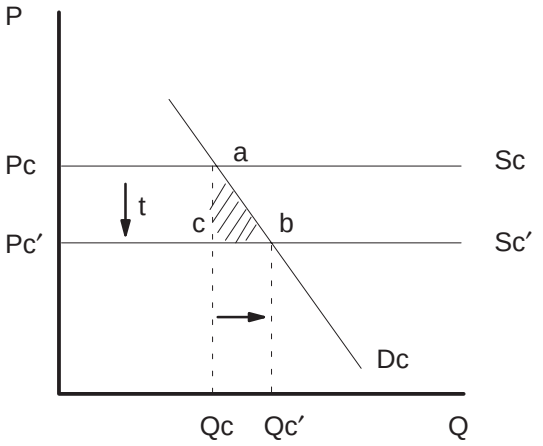
Domestic output

$$\text{area of rectangle } Q_d'deQ_d = P_d(Q_d - Q_d')$$

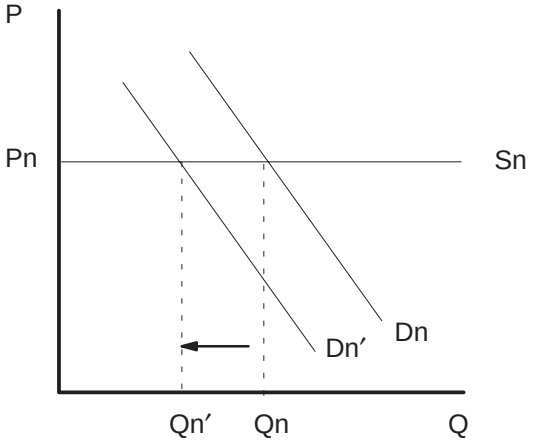
$$= P_dQ_d'\,[(1+t)^{\varepsilon_{dc}} - 1]$$

[9] Commission industry analysts provided evaluations of the substitutability of CBERA/ATPA products and competing U.S. products, which were translated into a range of substitution elasticities—3 to 5 for high substitutability, 2 to 4 for medium, and 1 to 3 for low. Although there is no theoretical upper limit to elasticities of substitution, a substitution elasticity of 5 is consistent with the upper range of estimates in the economics literature. Estimates in the literature tend to be predominantly lower. See, for example, Clinton R. Shiells, Robert M. Stern, and Alan V. Deardorff, "Estimates of the Elasticities of Substitution Between Imports and Home Goods for the United States," *Weltwirtschaftliches Archiv,* 122 (1986), pp. 497-519.

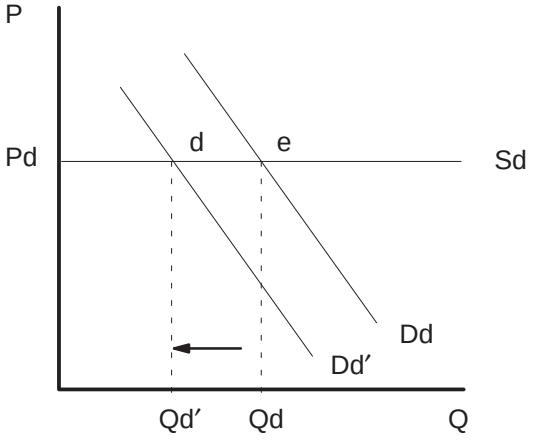
Figure C-1
Partial equilibrium analysis of the effects of CBERA/ATPA duty provisions on U.S. imports



a. CBERA/ATPA imports



b. non-CBERA/non-ATPA imports



c. U.S. domestic output

APPENDIX D
Statistical Tables for Chapters 2 and 6

Table D-1
Leading U.S. imports for consumption entered under CBERA, by source, 1997-98

Source	HTS Number	Description	Value 1997	Value 1998	Change, 1997/1998[1]
			– 1,000 dollars –		Percent
Antigua Barbuda	0302.69.40	Fresh or chilled fish, including sable, ocean perch, snapper, grouper, and monkfish	222	168	-24.32
Total			222	168	-24.32
Aruba	2713.12.00	Coke, petroleum coke, calcined	-	1,683	(2)
Total			-	1,683	(2)
Bahamas	3903.11.00	Polystyrene, expandable, in primary forms	254	15,169	(3)
	3812.30.60	Antioxidizing prep & other compound stabilizers for rubber/plastics containing any aromatic or modified aromatic antioxidant or o/stabilizer, nesoi	18,623	10,133	-45.59
Total			18,877	25,302	34.03
Barbados	8533.31.00	Electrical wirewound variable resistors, including rheostats and potentiometers, for a power handling capacity not exceeding 20 W	9,368	8,005	-14.55
	9032.89.60	Automatic regulating or controlling instruments and apparatus, nesi	4,241	3,449	-18.68
	9030.90.88	Parts and accessories for articles of subheadings 9030.20 to 9030.40, 9030.83 and 9030.89, nesoi	1,683	2,442	45.06
	8532.21.00	Tantalum fixed capacitors	563	1,057	87.68
Total			15,855	14,953	-5.69
Belize	1701.11.10	Raw sugar not containing added flavoring or coloring	10,114	7,703	-23.84
	2009.11.00	Frozen concentrated orange juice	16,056	7,356	-54.18
Total			26,170	15,059	-42.46
British Virgin Islands	1703.90.50	Molasses nesi	-	196	(2)
	9403.50.90	Furniture, other than seats, of wood but not bentwood, of a kind used in the bedroom, not designed for motor vehicle use	-	41	(2)
Total			-	237	(2)
Costa Rica	8517.90.24	Parts of electrical telephonic switching or terminal apparatus, incorporating printed circuit assemblies	48,759	108,175	121.86
	0804.30.40	Pineapples, fresh or dried, not reduced in size, in crates or other packages	64,719	61,044	-5.68
	7113.19.50	Articles of jewelry and parts thereof, of precious metal except silver, except necklaces and clasps	46,949	42,784	-8.87
	8516.31.00	Electrothermic hair dryers	39,273	39,296	0.06

See footnotes at end of table.

Table D-1—*Continued*
Leading U.S. imports for consumption entered under CBERA, by source, 1997-98

Source	HTS Number	Description	Value 1997	Value 1998	Change, 1997/1998[1]
			– *1,000 dollars* –		*Percent*
Costa Rica—***Cont.***	4016.93.50	Gaskets, washers and other seals, of noncellular vulcanized rubber other than hard rubber	28,803	31,139	8.11
	2009.11.00	Frozen concentrated orange juice	18,096	27,759	53.40
	8533.40.80	Electrical variable resistors, other than wirewound, including rheostats and potentiometers	26,058	19,617	-24.72
	0302.69.40	Fresh or chilled fish, including sable, ocean perch, snapper, grouper, and monkfish	18,780	17,444	-7.12
	0807.19.20	Cantaloupes, fresh, not entered Aug. 1-Sept. 15	19,556	16,883	-13.67
	4418.20.80	Doors of wood, other than French doors	9,155	16,426	79.42
	0714.10.20	Cassava (manioc), fresh, chilled or dried, whether or not sliced or in the form of pellets	15,950	15,174	-4.86
	2207.10.60	Undenatured ethyl alcohol for nonbeverage purposes	8,491	13,917	63.90
	4202.21.90	Handbags, with or without shoulder strap or without handle, with outer surface of leather, composition or patent leather, nesi, over $20 each	8,380	13,685	63.31
	0714.90.20	Fresh or chilled yams, whether or not sliced or in the form of pellets	9,292	11,882	27.87
	0603.10.80	Cut flowers and flower buds suitable for bouquets, nesi	10,967	11,789	7.50
	0201.30.50	Fresh or chilled boneless beef, except processed	13,527	11,644	-13.92
	1701.11.20	Other sugar to be used for the production (other than distillation) of polyhydric alcohols	4,458	10,905	144.60
	0807.19.70	Other melons nesoi, fresh, if entered during the period from December 1, in any year, to the following May 31, inclusive	8,652	9,656	11.59
	0714.90.10	Fresh or chilled dasheens, whether or not sliced or in the form of pellets	10,356	8,956	-13.52
	9506.69.20	Baseballs and softballs	9,536	8,840	-7.30
	3913.90.20	Polysaccharides and their derivatives, nesoi, in primary forms	7,120	8,745	22.82
	0602.10.00	Unrooted cuttings and slips of live plants	8,239	8,638	4.84
	0202.30.50	Frozen boneless beef, except processed	12,837	8,580	-33.16
	3926.90.98	Other articles of plastic, nesoi	8,207	7,189	-12.40
Total			456,160	530,167	16.22
Dominica	3401.11.50	Soap, nesoi; organic surface-active products used as soap, in bars, cakes, pieces, soap-impregnated paper, wadding, felt, for toilet use	1,162	1,534	32.04
Total			1,162	1,534	32.04

See footnotes at end of table.

Table D-1—*Continued*
Leading U.S. imports for consumption entered under CBERA, by source, 1997-98

Source	HTS Number	Description	Value 1997	Value 1998	Change, 1997/1998[1]
			— *1,000 dollars* —		*Percent*
Dominican Republic	2402.10.80	Cigars, cheroots and cigarillos, each valued 23 cents or over	217,398	216,598	-0.37
	9018.90.80	Medical, surgical, or dental instruments and appliances	83,716	214,455	156.17
	6406.10.65	Footwear uppers, other than formed, of leather	176,271	172,557	-2.11
	7113.19.50	Articles of jewelry and parts thereof, of precious metal except silver, except necklaces and clasps	89,605	123,582	37.92
	1701.11.10	Raw sugar not containing added flavoring or coloring	130,837	113,597	-13.18
	8536.20.00	Automatic circuit breakers, for a voltage not exceeding 1,000 volts	44,358	57,198	28.95
	8538.90.80	Terminals, electrical splices and couplings	41,250	35,133	-14.83
Total			783,435	933,120	19.11
El Salvador	1701.11.20	Other sugar to be used for the production (other than distillation) of polyhydric alcohols	11,714	8,609	-26.51
	2207.10.60	Undenatured ethyl alcohol for nonbeverage purposes	6,981	4,127	-40.88
	1703.10.50	Cane molasses nesi	3,713	3,617	-2.60
	1701.11.10	Raw sugar not containing added flavoring or coloring	22,316	3,462	-84.49
	8532.24.00	Ceramic dielectric fixed capacitors, multilayer	6,010	2,783	-53.70
	4819.40.00	Sacks and bags, nesi, including cones, of paper, paperboard, cellulose wadding or webs of cellulose fibers	3,125	2,615	-16.32
	8504.31.40	Electrical transformers other than liquid dielectric, having a power handling capacity less than 1 kVA	2,070	2,136	3.20
	7615.19.70	Aluminum, cooking and kitchen ware (o/than cast), not enameled or glazed and not containing nonstick interior finishes	3,544	1,661	-53.12
	4420.90.80	Wood marquetry and inlaid wood; wooden articles of furniture, nesi	1,250	1,616	29.30
	4202.92.30	Travel, sports and similar bags with outer surface of textile materials other than of vegetable fibers	1,563	1,417	-9.37
	4602.10.80	Basketwork and other articles, neosi, of vegetables materials, nesoi	1,082	1,153	6.65
	4202.99.10	Cases, bags and similar containers, nesi, of mat. (other than leather, shtng. of plastic., textile material, vul. fib., or paperboard.), pap. cov., of plastic	771	1,000	29.66
	4202.92.90	Bags, cases and similar containers nesi, with outer surface of plastic sheeting or of textile materials, excluding cotton	865	931	7.73
Total			65,003	35,127	-45.96

See footnotes at end of table.

Table D-1—*Continued*
Leading U.S. imports for consumption entered under CBERA, by source, 1997-98

Source	HTS Number	Description	Value 1997	Value 1998	Change, 1997/1998[1]
			1,000 dollars		*Percent*
Grenada	8535.90.80	Electrical apparatus nesi for switching, protecting, or making connections for electrical circuits, for a voltage exceeding 1,000 V, nesi	3,459	7,347	112.39
Total			3,459	7,347	112.39
Guatemala	2921.43.15	Alpha,alpha,alpha-trifluoro-2,6-dinitro-N,N-dipropyl-p-toluidine (Trifluralin)	13,292	26,518	99.50
	0710.80.97	Vegetables nesi, uncooked or cooked by steaming or boiling in water, frozen, reduced in size	15,176	21,226	39.87
	2401.20.85	Tobacco, partly or wholly stemmed/stripped, threshed or similarly processed, not from cigar leaf	19,075	20,235	6.08
	1701.11.10	Raw sugar not containing added flavoring or coloring	29,474	19,054	-35.35
	3401.11.50	Soap, nesoi; organic surface-active products used as soap, in bars, cakes, pieces, soap-impregnated paper, wadding, felt, for toilet use	15,549	16,188	4.11
	0807.19.20	Cantaloupes, fresh, not entered Aug. 1-Sept. 15	18,248	15,292	-16.20
	3406.00.00	Candles, tapers and the like	1,462	13,473	821.47
	1701.11.20	Other sugar to be used for the production (other than distillation) of polyhydric alcohols	43,411	12,139	-72.04
	6910.10.00	Porcelain or china ceramic sinks, washbasins, baths, bidets, water closet bowls, urinals & siml. sanitary fixtures	7,726	8,809	14.02
	4203.30.00	Belts and bandoliers with or without buckles, of leather or of composition leather	7,545	8,506	12.74
	1209.30.00	Seeds of herbaceous plants cultivated principally for their flowers	5,936	6,903	16.29
	0807.19.70	Other melons if not entered Jun. 1-Nov. 30	5,025	5,978	18.98
	0603.10.60	Roses, fresh cut	6,082	5,744	-5.57
	9403.60.80	Furniture nesoi, of wood but not bentwood	3,873	4,505	16.33
Total			195,105	189,281	-2.99
Guyana	1701.11.10	Raw sugar not containing added flavoring or coloring	12,912	11,896	-7.87
	4412.14.30	Plywood sheets n/o 6 mm thick, outer ply of nontropical hardwood, with face ply nesoi, not surface-covered beyond clear/transparent	5,923	5,052	-14.71
Total			18,835	16,948	-10.02

See footnotes at end of table.

Table D-1—*Continued*
Leading U.S. imports for consumption entered under CBERA, by source, 1997-98

Source	HTS Number	Description	Value 1997	Value 1998	Change, 1997/1998[1]
			– *1,000 dollars* –		*Percent*
Haiti	0804.50.60	Guavas, mangoes, and mangosteens, fresh, if entered during the period June 1 through August 31, inclusive	2,193	2,998	36.70
	6116.10.44	Gloves, mittens & mitts(excluding sports), impreg etc., cut & sewn from pre-exist non-veg fib impreg fab, without fourch, con ov 50% wt plastic/rubber k/c	3,439	2,914	-15.25
	4104.31.50	Upper & sole leather of bovine (except buffalo) or equine animals, parchment dressed or prep. after tanning, full grains and grain splits	2,326	2,745	18.05
	4106.19.20	Wet blues of goat or kidskin leather, without hair on, not including chamois, patent, patent laminated or metallized leather, tanned or retanned	2,530	2,512	-0.74
	0804.50.40	Guavas, mangoes, and mangosteens, fresh, if entered during the period September 1 through May 31, inclusive	4,705	2,384	-49.34
	7326.90.85	Iron or steel, articles, nesoi	1,687	1,414	-16.19
	4203.30.00	Belts and bandoliers with or without buckles, of leather or of composition leather	1,254	1,319	5.16
	7013.99.50	Glassware for toilet/office/indoor decor. or similar purposes, nesoi, valued over $0.30 but not over $3 each	1,353	1,287	-4.88
	8306.29.00	Base metal statuettes and other ornaments not plated with precious metal, and base metal parts thereof	527	1,174	122.64
	6210.10.50	Other nonwoven disposable apparel designed for use in hospitals	838	1,053	25.63
Total			20,853	19,801	-5.05
Honduras	2402.10.80	Cigars, cheroots and cigarillos, each valued 23 cents or over	69,639	45,325	-34.91
	6210.10.50	Other nonwoven disposable apparel designed for use in hospitals	23,741	23,824	0.35
	0807.19.20	Cantaloupes, fresh, not entered Aug. 1-Sept. 15	18,620	19,040	2.25
	6406.10.65	Footwear uppers, other than formed, of leather	20,446	17,067	-16.52
	9403.50.90	Furniture, other than seats, of wood but not bentwood, of a kind used in the bedroom, not designed for motor vehicle use	9,576	11,447	19.53
	9403.60.80	Furniture nesoi, of wood but not bentwood	7,679	10,146	32.12
	3923.21.00	Sacks and bags (including cones) for the conveyance or packing of goods, of polymers of ethylene	8,452	8,054	-4.71
	9603.90.80	Brooms & brushes nesoi, mops, hand-operated mechanical floor sweepers, squeegees and similar articles, nesoi	6,778	7,393	9.08

See footnotes at end of table.

Table D-1—*Continued*
Leading U.S. imports for consumption entered under CBERA, by source, 1997-98

Source	HTS Number	Description	Value 1997	Value 1998	Change, 1997/1998[1]
			1,000 dollars		*Percent*
Honduras—***Cont.***	0804.30.40	Pineapples, fresh or dried, not reduced in size, in crates or other packages	6,646	6,622	-0.37
	1701.11.10	Raw sugar not containing added flavoring or coloring	9,396	6,600	-29.75
	4421.90.98	Articles of wood, including pencil slats and others	5,282	5,650	6.97
	0807.19.70	Other melons if not entered Jun. 1-Nov. 30	5,041	5,436	7.83
Total			191,298	166,605	-12.91
Jamaica	2402.10.80	Cigars, cheroots and cigarillos, each valued 23 cents or over	11,285	30,938	174.16
	2207.10.60	Undenatured ethyl alcohol for nonbeverage purposes	12,587	15,615	24.06
	0714.90.20	Fresh or chilled yams, whether or not sliced or in the form of pellets	7,153	9,664	35.09
	2203.00.00	Beer made from malt	6,557	7,887	20.28
	1701.11.10	Raw sugar not containing added flavoring or coloring	4,861	7,540	55.10
Total			42,443	71,645	68.80
Montserrat	8535.90.80	Electrical apparatus nesi for switching, protecting, or making connections for electrical circuits, for a voltage exceeding 1,000 V, nesi	4,000	-	(2)
Total			4,000	-	(2)
Netherlands Antilles	3507.90.70	Enzymes and prepared enzymes, nesoi	1,546	1,725	11.59
	3402.90.50	Surface-active, washing, and cleaning preparations nesoi, put up for retail sale	266	200	-24.92
Total			1,813	1,925	6.23
Nicaragua	2402.10.80	Cigars, cheroots and cigarillos, each valued 23 cents or over	30,960	12,595	-59.32
	1701.11.10	Raw sugar not containing added flavoring or coloring	21,670	11,732	-45.86
	1701.11.20	Other sugar to be used for the production (other than distillation) of polyhydric alcohols	8,913	10,851	21.74
	0202.30.50	Frozen boneless beef, except processed	16,544	9,309	-43.73
	0302.69.40	Fresh or chilled fish, including sable, ocean perch, snapper, grouper, and monkfish	5,295	5,880	11.05
Total			83,382	50,366	-39.60

See footnotes at end of table.

Table D-1—*Continued*
Leading U.S. imports for consumption entered under CBERA, by source, 1997-98

Source	HTS Number	Description	Value 1997	Value 1998	Change, 1997/1998[1]
			– *1,000 dollars* –		*Percent*
Panama	1701.11.10	Raw sugar not containing added flavoring or coloring	28,031	20,965	-25.21
	0302.69.40	Fresh or chilled fish, including sable, ocean perch, snapper, grouper, and monkfish	18,306	18,063	-1.32
	0807.19.70	Other melons if not entered Jun. 1-Nov. 30	5,758	8,464	47.00
	9603.90.80	Brooms & brushes nesoi, mops, hand-operated mechanical floor sweepers, squeegees and similar articles, nesoi	4,044	4,418	9.25
	1701.11.20	Other sugar to be used for the production (other than distillation) of polyhydric alcohols	-	4,329	([2])
Total			56,139	56,240	0.18
St. Kitts and Nevis	8536.50.90	Switches nesoi, for switching or making connections to or in electrical circuits, for a voltage not exceeding 1,000 volts	6,146	12,923	110.26
	1701.11.10	Raw sugar not containing added flavoring or coloring	2,968	3,014	1.56
	8503.00.95	Other parts, nesi, suitable for use solely or principally with the machines in heading 8501 or 8502	1,256	1,776	41.43
Total			10,370	17,713	70.82
St. Lucia	8529.10.20	Television antennas and antenna reflectors, and parts suitable for use therewith	401	2,477	517.09
	8533.21.00	Electrical fixed resistors, other than composition or film type carbon resistors, for a power handling capacity not exceeding 20 W	1,805	1,660	-8.00
	8525.10.30	Transmission apparatus for television, nesoi	284	635	123.90
	8532.29.00	Fixed electrical capacitors, nesi	515	618	19.87
Total			3,005	5,391	79.38
St. Vincent and the Grenadines	7113.19.50	Articles of jewelry and parts thereof, of precious metal except silver, except necklaces and clasps	1,605	2,548	58.80
Total			1,605	2,548	58.80
Trinidad and Tobago	7213.91.30	Bars and rods, hot-rolled, not tempered or treated, of iron or nonalloy steel	62,478	59,430	-4.88
	2905.11.20	Methanol (methyl alcohol), nesi	90,596	57,779	-36.22
	2849.90.50	Carbides, nesoi	8,075	12,178	50.81
	4011.99.80	New pneumatic tire, of rub, exc have herring-bone, except tractor of 8701.90.10/Agri machine/implements in chapter 84 in subhdg 8716.80.10, Nesoi	4,710	7,015	48.92

See footnotes at end of table.

Table D-1—*Continued*
Leading U.S. imports for consumption entered under CBERA, by source, 1997-98

Source	HTS Number	Description	Value 1997	Value 1998	Change, 1997/1998[1]
			— *1,000 dollars* —		*Percent*
Trinidad and Tobago—***Cont.***	0302.69.40	Fresh or chilled fish, including sable, ocean perch, snapper, grouper, and monkfish	4,986	5,728	14.88
	1701.11.10	Raw sugar not containing added flavoring or coloring	6,052	5,077	-16.11
	7407.29.50	Copper alloys (other than brass, cupro-nickel or nickel silver), bars and rods	188	4,434	([3])
	7213.91.45	Iron/nonalloy steel, nesoi, hot-rolled bars & rods in irregularly wound coils, w/cir. x-sect. diam. <14mm, w/0.6%+ of carbon, nesoi	3,160	3,829	21.18
	7213.91.60	Iron/nonalloy steel, nesoi, hot-rolled bars & rods in irregularly wound coils, w/cir. x-sect. diam. <14mm, w/less th/0.6% carbon, nesoi	2,861	3,263	14.06
	2208.90.05	Bitters, not fit for use as beverages	3,435	2,597	-24.40
	4818.40.40	Sanitary napkins and tampons, diapers and diaper liners and similar sanitary articles, other than of paper pulp	-	2,316	([2])
	7227.90.60	Alloy steel (o/than hi-speed/silico-mang./tool) steel, bars and rods in irregularly wound coils, hot-rolled	-	2,251	([2])
	1704.90.35	Confections ready for consumption	2,519	1,883	-25.25
	3925.10.00	Reservoirs, tanks, vats and similar containers, of a capacity exceeding 300 liters, of plastics	1,301	1,876	44.19
	7222.11.00	Stainless steel, bars and rods, hot-rolled, hot-drawn or extruded, of circular cross-section	4,629	1,410	-69.54
Total			194,989	171,066	-12.27

[1] Based on actual (unrounded) data.
[2] Not applicable.
[3] Increase of over 1,000 percent.

Note.—The abbreviation nesi stands for “not elsewhere specified or included.” The abbreviation nesoi stands for “not elsewhere specified or otherwise included.”

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

Table D-2
Leading U.S. imports for consumption entered under ATPA, by source, 1997-98

Source	HTS Number	Description	Value 1997	Value 1998	Change, 1997/1998
			– *1,000 dollars* –		*Percent*
Bolivia	7113.19.50	Articles of jewelry and parts thereof, of precious metal except silver, except necklaces and clasps	24,742	19,648	-20.59
	7113.19.10	Rope and chain for jewelry, of precious metal except silver	20,131	16,376	-18.65
	7113.19.29	Gold necklaces and neck chains, other than rope or mixed link	9,141	9,296	1.69
	7113.19.25	Gold mixed link necklaces and neck chains	755	8,035	963.94
		Total	54,769	53,354	-2.58
Colombia	0603.10.70	Chrysanthemums, standard carnations, anthuriums and orchids	143,417	143,225	-0.13
	0603.10.60	Roses, fresh cut	132,232	138,139	4.47
	7115.90.30	Gold (including metal clad with gold) articles, other than jewelry or goldsmiths' wares	2,152	56,196	2511.36
	2843.30.00	Gold compounds	65,697	48,139	-26.72
	0603.10.80	Cut flowers and flower buds suitable for bouquets, nesi	48,025	42,523	-11.46
	3212.90.00	Pigments dispersed in nonaqueous media, in liquid or paste form, used in making paintsdyes a coloring matter packaged for retail sale	2,923	39,560	1253.33
	0603.10.30	Miniature (spray) carnations, fresh cut	35,836	36,612	2.17
		Total	430,282	504,396	17.22
Ecuador	0603.10.60	Roses, fresh cut	51,565	57,460	11.43
	1604.14.40	Tuna and skipjack, not in airtight containers	47,261	45,399	-3.94
	0603.10.80	Cut flowers and flower buds suitable for bouquets nesi	26,199	27,164	3.68
	0302.69.40	Fresh or chilled fish, including sable, ocean perch, snapper, grouper, and monkfish	16,563	19,085	15.23
	4421.90.98	Articles of wood, including pencil slats and others	11,695	13,991	19.63
		Total	153,284	163,098	6.40
Peru	7403.11.00	Cathodes and sections of cathodes, of refined copper	158,790	200,984	26.57
	7108.13.70	Other semimanufactured forms of nonmonetary gold	41,299	115,021	178.50
	7113.19.10	Rope and chain for jewelry, of precious metal except silver	47,883	49,736	3.86
	9111.90.40	Parts of watch cases, of precious metal or of metal clad with precious metal	0	48,383	N/A
	7113.19.50	Articles of jewelry and parts thereof, of precious metal except silver, except necklaces and clasps	23,113	35,172	52.18
		Total	271,085	449,291	65.74

Note.—The abbreviation nesi stands for "not elsewhere specified or included." The abbreviation nesoi stands for "not elsewhere specified or otherwise included."

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

APPENDIX E
List of Frequently Used Abbreviations and Acronyms

List of Frequently Used Abbreviations and Acronyms

ATPA	Andean Trade Preference Act
CACM	Central American Common Market
CBERA	Caribbean Basin Economic Recovery Act
CBEREA	Caribbean Basin Economic Recovery Expansion Act
CCI	Corporation Colombia International
COINVERTIR	Invest in Colombia Corporation
CORPEI	Corporation for the Promotion of Exports and Investment
ELN	"Ejercito de Liberacion Nacional" (National Liberation Army)
EU	European Union
FAA	Foreign Assistance Act
FARC	"Fuerza Armadas Revolucionaria de Colombia" (Revolutionary Armed Forces of Colombia)
FDI	foreign direct investment
FTAA	Free-Trade Area of the Americas
FTZs	Free-Trade Zones (also, Foreign-Trade Zones)
GALS	guaranteed access levels
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
GSP	Generalized System of Preferences
HTS	Harmonized Tariff Schedule
INCSR	*International Narcotics Control Strategy Report*
IPR	intellectual property rights
LAC	Latin America and the Caribbean
MFN	most-favored-nation
NAFTA	North American Free-Trade Agreement
PLANTE	"Plan Nacional de Desarrollo Alternative" (National Plan for Alternative Development)
PSP	production-sharing provisions
ROW	rest of the world
TPSC	Trade Policy Staff Committee
TRQs	Tariff-Rate Quotas
UNDCP	United Nations International Drug Control Program
USAID	United Nations Agency for International Development
USITC	U.S. International Trade Commission
USTR	United States Trade Representative
WTO	World Trade Organization

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