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ATPA Renewal: Background and Issues

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Summary

The Andean Trade Preference Act (ATPA) extends special duty treatment to certain U.S. imports from Bolivia, Colombia, Ecuador, and Peru that meet domestic content and other requirements. The ATPA (Title II of P.L. 102-182) was enacted on December 4, 1991, and renewed and modified under the Andean Trade Promotion and Drug Eradication Act (ATPDEA; Title XXI of P.L. 107-210) on August 6, 2002. Andean trade preferences were scheduled to end on December 31, 2006. Legislation was enacted late in the 109th Congress to extend Andean trade preferences until June 30, 2007 and for an additional six months if a country enters into a free trade agreement with the United States before then. In the 110th Congress, legislation was enacted to extend the ATPA for all four countries until February 29, 2008 (P.L. 110-42). ATPA was intended to promote economic growth in the Andean region and to encourage a shift away from dependence on illegal drugs by supporting legitimate economic activities. This report will be updated as events warrant.

ATPA Overview

The United States extends special duty treatment to imports from Bolivia, Colombia, Ecuador, and Peru under a regional trade preference program. This program accounted for over half of all U.S. imports from the four countries in 2005. The program, enacted on December 4, 1991, began under the Andean Trade Preference Act (ATPA; Title II of P.L. 102-182) and was originally authorized for 10 years. ATPA lapsed on December 4, 2001 and, after eight months, it was renewed and modified under the Andean Trade Promotion and Drug Eradication Act (ATPDEA; Title XXXI of P.L. 107-210) on August 6, 2002. ATPDEA renewed ATPA trade preferences retroactive to December 4, 2001, and also expanded trade preferences to include additional products that were previously excluded under ATPA.

Trade preferences were scheduled to end on December 31, 2006. Late in the 109th Congress, legislation was enacted (P.L. 109-432) to extend the trade preferences until June 30, 2007 and for an additional six months if a country enters into a free trade agreement with the United States prior to this date. In the 110th Congress, legislation was enacted to extend the ATPA for all four countries until February 29, 2008 (P.L. 110-42).

ATPA, as amended by ATPDEA, is part of a broader U.S. initiative with Andean countries to address the growing drug trade from Latin America. It authorized the President to grant duty-free treatment or reduced tariffs to certain products from Bolivia, Colombia, Ecuador, or Peru that met domestic content and other requirements. The act (as a complement to crop eradication, interdiction, military training, and other counter-narcotics efforts) was intended to promote economic growth in the Andean region and to encourage a shift away from dependence on illegal drugs by supporting legitimate economic activities. Increased access to the U.S. market was expected to help create jobs and expand legitimate opportunities for workers in the Andean countries in alternative export sectors. Additional products receiving preferential duty treatment under ATPDEA include certain items in the following categories: petroleum and petroleum products; textiles and apparel products; footwear, tuna in flexible containers, and others.

U.S. Trade with Andean Countries

In 2006, the United States imported $22.5 billion, or 1% of total U.S. imports, from the four ATPA countries (Bolivia, Colombia, Ecuador, and Peru). U.S. exports to ATPA countries in 2006 totaled $12.6 billion, or 1% of all U.S. exports. The four countries collectively were the 17th leading suppliers of U.S. imports, up from 22nd place in 2004. The United States is the leading destination of each ATPA country's exports, with the exception of Bolivia. Colombia accounted for 41% of U.S. imports from the region and 53% of U.S. exports (see **Table 1**). Peru and Ecuador nearly split the other half of imports and exports, and Bolivia accounted for less than 2% of U.S. imports and U.S. exports with the region. The leading U.S. import from the region in 2006 (38% of imports) was petroleum, principally crude oil from Ecuador and Colombia. Other leading U.S. imports were gold, refined copper, coal, coffee, and fresh cut flowers. Leading U.S. exports to the region were petroleum products; corn (maize); automatic data processing machine parts and accessories; transmission apparatus; and machinery parts.

Table 1. U.S. Trade with Andean Countries, 2006

Country	U.S. Imports		U.S. Exports	
	Region Share	Leading Items (HTS 6-digit level)	Region Share	Leading Items (HTS 6-digit level)
Bolivia	1.6%	jewelry, tin	1.7%	machinery parts, jewelry
Colombia	41.1%	crude oil, coal	53.3%	corn (maize), automatic data processing machine parts
Ecuador	31.2%	crude oil, bananas and plantains	21.7%	petroleum oil products, transmission apparatus
Peru	26.2%	gold, refined copper	23.3%	petroleum oil products, transmission apparatus

Source: USITC Interactive Tariff and Trade DataWeb at [http://dataweb.usitc.gov]. Compiled by CRS.

In 2006, a considerable share (47%) of all U.S. imports from the four Andean countries entered duty-free under ATPDEA, and a smaller share (13%) entered duty-free under ATPA (see **Table 2**).[1] A very small share (2%) entered duty-free under the U.S. Generalized System of Preferences, which applies to most developing countries throughout the world. Of the remaining 38% of imports, most entered duty-free under normal trade relations, which applies on a nondiscriminatory basis to almost all U.S. trading partners. Only 6% of the value of U.S. imports from the four countries was dutiable in 2006. Thus, only a relatively small share of U.S. imports from ATPA countries are dutiable. These imports might include products such as textiles and apparel that are relatively import-sensitive in the United States.

Table 2. U.S. Imports from Andean Countries: 2001 and 2006

($ Millions)

	Bolivia	Colombia	Ecuador	Peru	Total	% of Total
2001 Total Imports	165.4	5,692.6	1,970.4	1,805.5	9,634.0	100%
Duty-Free Imports	137.9	3,437.2	1,039.1	1,221.0	5,835.1	61%
ATPA	53.2	696.6	216.1	686.3	1,652.2	17%
GSP	9.5	68.2	33.0	73.4	184.2	2%
Other duty-free	75.2	2,672.4	790.0	461.3	3,998.7	42%
2006 Total Imports	362.4	9,239.8	7,011.4	5,896.9	22,510.6	100%
Duty-Free Imports	329.0	8,531.5	6,524.9	5,793.6	21,179.0	94%
ATPA (excl. ATPDEA)	107.1	927.0	325.8	1,565.3	2,925.0	13%
ATPDEA	59.2	3,864.2	4,999.4	1,636.6	10,559.4	47%
GSP	21.7	181.6	71.2	179.4	453.9	2%
Other duty-free	141.1	3,558.7	1,128.5	2,412.3	7,240.7	32%

Source: United States International Trade Commission, Interactive Tariff and Trade Data Web [http://dataweb.usitc.gov]. Compiled by CRS.

The year 2006 marked the fourth full year that ATPA provisions were in effect after its renewal. The average *ad valorem* tariff on imports from the region was 2.0% in 2005, down from 3.9% in 2003 and 3.8% in 2001. U.S. imports that entered under ATPA rose more rapidly in 2006 than total U.S. imports from the region and from the world. In 2006, U.S. imports from the region totaled $22.5 billion, an increase of 135% from the 2001 (see **Table 2**) amount of $9.6 billion. In 2006, 60% of U.S. imports from the region received preferential duty treatment under ATPA and ATPDEA, up from 17% in 2001.

ATPA Impact

The trade effects of ATPA on the U.S. economy are minimal because the amount of U.S. trade with the region is low. The value of duty-free U.S. imports under ATPA accounted for about 0.7% of total U.S. imports, or 0.09% of the U.S. gross domestic

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[1] The additional products under ATPDEA included petroleum and petroleum products, certain footwear, tuna in flexible containers, and certain watches and leather products. ATPDEA also authorized the President to grant duty-free treatment to U.S. imports of certain apparel articles, if the articles met domestic content rules.

product (GDP). A 2006 U.S. International Trade Commission (USITC) study on the ATPA states that the overall effect of ATPA-eligible imports on the U.S. economy was negligible in 2005. The study also states that certain apparel items provided the largest gain in U.S. consumer surplus from lower prices, possibly adversely affecting some domestic producers. Other U.S. industries which may have experienced displacement by ATPA imports include asparagus, fresh-cut roses, and other flowers.[2]

Effects on Andean Countries. The overall effects of the ATPA on the economies of the Andean region is unclear because of the challenges involved in isolating the effects of ATPA from other variables that affect the economy. National economic policies in the region and investor confidence may have a larger effect on economic trends. The program's effect also depends on the U.S. market share of a country's exports: the larger the share, the more significant the effect may be. Ecuador's exports to the United States represent 53% of its total exports, making it the country with the highest market share of exports to the United States. Colombia follows, with 40% of total exports headed to the United States, then Peru with 23%, and Bolivia with approximately 13% of total exports headed to the United States.[3] In all four countries, however, the overall effect is likely small because Andean ATPA-eligible exports account for a relatively small share of GDP. However, although the overall effect on the region may have been small, there are indications that the composition of trade has changed and that the ATPA may have affected this change.

The impact of the ATPA on coca production in Andean countries is unclear. The USITC study states that ATPA, combined with U.S. economic assistance through alternative development programs,[4] may have contributed to the U.S. counter-narcotics effort and had a small, indirect effect on illicit crop eradication and crop substitution in the ATPA region. The study also states that, increased production of ATPA-eligible exports in 2005 helped support job growth in certain economic sectors including the flower and asparagus sectors, and the textile and apparel industries. Farmers in the four Andean countries also began exporting nontraditional crops such as artichokes, beans, broccoli, grapes, and other fruits and vegetables and their preparations.[5] The U.S. State Department's *International Narcotics Control Strategy Report* states that, in Colombia, the source of over 90% of the cocaine entering the United States, potential production declined 6.5% in 2004, putting potential cocaine production at the lowest level in at least seven years — even though Colombian coca crop size estimates remained unchanged. The report also states that Peru surpassed its coca eradication goals but that the number

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[2] United States International Trade Commission (USITC), *The Impact of the Andean Trade Preference Act, Twelfth Report 200,* September 2006, pp xi-xiii.

[3] Source for U.S. market shares for Colombia, Ecuador, and Peru is Global Trade Atlas Navigator on-line database. For Bolivia, the U.S. market share was estimated by CRS using data from International Monetary Fund, *Direction of Trade Statistics, Yearbook 2006.*

[4] The Alternative Development program is a program funded under the U.S. Agency for International Development's Andean Counterdrug Initiative (ACI).

[5] USITC, pp. xi-xiii.

of hectares under cultivation has grown.[6] The report does not indicate whether the ATPA was a contributing factor in these changes.

The rapid rise in the value of imports from ATPA countries in recent years was primarily due to an increase in the value of imports of petroleum-related products which resulted from higher oil prices. Imports of petroleum-related products accounted for 67% of U.S. imports under ATPA in 2006. Imports of copper accounted for 12% of ATPA imports, while imports of apparel accounted for 10%. In 2001, the two largest import products groups were copper articles and flowers, which together accounted for approximately one-half of the total. Increases in other U.S. ATPA-eligible imports, such as asparagus and cut flowers, have helped support job growth and may have expanded alternatives to workers who may have otherwise engaged in drug-crop production.

Possible Sectoral Effects. The USITC study identified the asparagus and cut flower industries as two U.S. sectors that had estimated displacements of five percent or more due to the ATPA. U.S. imports of all fresh or chilled asparagus increased significantly between 2001 and 2005, from $116.9 million to $213.9 million. Peru, the leading exporter of asparagus in the world, accounted for 51% of total U.S. asparagus imports in 2005. U.S. asparagus imports from Peru increased from $47.3 million in 2001 to $109.9 million in 2005, an increase of 132%. Although most asparagus imports from the Andean region enter the U.S. market when overall U.S. production is low, U.S. producers have been affected by lower prices and many growers have gone out of business as a result.[7] On the other hand, U.S. consumers have benefitted from a greater availability of fresh asparagus throughout the year and from lower retail prices in 2005. The Peruvian asparagus industry provides jobs for an estimated 60,000 workers and is considered to be an important part of overall economic development in Peru. The Peruvian Asparagus and Vegetables Institute (IPEH) estimates that nearly 40% of the workers in the asparagus industry come from areas that formerly supplied workers to illegal coca cultivation.[8] Asparagus imports have been eligible for duty-free treatment since 1992. If the ATPA is not renewed, these products would be dutiable at 5% to 21.3% *ad valorem*.

Another sector in which U.S. producers have been affected is fresh-cut flowers. ATPA countries supplied 96% of the total value of U.S. imports of fresh-cut roses and 89% of U.S. imports of chrysanthemums in 2005. Almost all imports in these two categories enter the United States duty-free under ATPA. The major supplier from the region is Colombia, followed by Ecuador. The United States is the principal export market for these products, accounting for 81% of the total value of Colombian exports and 60% of Ecuadorian exports in 2005. Colombia's association of flower exporters estimates that the industry provides for 83,300 direct jobs and 75,000 indirect jobs, and that it has the highest concentration of employees per hectare in Colombia's agriculture

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[6] U.S. Department of State, *International Narcotics Control Strategy Report (INCSR), Volume I: Drug and Chemical Control*, March 2006.

[7] USITC, p. 3-12.

[8] Peruvian Asparagus Importers Association, *Written Statement for the House Committee on Ways and Means*, July 12, 2006.

sector.[9] Low-priced imports of fresh-cut flowers may have been part of the reason for the decreasing number of commercial U.S. cut-flower growers.

Since the ATPDEA was implemented, investment in the textiles and apparel industries has increased in the Andean region. Textiles and apparel production has been a leading source of economic activity, particularly in Peru and Colombia. Peru has been the leading Andean textile and apparel supplier to the United States for the past several years. The sector employs 150,000 workers directly and 375,000 indirectly in Peru. Economic analysts in Peru attribute the growth in Peru's textile and apparel exports directly to the trade preferences granted by ATPDEA, stating that growth was due to increased demand and incremental investments that created new jobs.[10] In Bolivia, Colombia, and Ecuador, the textile and apparel sectors also are a significant source of economic activity and employment. Industry representatives from the region have been concerned about losing ATPDEA preferences because of the importance of the United States as an export market.

Policy Implications

Supporters of ATPA argue that the program should continue to reinforce the U.S. commitment to the "alternative development" counternarcotics strategy, while critics argue that unilateral trade programs are ineffective and inhibit the growth on trade in the beneficiary countries. Some industry representatives in the United States believe that the ATPA has lowered prices of certain products, forcing U.S. producers to compete with lower-cost Andean imports. In the Andean countries, ATPA supporters state that the program has had a positive impact in the region by increasing investor confidence, creating thousands of jobs in alternative sectors, and preventing organized crime and reducing the production of drugs. They believe that maintaining confidence in the trade relationship with the United States is key to the long-term stability of the region.

The Bush Administration has stated that it supports a short-term extension of the preferential trading relationship with Andean countries. The longer-term goal for the Administration and some policymakers is to implement free trade agreements with Colombia and Peru so that tariff reductions are permanent. Legislation for the Colombia and Peru free trade agreements has not been introduced in the Congress. Major policy options for the 110th Congress are to consider renewal of the ATPA program, either on a short term or long term basis; to allow the program to expire; or to implement free trade agreements with Colombia and Peru and permanently reduce tariffs on U.S. imports from these two countries. Some Members of Congress believe that, if the trade preferences are not extended, the United States and the Andean countries risk losing some of the economic progress that has been achieved over the fifteen-year life of the program. They also believe that extension of the program is an extension of U.S. diplomacy and that the program should not be interrupted. Others believe that there is no reason to extend the program since Peru and Colombia have negotiated free trade agreements with the United States and that Bolivia and Ecuador have often criticized U.S. trade and foreign policies.

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[9] U.S. Department of Commerce, U.S. Commercial Service, *Trade Never Smelled So Sweet: Colombian Flowers Make Bouquet Bucks,* see [http://www.buyusa.gov].

[10] USITC report pp. 3-31 and 3-32.