Order Code RS22548
December 6, 2006

CRS Report for Congress

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. 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. Duty-free benefits under the ATPDEA are scheduled to end on December 31, 2006. Measures have been introduced in the 109th Congress to extend the Andean trade preferences program until 2008 (H.R. 6076 and S. 3904). 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. Duty-free benefits under the ATPDEA are scheduled to end on December 31, 2006.

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 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 meet domestic content rules.

U.S. Trade with Andean Countries

In 2005, the United States imported $20.1 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 2005 totaled $9.9 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 44% of U.S. imports from the region and 55% of U.S. exports (see **Table 1**). Peru and Ecuador nearly split the other half of imports and exports, and Bolivia accounted for only 1% of U.S. imports and 2% of U.S. exports with the region. The leading U.S. import from the region in 2005 (35% of imports) was petroleum, principally crude oil from Ecuador and Colombia. Other leading U.S. imports were jewelry, gold, coal, coffee, articles of copper, and cut flowers. Leading U.S. exports to the region were petroleum products, mining equipment, broadcasting equipment, and data processing machines.

Table 1. U.S. Trade with Andean Countries, 2005

Country	U.S. Imports		U.S. Exports	
	Region Share (%)	Leading Items	Region Share (%)	Leading Items
Bolivia	1	jewelry, crude oil	2	mining machinery, jewelry
Colombia	44	crude oil, coal	55	data processing machines, mining machinery
Ecuador	29	crude oil, crustaceans	20	petroleum products, broadcasting equipment
Peru	26	gold, refined copper	23	petroleum products, mining machinery

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

In 2005, a considerable share (47%) of all U.S. imports from the four Andean countries entered duty-free under ATPDEA, and a smaller share (11%) entered duty-free under ATPA (see **Table 2**).[1] A very small share (2%) entered duty-free under the U.S.

[1] The additional products under ATPDEA included petroleum and petroleum products, certain (continued...)

Generalized System of Preferences, which applies to most developing countries throughout the world. Of the remaining 40% of imports, most entered duty-free under normal trade relations, which applies on a nondiscriminatory basis to almost all U.S. trading partners. Only 8% of the value of U.S. imports from the four countries was dutiable in 2005. 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 2005
($ 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%
2005 Total Imports	293.3	8,603.3	5,873.9	5,083.1	19,853.6	100%
Duty-Free Imports	282.6	7,725.7	5,346.5	4,955.4	18,310.2	92%
ATPA	77.3	820.3	300.6	962.3	2,160.1	11%
ATPDEA	80.1	3,832.8	4,070.1	1,320.2	9,303.1	47%
GSP	26.8	188.9	57.7	174.8	448.2	2%
Other duty-free	98.4	2,883.7	918.1	2,498.1	6,398.8	32%

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

The year 2005 marked the third 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 2005 than total U.S. imports from the region and from the world. In 2005, U.S. imports from the region totaled $19.8 billion, an increase of 106% from the 2001 (see **Table 2**) amount of $9.6 billion. In 2005, 58% 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 likely minimal because the amount of U.S. trade with the region is low. The value of duty-free U.S. imports under

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[1] (...continued)
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.

ATPA accounted for about 0.7% of total U.S. imports, or 0.09% of the U.S. gross domestic product (GDP). A 2006 U.S. International Trade Commission (USITC) study on the ATPA found that the overall effect of ATPA-eligible imports on the U.S. economy was negligible in 2005. However, the study determined 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 macroeconomic policies in the region and investor confidence may have a much 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. Bolivia's exports to the United States represent 55.9% of its total exports, making it the country with the highest market share of exports to the United States. Colombia follows, with 40.4% of total exports headed to the United States, then Bolivia with 35.3% and Peru with 31.0% of total exports headed to the United States. In all four countries, however, the overall effect is likely small because Andean ATPA-eligible exports account for a relatively small share of GDP (less than 4%). 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. A major finding of the USITC study was that the ATPA, combined with U.S. economic assistance through alternative development programs,[3] 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.[4] 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 of hectares under cultivation has grown.[5] The report does not indicate whether the ATPA was a contributing factor in these changes.

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

[4] USITC, pp. xi-xiii.

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

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 mineral fuels and apparel products accounted for nearly four-fifths of imports under the program in 2005 and represented a large proportion of the top U.S. imports under the ATPA. 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 Industry Effects. The USITC study identified the asparagus and cut flower industries as two U.S. industries 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.[6] 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.[7] 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 sector.[8] 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

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[6] USITC, p. 3-12.

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

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

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.[9] 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

The ATPA, as renewed under the ATPDEA, has provided preferential, mostly duty-free, treatment to a number of U.S. imports from Bolivia, Colombia, Ecuador, and Peru. The goal has been to encourage growth of a more diversified Andean export base, thereby providing an incentive for Andean workers to pursue economic alternatives to drug trade. Supporters of ATPA argue that the program should be reauthorized to reinforce the U.S. commitment to the "alternative development" counternarcotics strategy. 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 bilateral trade environment with the United States is key to the long-term stability of the region.

Measures have been introduced in the 109th Congress to extend the Andean trade preferences program until 2008. On September 14, 2006, a measure was introduced in the House (H.R. 6076) that includes a provision that would extend the Andean program until December 31, 2008. On September 15, 2006, a similar measure was introduced in the Senate (S. 3904). Extension of the trade preferences program would be a temporary measure in reducing tariffs from Andean countries. The Bush Administration and leaders of Andean countries have stated that the long-term goal is to implement free trade agreements so that tariff reductions are permanent. The United States has negotiated free trade agreements (FTAs) with Peru and Colombia. Implementing legislation for the Peru and Colombia FTAs has not yet been introduced in the Congress.

Some major policy options for 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. If the ATPA is not renewed by the end of 2006, Congress may consider renewal in the 110th Congress and make all duty reductions that were in place prior to the ATPA's expiration retroactive to December 31, 2006, and all those duties collected would be reimbursable. Another possibility is a retroactive extension of benefits to Peru and Colombia if Congress approves free trade agreements with these countries.

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