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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 purpose of ATPA is to promote economic growth in the Andean region and to encourage a shift away from dependence on illegal drugs by supporting legitimate economic activities. The ATPA (Title II of P.L. 102-182) was enacted on December 4, 1991. 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, extending trade preferences until December 31, 2006. Since that time, Congress has favored short-term extensions of ATPA. On October 16, 2008, the 110th Congress enacted legislation to extend ATPA trade preferences until December 31, 2009 for Colombia and Peru, and until June 30, 2009 for Bolivia and Ecuador (P.L. 110-436). 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 that began under the Andean Trade Preference Act (ATPA). ATPA was enacted on December 4, 1991 (Title II of P.L. 102-182) and was originally authorized for ten years. It 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 until December 31, 2006, with a retroactive date of December 4, 2001, and also expanded trade preferences to include additional products that were previously excluded under ATPA. 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. Since ATPDEA was enacted, Congress has favored short-term extensions of ATPA.

On October 16, 2008, legislation was enacted to extend ATPA trade preferences until December 31, 2009 for Colombia and Peru, and until June 30, 2009 for Bolivia and Ecuador (P.L. 110-436). Under certain conditions, trade preferences for Bolivia and Ecuador may be extended for an additional six-month period. For Bolivia, ATPA trade preferences will be extended only if the President determines that Bolivia has met program eligibility criteria. In the case of Ecuador, ATPA trade preferences will be automatically extended unless the President finds that the country is in violation of the eligibility criteria. Under the previous extension of ATPA (P.L. 110-191), the trade preference program was scheduled to expire for all four countries on December 31, 2008.

ATPA, as amended by ATPDEA, is part of a broader U.S. initiative with Andean countries to address the drug trade problem with 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, 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.

U.S. Trade with Andean Countries

In 2007, the United States imported $20.9 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 2007 totaled $14.6 billion, or 1.4% of all U.S. exports. The four countries collectively were the 19th leading suppliers of U.S. imports. The United States is a leading export market for all four countries. Ecuador and Colombia have the highest market share of exports going to the United States, with 53% of Ecuador's exports and 39.6% of Colombia's exports headed to the United States. For the United States, Colombia is the leading trading partner in the region, accounting for 44.2% of U.S. imports from ATPA countries and 53.9% of U.S. exports to ATPA countries (see **Table 1**). Leading U.S. imports from all ATPA countries in 2007 were petroleum oils (principally crude), refined copper, coal, coffee, and gold. Leading U.S. exports to ATPA countries were petroleum products, corn (maize), parts for boring or sinking machinery, wheat, and fertilizers.

Table 1. U.S. Trade with ATPA Countries, 2007

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	1.8%	jewelry, food preparations
Colombia	44.2%	crude petroleum oils, coal	53.9%	corn (maize), parts for boring or sinking machinery
Ecuador	29.3%	crude petroleum oils, shrimps and prawns	18.5%	petroleum oils, telecommunications apparatus
Peru	24.9%	refined copper, gold	25.7%	petroleum oils, wheat and meslin
Total	--	crude petroleum oils, refined copper	--	petroleum oil products, corn (maize)

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

In 2007, a considerable share (58%) of all U.S. imports from the four Andean countries entered duty-free under ATPA and ATPDEA (see **Table 2**).[1] A very small share (3%) entered duty-free under the U.S. Generalized System of Preferences, which applies to most developing countries throughout the world. Of the remaining 39% 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 2007. Thus, only a relatively small share of U.S. imports from ATPA countries is 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 2007

($ 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%
2007 Total Imports	333.6	9,251.2	6,131.0	5,207.1	20,922.9	100%
Duty-Free Imports	327.6	8,447.1	5,812.9	5,056.0	19,643.6	94%
ATPA (excl. ATPDEA)	91.3	864.7	289.1	1,565.0	2,810.1	13%
ATPDEA	56.9	3,663.0	4,324.6	1,452.2	9,496.7	45%
GSP	40.7	236.4	76.6	245.5	599.2	3%
Other duty-free	138.7	3,683.0	1,122.6	1,793.3	6,737.6	32%

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

The year 2007 marked the fifth full year that ATPA provisions were in effect after its renewal under ATPDEA. Between 2001 and 2007, U.S. imports from the region receiving ATPA preferential duty treatment increased from $1.7 billion (17% of total U.S. imports from ATPA countries) to $12.3 billion (58% of total U.S. imports from ATPA countries). Leading U.S. ATPA imports are crude petroleum oils, refined copper, other petroleum oils, fresh roses, and sweaters and other knitted or crocheted apparel.

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 accounts for about 0.7% of total U.S. imports, or 0.1% of the U.S. gross domestic product (GDP). A 2006 U.S. International Trade Commission (USITC) study on the ATPA states

[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.

that the overall effect of ATPA-eligible imports on the U.S. economy was negligible in 2005.[2] 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.

Effects on Andean Countries. The overall effects of the ATPA on the economies of the Bolivia, Colombia, Ecuador, and Peru are difficult to measure precisely 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 and Colombia have the highest market share of exports to the United States.

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,[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 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 oils accounted for 67% of U.S. imports under ATPA in 2007. U.S. imports of copper accounted for 8% of ATPA imports, while imports of knit articles of clothing and live plants/cut flowers accounted for 7% and 5% of ATPA imports, respectively. Increases in certain U.S. ATPA-eligible imports, such as asparagus and cut flowers, may have helped support job growth and 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

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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.

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.[5] 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.[6] Asparagus imports have been eligible for duty-free treatment since 1992.

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.[7] 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.[8] 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 that trade preferences should not be extended to countries that do not support U.S. foreign and trade policies. Some

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[5] USITC, p. 3-12.

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

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

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

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.

Major policy issues in the 110th Congress have been related to the question of renewing the ATPA program, either on a short or long-term basis, or allowing the program to expire for some or all of the countries. The congressional debate surrounding the length of ATPA renewal for Bolivia and Ecuador is largely based on the status of U.S. overall relations with both countries. For Colombia, there is the question of the pending U.S.-Colombia free trade agreement (FTA). Implementing legislation for a U.S.-Colombia FTA was introduced on April 8, 2008, but it is unclear whether or how Congress will consider implementing legislation for the agreement.[9] In the case of Peru, trade preferences will become permanent upon implementation of the U.S.-Peru FTA (P.L. 110-138). Implementing legislation for the U.S.-Peru free trade agreement was enacted in December 2007, but the agreement has not yet been implemented.[10]

Some Members of Congress believe that there is no reason to consider long-term extension of ATPA for countries such as Bolivia and Ecuador that are not supportive of U.S. trade and foreign policies. Others 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 sixteen-year life of the program. Some Members have argued that renewing ATPA is a pragmatic means to urge President Morales of Bolivia and President Correa of Ecuador to maintain open-market and democratic policies.[11] Under P.L. 110-436, ATPA trade preferences for Bolivia would end after six months, unless the President of the United States determines that Bolivia has met program eligibility criteria. The Office of the United States Trade Representative published a public notice in September 2008 proposing to suspend Bolivia's ATPA benefits because of Bolivian President Evo Morales' recent actions on narcotics cooperation.[12] The treatment for Ecuador is different than for Bolivia because preferences would be automatically extended for Ecuador unless the U.S. President finds it in violation of the eligibility criteria, and findings of those violations are considered "very rare".[13]

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[9] For more information, see CRS Report RL34470, *The U.S.-Colombia Free Trade Agreement: Economic and Political Implications*, by M. Angeles Villarreal.

[10] For more information see, CRS Report RL34108, *U.S.-Peru Economic Relations and the U.S.-Peru Free Trade Agreement*, by M. Angeles Villarreal.

[11] For more information, see CRS Report RS21687, *Ecuador: Political and Economic Situation and U.S. Relations*, by Clare Ribando Seelke, and CRS Report RL32580, *Bolivia: Political and Economic Developments and Relations with the United States*, by Clare Ribando Seelke.

[12] Brevetti, Rossella, "House, Senate Pass Bill Extending GSP, Trade Preferences for Andean Nations," *International Trade Reporter*, October 9, 2008.

[13] "Senate Passes Differentiated ATPDEA Extension, House Likely to Follow," *Inside U.S. Trade*, October 3, 2008.