

Renewal and Expansion of ATPA Could Enhance Effectiveness of the Program

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The Andean Trade Preference Act (ATPA), which was intended to expand economic opportunities in beneficiary countries as an alternative to illegal drug activities, is under consideration for renewal and expansion. The effectiveness of the current ATPA program is limited because of the limited nature of trade preferences included in ATPA. Renewal of ATPA beyond December 2001 that includes expansion of product eligibility similar to that in the U.S.-Caribbean Basin Trade Partnership Act of 2000 would greatly enhance possibilities for expanded exports by ATPA countries to the United States.

The Andean Trade Preference Act (ATPA) expires on December 4, 2001, under existing legislation (19 U.S.C. 3201-3206). ATPA was intended to expand economic incentives to Andean countries to encourage them to move out of the production, processing, and shipment of illegal drugs and into the production of legitimate products. The limited number of products of Andean countries that receive exclusive preferential tariff treatment under ATPA and the limited margin of preference received by major products benefiting exclusively from ATPA have limited the effectiveness of ATPA in its principle purpose of stemming the illegal drug trade. The Bush administration supports an extension of ATPA as a bridge to a Free-trade Area of the Americas (FTAA), which is slated for implementation in 2005, and an expansion of coverage to give ATPA countries parity with the more liberal provisions granted to Caribbean Basin countries in the Caribbean Basin Trade Partnership Act (CBTPA) of May 2000. Legislation has been introduced in Congress (S. 525) by Senators Bob Graham (D-Fla.) and Mike DeWine (R-Ohio) to grant the extension and expansion of ATPA.

When it was enacted in 1991, the trade preferences of ATPA were modeled after those in the Caribbean Basin Economic Recovery Act (CBERA) as it existed at the time. The basic preferences in both acts were duty-free entry of U.S. imports from eligible countries² of all products not excluded, given certain country-of-origin requirements. Products excluded were textiles and apparel subject to textile agreements; certain foot wear; canned tuna; petroleum and petroleum products;

certain watches and watch parts; and certain leather-related products. There were duty reductions for certain handbags, luggage, and similar leather-related products. In addition, rum was excluded under ATPA.

The impact of ATPA on U.S. imports from beneficiary countries has never been large, mainly because of the relatively small number of items that receive preferential treatment exclusively from ATPA. U.S. imports from ATPA countries have been overwhelmingly dominated in recent years by petroleum and petroleum derivatives, which, along with other mineral fuels and similar products (chapter 27 of the Harmonized Tariff Schedule (HTS)), have accounted for around 30 to 40 percent of U.S. imports from ATPA countries, as shown in table 1.³ Imports from ATPA countries have been dominated to a lesser extent by coffee, bananas, and shrimp, which are free of duty under normal trade relations (NTR) rates.

Total U.S. imports from ATPA countries, total imports under ATPA provisions, and total imports benefiting exclusively from ATPA in 1996-2000 are shown in table 2. Total imports from ATPA countries in 2000 rose 13 percent from 1999 after an 18-percent rise in 1999. Imports entered under ATPA rose 13 percent in 2000 and imports benefiting exclusively under ATPA rose 40 percent. Despite the healthy growth of imports from ATPA countries, the share of imports that benefit exclusively from ATPA provisions remains a small proportion of those imports, and even that proportion is deceptively large.

¹ The views and conclusions expressed in this article are those of the author. They are not necessarily the views of the U.S. International Trade Commission as a whole or of any individual Commissioner.

² The eligible countries under ATPA are Bolivia, Colombia, Ecuador, and Peru.

³ Petroleum and petroleum derivatives are excluded from ATPA preferences, but NTR duties on these products are extremely low, amounting to less than 1 percent ad valorem equivalent in most cases. Most other chapter 27 items enter free of duty under NTR rates.

The concept of imports that benefit exclusively from ATPA is most useful for assessing the impact of ATPA on the United States or on ATPA countries. These are imports that can enter the United States free of duty or at reduced duties only under ATPA provisions. They are defined as those items that enter under either ATPA duty-free or reduced-duty provisions and are not eligible to enter free of duty under NTR rates or under other programs, such as the Generalized System of Preferences (GSP).⁴ 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 exceed competitive need limits.⁵ The leading items that benefited exclusively from ATPA in 1999 and 2000 are shown in table 3.

The share of imports that benefit exclusively from ATPA has typically been around half the value of imports that enter under ATPA in recent years (with the exception of 1995 and 1996 when there were uncertainties about the renewal of GSP). This reflects the fact that many items that entered under ATPA could also have entered free of duty under GSP. The share of imports benefiting exclusively from ATPA rose from 9.6 percent in 1999 to 11.8 percent in 2000.

The increase in the ATPA-exclusive share of imports and the level of that share are both deceptively high as indicators of the impact of ATPA. One product, copper cathodes (HTS subheading 7403.11.00), accounts for 65 percent of the increase in ATPA-exclusive imports from 1999 to 2000 and 43 percent of total ATPA-exclusive imports in 2000. Two products, copper cathodes and pigments (HTS subheading 3212.90.00), account for more than 100 percent of the change (\$379 million increase in imports of the two items versus \$373 million increase in total ATPA-exclusive imports) and over 53 percent of total ATPA-exclusive imports. If these two products are excluded, the remaining ATPA-exclusive imports account for only 5.5 percent of total imports from ATPA countries in 2000.

⁴ All of the ATPA beneficiary countries are also GSP beneficiary countries.

⁵ 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 limits. 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.

Imports of copper cathodes and pigments are probably not dependent on ATPA tariff preferences, mainly because the margin of preference for these products is very low. NTR duties on these products are 1 percent and 3.1 percent, respectively.⁶ It is likely that U.S. imports of these products from ATPA countries would be nearly the same in the absence of ATPA preferences.

The effectiveness of ATPA is restricted by the limited number of ATPA-country products that benefit exclusively from ATPA preferences and the limited margin of preference received by major ATPA-exclusive products. It follows that major alternatives to the illegal drug trade will only occur with an expansion of product coverage. The legislation introduced by Senators Graham and DeWine would expand duty-free (and quota-free) entry to include apparel assembled in ATPA countries from U.S.-origin fabric, and would lower duties on other formerly excluded products to the duties applied to Mexican-origin products, many of which are already zero—essentially the same treatment accorded products from CBERA countries under CBTPA.⁷

The product area with the biggest potential for expanding U.S. imports from ATPA countries is apparel. The experience of CBERA countries is illustrative. Before liberal quota treatment was instituted for apparel assembled in CBERA countries from U.S. fabric, imports of apparel (HTS chapters 61 and 62) amounted to about 5 percent of U.S. imports from CBERA countries.⁸ By 2000, apparel amounted to nearly 45 percent of such imports. Further expansion of the apparel share can be expected to result from full duty elimination under CBTPA. Imports of apparel accounted for about 7.5 percent of U.S. imports from ATPA countries in 2000, very close to the share from CBERA countries before the first stages of apparel trade liberalization. The simultaneous liberalization of duties and quotas for imports of apparel from ATPA countries could open up possibilities similar to what happened in CBERA countries.

⁶ Both products are GSP-eligible, but Peru (the exclusive source of benefiting copper cathodes) has exceeded the competitive need limit for copper cathodes, and Colombia (the exclusive source of benefiting pigments) has exceeded the competitive need limit for pigments, leading to their inclusion in the list of ATPA-exclusive products.

⁷ For additional information on impending legislation, CBTPA provisions, and the apparel industry in ATPA countries, see Laura V. Rodriguez, "Apparel: Andean Countries Seek Parity with Caribbean Basin Countries to Remain Competitive in the U.S. Market," *Industry Trade and Technology Review*, USITC Publication 3413, March 2001, pp. 1-13.

⁸ See fig. 2-2 in USITC, *CBERA, Fourteenth Report*, USITC Publication 3234, p. 9.

Table 1
Leading U.S. imports from ATPA countries, by HTS chapter, 1999-2000

HTS chapter	Description	1999		2000	
		Customs value <i>(1,000 dollars)</i>	Percent of total	Customs value <i>(1,000 dollars)</i>	Percent of total
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	3,555,699	36.2	4,783,829	43.0
74	Copper and articles thereof	353,731	3.6	601,776	5.4
09	Coffee, tea, mate and spices	629,643	6.4	541,473	4.9
61	Articles of apparel and clothing accessories, knitted or crocheted	463,069	4.7	536,544	4.8
08	Edible fruit and nuts; peel of citrus fruit or melons	587,067	6.0	517,442	4.7
29	Organic chemicals	292,501	3.0	477,396	4.3
71	Natural or cultured pearls, precious or semiprecious stones, precious metals; precious metal clad metals, articles thereof; imitation jewelry; coin	704,196	7.2	467,933	4.2
06	Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage	438,735	4.5	441,745	4.0
99	Special import reporting provisions, nesi	309,914	3.2	365,536	3.3
03	Fish and crustaceans, molluscs and other aquatic invertebrates	533,682	5.4	345,307	3.1
62	Articles of apparel and clothing accessories, not knitted or crocheted	245,379	2.5	294,488	2.6
32	Tanning or dyeing extracts; tannins and derivatives; dyes, pigments and other coloring matter; paints and varnishes; putty and other mastics; inks	169,936	1.7	209,386	1.9
98	Special classification provisions, nesi	178,107	1.8	140,789	1.3
80	Tin and articles thereof	81,505	0.8	116,060	1.0
44	Wood and articles of wood; wood charcoal	111,187	1.1	112,544	1.0
	Subtotal	8,654,352	88.0	9,952,249	89.5
	Total	9,830,217	100.0	11,117,225	100.0

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

Table 2**Total imports from ATPA beneficiaries, imports entered under ATPA provisions, and imports that benefited exclusively from ATPA provisions, 1996-2000**

Item	1996	1997	1998	1999	2000
Total imports from ATPA beneficiaries:					
Value (<i>million dollars</i> ¹)	7,868	8,674	8,361	9,830	11,117
Imports entered under ATPA provisions: ²					
Value (<i>millions dollars</i> ¹)	1,270	1,353	1,645	1,750	1,981
Percent of total	16.1	15.6	19.7	17.8	17.8
Imports that benefited exclusively from ATPA provisions:					
Value (<i>million dollars</i> ¹)	1,033	635	915	939	1,312
Percent of total	13.1	7.3	10.9	9.6	11.8

¹ Customs value.

² Includes articles entered free of duty and at reduced duties under ATPA provisions.

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

Table 3
Leading U.S. imports that benefited exclusively from ATPA, 1999-2000

HTS number	Description	1,000 dollars		Change
		1999	2000	1999-2000
				Percent
7403.11.00 ¹	Refined copper cathodes and sections of cathodes	323,788	565,651	74.7
0603.10.60	Roses, fresh cut	182,878	192,420	5.2
3212.90.00 ²	Pigments dispersed in nonaqueous media, in liquid or paste form, used in making paints; dyes & coloring matter packaged for retail sale	0	136,963	-
0603.10.70 ³	Chrysanthemums, standard carnations, anthuriums and orchids, fresh cut	133,376	119,480	-10.4
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	83,054	74,620	-10.2
2843.30.00 ³	Gold compounds	56,649	48,603	-14.2
0709.20.90	Asparagus, nesi, fresh or chilled	26,605	33,412	25.6
7113.19.21 ¹	Gold rope necklaces and neck chains	12,360	18,656	50.9
7306.20.60	Iron or nonalloy steel, seamed, w/ext. diam. 406.4mm or less or o/than circ. x-sect, tubing of a kind used for drilling for oil/gas	4,036	13,331	230.3
4202.91.00 ⁴	Cases, bags and containers nesi, with outer surface of leather, of composition leather or patent leather	9,378	9,991	6.5
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	13,036	9,855	-24.4
7905.00.00	Zinc, plates, sheets, strip and foil	23,489	8,978	-61.8
6908.90.00	Glazed ceramic flags and paving, hearth or wall tiles; glazed ceramic mosaic cubes and the like, nesi	6,994	8,392	20.0
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.	3,262	5,056	55.0
0710.80.97	Vegetables nesi, uncooked or cooked by steaming or boiling in water, frozen, reduced in size	2,442	4,788	96.1
4202.11.00	Trunks, suitcases, vanity & all other cases, occupational luggage & like containers, surface of leather, composition or patent leather	5,642	4,725	-16.3
7210.49.00	Iron/nonalloy steel, width 600mm+, flat-rolled products, plated or coated with zinc (other than electrolytically), not corrugated	2,865	4,432	54.7
4202.21.60	Handbags, with or without shoulder strap or without handle, with outer surface of leather, composition or patent leather, nesi, n/o \$20 ea.	3,280	4,004	22.1
2003.10.00	Mushrooms, prepared or preserved otherwise than by vinegar or acetic acid	1,872	3,545	89.4
4412.29.45 ⁵	Plywood nesi, at least one hardwood outer ply nesi, no particle board, surface covered other than clear/transparent	4,192	3,535	-15.7
	Total of above	899,198	1,270,437	41.3
	Total	939,096	1,312,316	39.7

See notes at end of table.

Table 3—Continued
Leading U.S. imports that benefited exclusively from ATPA, 1999-2000

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 for the second half of 2000. Item is GSP-eligible, but imports from Columbia exceeded the competitive need limit and thus were eligible for duty-free entry only under ATPA in the second half of 2000. There were substantial imports of pigments under ATPA in 1999 and the first half of 2000 that could have entered free of duty under GSP during that period, and therefore were not counted as benefiting exclusively from ATPA.

³ 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.

⁴ Subject to reduced duties under ATPA provisions.

⁵ Includes only imports from Ecuador. Item is GSP-eligible, but imports from Ecuador exceeded the competitive need limit and thus were eligible for duty-free entry only under ATPA.

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.