CORPORACIÓN ANDINA DE FOMENTO (CAF)
10th ANNIVERSARY CONFERENCE ON

TRADE AND INVESTMENT IN THE AMERICAS

Organized by the Inter-American Dialogue, the Corporación Andina de Fomento and the Organization of American States

September 7-8, 2006
Washington, D.C.

THE ANDEAN TRADE PROMOTION AND DRUG ERADICATION ACT:
Its Impact on Prosperity, Security, and Democracy

A Contribution of the General Secretariat of the Organization of American States

THE ANDEAN TRADE PROMOTION AND DRUG ERADICATION ACT: Its Impact on Prosperity, Security, and Democracy

FOREWORD

The Andean Trade Promotion and Eradication Act (ATPDEA) will expire on December 31, 2006. The implications of losing these preferences for the beneficiary countries – Bolivia, Colombia, Ecuador and Peru - could go well beyond the economic impact on certain sectors of their economies -- in a region that is fragile economically and vulnerable to the consequences of a renewed drug war.

During the life of the ATPDEA, progress has been made on the macroeconomic front. In 2005, the economies of the Andean countries grew by 6.9 percent; forecasts indicate that they will expand by 6.2 percent this year and by 5.2 percent in 2007. Inflation has decreased from around an annual rate of 10 percent in 2002 to about 6.4 percent in 2005 and is projected to fall even further to 5.4 percent in 2006. The fiscal situation has also improved with several countries nearing fiscal balance. Although progress has been achieved in lowering urban unemployment, job creation remains critical if economic growth is to be translated into higher standards of living for broader sectors of the population.

The Andean region continues to be considered as particularly important in the fight against illicit drugs because it produces nearly all of the world's cocaine. Progress made in curtailing production and drug trafficking will need to be sustained in order to achieve a viable solution to a problem that poses a threat to the security interests of the United States and the world.

When Congress enacted the Andean Trade Preference Act in 1991 and then renewed it in 2002, it was based on the acknowledgement that enhancing opportunities for economic development in the beneficiary countries was important for the foreign policy and the national interest of the United States. The ATPDEA was conceived as a key element of the United States counter-narcotics strategy in the Andean region to promote export diversification and broad-based economic development as a sustainable economic alternative to drug-crop production and trafficking. Reviving and stabilizing the economies in the Andean countries would help, in turn, to solidify their democratic institutions.

The results of the program have been encouraging. Assistant Secretary of State for the Western Hemisphere Tom Shannon has recently been quoted in the press as saying, "[The ATPDEA has been] an important counterpoint to drug production in the region. It's produced hundreds of thousands of jobs in the region, so in that sense it's been a very, very successful program."

Maintaining preferential access to the US market –be it through the quick approval of the free trade agreements already completed with Colombia and Peru or through the extension of the ATPDEA when required to protect current preferences —will be consistent with the United States commitment to the fight against illicit drugs and to the promotion of prosperity, stability, and democracy in the region. It will also build on the success of a program that is a good example of the hemispheric solidarity called for in the Declaration of Florida when OAS Member States vowed to work together to "advance shared political and economic values to make this a Hemisphere of democratic, stable, and prosperous nations."

EXECUTIVE SUMMARY

This note provides background information on the Andean Trade Promotion and Drug Eradication Act (ATPDEA), underlines the benefits it has provided to the Andean countries that are beneficiaries of the program and the consequences of the loss of the preferential access enjoyed under this program.

- The U.S. trade relationship with Bolivia, Colombia, Ecuador and Peru is currently conducted under the framework of the unilateral trade preferences of the Andean Trade Preference Act (ATPA) enacted by the US Congress in 1991, and amended in 2002 by the Andean Trade Promotion and Drug Eradication Act.

- The ATPDEA, which expires on December 31, 2006, has served as a tangible manifestation of the expressed commitment by the United States to promote prosperity, stability, and democracy in the four beneficiary countries. Its main objective is to promote export diversification and broad-based economic development as a sustainable economic alternative to drug-crop production, and trafficking.

- The Andean region remains vulnerable to the consequences of the drug war and fierce global competition for its legitimate trade.

- The ATPDEA has had a positive impact on exports from the beneficiary countries—resulting in the considerable expansion of their trade, particularly non-traditional products, and an increase in employment.

- Between 2002 and 2005, exports under the ATPDEA program to the United States increased twenty-fold for Ecuador, ten-fold for Colombia, almost six-fold for Peru, and four-fold for Bolivia.

- In its 10 years, ATPA created 123,000 jobs in Colombia, and the ATPDEA is expected to support 140,000 more new jobs by the end of 2006. Sectors that benefit from ATPDEA preferences provide an important opportunity for people to abandon illegal coca cultivation and take up legal employment elsewhere.

- In Peru, the asparagus industry continued to be an important source of alternative employment, supporting an estimated 60,000 workers directly in asparagus cultivation and processing in 2005. Based on the success of asparagus and mangoes, local producers have begun to grow and export other vegetables and fruits to the United States, including grapes, onions, artichokes, and paprika.

- In Bolivia, the ATPDEA has contributed to the improvement of business competitiveness, particularly in the textile/apparel, leather goods, wood products and jewelry sectors, all products of value added that are commonly produced by the indigenous communities.

- A report recently prepared by the Ecuadorian government with input from the private sector indicates that ATPDEA has had a positive effect on employment in the country, with exports of cut flowers generating more than 60,000 jobs (40 percent male/60 percent female); mango exports, 22,500 jobs; textiles, 16,000 jobs; broccoli exports, 11,500 jobs; and the most important being the tuna industry (fishing and industrial processing sectors) with 250,000 jobs created.

- A loss –or even an interruption—of the preferential access enjoyed under the ATPDEA after its expiration on December 31, 2006 will have a significant impact on the beneficiary countries, not only in terms of reduction of exports but, most importantly, in terms of the loss of jobs. Its extension would be consistent with the principle of "shared responsibility" and a sign of continued commitment to the fight against illicit drugs.

- In Bolivia, one of the populations most vulnerable to the loss of preferential access are the inhabitants of El Alto, the poor, mostly indigenous city of a million residents located on the edge of the Altiplano above La Paz. El Alto's residents produce value added products such as textile/apparel, leather goods, wood products, handicrafts and jewelry. In the case of Ecuador, approximately 360,000 jobs would be put in jeopardy. Considering that many of these workers are heads of family, the affected population could exceed 1.5 million people. This could have consequences on the democratic processes in these countries and increase the cultivation of illegal crops.

- As Colombia and Peru are well advanced in the process leading to the ratification of their free trade agreement (FTA) with the United States, the extension of the ATPDEA is important only as an interim measure to cover the transition period between its expiration and the entry into force of the FTA.

- For Ecuador and Bolivia, the extension of the ATPDEA preferences is critical because absent a new trade agreement with the United States, their preferential access to the US market will be seriously curtailed at the end of 2006.

- Although duty free access to the US market could be preserved under the Generalized System of Preferences (GSP) program, should the US Congress decide to renew this program at the end of 2006, the GSP is more limited in terms of product coverage (with important sectors such as textiles, apparel, tuna in airtight containers excluded). Also, the eligibility criteria and rules of origin requirements would restrict even further the preferential access to the US market, making this a less much less desirable alternative.

THE ANDEAN TRADE PROMOTION AND DRUG ERADICATION ACT: Its Impact on Prosperity, Security, and Democracy

I. BACKGROUND[1]

The U.S. trade relationship with Bolivia, Colombia, Ecuador and Peru is currently conducted under the framework of the unilateral trade preferences of the Andean Trade Preference Act (ATPA), as amended in 2002 by the Andean Trade Promotion and Drug Eradication Act (ATPDEA). Congress enacted the ATPA in 1991 in recognition of the fact that regional economic development is necessary for these four Andean countries to provide economic alternatives to the illegal drug trade,[2] promote domestic development, and thereby solidify democratic institutions. The ATPA program lasted for ten years and expired on December 4, 2001.

The ATPDEA was signed into law on August 6, 2002, as part of the Trade Act of 2002. The program, which will expire at the end of 2006, offers enhanced trade benefits to the four ATPA beneficiary countries.[3] The ATPDEA restored the benefits of the ATPA, providing for retroactive reimbursement of duties paid during the lapse (January-August 2002). In addition, the ATPDEA *expanded* the list of items eligible for duty-free treatment by about 700 products as the original ATPA had excluded products such as textiles, apparel, footwear, articles of leather, and tuna in airtight containers.

The most significant expansion of benefits under the ATPDEA is in the apparel sector. Apparel assembled in the region from U.S. fabric or fabric components, or components knit-to shape in the United States, may enter the United States duty-free in unlimited quantities. Apparel assembled from Andean regional fabric or components knit-to-shape in the region may enter duty-free subject to a cap. The cap was set at 2 percent of total U.S. apparel imports in 2002, increasing annually in equal increments to 5 percent.

The ATPA established a number of criteria that countries must meet in order to be designated as eligible for the program. The ATPDEA added further eligibility criteria and provided for an annual review of the countries' eligibility. The new criteria relate to issues such as intellectual property rights, worker rights, government procurement procedures, and cooperation on countering narcotics and combating terrorism.

Figure 1 below shows how exports from the Andean countries to the United States have grown in a very dynamic manner since the enactment of the ATPDEA in 2002, increasing twenty-fold for Ecuador, ten-fold for Colombia, six-fold for Peru, and almost four-fold for Bolivia, over the short period 2002 – 2005. The product expansion of the new program has had an immediate and dramatic impact on the growth of the trade of all four countries.

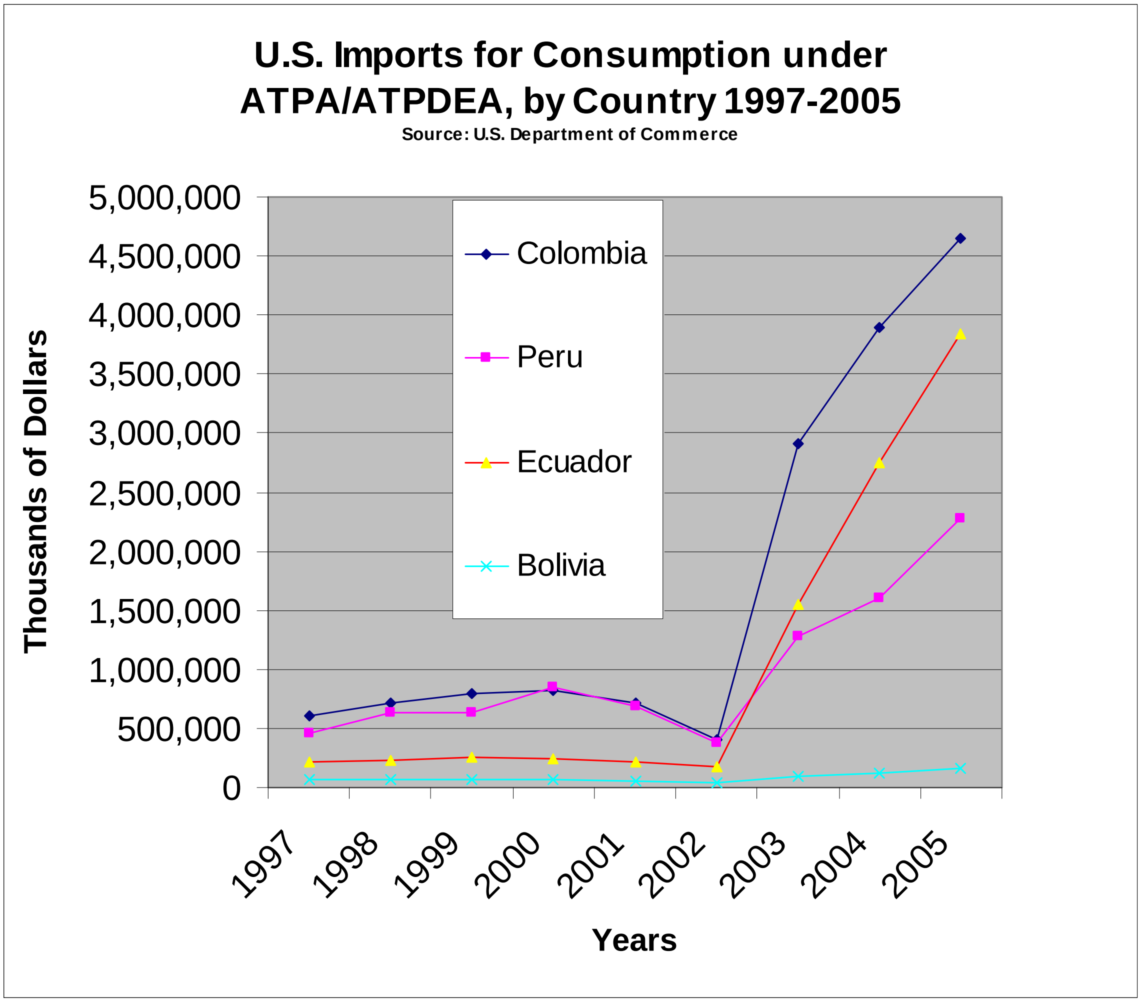
---

[1] 2006 Trade Policy Agenda and 2005 Annual Report of the President of the United States on the Trade Agreements Program.

[2] United Nations. 2006 World Drug Report. Most of the coca in the world continues to be cultivated in Colombia (54 percent), followed by Peru (30 percent) and Bolivia (16 percent). Although Ecuador has only small focal points of coca production, it has historically been considered as a transit country for illicit drugs directly linked with the whole traffic chain in the region.

[3] Venezuela, albeit at the time a member of the Andean Community along with the four ATPA/ATPDEA beneficiary countries, was not considered a coca producer at the beginning of the program, and therefore it was not eligible under the statute to be designated as a beneficiary country.

Figure 1.



II. SITUATION OF THE BENEFICIARY ANDEAN COUNTRIES VIS A VIS THE EXPIRATION OF THE ATPDEA

Two months after Peru and the United States signed the United States-Peru Trade Promotion Agreement (PTPA) at the OAS, the Presidents of Bolivia, Colombia, Ecuador and Peru, in a letter dated June 13, 2006, formally requested President Bush to extend the trade preferences granted under the "Andean Trade Promotion and Drug Eradication Act (ATPDEA)" "for those of our countries that require it in order to advance our national development and ensure the well being of Andean workers and entrepreneurs whose livelihoods depend upon those exports. We deem the extension of those tariff preferences to be necessary while the trade agreements to which Bolivia, Colombia and Ecuador aspire are worked out, finalized and implemented in accordance with their respective visions and interests, so as not to disrupt their trade with the United States." Then President Toledo of Peru mentioned in the letter that for the Government of Peru, "this request, which it supports for reasons of solidarity with its Andean neighbors, does not in any way constitute an impediment to the approval of the Free Trade Agreement signed this past April 12 with the United States."

As Colombia and Peru are well advanced in the process leading to the ratification of their free trade agreement (FTA) with the United States, the extension of the ATPDEA is important only as an interim measure to cover the transition period between its expiration and the entry into force of the FTA. In contrast, for Bolivia and Ecuador, the extension of the ATPDEA preferences is critical because absent a new trade agreement with the United States, their preferential access to the US market will be seriously curtailed at the end of 2006.

COLOMBIA

After having concluded negotiations on February 27, 2006, the United States and Colombia agreed on the final text of their free trade agreement in early July 2006. President Bush notified Congress of his intent to sign the agreement on August 24, 2006. Under Trade Promotion Authority, the President of the United States has to give a 90-day advance notice to Congress of his intent to sign an agreement before Congress can vote on it. This means that the U.S.-Colombia Trade Promotion Agreement will probably not be considered by Congress until the "lame-duck" session, that is, the session after the 2006 November Congressional elections and before the new Congress is in place in January 2007.[4]

One of Colombia's objectives in pursuing an FTA with the United States was to consolidate –as well as to expand-- its preferential access to the US market under the ATPDEA, thus protecting itself from the uncertainties of renewal processes in the future.

Benefits of the ATPDEA program: This program has had an important positive impact on Colombian exports and employment.

- ✓ According to the U.S. Department of Commerce, between 2002 and 2005, exports from Colombia to the United States under the ATPDEA increased more than ten times from US$404.1 million to US$4.6 billion.

- ✓ In 2005, Colombia's exports under the ATPDEA represented 40 percent of the total. Exports of cut flowers, textiles, footwear and tobacco products increased significantly under the program.

- ✓ According to the U.S. Embassy in Bogotá, ATPA benefits have proven an important complement to counternarcotics efforts in Colombia by providing employment alternatives to Colombians who might otherwise support the drug trade. The U.S. Embassy estimates that in its 10 years, ATPA created 123,000 jobs, and that the expanded ATPA (including ATPDEA) is expected to support 140,000 more new jobs by the end of 2006. Much of the effect of ATPA on drug crop eradication has been indirect in that significant ATPA-related investment

[4] At that point the process of "mock markup" starts allowing lawmakers the opportunity to offer technical changes or to make legislative recommendations to the Bush Administration regarding FTA implementation before the Administration submits the formal implementing legislation. After reviewing the draft implementing legislation from the House Ways and Means Committee and the Senate Finance Committee, the President then submits the formal bill to Congress in its final form. As Presidential Trade Promotion Authority (TPA) limits House and Senate consideration of the final implementing legislation to a simple "up-or-down" vote without amendment, this process allows Congress to have input into the final FTA text. Under TPA, the House and Senate will then have a maximum of 90 legislative days from the date of the final bill's submission to conduct a vote on the agreement.

has flourished in regions where there is no presence of illegal crops. Nonetheless, sectors that benefit from ATPDEA preferences provide an important opportunity for people who abandon illegal coca cultivation to move and take up legal employment elsewhere. In addition to cacao, rubber, spices, specialty coffee, and African palm, the flower sector has proven particularly successful in terms of providing alternative employment. The flower sector has generated over 100,000 new jobs, especially in the areas around Bogotá and Medellin, Colombia's two largest cities.[5] With the expanded benefits provided since 2002 under ATPDEA, the textile and apparel sector has also absorbed many new labor force entrants from the coca growing regions.

- ✓ The Colombian textile and apparel industry invested about US$100 million in new capital goods in 2004 to expand production capacity, and the sector expects to receive an additional US$500 million from U.S. investors before the ATPDEA expires in 2006. An improving security environment, as well as economic and political stability are credited with boosting foreign direct investment in Colombia. Moreover, Colombian investment has also increased in the country. In 2004, the Colombian Industrial Association (ANDI) reported that most companies producing apparel, ceramic, flowers, and gelatin capsules indicated they would not have made the investments in the absence of ATPDEA benefits. Nearly all companies reported using U.S. inputs.

<u>Impact of the loss of preferential access</u>: The loss of preferential access would be damaging to several Colombian sectors. In contrast, ensuring permanent access to the US market guaranteed by a legal framework and dispute settlement procedures under an FTA would provide the necessary stability and certainty promote growth and increased investments in those sectors.

- ✓ During the eight month period (January – August 2002) between the end of ATPA preferences and the beginning of ATPDEA, some sectors suffered considerable loss of their export market to the United States. The cut flower industry in Colombia incurred more than US$15 million in additional tariffs during the period, threatening the viability of the small producers and several thousand of the 75,000 jobs at the time in that sector, occupied mostly by women.[6]

Progress on Drug Eradication in Colombia
The Colombian Government achieved significant reductions in its eradication efforts in recent years. Through foreign aid, such as Plan Colombia, enacted by the US Congress in 2000, the Colombian Government's continued eradication efforts led to four consecutive years of decrease in the total area under coca cultivation from 2001 to 2004, whereas a small increase of 8 percent was registered in 2005. The largest decrease took place in the Department of Norte de Santander on the border with Venezuela where some important alternative development projects have been implemented. However, foreign aid alone is not sufficient. Enhancement of legitimate trade with

---

[5] U.S. Department of State Telegram, "ATPDEA-Related Investment Activity during 2004," prepared by U.S. Embassy, Bogotá, message reference No. 5762, June 16, 2005.

[6] Departamento Nacional de Planeación. Colombia.

the United States provides an alternative means for reviving and stabilizing the economies in the Andean region.

PERU

Peru is the Andean country that is most advanced in the process of getting final approval of an FTA with the United States but it could be facing delays that would require a similar interim extension of the ATPDEA as Colombia.

Having concluded the negotiation of the United States-Peru Trade Promotion Agreement (PTPA) on December 7, 2005, the United States and Peru signed the PTPA on April 12, 2006 at the OAS. The Peruvian Congress ratified the agreement in June 2006. The "mock markup" process of the PTPA has concluded in the US Congress with the House Ways and Means Committee having approved on July 20 draft legislation to implement the Agreement. Likewise, the Senate Finance Committee approved on July 31 draft legislation including amendments requiring Peru's opening of its market to U.S. beef without age restrictions and full compliance regarding sanitary and phytosanitary (SPS) requirements and technical barriers to trade (TBT). After reviewing the draft implementing legislation from both committees, the President will submit the formal bill to Congress in its final form. It remains unclear whether final Congressional consideration of the PTPA will take place before the November Congressional elections.

Benefits of the ATPDEA program: This program has had an important positive impact on Peruvian exports and employment.

- ✓ According to the U.S. Department of Commerce, between 2002 and 2005, exports from Peru to the United States under the ATPDEA increased almost six-fold from US$381.8 million to US$2.3 billion.

- ✓ The production of labor intensive agricultural products, including asparagus, mangoes and onions has increased during the period of application of the ATPDEA. Export of asparagus have generated 60,000 jobs in Peru while textiles and apparel producers were anticipating the creation of 190,000 additional jobs in 2005 as a result of increased exports under the ATPDEA.

- ✓ According to the U.S. Embassy in Lima, ATPA has provided significant economic benefits to Peru, particularly through increased exports of apparel and agricultural products.[7] The growth in exports to the United States under ATPA/ATPDEA has fostered economic development, which is vital to creating employment and alternatives to drug-crop production. As in the past, the asparagus industry continued to be an important source of alternative employment. Based on the success of asparagus and mangoes, local producers have begun to grow and export other vegetables and fruits to the United States, including grapes, onions, artichokes, and paprika.

[7] U.S. Department of State telegram, "USITC 2004 Annual Andean Investment and Drug Crop Survey for Report on ATPA," prepared by U.S. Embassy, Lima, message reference No. 2878, June 30, 2005.

Impact of the loss of preferential access: The loss of preferential access would have a very negative impact on several export sectors in Peru:

- ✓ In addition to the loss in market access, close to 250,000 direct jobs would be at risk of being lost should preferential access not be preserved. The most affected sector would undoubtedly be the asparagus industry which employs 60,000 workers, 60 percent of whom are women, and the apparel sector.

- ✓ ATPDEA-related investments have been significant in recent years but several companies reported in 2005 that they have limited their investments because of the program's imminent expiration. In fact, in some cases, large investments have been postponed until either the ATPDEA has been extended or the free trade agreement has entered into force.

Progress on Drug Eradication in Peru

Peru, which is the second largest cocaine producer in the world after Colombia, has been viewed as a success story in counternarcotics efforts. Joint U.S.-Peru air and riverine interdiction operations, aggressive eradication efforts, and alternative development programs have significantly reduced coca production.[8] The total area under coca cultivation in Peru decreased by 4 percent in 2005, accounting for 30 percent of world cultivation, compared to 54 percent ten years ago. But counternarcotics policy has faced growing resistance from indigenous communities that view coca leaf cultivation as a cultural right and also a source of income. While Peru has made tremendous strides fighting narcotics trafficking over the past 15 years, enhancing opportunities for economic growth and job creation through the PTPA will go a long way to provide economic alternatives keeping individuals away from illegal activities.

BOLIVIA

Bolivia, as Ecuador, has a vital interest in securing the preferential access it has been enjoying under the ATPDEA. The country participated only as an observer in the Andean-US FTA negotiations, and with the expiration of both the ATPDEA and the Generalized System of Preferences (GSP) at the end of this year, Bolivia will need to find a way to ensure the continuation of the preferential access for almost 60 percent of its exports to the US market.

Benefits of the ATPDEA program: This program has had an important positive impact on Bolivian exports and employment.

- ✓ As a direct effect of the ATPDEA, Bolivian exports (including products such as gold jewelry, crude oil, wooden doors and furniture and apparel) to the United States increased almost four-fold during the 2002-2005 period, from US$37 million to US$157 million.

- ✓ Palm hearts are one of the main Bolivian exports to the United States, and such exports are expected to triple in 2006. Improvement in product quality and packaging has resulted in higher prices and the diversification of export markets

[8] Carolina Navarrete-Frías and Francisco E. Thoumi. *Illegal Drugs and Human Rights of Peasants and Indigenous Communities: The Case of Peru*. Paris: UNESCO, July 2005.

to include not only Bolivia's traditional trading partners –Chile and Argentina, but also France, the United States, Spain, Uruguay, and Israel.[9]

- ✓ This increase in Bolivian exports and employment has contributed to reducing poverty by increasing and diversifying the income of some of Bolivia's most economically and socially disadvantaged populations. Broad-based economic growth depends on overcoming a combination of constraints that include the lack of a sound policy and regulatory framework, limited access to financial resources, lack of access to technology and markets, poor productive infrastructure, and low levels of education.

- ✓ The ATPDEA has contributed to the improvement of business competitiveness, particularly in the textile/apparel, leather goods, wood products and jewelry sectors, all products of value added that are commonly produced by the indigenous communities.

- ✓ For example, access to the ATPDEA has improved the efficiency of a small indigenous apparel factory, which can now qualify for much-needed additional capital to increase exports. These preferences are also helping small businesses to meet the international standards demanded by export markets.

Impact of the loss of preferential access: The loss of preferential access would have a very negative impact on several export sectors in Bolivia.

- ✓ The industrial sector has benefited the most from the ATPDEA and would thus be among those most affected by the loss of preferences. Industrial products represented 79 percent of Bolivian exports to the United States in 2005 and accounted for 71 percent of all exports under the ATPDEA.

- ✓ The textile sector would also be negatively affected. This sector represents around 22 percent of Bolivia's exports under the ATPDEA, amounting to a total of US$41 million in 2004 and representing 12 percent of total Bolivian exports to the United States. More importantly, 89 percent of textile exports entered the US market duty free only because of the ATPDEA since these products are not covered by the GSP. Consequently, the expiration of the ATPDEA will have a significant impact on the competitiveness of exports in that sector where the US most-favored-nation (MFN) tariff for apparel is around 20 percent. Moreover, some companies are concerned because customers are considering redirecting their orders to other countries because of the upcoming expiration of the ATPDEA.

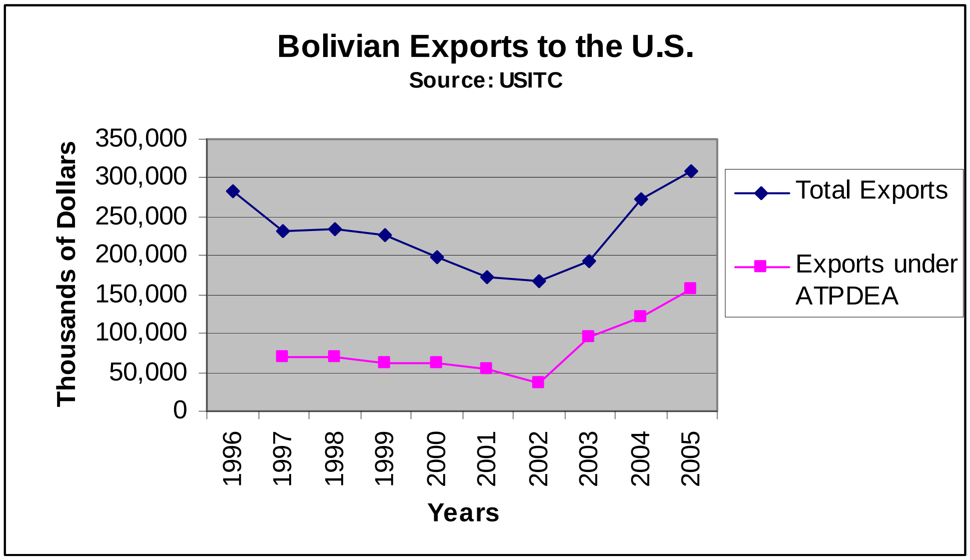
- ✓ In contrast**,** exports of agricultural products --totaling US$31 million (9 percent of total exports) in 2004-- only represented 8 percent of the exports under ATPDEA; this despite the fact that many agricultural products benefit from a zero tariff under the program, indicating supply problems in Bolivia that has limited its ability to take advantage of the preferential treatment.

[9] U.S. Department of State telegram, "2004 USITC ATPDEA Impact Report," prepared by U.S. Embassy, La Paz, message reference No. 2068, July 1, 2005.

- ✓ The loss of APTDEA will adversely impact preventive alternative development in Bolivia, an approach which stresses development of areas whose population could otherwise be drawn into illegal crop production. Illicit crop producers need viable, long-term alternatives to coca cultivation. Eradication or simple crop substitution without an effective alternative development strategy is not sufficient. By creating incentives to trade in legal products, the international community can help Bolivia's coca farmers and others to find sustainable alternative livelihoods.

- ✓ One of the populations most vulnerable to the loss of preferential access are the inhabitants of El Alto, the poor, mostly indigenous city of a million residents located on the edge of the altiplano above Bolivia's capital, La Paz. El Alto's residents produce value added products such as textile/apparel, leather goods, wood products, handicrafts and jewelry.

Figure 2.



Progress on Drug Eradication in Bolivia

As is the case for Colombia and Peru, Bolivia has been successful in reducing the total area under coca cultivation. In 2005, the country registered an 8 percent decrease over the previous year. The reduction has taken place mostly in the Chapare region, where coca production decreased by 31 percent. The Morales government has continued the pre-existing policy of permitting limited coca production within the Chapare region using cooperative – instead of forced – eradication. In October 2004, the government of then President Carlos Mesa signed an agreement with Chapare coca growers allowing each coca-growing family to maintain one *cato* of coca (1,600 square meters). Under the agreement, any coca grown beyond that amount is subject to eradication. In addition, coca farmers accepted eradication in the two major national parks in the region. But the challenge for Bolivia still remains, as coca cultivation in the Yungas increased by 5 percent between 2004 and 2005 to 18,100 ha.

Success in decreasing coca production destined for cocaine production depends significantly on gains in generating improved incomes and quality of life for the Bolivian people. By shifting to a more integrated approach that emphasizes sustainability and increased participation by municipalities in developing, implementing, and monitoring programs, alternative development programs have significantly raised the income levels of farmers in the Chapare, focusing on market consolidation and infrastructure to maintain coca-free activities, including projects such as land-titling, tourism, and development of flower and wood products. However, due to topography, climate and accessibility to markets, alternative development in the Yungas has been more challenging.

The importance of providing viable economic alternatives to coca farmers prior to significant coca eradication efforts has been recognized by numerous countries. To date, the most successful drug crop eradication efforts can be found in Asia – most notably, Thailand, Pakistan and Vietnam – where governments put in place comprehensive development programs to increase both the income levels and the standards of living of local farmers, which were then weaned from opium poppy production. In each of these cases, law enforcement and eradication, although essential to the overall success of the illicit crop reduction program, were carried out in collaboration with the local community. The findings of a recent assessment of alternative development undertaken by the UN Commission on Narcotic Drugs underscored the importance of drawing a clear distinction between development and enforcement. [10]

ECUADOR

On May 19, 2006 the US suspended the negotiation of its FTA negotiation with Ecuador in response to Ecuador's cancellation on May 15 of an oil contract with U.S.-based Occidental Petroleum (OXY) and seizure of the company's assets. The move resulted, according to Ecuador's Minister of Energy, from a breach of its contract by Occidental Petroleum. It follows the recent approval (April 19, 2006) by the Ecuadorian Congress of the new hydrocarbons law, which would give the Government of Ecuador 50 percent of profits whenever the international oil market exceeds the prices established in existing contracts.

Among the four Andean preference beneficiaries, Ecuador is the country that has benefited the most to date from the ATPDEA, and thus would thus be the most negatively affected by the non-renewal of the program. The loss of preferential treatment under the ATPDEA would have a devastating effect on Ecuadorian exports and on employment, with important social consequences. This could also negatively impact current Ecuadorian efforts to reduce drug-related organized crime in the country.

<u>Benefits of the ATPDEA program</u>: This program has had an important positive impact on Ecuadorian exports (as shown in the chart below) and on employment.

- ✓ The ATPDEA has had a positive impact on exports from Ecuador to the United States market, the destination of 48 percent of total Ecuadorian exports in 2005. Between 2002 and 2005, exports from Ecuador to the United States under the ATPDEA experienced a twenty-fold increase from US$177.7 million to US$3.84 billion.[11]

- ✓ In 2005 non-oil exports under ATPDEA represented 34 percent of total non-oil exports from Ecuador.

[10] See http://www.unodc.org. August 2006.
[11] Central Bank of Ecuador. Of total Ecuadorian exports, 57 percent enter the US market duty free in 2005.

- ✓ Non-traditional exports from Ecuador experienced a 50 percent increase from 2002 to 2005.

- ✓ Several non-traditional export products have flourished under the preferential program, in particular flowers (40 percent of the total), tuna, other fish, ceramic products, wood and mangoes.

- ✓ Broccoli has become one of the most dynamic exports to the United States under the ATPDEA program, growing from US$700,000 to US$10 million from 2000-2005.

- ✓ According to press accounts, the ATPDEA created over 4 million jobs (directly and indirectly) in Ecuador since its inception in 1991.[12] A report recently prepared by the Ecuadorian government with input from the private sector indicates that ATPDA has had a positive effect on employment in Ecuador, with exports of cut flowers generating more than 60,000 jobs (40 percent male/60 percent female); mango exports, 22,500 jobs; textiles, 16,000 jobs; broccoli exports, 11,500 jobs; and the most important being the tuna industry (fishing and industrial processing sectors) with 250,000 jobs created.

- ✓ ATPDEA has played an important role in providing trade opportunities for agriculture and agribusiness in Ecuador. These opportunities provide Ecuadorians with jobs that, in turn, help deter them from becoming involved in growing narcotic crops and prevents the entrenchment of narcotics trafficking in Ecuador. The U.S. Embassy in Quito notes that ATPDEA's contribution to the growth of Ecuador's cut-flower industry has been particularly important in providing job opportunities. In addition, the cultivation of fresh fruits, vegetables, and cereals in the highlands of Ecuador is beginning to provide similar employment and export opportunities. In particular, the Embassy cited strong growth in 2005 of exports to the United States of broccoli, pineapple, and asparagus.[13]

[12] AP, July 27, 2006.
[13] U.S. Department of State telegram, "USITC 2004 Annual Andean Investment and Drug Crop Survey for Report on ATPA," prepared by U.S. Embassy, Quito, message reference No. 2522, July 8, 2006.

Figure 3.

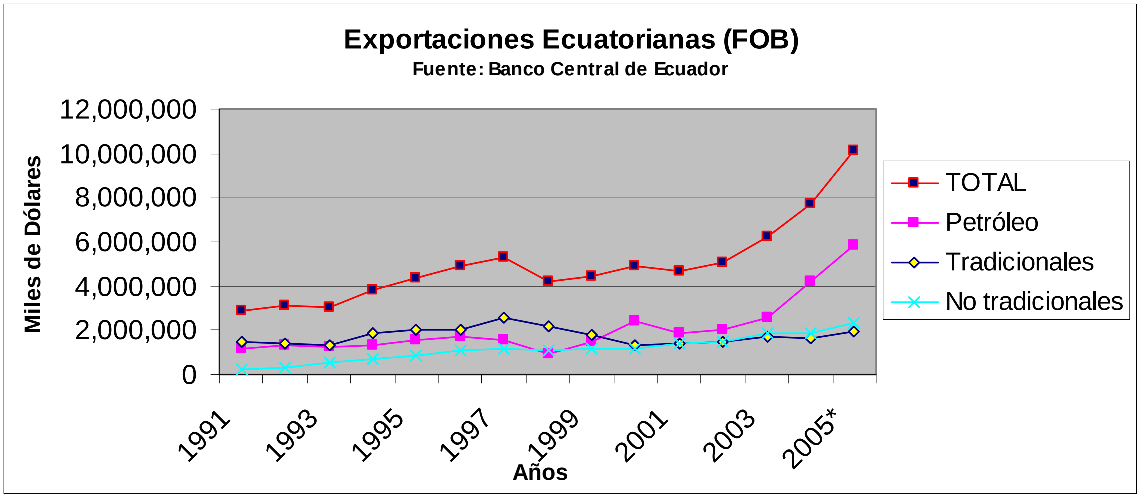
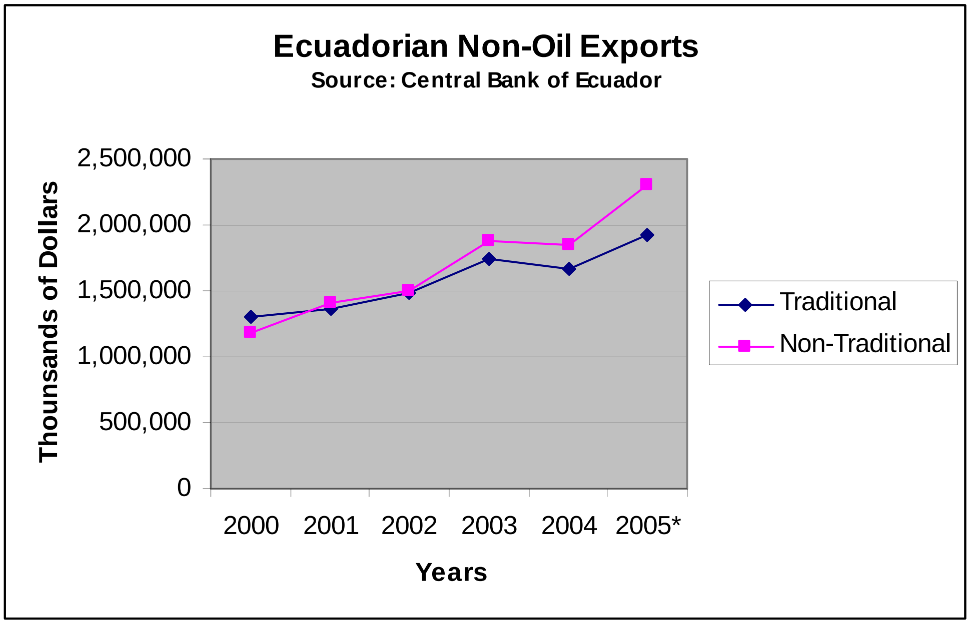


Figure 4.



<u>Impact of the loss of preferential access</u>: The loss of preferential access would be a devastating blow to Ecuadorian trade and employment.

- ✓ With the loss of free access, exports of these products will be faced with tariffs as high as, for example, 14.8 percent in the case of broccoli or around 6.5 percent in the case of flowers, greatly affecting their ability to compete in the US market. In the case of mango exports, it will mean US$1.6 million per year in additional tariffs.

- ✓ Ecuador's GDP would also be affected by non-renewal of preferences. It is estimated that losing the ATPDEA would lead to a GDP decrease of 1.8 percent, leading to a loss of fiscal revenues for the Ecuadorian government of more than US$40 million.

- ✓ The impact of the loss of preferential access on employment could be significant. Would the ATPDEA benefits be suspended, around 360,000 jobs would be put in jeopardy. Considering that many of these workers are heads of family, the affected population in Ecuador could exceed 1.5 million people.

- ✓ Regardless of the possibility of renewal of the GSP, it should be noted that this preferential program does not cover important non-oil products from Ecuador that currently are included under the ATPDEA such as cut roses (the most important export under ATPDEA), ceramic tiles, some textiles, citrus fruits, purees and pastes and preserved fruits, while other products are subject to restrictions under the GSP (tuna, other lowers, mangoes, broccoli, pineapple, bonbons, caramels, wood, among others).

- ✓ U.S. investors in the cut flowers, broccoli and textiles sectors point out that, in addition to the direct impact that a suspension of the preferences would have on those sectors, there would also be an impact on the whole productive chain, including inputs, transport, distribution, commercialization that will also affect the interests of US firms.

Progress on Drug Eradication in Ecuador

Ecuador produces almost no coca leaf, but as a major transit country for cocaine and heroin from Colombia and Peru, it cooperates extensively with the United States in counternarcotics efforts. In 2004, the Ecuadorian government published a new national drug strategy and implementation plan, with a focus on strengthening institutions and drug trafficking laws, and on providing more resources for its drug agency, the National Drug Council.

III. THE ATPDEA AS A TANGIBLE MANIFESTATION OF THE COMMITMENT OF THE UNITED STATES TO PROMOTE PROSPERITY, STABILITY AND DEMOCRACY IN THE BENEFICIARY COUNTRIES

When Congress enacted the ATPA in 1991 and then renewed it in 2002, it did so in recognition of the fact that regional economic development is necessary in order for Bolivia, Colombia, Ecuador and Peru to provide economic alternatives to the illegal drug trade, promote domestic development, and thereby solidify democratic institutions.

There was an acknowledgement on the part of Congress that enhancing opportunities for economic development in the beneficiary countries was important for US foreign policy and the national interest of the United States.

The view expressed on Capitol Hill was that instability in the Andean region poses a threat to the security interests of the United States and the problem could be partially addressed through foreign aid, such as Plan Colombia, enacted by Congress in 2000. However, foreign aid alone was not considered sufficient. Enhancement of legitimate trade with the United States provides an alternative means for reviving and stabilizing the economies in the Andean region.

The ATPDEA was thus conceived as a key element of the United States counternarcotics strategy in the Andean region, aimed at promoting export diversification and broad-based economic development as a sustainable economic alternative to drug-crop production, and trafficking.

Although the program has had a small, indirect effect on drug-crop eradication and crop substitution effort, it has supported industries that provide jobs for workers who might otherwise have participated in illicit coca cultivation. That has been the case, for example, of the flower and asparagus sectors and more recently of exports of other vegetables and fruits, including artichokes and grapes. Jobs are also being created in the textile and apparel sector. Because apparel assembly is a labor-intensive industry, even small increases in production yield a significant impact on job growth.[14]

Assistant Secretary of State for the Western Hemisphere Tom Shannon has recently been quoted in the press as saying, "[The ATPDEA has been] an important counterpoint to drug production in the region. It's produced hundreds of thousands of jobs in the region, so in that sense it's been a very, very successful program."

It has also been argued that job growth in the beneficiary countries not only helps the United States counternarcotics strategy but has implications as well for U.S. immigration policy by providing opportunities to workers in their own countries.

In addition to the security considerations, there are also economic benefits for businesses and workers in the United States. Development in beneficiary countries has created a growing and dynamic market for American goods and services. U.S. exports to ATPDEA countries totaled US$7.7 billion in 2004, 17 percent above the 2003 level, and 22 percent more than in 2000, reflecting greater demand for U.S. products as a result of improved economic performance in the ATPA countries.[15] A few examples can better illustrate this point. American farmers and ranchers sell over US$1 billion of agricultural products to Peru, Colombia and Ecuador.[16] Colombian apparel exports to the United States in 2003 increased by over 35 percent under the ATPDEA, which in turn allowed US exports to Colombia of cotton and cotton fabrics to expand by over 65 percent in the same period.[17]

Furthermore, growth of trade with Andean countries fuels job creation in the United States, particularly in those sectors highly dependant on export markets. In the case, for example, of the Colombia, the import and sale of Colombian flowers generate approximately 220,000 American jobs.[18]

Arguing in favor of making permanent the preferential access to the United States market in the context of free trade agreements, some private sector representatives have underscored the benefits that increased trade with Andean countries can have in terms of boosting the competitiveness of some sectors in the United States. Leaders of the National Retail Federation have been quoted as saying:

---

[14] United States Trade Commission, The Impact of the Andean Trade Preference Act, Eleventh Report 2004, USITC Publication 3803, September 2005.
[15] Ibid.
[16] U.S.-Peru Coalition, "Why Support the Peru Trade Promotion Agreement? Growth, Hope, and Opportunity." www.usperutrade.org
[17] Colombia Trade News http://www.coltrade.org/fta
[18] Ibid.

> "We have a tremendous opportunity to build a regional, integrated production platform for textiles and apparel by making these countries part of the Western Hemisphere FTA network. This system would allow manufacturers in the region and in the United States to compete effectively with Asian producers by linking countries like Colombia that have integrated textile industry to countries like Honduras that have strong apparel industry but limited local yarn and fabrics. Integration of this sort would be of great benefit also to U.S. fiber, yarn, and fabric producers, as well as apparel manufacturers, retailers, and ultimately the U.S. consumer."[19]

The United States is the largest foreign investor in each one of the ATPDEA beneficiary countries. Preserving preferential access to the United States market will also benefit those companies directly or indirectly dependent on foreign trade.

In conclusion, benefits that the United States can derive from providing preferential access to its market for exports from the ATPDEA beneficiary countries range from the purely economic to the more far reaching ones linked to the security and political interests of the country.

In a recent press release welcoming action by the Senate Finance Committee on the U.S.-Peru Trade Promotion Agreement, United States Trade Representative Susan Schwab highlighted that the PTPA "will also benefit the people of Peru by making permanent the trade benefits Congress first authorized for Peru in 1991 under the Andean Trade Preference Act. The agreement will support and build upon the democratic and economic reforms undertaken by Peru's leaders in recent years that have helped lift hundreds of thousands of Peruvians out of poverty, and over one million out of extreme poverty. In addition, this agreement will further encourage our Andean neighbors to continue to shift away from the production and shipping of illegal drugs and further embrace the production of legitimate goods, thus contributing to the security and stability of our Hemisphere."[20]

---

[19] Ibid.
[20] USTR, Website (August 1, 2006).

ANNEX I

Figure 5.

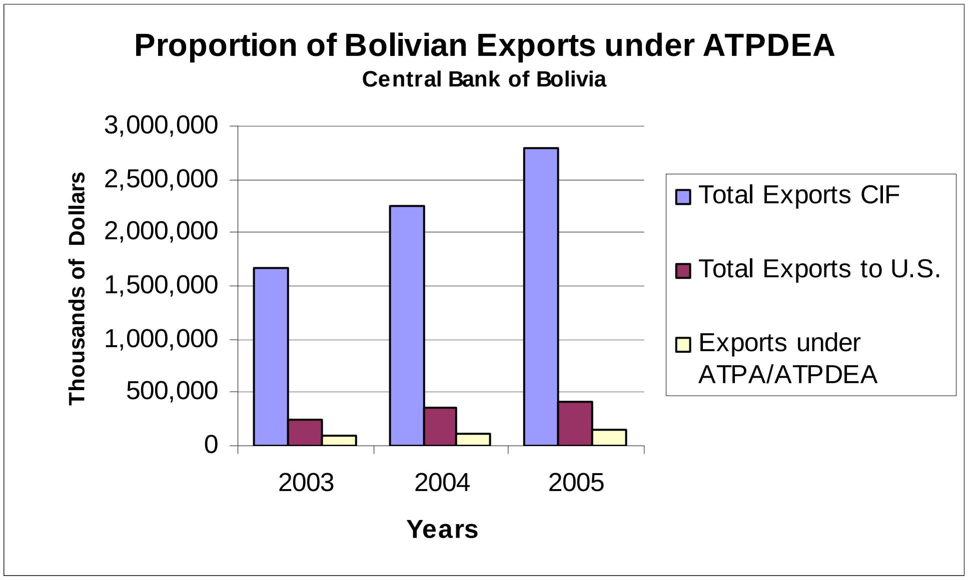


Figure 6.

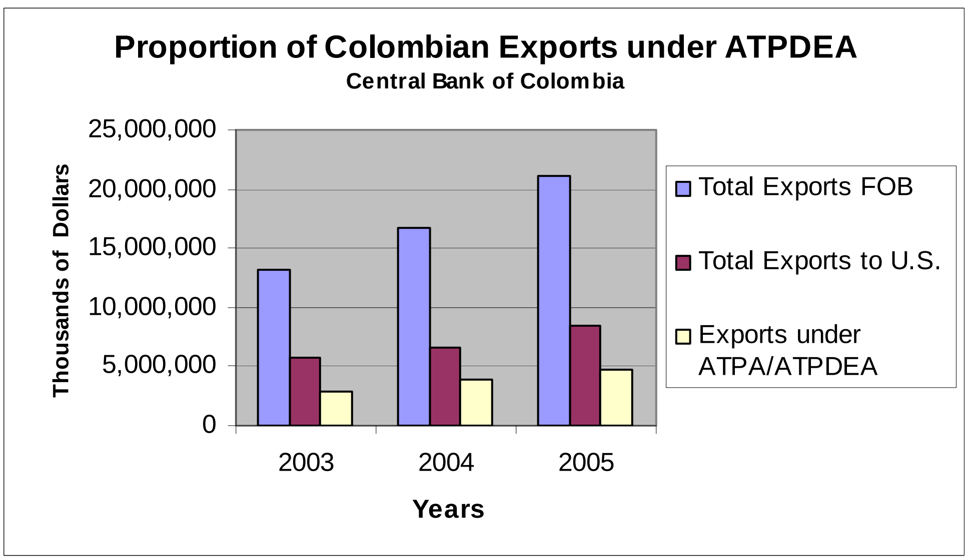


Figure 7.

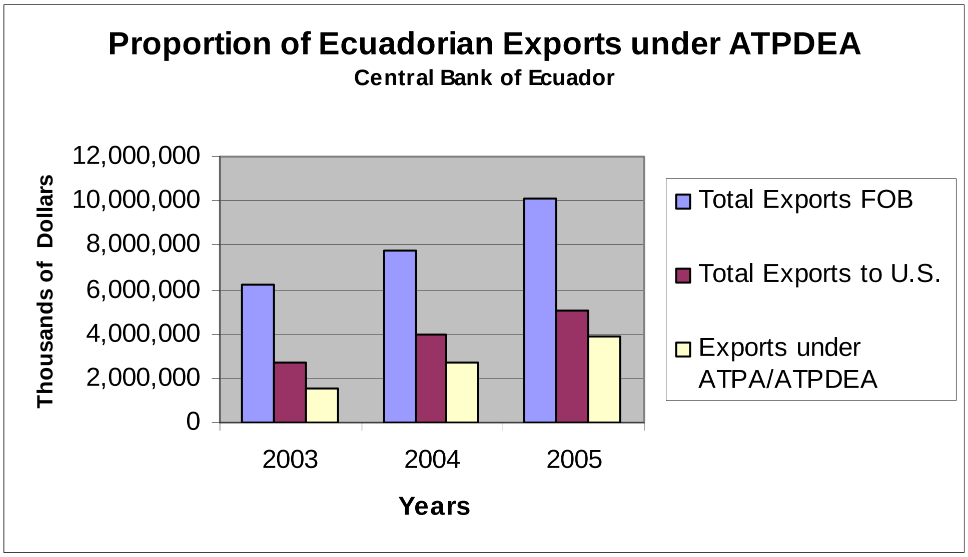


Figure 8.