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Time to Exchange Andean Preferences for Reciprocal Free Trade Agreements

Basic Info

Commentary
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The February 13 lapse of useful, but outdated, one-way trade preferences for Andean countries has made it more urgent for Congress and the president to implement the U.S.-Colombia Free Trade Agreement.

When first enacted back in 1991, duty-free access to the U.S. market guaranteed by the Andean Trade Preference Act (ATPA) was intended as an incentive to entice four South American governments into cooperating with U.S. counternarcotics efforts when some did not care to acknowledge they had serious trafficking problems.

Not surprisingly, over the course of 20 years circumstances there have changed. Now, three of the original four countries cooperate on counternarcotics. Of those, Peru has already graduated to a functioning free trade agreement (FTA) with the United States. Colombia has signed an FTA. The remaining country, Ecuador, broke off trade negotiations but is developing a more robust counternarcotics capability largely based on its own political will.

So, it is time for Congress and the president to a make a clear choice. Congress should chart a path to phase out the Andean trade preference program and work with the president to implement the U.S.-Colombia FTA. And as Ecuador no longer depends on rewards to cooperate on counternarcotics, the Obama administration should urge it to restart trade talks on an FTA as the next step toward a more beneficial economic relationship.

Trade preferences directed toward the drug-producing countries of Colombia, Ecuador, Peru, and Bolivia were first established under the original ATPA in 1991. The idea was to stimulate the growth of legitimate exports in drug-producing countries as an alternative to illicit crops. Based on the 1974 Generalized System of Preferences and the 1984 Caribbean Basin Initiative, the United States offered privileged access on some 5,600 types of goods for a period of 10 years.

Preferences were renewed in 2002 under the Andean Trade Promotion and Drug Eradication Act (ATPDEA) in a four-year package covering a larger number of goods, including tuna, apparel, and petroleum. This legislation stated explicitly that Andean preferences were designed as a temporary bridge to a reciprocal trade relationship under the Free Trade Area of the Americas, a hemisphere-wide free trade negotiation that was suspended in 2003.

Thereafter, U.S. lawmakers began extending the program in drips and drabs—in 2006 for six months, in 2007 for eight months, and in 2009 for ten months. In December 2010, Congress extended it for an additional three months. A permanent U.S.-Peru trade promotion agreement signed in 2006 is now fully in force, obviating a need to extend preferences for Peru. That same year, the United States and Colombia signed an FTA that has yet to be implemented by Congress. In 2008, the Bush administration suspended Bolivia from preferences after Bolivian president Evo Morales ejected the U.S. ambassador and ended cooperation with the U.S. Drug Enforcement Agency.

Last year, the U.S. International Trade Commission reported that trade had risen substantially between the United States and Andean countries over the previous eight-year period, thanks in part to Andean trade preferences. Yet on close inspection, of some $9.7 billion worth of imports admitted duty free in 2009, $7.4 billion worth consisted of petroleum—hardly a substitute crop for small farmers or a manufactured product providing alternative employment. Moreover, the impact on drug production is hard to prove. While coca cultivation declined in Colombia, it increased in Bolivia and Peru. Though small industries sprang up and legitimate farmers produced more diverse crops such as asparagus, criminally sponsored coca production seems to have been unaffected.

In three countries, at least, governments have assumed greater responsibility for combating drug trafficking on their own. A major component of Colombia's democratic security program involved cutting off rural narco-guerrillas from their income stream. Ecuador is turning around a once ineffective counternarcotics effort in order to enforce sovereignty over borders and countryside. Peru is moving against trafficking conducted by remnants of the Shining Path and Colombian guerrillas in the upper Apurímac and Ene River Valley (VRAE) region. While, there is no doubt that expanded market access under Andean preferences helped get the ball rolling, antidrug efforts are continuing out of political necessity and public security needs.

Yet, if preferences were to continue in Colombia and Ecuador as a way to build commercial ties, they would have to be lasting to do more good. Disruptive short-term extensions and the recent expiration actually harm South American entrepreneurs and call into question the reliability of the United States as a trading partner. The economic dislocation resulting from the February 13 expiration of ATPA will be painful.

Cut-flower producers in Colombia and Ecuador operate on thin profit margins, as they must decide how to invest in constantly changing plant varieties, what to pay skilled labor, and how to protect their fields. Small cooperatives, like those that make herbal teas, must plan equipment purchases and lease factory space. Such choices are based on multiyear forecasts, not notions of what tariff waivers might be in place for a few months in a distant market—helpful as short-term discounts might be.

Still, Andean exporters are calling on U.S. lawmakers to extend trade preferences again—and for a longer period of time. Unfortunately, continued stop-gap extensions, while easing short-term pain, are making it easier for the White House and Congress to delay a decision on implementing a valuable, reciprocal agreement with Colombia—which brings up the question of balance. How fair is it to U.S. workers and businesses if a country is willing to undertake reciprocal obligations to open its markets to U.S. exports, and somehow our government drops the ball? From an economic standpoint, it makes more sense to reward cooperation with durable, mature trade relationships that assure equal access to each party's markets.

In light of the dramatic changes in the region since preferences were first authorized in 1991, it is time for Congress to phase out Andean trade preferences. Next, the Obama administration should work to resolve any remaining questions on labor issues and request congressional approval of the U.S.-Colombia FTA (as well as pending pacts with Panama and South Korea). Since the United States and Peru have worked together to fully implement the bilateral trade pact approved in 2006, no further action is needed there. Lastly, the United States should invite Ecuador to resume negotiations on a full trade agreement on its own terms.

In retrospect, Andean preferences helped develop productive counternarcotics partnerships with three out of four countries in the region. In the case of Peru, it paved the way to mutually beneficial trade relations with the United States. Colombia and Ecuador, with a little more time, should follow. Andean workers and enterprises need predictability. U.S. workers and businesses deserve market access too. Meanwhile, continued counternarcotics security assistance will help control and reduce trafficking more directly. In recognition of the United States' connection to the hemisphere's drug problems, we should come through with no less.

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