U.S.-Andean FTA Promises More Market Access

Negotiations for the U.S.-Andean FTA (Free Trade Agreement) are underway. With the fourth of seven rounds completed this September, negotiators from the United States, Colombia, Peru and Ecuador anticipate a final agreement in January 2005.

The FTA will maintain the general principles of duty- and quota-free access for agricultural products and, in particular, will address nontariff measures that now restrict U.S. exports to these South American nations.

The United States also hopes that Bolivia, as yet an observer to the trade talks, will become a party to the agreement.

Two-way agricultural trade between the United States and the three countries totaled $2.7 billion in calendar 2003. Imports from the region amounted to $1.9 billion, while exports came to $846 million.

Trade Capacity Building Important

Improved access to the region's 92.4 million consumers (including Bolivia) can not only help U.S. producers sell more products, but can also help foster economic growth, improved living standards and higher paying jobs in the Andean nations.

Though it cannot happen overnight, the institutional trade capacity building aspect of the FTA is vital. Improving a country's ability to take part in trade negotiations and implement agreements provides basic tools that can aid in the liberalization process. The next step connects trade liberalization to internal programs for reform and growth. The resulting closer political and commercial ties strengthen

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democratic, stable governments and reinforce security.

The United States has a vested interest in increasing the prosperity of Andean consumers, because they will be future customers, especially for the fastest-growing U.S. export category—consumer-oriented foods.

Why Andean Nations, Now?

There are compelling market access issues that make an Andean FTA a high priority for the United States. The FTA will grant U.S. products the same access preferences as those from other Latin American countries and help ensure that the United States maintains preferential access over major competitors including Canada and the EU (European Union).

An FTA will protect and increase the U.S. market share of agricultural products, especially for grains, fresh fruits and vegetables, processed foods and meats.

Colombia Largest U.S. Agricultural Destination in South America in 2003

	Colombia	Peru	Ecuador
U.S. agricultural exports	$512 million	$234 million	$100 million
Top U.S. exports	Corn, wheat, cotton, soybeans	Wheat, corn, soy products, cotton, dried peas and lentils	Wheat, coarse grains, cotton, soybean meal and fresh fruits
U.S. products likely to benefit under Andean FTA	Almonds, apples, rice, wines, stone fruits, pork, poultry, beef, dairy products and pet foods	Cotton, wheat and other grains, processed products, fruits and wines	Fruits, vegetables, wheat and other grains, processed products and pork

Trade Agreements Stacking Up

South American countries have signed on to many trade agreements that have broadened and increased trade among partners.

The CAN (the Andean Community of Nations) consists of Colombia, Bolivia, Ecuador, Peru and Venezuela. The CAN has policies and procedures designed to govern agricultural production and trade among the members.

The CAN is part of ALADI, the Latin American Integration Association, established in 1980. ALADI promotes economic cooperation and multilateralism among its members by mandating that any free trade agreement among members must be readily extended to any other member.

In July 2004, CAN countries also formed a South American free trade zone with MERCOSUR (Brazil, Argentina, Paraguay and Uruguay). Individual CAN

Regional Agreements Thrive in South America

Andean FTA Countries

CAN (Andean Community of Nations)

ALADI (Latin American Integration Association)

agreements with special applications have been worked out with Brazil and Argentina.

Colombia Leading Marketplace

Colombia is the United States' largest South American trading partner. The ATPDEA (Andean Trade Promotion and Drug Eradication Act) was implemented in 2002. ATPDEA extended and expanded U.S. preferential treatment of products from Colombia (as well as Bolivia, Peru and Ecuador) under 1991's ATPA, or Andean Trade Preference Act. Valid through 2006, ATPDEA provides preferential zero-duty treatment for most Colombian products.

Besides its Andean Pact connections, Colombia has bilateral trade agreements with Chile, Brazil and Paraguay—and is exploring a trade agreement with Canada, which could negatively impact U.S. wheat exports if the United States does not achieve preferential access through an FTA.

While a member of the CAN, Peru has negotiated bilateral tariff preferences with Mexico, Paraguay, Argentina, Brazil and Uruguay. It is completing an agreement with Chile and has begun talks with Thailand.

Ecuador grants and receives tariff exemptions on certain agricultural products traded with fellow CAN members Colombia, Venezuela, Peru and Bolivia. The country also has a bilateral agreement with Chile. Negotiations are ongoing with Mexico.

Under ATPDEA, virtually all of Ecuador's agricultural exports enter the United States tariff-free.

Nontariff Barriers Throttle Trade

Andean countries now apply several measures that restrict U.S. agricultural exports: price bands, absorption agreements and discretionary import licensing.

The intent of the **price band system**, an import duty based on domestic and international prices, was to compensate domestic producers for international market distortions, stabilize domestic prices and protect low-income farmers. The result for U.S. exports to the region has been duties ranging up to 160 percent, if the product price is below an established minimum.

U.S. commodities affected by the price band include pork, poultry, dairy, wheat, corn, rice, soybeans, vegetable oils, sorghum, sugar and processed products such as dry pet foods that may include these products.

Designed to protect domestic producers, **absorption agreements** require importers to purchase a government-specified quantity of domestic goods at a minimum reference price as a precondition for securing import licenses for competing products. Affected U.S. commodities in Colombia, the largest regional market, include wheat, malt barley, poultry, corn, rice, sorghum, cotton, wheat flour, and oilseeds and products.

Peru, however, has eliminated most import licensing requirements, import prohibitions and quantitative restrictions.

Ecuador imposes two restraints to certain imported commodities—subjective signature approval of imports and private sector advisory committees that can enforce purchases of local products at certain prices, at the expense of imports.

U.S.-Andean Region Agricultural Trade

Top 10 U.S. Exports	Top 10 U.S. Imports
Wheat	Bananas
Corn	Other fresh fruits
Cotton	Coffee products
Soybean products	Cut flowers
Feeds and fodders	Vegetables and preparations
Horticultural products	Nursery products
Essential oils	Sugar products
Inedible tallow	Cocoa products
Poultry products	Tree nuts
Processed cocoa	Grains and feeds

What's Next for the FTA?

FTAs pursued by the United States have a common path toward implementation. Once a legal review of the text is completed by each country and the agreement is signed, the President of the United States notifies Congress of the intent to enter into an FTA. Within 30 days of this notification, private sector advisors provide the President and Congress with assessments of the FTA.

The U.S.-Andean FTA can be signed 90 days after the President's notification. Generally, implementation will begin at the start of the calendar year after signing. ■

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