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United States Employment Impact Review of the United States-Colombia Trade Promotion Agreement

Abstract

[Excerpt] This U.S. employment impact review was prepared pursuant to section 2102(c)(5) of the Trade Act of 2002. Section 2102(c)(5) requires the President to review and report to the Congress on the impact of future trade agreements on U.S. employment, including labor markets. This review describes the contents of the United States-Colombia Trade Promotion Agreement (CTPA), including a summary of the labor provisions of the CTPA, and assesses the potential economic and employment effects of the CTPA.

Keywords

U.S.-Colombia Trade Promotion Agreement, CTPA, labor provisions, employment, labor markets

Comments

Suggested Citation

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United States Employment Impact Review of the United States-Colombia Trade Promotion Agreement

Pursuant to section 2102(c)(5) of the Trade Act of 2002, the United States Trade Representative, in consultation with the Secretary of Labor, provides the following United States Employment Impact Review of the United States-Colombia Trade Promotion Agreement. The report was prepared by the U.S. Department of Labor (USDOL).

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Executive Summary

This U.S. employment impact review was prepared pursuant to section 2102(c)(5) of the Trade Act of 2002. Section 2102(c)(5) requires the President to review and report to the Congress on the impact of future trade agreements on U.S. employment, including labor markets. This review describes the contents of the United States-Colombia Trade Promotion Agreement (CTPA), including a summary of the labor provisions of the CTPA, and assesses the potential economic and employment effects of the CTPA.

The major finding of this review is that the CTPA is expected to have a negligible effect on employment in the United States. This finding is attributable to, among other factors, the relatively small volume of bilateral trade between the two countries, the fact that 91 percent of all U.S. imports from Colombia already enter the United States duty-free, provisions in the CTPA for the gradual removal of U.S. tariffs on import-sensitive goods from Colombia over an extended period, and safeguards contained in the CTPA to attenuate the effects of certain increases in imports.

When the CTPA enters into force, over 80 percent of U.S. industrial and consumer goods currently traded with Colombia will gain immediate duty-free access to Colombia's markets and tariffs on all remaining goods will be eliminated within ten years. U.S. farmers, ranchers, and service providers will also gain greater market access. As U.S. goods and service-producing industries become more competitive in Colombian markets, it is expected that U.S. merchandise and services exports to Colombia will increase. This especially should be the case for the current leading U.S. merchandise exports to Colombia such as other basic organic chemicals, corn, computer equipment, resin and synthetic rubbers, and construction machinery. New U.S. export opportunities may also arise in manufacturing, services, and agriculture as the Colombian market—though small—becomes more open.

I. Introduction: Overview of the United States Employment Impact Review Process

A. Scope and Outline of the United States Employment Review

This employment impact review consists of an introduction and three additional parts. Part II discusses the background and setting of the United States-Colombia Trade Promotion Agreement (CTPA), including the bilateral economic setting, current barriers to bilateral trade, and the major elements of the CTPA. Part III considers the potential economic and employment effects in the United States of the CTPA. Part IV describes the Labor Chapter of the CTPA.

B. Legislative Mandate

This review of the employment impact of the CTPA is conducted pursuant to section 2102(c)(5) of the Trade Act of 2002 (“Trade Act”) (Pub. L. No. 107-210). Section 2102(c)(5) provides that the President shall:

review the impact of future trade agreements on United States employment, including labor markets, modeled after Executive Order 13141 to the extent appropriate in establishing procedures and criteria, report to the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate on such review, and make that report available to the public.

The President, by Executive Order 13277 (67 Fed. Reg. 70305 (Nov. 21, 2002)), assigned the responsibility for conducting reviews under section 2102(c)(5) to the United States Trade Representative (USTR), who delegated such responsibility to the Secretary of Labor with the requirement that reviews be coordinated through the Trade Policy Staff Committee (67 Fed. Reg. 71606 (Dec. 2, 2002)).

The employment impact review is modeled, to the extent appropriate, on the environmental review of trade agreements mandated by Executive Order 13141 (64 Fed. Reg. 63169 (Nov. 18, 1999)); the guidelines developed for the implementation of that order have been adapted for use in this employment review.¹

¹ Executive Order 13141, on Environmental Review of Trade Agreements, was signed on November 16, 1999. The Order commits the U.S. government to a policy of careful assessment and consideration of the environmental impacts of trade agreements, including factoring environmental considerations into the development of its trade negotiating objectives. The Order requires written environmental impact reviews of free trade agreements and that such reviews be made available to the public in final form. Also, the Order directs USTR and the Council on Environmental Quality (CEQ) to oversee the implementation of the Order, including the development of procedures or guidelines pursuant to the Order. In December 2000, USTR and CEQ published *Guidelines for Implementation of Executive Order 13141: Environmental Review of Trade Agreements*. The Order and Guidelines are available on the USTR Web site at: http://www.ustr.gov/Trade_Sectors/Environment/Guidelines_for_Environmental_Reviews/Section_Index.html. USTR and CEQ jointly oversee implementation of the Order and Guidelines, while USTR, through the Trade Policy Staff Committee (TPSC), is responsible for conducting individual environmental reviews.

C. Public Outreach and Comments

1. Responses to Federal Register Notice

The U.S. Department of Labor and USTR jointly issued a notice on May 14, 2004, in the *Federal Register* announcing the initiation of a review of the potential impact on U.S. employment of the proposed free trade agreement with three Andean region countries — Colombia, Ecuador, and Peru²—including the effects on domestic labor markets, and requesting written public comment on the review and provision of information on potentially significant sectoral or regional employment impacts (both positive and negative) in the United States, as well as other likely labor market effects of the agreement.

Four submissions were received in response to the notice.

- The American Dehydrated Onion and Garlic Association (ADOGA) opposed any tariff reduction on U.S. imports of dehydrated onion and garlic under the agreement. ADOGA has reiterated the same concerns in each of their submissions on the U.S. employment impact of free trade agreements with Singapore, Morocco, Australia, the Central American countries and the Dominican Republic, Bahrain, and Oman. ADOGA argued that duty-free treatment of dehydrated onion and garlic from the Andean countries would have a negative impact on their industry, its 4,000 employees, their families, and the economically distressed small rural Western communities in which they operate with few alternative employment opportunities.
- The Government of the Commonwealth of Puerto Rico (the Commonwealth) supported the agreement, but noted that the agreement needs to take into account the import-sensitivity of products of particular importance to Puerto Rico and other U.S. insular economies. Of particular concern were low-value rum, canned tuna, and coffee shipments into Puerto Rico. The Commonwealth argued that the elimination of duties on these items would have severe employment impacts in key sectors of Puerto Rico's economy.
- The Government of the U.S. Virgin Islands (GVI) opposed any tariff reduction on imports of low-value rum. The Virgin Islands' rum industry sells almost exclusively in the low-value sector of the market. They argued that duty-free or

² See 69 Fed. Reg. 26917 (May 14, 2004). At the time of the publication of the notice in the Federal Register, the United States entered into free trade negotiations with Colombia, Ecuador, and Peru (with Bolivia participating as an observer). The United States concluded negotiations with Peru on December 7, 2005, and the United States and Peru signed the United States-Peru Trade Promotion Agreement (PTPA) on April 12, 2006. The United States concluded negotiations with Colombia on February 27, 2006, and the United States and Colombia signed the United States-Colombia Trade Promotion Agreement (CTPA) on November 22, 2006. The United States signed protocols of amendments to the PTPA and CTPA with Peru and Colombia respectively on June 25, 2007 and June 28, 2007. The PTPA Implementation Act was signed into U.S. law on December 14, 2007.

reduced duty treatment for low-value rum from low-cost and resource-rich Andean countries would have potentially devastating impacts on the Virgin Islands' rum industry. It would also threaten the congressionally mandated program to finance the development needs of the Virgin Islands through the return of excise taxes on rum to the GVI treasury.

- The Rubber and Plastic Footwear Manufacturers Association (RPFMA), representing domestic manufacturers of fabric-upper, rubber-soled footwear and protective footwear, urged the exclusion of the seventeen core products of the domestic rubber footwear industry from the agreement on the grounds that the agreement would pose a threat to the industry and set a precedent for the rest of Latin America. These seventeen products were excluded from the Andean Trade Preference Act (ATPA) and the Andean Trade Promotion and Drug Eradication Act (ATPDEA).

2. *Reports of the Labor Advisory Committee for Trade Negotiations and Trade Policy and Other Advisory Committees*

Section 2104(e) of the Trade Act requires that trade advisory committees provide the President, USTR, and Congress with reports under section 135(e)(1) of the Trade Act of 1974, as amended, not later than 30 days after the President notifies Congress of his intent to enter into an agreement. The advisory committee reports were submitted in the fall of 2006, and are available on the USTR Web site.³

The Advisory Committee on Trade Policy and Negotiations (ACTPN) and the vast majority of the other trade advisory committees expressed the view that the CTPA is in the economic interest of the United States and stated their support for it. The unanimous finding of the ACTPN was that the CTPA is “strongly in the economic interest of the United States” and “should be enacted into law as soon as possible.”

The Labor Advisory Committee for Trade Negotiations and Trade Policy (LAC) argued that the CTPA would not protect the fundamental human rights of workers in either country. The LAC noted that provisions in the CTPA represent a step backwards from the unilateral trade preference programs (Generalized System of Preferences (GSP) and ATPA/ATPDEA) that currently apply to Colombia, and found this particularly troubling due to the “well-documented violations of trade union rights in Colombia.” Reiterating concerns raised regarding other free trade agreements with Chile, Singapore, Australia, Morocco, the Central American countries and the Dominican Republic, Bahrain, and Oman, the LAC expressed concerns that the CTPA’s labor provisions only commit the Parties to enforce their own labor laws.⁴ The LAC argued that the CTPA’s dispute resolution procedures provide for capped penalties lower than those for other violations

³ See http://www.ustr.gov/Trade_Agreements/Bilateral/Colombia_FTA/Reports/Section_Index.html.

⁴ The LAC’s comments pertain to the content of the CTPA prior to changes made as a result of a protocol of amendment signed by the United States and Colombia on June 28, 2007. See Section IV of this report for a summary of the CTPA Labor Chapter that includes modifications made pursuant to the protocol of amendment.

of the CTPA, with little punitive or deterrent effect for violations of the Labor Chapter. The LAC also opined that the CTPA's rules of origin and safeguard provisions would invite circumvention by producers and fail to protect workers from import surges that may result, and that the CTPA provisions on procurement and services would constrain the ability of the U.S. Government to regulate in the public interest and provide public services.

II. Background and Contents of the CTPA

Colombia, a lower-middle-income country,⁵ is geographically the fourth largest country in South America. It is located on the Northern coast of South America, and borders Panama, Ecuador, Peru, Brazil, and Venezuela.

The CTPA will not only strengthen bilateral ties, but also build upon and solidify the preferences extended to Colombia under the ATPA and the ATPDEA. The ATPA was enacted on December 4, 1991 (Pub. L. No. 102-182, Title II) as part of a larger Andean Initiative that was launched by the United States in 1991. The primary goal of the Initiative was to expand private sector opportunities and investment in nontraditional sectors of the Andean countries as an alternative to production of illegal drugs and to help them diversify their economies and expand their exports. ATPA preferential duty treatment expired on December 4, 2001, but was renewed retroactively by the ATPDEA as part of the Trade Act of 2002 (Pub. L. No. 107-210, Title XXXI) on August 6, 2002. The ATPDEA significantly expanded the product coverage of the ATPA program. The ATPA, as amended and expanded by the ATPDEA, was scheduled to expire on December 31, 2006. Since then, Congress has extended the programs three times, and currently ATPA/ATPDEA will expire on December 31, 2008.

The other major U.S. trade preference program now available to Colombia is the U.S. GSP which is not as comprehensive as the ATPA/ATPDEA. Benefits under the GSP program were scheduled to expire December 31, 2006, but the program was extended through December 31, 2008, by legislation signed by President Bush on December 20, 2006.

While the overall effects of the CTPA on the U.S. economy are expected to be negligible, the CTPA should serve, over time, to reinforce the process of economic reform and development in Colombia. The agreement will make permanent the preferences currently granted to Colombia through the ATPA/ATPDEA and GSP, allowing businesses and investors to make decisions with more certainty and in a more stable environment.

The CTPA should create some new opportunities for U.S. workers, farmers, businesses, and consumers by eliminating current barriers to trade with Colombia. Over 80 percent of current bilateral trade in consumer and industrial products will become duty-free immediately upon entry into force of the CTPA. This especially should be the case for the current leading U.S. merchandise exports to Colombia such as other basic organic

⁵ As classified by the World Bank. Country classification and methodology is available at <http://www.worldbank.org/data/countryclass/countryclass.html>.

chemicals, corn, computer equipment, resin and synthetic rubbers, and construction machinery. When the CTPA enters into force, U.S. service providers will also gain greater access to the Colombian market.

A. Bilateral Economic Setting

1. Population and the Economy

Colombia's population in 2006 was 45.6 million (or 15.2 percent of that of the United States).⁶ Colombia has a land area slightly less than twice the size of Texas. Colombia's gross domestic product (GDP) was \$135.8 billion in 2006, approximately 1.0 percent of U.S. GDP of \$13.2 trillion. Colombia's economy is comparable in size to Oklahoma, which had a gross state product of \$134.7 billion in 2006. Colombia's gross national income (GNI) per capita in 2006 was \$2,740, approximately 6.1 percent of U.S. per capita GNI of \$44,970.

2. Labor Force

a. U.S. Labor Force

In 2007, the civilian U.S. labor force totaled 153 million workers; about 46 percent (71 million) of the labor force was female.⁷ The civilian labor force consists of employed and unemployed persons⁸ in the civilian non-institutional population age 16 and older.

In 2007, a total of 146 million workers were employed in the United States. Service-producing industries are the major source of U.S. employment. In 2007, service-producing industries accounted for about four-fifths of total U.S. employment. Other major sectors of employment include manufacturing, which accounted for 11 percent of total U.S. employment, mining and construction, which together accounted for nearly 9 percent, and agriculture and related industries, which accounted for about 1 percent. On an occupational basis, about 35 percent of all the employed persons were in either management, business, and financial operations professions (almost 15 percent of total employment) or professional and related occupations (nearly 21 percent of total employment); other major occupational categories of U.S. employment included sales and office occupations (about 25 percent of total employment) and service occupations (nearly 17 percent of total employment).

The unemployment rate in the United States was 4.6 percent in 2007. Half of the unemployed in 2007 were job losers and those who had completed temporary jobs.

⁶ The data in this section are from the World Bank's World Development Indicators. The World Development Indicators database is available online at: <http://go.worldbank.org/RVW6YTLQH0>. GDP figures are in current U.S. dollars. GNI per capita figures are in current U.S. dollars and use the Atlas Method.

⁷ All data on the U.S. labor force are from the Current Population Survey and are available on the Bureau of Labor Statistics' Web site at: <http://www.bls.gov/cps/home.htm#tables>.

⁸ Persons are classified as unemployed if they do not have a job, have actively looked for work in the prior 4 weeks, and are currently available for work.

Reentrants to the labor force made up 30 percent of the unemployed in 2007; job leavers accounted for 11 percent; and new entrants represented 9 percent of the unemployed.

b. Colombia's Labor Force

In 2006, Colombia's labor force consisted of approximately 20.2 million workers, of whom 17.6 million were employed.⁹ Female workers made up approximately 41.0 percent (7.2 million workers) of total employment. The major sectors of employment in Colombia in 2006 were: wholesale and retail trade, hotels, and restaurants¹⁰ (25.1 percent); community, social, and personal services¹¹ (22.4 percent); and agriculture, hunting, and forestry (19.4 percent). On the industrial basis used for cross-country analysis, Colombia's employment in 2006 was distributed across industrial sectors as follows: 61.3 percent in services,¹² 19.4 percent in agriculture, and 19.3 percent in industry.^{13,14}

The Colombian unemployment rate was 12.7 percent in 2006. Among the unemployed, 22.1 percent formerly worked in community, social, and personal services, 19.9 were sales and hospitality workers, and 9.1 percent worked in manufacturing. Approximately 22.1 percent of the unemployed in Colombia were workers seeking their first job.

3. *International Trade in Goods*

a. Global and Bilateral Merchandise Trade

Based on available statistics from the World Trade Organization (WTO), total U.S. merchandise trade with the world amounted to \$2.96 trillion (\$1.04 trillion in merchandise exports and \$1.92 trillion in merchandise imports) in 2006.¹⁵ The United

⁹ The most recent year for which annual data are available is 2006. Unless noted otherwise, the statistics reported in this section come from the International Labor Office labor statistics database, LABORSTA, which is available from <http://laborsta.ilo.org/>. According to the International Labor Office, these statistics describe the labor force situation for Colombian workers who are at least 10 years old. The statistics were compiled using data from Colombia's *Encuesta Continua de Hogares*.

¹⁰ This category also includes the repair of motor vehicles, motorcycles and personal and household goods.

¹¹ This category represents tabulation categories L – Q (ISIC revision 3), which are (L) public administration, defense and compulsory social security; (M) education; (N) health and social work; (O) other community, social and personal service activities; (P) private households with employed persons; and (Q) extra-territorial organizations and bodies.

¹² The standard definition of *services* correspond to tabulation categories G-P (ISIC revision 3) and include wholesale and retail trade and restaurants and hotels; transport, storage, and communications; financing, insurance, real estate, and business services; and community, social, and personal services. However, in the case of Colombia, *services* corresponds to tabulation categories G-Q; that is it also includes tabulation category Q: extra-territorial organizations and bodies.

¹³ *Industry* corresponds to tabulation categories C-F (ISIC revision 3) and includes mining and quarrying (including oil production), manufacturing, construction, and public utilities (electricity, gas, and water).

¹⁴ USDOL calculation using employment statistics collected by the International Labor Office and reported in the ILO labor statistics database, LABORSTA, which is available from <http://laborsta.ilo.org/>.

¹⁵ Data for this and the next paragraph are from the WTO and are based on total merchandise trade. WTO Trade Profiles by country are available at: <http://stat.wto.org/CountryProfile/WSDBCountryPFHome.aspx?Language=E>.

States was the world's second largest merchandise exporter (behind Germany) and the number one merchandise importer in 2006.

Colombia's total merchandise trade with the world amounted to \$50.4 billion (\$24.4 billion in merchandise exports and \$26.0 billion in merchandise imports) in 2006. Colombia was ranked the 57th largest merchandise exporter and the 54th largest merchandise importer in the world in 2006. Colombia's major exports included petroleum, coal, coffee, flowers, textiles and garments, and ferronickel, while its major imports included machinery and equipment, grains, chemicals, and transportation equipment. Colombia's primary export partners were the United States, the European Union, Venezuela, Ecuador, and Peru; and its major import partners were the United States, the European Union, Mexico, China, and Brazil.

Based on statistics from the U.S. Department of Commerce, U.S. bilateral trade with Colombia represents a very small share of total U.S. trade and accounted for 0.75 percent (\$7.9 billion) of all U.S. domestic merchandise exports to the world and 0.48 percent (\$9.3 billion) of all U.S. merchandise imports for consumption from the world in 2007. Colombia ranked as the 26th largest U.S. domestic export market and the 33rd largest source for U.S. imports for consumption in 2007.

b. U.S. Merchandise Exports to Colombia

U.S. domestic merchandise exports to Colombia amounted to \$7.9 billion in 2007, up from \$6.2 billion in 2006.¹⁶ Over the past five years, 85 percent of U.S. merchandise exports to Colombia have been from the manufacturing sector. In 2007, the leading ten five-digit North American Industry Classification System (NAICS) industries, which accounted for 45 percent of total U.S. exports to Colombia, covered a variety of products, including other basic organic chemicals; corn; computer equipment; resin and synthetic rubbers; construction machinery; mining and oil and gas field machinery; articles under special classification provisions;¹⁷ petroleum refinery products; petrochemicals; and navigational, measuring, electromedical, and control instruments (see Table II.1).

c. U.S. Merchandise Imports from Colombia

U.S. merchandise imports for consumption from Colombia amounted to \$9.3 billion in 2007, up from \$9.2 billion in 2006. In 2007, the leading ten five-digit import-based NAICS industries were oil and gas; coal; noncitrus fruits and tree nuts; nursery products, flowers, seeds, and foliage; petroleum refinery products; items entered under special classification provisions; iron, steel, and ferroalloy; nonferrous metal smelting and refining; men's and boys' apparel; and waste and scrap (see Table II.2). Combined, these

¹⁶ All trade data are in nominal terms.

¹⁷ Primarily exports of low-value shipments, articles imported for repairs, returned goods, and articles donated to charity.

ten industries accounted for 82 percent of all imports from Colombia in 2007, with oil and gas alone accounting for 36 percent.

4. *International Trade in Services*

The United States was the world's number one commercial services exporter (\$388.8 billion) and number one commercial services importer (\$307.8 billion) in 2006, based on data from the WTO.¹⁸ By comparison, Colombia's exports of commercial services to the world amounted to \$3.3 billion and its imports of commercial services from the world totaled \$5.4 billion in 2006.

The United States does not keep statistics on bilateral services trade with Colombia.

5. *Foreign Direct Investment (FDI)*

U.S. foreign direct investment (FDI) in Colombia was \$4.9 billion (on a historical basis) in 2006, up from \$4.2 billion in 2005. Data on Colombian foreign direct investment in the United States are not publicly available.¹⁹

In 2006, Colombia's inward stock of FDI was estimated to be \$44.8 billion and its outward stock of FDI was estimated to be \$10.0 billion.²⁰

B. Barriers to Bilateral Trade Prior to the CTPA

1. *Trade in Goods*

Since the early 1990s, Colombia has opened its economy considerably and cut customs tariffs and eliminated many non-tariff barriers.²¹ Most duties have been consolidated into three tariff levels: zero to five percent on capital goods, industrial goods, and raw materials not produced in Colombia; ten percent on most manufactured goods; and fifteen to twenty percent on consumer goods and certain "sensitive" goods.

¹⁸ Trade rankings, which are based on a balance of payments definition, are compiled by the WTO. WTO Trade Profiles by country are available at: <http://stat.wto.org/CountryProfile/WSDBCountryPFHome.aspx?Language=E>.

¹⁹ See *Survey of Current Business* (Sept. 2007), pp. 68 and 109. Available online at: <http://www.bea.gov/scb/toc/0907cont.htm>. The most recent year for which data are available is 2006. Data on Colombian FDI in the United States have not been made public by the Bureau of Economic Analysis for confidentiality reasons to avoid disclosure of the data of individual companies.

²⁰ United Nations Conference on Trade and Development, *World Investment Report 2007* (New York and Geneva: United Nations, 2007), p. 256. Available online at: http://www.unctad.org/en/docs/wir2007_en.pdf.

²¹ The discussion on Colombia is based upon *Foreign Trade Barriers: Colombia* (Office of the U.S. Trade Representative, 2007), pp.149-156. Available online at: http://www.ustr.gov/Document_Library/Reports_Publications/2007/2007_NTE_Report/Section_Index.html

Exceptions to this structure of Colombia's tariffs include bans on imports of used clothing and used and new automotive vehicles imported more than two years following their date of production. Colombia also uses discretionary import licensing to effectively ban imports of powdered milk and poultry parts. Automobiles that are not banned are subject to a 35 percent tariff. Many agricultural goods fall under a variable "price band" import duty system. Under the "price band" system, tariffs fluctuate to ensure that the import prices of such products equal a predetermined minimum import price. At times this has resulted in duties around 100 percent for U.S. exports to Colombia that USTR has described as important,²² such as corn, wheat, rice, soybeans, pork, poultry, and cheeses.

Colombia is an observer, but not a signatory, to the WTO Agreement on Government Procurement. The private sector has complained of a lack of transparency and credibility, and inefficiency in government procurement processes, and Colombia is in the process of reforming its Government Procurement and Contracting Law.

The United States maintains a transparent and largely open trade regime, although in a few important areas it maintains some market access barriers and other distorting measures.²³ The WTO Agreement obligates the United States to accord "most favored nation/normal trade relations" (MFN/NTR) tariff treatment to WTO members.²⁴ Most imports either enter the United States duty-free or at low tariffs; all tariff lines except two are subject to tariff bindings. In 2004,²⁵ the average MFN/NTR applied tariff was 4.9 percent although the average for agricultural products (based on the WTO definition) was nearly twice as high. "Sensitive" products, including tobacco, whey, certain dairy products, peanuts, and footwear, receive tariff protection in the 50 to 350 percent range.²⁶

2. Trade in Services

Colombia maintains restrictions in a variety of service sectors, but has an investment regime that is by and large open. The following services sectors face restrictions: broadcasting, communications, financial services, transportation, tourism, and certain professions.²⁷ Other restrictions affect all services sectors, including restrictions on hiring, provision of services, and highly restrictive laws on agency relationships. Colombian law guarantees national treatment²⁸ of foreign investors. One hundred

²² Ibid, p.149.

²³ World Trade Organization, *Trade Policy Review United States, Report by the Secretariat*, WT/TPR/S/160 (Geneva, June. 2006), paragraph 1, p.vii.

²⁴ U.S. law uses the term "normal trade relations" (NTR) instead of the term "most favored nation" (MFN) to describe the principle of nondiscriminatory treatment of trading partners. The WTO Agreement uses the term MFN.

²⁵ According to the 2006 Trade Policy Review *United States*, the latest year for which ad valorem equivalents were available was 2004.

²⁶ World Trade Organization, *Trade Policy Review United States, Report by the Secretariat*, WT/TPR/S/160 (Geneva, June. 2006), paragraph 9, p. viii.

²⁷ The discussion on Colombia is based upon *Foreign Trade Barriers: Colombia* (Office of the U.S. Trade Representative, 2007), pp.149-156. Available online at: http://www.ustr.gov/Document_Library/Reports_Publications/2007/2007_NTE_Report/Section_Index.html

²⁸ National treatment requires that foreign investors not be treated differently from domestic investors.

percent foreign ownership is permitted in most sectors with notable exceptions for activities related to national security and the disposal of hazardous waste.

The U.S. services and investment regimes are generally open,²⁹ with some exceptions. In the maritime sector, cabotage laws reserve domestic routes to U.S. operators and provide government support for U.S.-flag vessels. The United States restricts foreign ownership and control of U.S. air transport carriers, and the provision of domestic air service is restricted to U.S. carriers. The United States also restricts foreign investment in certain telecommunications services, radio broadcast, atomic energy, and energy pipelines. Finally, under the Exon-Florio Amendment to the Defense Production Act, the President has the authority to suspend or prohibit foreign mergers, acquisitions, and takeovers, where there is credible information of a threat to national security.

C. Major Elements of the CTPA

The CTPA consists of a Preamble, twenty-three chapters and various annexes, letters, and joint statements. The chapters are: Initial Provisions and General Definitions; National Treatment and Market Access for Goods; Textiles and Apparel; Rules of Origin and Origin Procedures; Customs Administration and Trade Facilitation; Sanitary and Phytosanitary Measures; Technical Barriers to Trade; Trade Remedies; Government Procurement; Investment; Cross-Border Trade in Services; Financial Services; Competition Policy, Designated Monopolies, and State Enterprises; Telecommunications; Electronic Commerce; Intellectual Property Rights; Labor; Environment; Transparency; Administration of the Agreement and Trade Capacity Building; Dispute Settlement; Exceptions; and Final Provisions. There are three annexes that include the non-conforming measures in services, investment, and financial services. The complete text of the CTPA and summary fact sheets are available on USTR's Web site.³⁰

III. Potential Economic and Employment Effects of the CTPA

The focus of this review is on the potential impact of the CTPA on U.S. employment and labor markets. It is based on a qualitative assessment of the likely economic effects of removing barriers to trade between the Parties, given the current structure and volume of United States-Colombia trade. This analysis is consistent with publicly available quantitative economic modeling studies published by the U.S. International Trade Commission (USITC)³¹ and the Institute for International Economics (IIE).³² The results of these studies are summarized in the Appendix of this review.

²⁹ See World Trade Organization, *Trade Policy Review United States, Report by the Secretariat*, WT/TPR/S/160 (Geneva, Feb. 2006) and *Statement on Foreign Direct Investment Policy* (U.S. Department of Treasury, Dec. 26, 1991).

³⁰ See http://www.ustr.gov/Trade_Agreements/Bilateral/Colombia_FTA/Final_Text/Section_Index.html.

³¹ United States International Trade Commission. *U.S.-Colombia Trade Promotion Agreement: Potential Economy-wide and Selected Sectoral Effects*. Investigation No.TA-2104-023. Dec. 2006. Available online at: <http://hotdocs.usitc.gov/docs/pubs/2104F/pub3896.pdf>

³² DeRosa, Dean A. and John P. Gilbert. 2006. "Potential Benefits of a U.S.-Colombia FTA," in *Trade Relations between Colombia and the United States*. Jeffrey J. Schott ed. Washington, DC: Institute for

The major finding of this review is that the CTPA is expected to have a negligible effect on employment in the United States. This finding is attributable to, among other factors, the relatively small volume of bilateral trade between the two countries, the fact that 91.3 percent of all U.S. imports from Colombia already enter the United States duty-free, provisions in the CTPA for the gradual removal of U.S. tariffs on import-sensitive goods from Colombia over an extended period of time, and safeguards contained in the CTPA to attenuate the effects of certain increases in imports.

Among the factors considered in this U.S. employment impact review of the CTPA were:

- *The Current Volume and Industrial Structure of U.S.-Colombia Trade*

Over the past five years, U.S. domestic merchandise exports to Colombia have averaged about 0.6 percent of all U.S. domestic exports to the world. In 2007, they amounted to \$7.9 billion. U.S. merchandise exports have been concentrated in a few industrial subsectors, including: chemicals; machinery, except electrical; computer and electronic products; agricultural products; and transportation equipment (see Table III.1).

Over the past five years, merchandise imports for consumption from Colombia have averaged about 0.5 percent of all U.S. imports for consumption from the world. In 2007, they amounted to \$9.3 billion. Colombia's merchandise exports to the United States have been concentrated in the following subsectors: oil and gas; agricultural products; and minerals and ores (see Table III.2).

- *The Potential Effects of Removing Current Barriers to Trade*

The immediate effects of the CTPA will come from the removal of tariffs on bilateral merchandise trade. Over 80 percent of U.S. exports of consumer and industrial products to Colombia will become duty-free immediately, with remaining tariffs phased out over 10 years. Many key U.S. farm exports will become duty-free immediately, including high quality beef, cotton, wheat, soybeans, key fruits and vegetables, and many processed food products. In the long term, the CTPA may also lead to increased foreign direct investment into Colombia from the United States due to the more secure and predictable legal framework the CTPA creates for U.S. investors operating in Colombia.

The removal of tariffs and the elimination of Colombia's price band system on imported U.S. goods upon entry into force of the CTPA should marginally boost the competitiveness of U.S. products in Colombia, including many products in key U.S. export sectors, such as agriculture and construction equipment, aircraft and parts, auto parts, fertilizers and agro-chemicals, information technology equipment, medical and scientific equipment, and wood. Under the CTPA, U.S. goods, services, and suppliers will receive national treatment and will have fair, non-discriminatory, and transparent

International Economics. Available online at:
http://www.iie.com/publications/chapters_preview/3896/04iie3896.pdf

opportunities to bid on Colombian government procurement contracts. The CTPA will also require Colombia to provide substantial market access to U.S. service providers.

Many goods from Colombia have long been granted duty-free entry to the United States through MFN/NTR duty-free treatment and under several U.S. trade preference programs, including the ATPA/ATPDEA and the GSP program.³³ In 2007, 91.3 percent of all U.S. imports from Colombia entered the United States duty-free, while the remaining 8.7 percent was subject to an average 1.3 percent rate of duty.

- In 2007, \$4.5 billion of U.S. imports for consumption from Colombia entered duty-free under the provisions of the ATPA/ATPDEA. These accounted for 48.9 percent of all U.S. imports from Colombia. They consisted primarily of oil and gas (70 percent), agricultural products (11 percent), apparel and accessories (8 percent), and petroleum and coal products (3 percent).
- In 2007, \$3.7 billion of U.S. imports for consumption from Colombia entered duty-free under MFN/NTR duty-free and under special temporary rate provisions. These accounted for 39.8 percent of all U.S. imports from Colombia. They consisted primarily of mineral and ores (34 percent), agricultural products (21 percent), and primary metal manufacturing (14 percent).
- In 2007, \$236.4 million of U.S. imports from Colombia entered duty-free under the GSP program. These accounted for 2.6 percent of all U.S. imports from Colombia. They consisted primarily of food manufacturing (19 percent), electrical equipment, appliances, and components (17 percent), fabricated metal products (16 percent), nonmetallic mineral products (14 percent), and plastics and rubber products (11 percent).

The 8.7 percent of all U.S. merchandise imports for consumption from Colombia that incurred duties in 2007 amounted to \$804.1 million, and at the average 1.3 percent ad valorem tariff rate generated an estimated \$10.1 million in duties.³⁴ Only five items had calculated duties of more than \$500,000. These five items combined accounted for just 5.4 percent of the dutiable value, but 50.2 percent of the calculated duties on all U.S. imports for consumption from Colombia. All five of these items were textile and apparel articles. U.S. import NAICS-based subsectors in which imports from Colombia faced averages of U.S. duties over ten percent were apparel and accessories (16.9 percent), food manufacturing (14.3 percent), and leather and allied products (11.9 percent) (see Table III.3).

In 2007, the leading ten U.S. imports for consumption (on an eight-digit HTS tariff line basis) accounted for 71.0 percent of all U.S. imports for consumption from Colombia and all were eligible for duty-free entry into the United States. Five of these leading ten

³³ In 2007, a small amount of imports from Colombia entered duty-free under the Agreement on Trade in Civil Aircraft (\$431,115) and the Agreement on Trade in Pharmaceutical Products (\$2,821).

³⁴ Based on the dutiable value and calculated duties of U.S. imports from Colombia, compiled from the official statistics of the U.S. Department of Commerce, Bureau of the Census.

imports – bituminous coal; non-roasted, not decaffeinated coffee; coal, other than anthracite or bituminous; non-monetary gold bullion and doré; and ferronickel – received MFN/NTR duty-free treatment. Four of these leading ten imports – crude petroleum oils testing 25 degrees A.P.I. or more; crude petroleum oils testing under 25 degrees A.P.I.; distillate and residual fuel oils testing under 25 degrees A.P.I.; and fresh cut sweetheart, spray, and other roses – were eligible for duty-free entry under the ATPA/ATPDEA program. The remaining item was the estimated imports of low valued transactions for which the Commerce Department does not calculate duties paid.

The immediate removal of the small incidence of U.S. tariffs on the small volume of goods imported from Colombia does not appear to pose a threat to U.S. producers of like or similar products.

- *The Dynamic Nature of the U.S. Labor Market*

The degree to which U.S. workers may face new employment opportunities or job dislocations due to the CTPA depends, only in part, on the magnitude and significance of the change in industry employment resulting from the CTPA. The predicted impact of the CTPA on U.S. employment in all sectors is likely to be very small in relation to ordinary turnover of workers. For example, in 2007 the average monthly hires rate was 3.5 percent (or a total of 57.8 million workers for 2007) and the average monthly total separation rate was 3.3 percent (or a total of 54.6 million workers for 2007).³⁵ Since the CTPA is expected to have a very small effect on bilateral trade flows, it is reasonable to expect that the employment change at the industry level will be negligible and indistinguishable from normal labor market turnover. This conclusion is consistent with findings in recent U.S. employment impact reviews of the U.S. free trade agreements with Australia, a larger and more diverse high-income industrialized country, and Morocco, a lower middle-income agrarian-based developing country.

- *Features in the CTPA to Ease the Adjustment Process*

While the CTPA is expected to have little effect on U.S. employment, it contains provisions to help ensure that only goods that meet the CTPA's rules of origin will benefit from the CTPA and mechanisms to help ease the adjustment process to bilateral free trade with Colombia. These include strict rules of origin, rules to protect against transshipment of goods (e.g., a third country using Colombia as an export platform to the United States), mechanisms to address injurious increases in imports from Colombia, and the gradual phase-out of U.S. tariffs on sensitive goods that are not now imported from Colombia. In addition, the CTPA contains a general safeguard mechanism to address certain increases in imports that are a substantial cause of serious injury to a domestic

³⁵ The hire rate is the number of persons hired during the month divided by employment. Likewise, the separation rate is the total number of separations during the month divided by employment. Total separations include voluntary, involuntary, and other separations (e.g. retirement). U.S. Department of Labor, Bureau of Labor Statistics, *Job Openings and Labor Turnover: January 2008*, News release, USDL 08-0332, Washington D.C., March 12, 2008.

industry. Furthermore, the CTPA also contains special agricultural and textile safeguard mechanisms.

IV. The Labor Chapter of the CTPA and Related Provisions

The Labor Chapter of the CTPA fully meets the relevant provisions of the Trade Act of 2002. It also reflects an agreement reached by the Administration and the bipartisan leadership of Congress on May 10, 2007. The Chapter reaffirms the Parties' obligations as members of the International Labor Organization (ILO) and commits each Party to adopt and maintain in its statutes and regulations, and practices thereunder, fundamental labor rights as stated in the 1998 ILO Declaration on Fundamental Principles and Rights at Work,³⁶ including for purposes of the Chapter a prohibition on the worst forms of child labor. To establish a violation of this obligation a Party must demonstrate that the other Party has failed to comply with the terms of the Chapter in a manner affecting bilateral trade or investment. The Chapter further provides that neither Party will waive or otherwise derogate from the statutes and regulations that implement this obligation nor fail to effectively enforce its labor laws in a manner affecting trade or investment between the Parties. All obligations in the Chapter are subject to the same dispute settlement procedures and enforcement mechanisms as commercial obligations in the CTPA.

In addition, the Chapter obligates each Party to provide detailed procedural guarantees for enforcement of its labor laws, including access to labor tribunals, proceedings that comply with due process of law and are open to the public, and remedies to ensure enforcement of labor laws. These provisions should contribute to the effectiveness of labor law enforcement. The Chapter also establishes a labor cooperation and capacity building mechanism to improve labor standards and advance common commitments regarding labor matters.

A. Summary of the Labor Chapter

The Labor Chapter consists of eight Articles and an Annex as follows:

In Article 17.1, “[t]he Parties reaffirm their obligations as members of the International Labor Organization (ILO).”

Under Article 17.2, each Party agrees to “adopt and maintain in its statutes and regulations, and practices thereunder, the following rights, as stated in the *ILO Declaration on Fundamental Principles and Rights at Work and its Follow-up (1998)* (ILO Declaration): (a) freedom of association; (b) the effective recognition of the right to

³⁶ The ILO Declaration states that all ILO members have an obligation “to respect, to promote and to realize, in good faith and in accordance with the Constitution, the principles concerning the fundamental rights which are the subject of those Conventions, namely: (a) freedom of association and the effective recognition of the right to collective bargaining; (b) the elimination of all forms of forced or compulsory labour; (c) the effective abolition of child labour; and (d) the elimination of discrimination in respect of employment and occupation.”

collective bargaining; (c) the elimination of all forms of compulsory or forced labor; (d) the effective abolition of child labor and, for purposes of this Agreement, a prohibition on the worst forms of child labor; and (e) the elimination of discrimination in respect of employment and occupation.” Further, under Article 17.2, the Parties agree to not waive or otherwise derogate from these statutes or regulations in a manner affecting trade or investment between the Parties.

Under Article 17.3, the Parties agree that each Party “shall not fail to effectively enforce its labor laws, including those it adopts or maintains in accordance with Article 17.2.1, through a sustained or recurring course of action or inaction, in a manner affecting trade or investment between the Parties....” The Article states that a Party’s decision “on the distribution of enforcement resources shall not be a reason for not complying with the provisions of [the] Chapter.” In the Article, the Parties recognize that each Party retains the right to the reasonable exercise of discretion and to *bona fide* decisions regarding the allocation of resources to labor enforcement activities among the fundamental labor rights enumerated in Article 17.2.1, as long as such discretion and decisions are not inconsistent with the Chapter.

Article 17.4 provides for procedural guarantees and the promotion of public awareness of labor laws. Under Article 17.4, each Party agrees to ensure that persons with a legally recognized interest have access to impartial and independent tribunals for the enforcement of the Party’s labor laws and that such persons may seek remedies to ensure enforcement of their rights. The Parties further agree to ensure that proceedings are fair, equitable, and transparent, and to this end, that such proceedings comply with due process of law, are open to the public (except where the administration of justice otherwise requires), provide an opportunity to defend respective positions, and do not entail unwarranted delays. Each Party also agrees to provide final decisions in such proceedings in writing, make such decisions available to the parties to the proceedings and, consistent with its law, to the public, and base such decisions on evidence in respect of which the parties to the proceeding were offered the opportunity to be heard. Each Party also commits to promote public awareness of its labor laws, including by ensuring the availability of information and encouraging education of its public regarding its labor laws.

In Article 17.5, the Parties establish a Labor Affairs Council (“the Council”) that shall oversee the implementation of and review progress under the Chapter, including the activities of the Labor Cooperation and Capacity Building Mechanism established under Article 17.6. The Article also requires each Party to designate an office within its labor ministry to serve as a contact point with the other Party and the public. The contact points must provide for receipt and consideration of communications from persons of a Party on matters related to implementation of the Chapter.

In Article 17.6 the Parties establish a Labor Cooperation and Capacity Building Mechanism. The Labor Cooperation and Capacity Building Mechanism is set out in Annex 17.6 (see below).

Article 17.7 sets out a mechanism for consultations between the Parties concerning any matter that may arise under the Chapter. If the Parties are unable to resolve a matter, either Party may request that the Council be convened to consider the matter. If after 60 days, the consulting Parties have failed to resolve the matter, the complaining Party may request consultations under Article 21.4 (Consultations) or a meeting of the Commission under Article 21.5 (Intervention of the Commission), and thereafter have recourse to other provisions of Chapter 21 (Dispute Settlement).

Article 17.8 defines “labor laws” as those directly related to the following internationally recognized labor rights: (a) freedom of association; (b) the effective recognition of the right to collective bargaining; (c) the elimination of all forms of forced or compulsory labor; (d) the effective abolition of child labor, a prohibition on the worst forms of child labor, and other labor protections for children and minors; (e) the elimination of discrimination in respect of employment and occupation; and (f) acceptable conditions of work with respect to minimum wages, hours of work, and occupational safety and health.

B. Labor Cooperation

Under Article 17.6, the Parties recognize that cooperation on labor issues plays an important role in advancing development in the territory of the Parties and enhancing opportunities to improve labor standards, and to further advance common commitments regarding labor matters, including the principles embodied in the ILO Declaration and *ILO Convention 182 Concerning the Prohibition and Immediate Action for the Elimination of the Worst Forms of Child Labour* and establish a Labor Cooperation and Capacity Building Mechanism. This Mechanism shall operate in a manner that respects each Party’s laws and sovereignty. The contact point designated in accordance with Article 17.5 will also serve as a contact point for the Labor Cooperation and Capacity Building Mechanism.

Under Annex 17.6, the contact points are to carry out the work of the Labor Cooperation and Capacity Building Mechanism by developing and pursuing bilateral or regional cooperation activities on labor issues, including the fundamental rights at work and their effective application and the elimination of the worst forms of child labor. The Parties may carry out such cooperation activities through any form they consider appropriate, including technical assistance programs; exchanges of official delegations, professionals, and specialists; and exchanges of information on standards, regulations, procedures, and best practices. In identifying areas for labor cooperation and capacity building and in carrying out cooperative activities, Annex 17.6 provides that each Party is to consider views of its respective worker and employer representatives as well as those of other members of the public.

C. Administration of the Agreement

In Chapter 20 of the CTPA, the Parties establish a Free Trade Commission of cabinet-level representatives from each of the Parties to supervise the implementation of the CTPA and consider all types of matters raised under it. The Chapter includes additional provisions on the administration of dispute settlement proceedings that require

designation by each Party of an office to assist the Free Trade Commission. The Parties also establish a Committee on Trade Capacity Building to help encourage “reforms and investments necessary to foster trade-driven economic growth, poverty reduction, and adjustment to liberalized trade.”

D. Dispute Settlement

The CTPA’s Dispute Settlement Chapter (Chapter 21) establishes detailed procedures for the settlement of disputes between the Parties over compliance with obligations under the CTPA. These procedures call for among other things public hearings; public access to documents; and opportunities for nongovernmental entities located in the Parties to submit views.

A Party may request consultations with the other Party on any measure it believes might affect the operation of the Agreement. If the Parties cannot resolve the matter through consultations, either Party may refer the matter to the Free Trade Commission. If the Free Trade Commission is unable to resolve the matter at issue, either Party may request the establishment of an arbitral panel to consider the matter. An arbitral panel shall be established upon receipt of the request.

Where a Party is found to be in violation of an obligation under the Agreement, the Parties must seek to agree on a resolution to the dispute. If the Parties cannot agree on a resolution, the Parties must seek to agree on acceptable trade compensation. If they cannot agree on a compensation, or if the complaining Party believes the defending Party has failed to implement an agreed resolution, the complaining Party may provide notice that it intends to suspend trade benefits equivalent in effect to those it considers were impaired, or may be impaired, as a result of the matter in dispute. The complaining Party cannot suspend benefits, however, if the defending Party provides notice that it will pay an annual monetary assessment to the other Party. The Parties must seek to agree on the amount of the assessment. If they cannot, the assessment will be set at 50 percent of the level of trade concessions the complaining Party was authorized to suspend.

Appendix: Summary of Results of Publicly Available Quantitative Studies on the Impact of the CTPA on the U.S. Economy

This appendix summarizes two studies which use different approaches to simulate the impact of a free trade agreement between the United States and Colombia. Variations in the results of these models may be due, among other things, to differences in policy assumptions, the treatment of other preferential trade agreements, and the age of the data used. Nevertheless, the estimated welfare gains are small relative to the size of the U.S. economy. The studies suggest U.S. welfare gains ranging from \$227 million to \$419 million which are significantly less than 0.05 percent of U.S. GDP. At a sectoral level, all changes in U.S. production or employment, positive or negative, are of an order of well less than one percent.

Summary of Results of U.S. International Trade Commission Quantitative Study

The U.S. International Trade Commission (USITC) published a study of the economic effects of the CTPA in December 2006.³⁷ The USITC used a computable general equilibrium (CGE) model³⁸ known as the Global Trade Analysis Project (GTAP) model to simulate the possible impact on U.S. imports, exports, production, and employment of the removal of tariff and quota restraints on bilateral merchandise trade under the CTPA.³⁹ The simulation compares the world in equilibrium without the CTPA and the world in equilibrium with the CTPA.⁴⁰ The USITC estimates that U.S. GDP would increase by \$2.5 billion (less than 0.05 percent) and U.S. welfare would increase by \$419 million.⁴¹

Since U.S. exports to Colombia currently face much higher tariffs than Colombia exports to the United States, U.S. exports to Colombia are expected to increase more than Colombian exports to the United States. The USITC estimates that U.S. exports to Colombia would increase by 13.7 percent and U.S. imports from Colombia would increase by 5.5 percent under the CTPA. The USITC finds the largest increases would be in U.S. exports in chemical, rubber, and plastic products; machinery and equipment not elsewhere classified; and motor vehicles and parts. The largest increases of imports from

³⁷ United States International Trade Commission. *U.S.-Colombia Trade Promotion Agreement: Potential Economy-wide and Selected Sectoral Effects*. Investigation No.TA-2104-023. December 2006. Available online at: <http://hotdocs.usitc.gov/docs/pubs/2104F/pub3896.pdf>.

³⁸ A CGE model is a type of economic model that uses actual economic data to estimate how an economy might react to certain changes.

³⁹ Due to data limitations, the model does not take into account liberalization in trade in services, removal of non-tariff barriers, and other regulatory changes that may occur as a result of the CTPA.

⁴⁰ The USITC model assumes a simplified version of the CTPA where all phased-in tariff reductions are immediately reduced to zero and that the sugar import quota is increased by 200 percent which approximates the expected increase in sugar imports from Colombia over the first 15 years of the CTPA. The model further assumes that the U.S.-Peru TPA is fully implemented and ATPA/ATPDEA benefits for Ecuador and Bolivia expire upon implementation of the CTPA.

⁴¹ For details on the USITC measurement of welfare, please see: United States International Trade Commission. *U.S.-Colombia Trade Promotion Agreement: Potential Economy-wide and Selected Sectoral Effects*. Investigation No.TA-2104-023. December 2006, p. 2-8.

Colombia would be in sugar and crops not elsewhere classified (which includes coffee and cut flowers).

The USITC finds “there is likely to be minimal to no effect on output or employment for most sectors in the U.S. economy”. Since the model used by the USITC keeps total employment constant, expanding industries that are expected to have increases in jobs, must be balanced by job losses in other industries without consideration of an expanded workforce or unemployment. They find declines in employment of greater than one-tenth of one percent in sugar (-0.3 percent) and sugar cane and sugar beet (-0.3 percent). They find employment increases of greater than one-tenth of one percent in processed rice (0.4 percent), cereal grains not elsewhere classified (0.3 percent), and wheat (0.2 percent).

Summary of Results of the Institute for International Economics Quantitative Study

In August, 2006, the Institute for International Economics⁴² published an analysis of the potential impact of a hypothetical free trade agreement (FTA) between the U.S. and Colombia using both a GTAP model and a gravity model.⁴³ This analysis was completed prior to the completion on the CTPA negotiations, and the assumptions do not necessarily reflect the commitments agreed to under the CTPA. Using the GTAP model, they find that a FTA would result in a significant increase in total trade between Colombia and the United States with Colombian exports to the U.S. rising by 37 percent and U.S. exports to Colombia rising by 44 percent. The gravity model predicts a larger impact with trade between the two countries expanding by 38 to 140 percent. The authors suggest several reasons that the impact estimates of the gravity model are so much greater than the impact estimated by the GTAP model. The reasons include: the empirical rather than applied nature of the gravity model; the potential for the gravity model to capture trade increases that result from increases in foreign direct investment as a result of a FTA; and limitations of the GTAP model to account for the elimination of non-tariff barriers.

From the simulation using the GTAP model, the authors estimate that the effects on the production patterns in the United States would be minimal, with Colombia likely facing much more wide-ranging changes. The largest increases in U.S. production are found to be in grains (0.14 percent), motor vehicles (0.08 percent), and other manufactures (0.07 percent). Sectors in which U.S. production is found to decline are other crops (-0.56 percent), other transportation equipment (-0.06 percent), and wearing apparel (-0.05 percent). It also finds small welfare gains for both countries (\$403.2 million for Colombia and \$227.3 million for the United States). The authors do not include estimates on employment impacts in the United States.

⁴² DeRosa, Dean A. and John P. Gilbert. 2006. “Potential Benefits of a U.S.-Colombia FTA,” in *Trade Relations between Colombia and the United States*. Jeffrey J. Schott ed. Washington, DC: Institute for International Economics. Available online at: http://www.iie.com/publications/chapters_preview/3896/04iie3896.pdf.

⁴³ A gravity model is a type of economic model that estimates bilateral trade flows based on the distance between the countries, the size of the economies, and other factors.

Tables

Table II.1: Leading 5-Digit NAICS-based U.S. Industry Exports to Colombia, 2003-2007
(sorted by 2007 value)

U.S. Export Industry	NAICS Code	Value of U.S. Exports to Colombia (millions of dollars)					Percent of	
		2003	2004	2005	2006	2007	Total U.S. Industry Exports in 2007	All U.S. Exports to Colombia in 2007
Total U.S. Exports to Colombia.....	--	3,496.3	4,145.0	4,962.1	6,235.5	7,884.4	0.8	100.00
<u>The leading NAICS-based industries in 2007 were:</u>								
Other Basic Organic Chemicals.....	32519	422.2	559.7	597.6	685.9	717.6	2.0	9.1
Corn.....	11115	173.0	212.5	230.5	369.2	519.0	5.1	6.6
Computer Equipment.....	33411	215.6	215.4	246.5	364.7	404.4	1.4	5.1
Resin and Synthetic Rubbers.....	32521	148.6	197.7	239.3	302.7	402.0	1.4	5.1
Construction Machinery.....	33312	45.8	146.2	129.6	247.7	309.1	1.9	3.9
Mining and Oil and Gas Field Machinery.....	33313	162.1	143.9	124.3	201.5	306.3	2.4	3.9
Special Classification Provisions.....	99000	123.6	138.1	167.9	198.6	247.8	0.7	3.1
Petroleum Refinery Products.....	32411	52.1	61.5	154.9	169.6	241.7	0.8	3.1
Petrochemicals.....	32511	54.8	95.2	110.2	147.5	222.5	13.9	2.8
Navigational, Measuring, Electromedical, and Control Instruments.....	33451	64.9	92.9	130.1	158.4	211.8	0.6	2.7

Note: The value of U.S. merchandise exports is the free alongside ship (FAS) value of domestic U.S. exports at the U.S. port of export. All data are in nominal terms.

Source: Official U.S. trade statistics from the U.S. Department of Commerce, Bureau of Census.

Table II.2: Leading 5-Digit NAICS-based U.S. Industry Imports from Colombia, 2003-2007
(sorted by 2007 value)

U.S. Import Industry	NAICS Code	Value of U.S. Imports from Colombia (millions of dollars)					Percent of	
		2003	2004	2005	2006	2007	Total U.S. Industry Imports in 2007	All U.S. Imports from Colombia in 2007
Total U.S. Imports for Consumption from Colombia.....	--	6,346.2	7,360.6	8,770.3	9,239.8	9,251.2	0.50	100.00
<u>The leading NAICS-based industries in 2007 were:</u>								
Oil and Gas.....	21111	2,156.9	2,636.0	3,144.8	3,453.9	3,362.9	1.5	36.4
Coal.....	21211	440.2	582.9	950.9	1,189.3	1,244.6	71.9	13.5
Noncitrus Fruits and Tree Nut.....	11133	487.7	514.5	749.3	741.6	779.2	8.5	8.4
Nursery Products, Flowers, Seeds and Foliage.....	11142	347.3	420.8	424.4	455.2	517.9	33.2	5.6
Petroleum Refining Products.....	32411	535.3	586.3	759.9	402.9	424.7	0.4	4.6
Special Classification Provisions.....	99000	284.8	312.3	390.0	432.4	414.0	1.5	4.5
Iron and steel and ferroalloy.....	33111	66.8	129.1	170.6	199.1	288.7	0.9	3.1
Nonferrous Metal (except aluminum) Smelting & Refining.....	33141	476.5	425.6	303.9	157.1	228.9	0.8	2.5
Men's and Boys' Apparel.....	31522	264.2	302.6	325.5	286.0	216.4	0.8	2.3
Waste and Scrap.....	91000	16.0	28.7	32.7	181.1	147.5	2.9	1.6

Note: The value of U.S. imports is the customs value (the appraised value of the merchandise, exclusive of import duties, freight, insurance, and other charges incurred in placing the merchandise alongside the carrier at the port of exportation) of U.S. merchandise imports for consumption (the amount that immediately enters U.S. consumption channels, but not bonded warehouses or Foreign Trade Zones). All data are in nominal terms.

Source: U.S. Department of Labor tabulations of official U.S. trade statistics from the U.S. Department of Commerce, Bureau of Census.

Table III.1: U.S. Exports to Colombia by NAICS-based Sector and Subsector, 2003-2007

NAICS-based U.S. Export Sector and Subsector	Value of U.S. Exports to Colombia (millions of dollars)					Percent of	
	2003	2004	2005	2006	2007	Total U.S. Sector Exports in 2007	All U.S. Exports to Colombia in 2007
Total U.S. Exports to Colombia.....	3,496.3	4,145.0	4,962.1	6,235.5	7,884.4	0.8	100.0
11—Agriculture and Livestock Products.....	381.5	433.9	483.5	625.9	920.1	1.7	11.7
111—Agricultural Products.....	374.0	428.2	475.2	616.8	909.2	2.0	11.5
112—Livestock and Livestock Products.....	5.6	3.8	5.8	5.3	6.9	0.5	0.1
113—Forestry Products.....	0.7	0.8	1.0	1.7	1.8	0.1	(³)
114—Fish, Fresh, Chilled, or Frozen and Other Marine Products.....	1.2	1.0	1.5	2.2	2.3	0.1	(³)
21—Oil, Gas, Minerals and Ores.....	8.7	10.6	11.3	15.8	15.0	0.1	0.2
211—Oil and Gas.....	(¹)	(¹)	0.1	1.3	0.1	(²)	(²)
212—Minerals and Ores.....	8.7	10.6	11.3	14.5	14.8	0.1	0.2
31-33—Manufacturing.....	2,959.4	3,538.8	4,256.7	5,325.9	6,595.5	0.7	83.7
311—Food Manufacturing.....	115.4	142.0	174.1	221.5	277.1	0.7	3.5
312—Beverages and Tobacco Products.....	1.8	2.2	1.9	3.0	5.9	0.1	0.1
313—Textiles and Fabrics.....	87.8	94.5	101.5	130.5	93.2	1.1	1.2
314—Textile Mill Products.....	10.7	13.6	11.4	13.0	15.3	0.6	0.2
315—Apparel and Accessories.....	37.1	34.0	33.3	29.1	27.7	0.9	0.4
316—Leather and Allied Products.....	3.0	2.8	3.9	4.9	4.8	0.2	0.1
321—Wood Products.....	2.6	4.1	4.2	4.9	8.4	0.2	0.1
322—Paper.....	127.7	117.9	137.0	171.2	205.2	1.0	2.6
323—Printing, Publishing and Similar Products.....	10.8	8.1	13.4	15.4	22.6	0.4	0.3
324—Petroleum and Coal Products.....	52.4	61.8	155.3	170.0	242.1	0.8	3.1
325—Chemicals.....	972.1	1,229.2	1,359.1	1,655.6	1,971.4	1.3	25.0
326—Plastics and Rubber Products.....	52.7	68.3	88.3	117.1	160.5	0.7	2.0
327—Nonmetallic Mineral Products.....	23.4	31.7	29.2	41.7	54.4	0.6	0.7
331—Primary Metal Manufacturing.....	38.3	43.2	75.3	96.8	139.3	0.3	1.8
332—Fabricated Metal Products.....	73.7	74.8	142.8	140.8	181.0	0.6	2.3
333—Machinery, Except Electrical.....	514.8	621.7	683.5	1,003.9	1,271.4	1.0	16.1
334—Computer and Electronic Products.....	462.5	553.6	654.8	771.4	964.9	0.7	12.2
335—Electrical Equipment, Appliances, and Components.....	82.8	135.8	135.6	155.6	198.5	0.6	2.5
336—Transportation Equipment.....	199.0	201.2	336.0	410.6	554.0	0.3	7.0
337—Furniture and Fixtures.....	2.8	4.5	4.5	6.5	9.4	0.3	0.1
339—Miscellaneous Manufactured Commodities.....	88.1	93.7	111.4	162.3	188.4	0.5	2.4
51—Information.....	0.5	1.5	5.6	6.1	10.7	1.2	0.1
511—Publishing Industries (except Internet).....	0.5	1.5	5.6	6.1	10.7	1.2	0.1
91-99—Special Classification Provisions.....	146.1	160.3	205.0	261.8	343.1	0.5	4.4
91—Waste and Scrap.....	9.1	5.8	19.5	28.2	44.6	0.2	0.6
92—Used or Second-hand Merchandise.....	13.4	16.3	17.7	34.9	50.7	0.9	0.6
99—Special Classification Provisions, not otherwise specified or included.....	123.6	138.1	167.9	198.6	247.8	0.7	3.1

(¹) Less than \$50,000.

(²) Less than 0.05 percent.

Note: The value of U.S. exports is the free alongside ship (FAS) value of domestic U.S. merchandise exports at the U.S. port of export. Because of rounding, figures may not add to totals shown. All data are in nominal terms.

Source: Official U.S. trade statistics from the U.S. Department of Commerce, Bureau of Census.

Table III.2: U.S. Imports from Colombia by NAICS-based Sector and Subsector, 2003-2007

NAICS-based U.S. Import Sector and Subsector	Value of U.S. Imports from Colombia (millions of dollars)					Percent of	
	2003	2004	2005	2006	2007	Total U.S. Sector Imports in 2007	All U.S. Imports from Colombia in 2007
Total U.S. Imports from Colombia	6,346.2	7,360.6	8,770.3	9,239.8	9,251.2	0.5	100.0
11—Agriculture and Livestock Products	876.8	982.9	1,22.6	1,246.5	1,342.5	3.6	14.5
111—Agricultural Products.....	843.2	943.2	1,180.8	1,203.9	1,304.4	6.6	14.1
112—Livestock and Livestock Products.....	3.6	4.0	5.4	4.5	6.2	0.1	0.1
113—Forestry Products.....	(¹)	(¹)	0.2	0.4	0.2	(²)	(²)
114—Fish, Fresh, Chilled, or Frozen and Other Marine Products.....	29.9	35.7	36.2	37.7	31.6	0.3	0.3
21—Oil, Gas, Minerals and Ores	2,602.1	3,221.5	4,096.9	4,647.2	4,608.4	1.9	49.8
211—Oil and Gas.....	2,156.9	2,636.0	3,144.8	3,453.9	3,362.9	1.5	36.4
212—Minerals and Ores.....	445.2	585.5	952.1	1,193.3	1,245.4	15.3	13.5
31-33—Manufacturing	2,465.3	2,722.7	2,953.4	2,590.6	2,648.4	0.2	28.6
311—Food Manufacturing.....	183.7	211.7	245.9	266.3	224.8	0.6	2.4
312—Beverages and Tobacco Products.....	54.6	59.3	42.0	43.8	31.2	0.2	0.3
313—Textiles and Fabrics.....	6.7	8.4	13.4	14.1	18.5	0.2	0.2
314—Textile Mill Products.....	36.7	43.1	36.4	36.9	35.8	0.2	0.4
315—Apparel and Accessories.....	502.7	592.7	579.1	509.4	386.5	0.5	4.2
316—Leather and Allied Products.....	36.9	37.9	44.8	41.2	48.5	0.2	0.5
321—Wood Products.....	10.7	11.3	9.6	8.4	6.0	(²)	0.1
322—Paper.....	20.4	23.0	35.3	33.9	30.3	0.1	0.3
323—Printing, Publishing and Similar Products.....	30.0	29.4	33.3	33.5	46.7	0.7	0.5
324—Petroleum and Coal Products.....	535.4	586.3	760.0	403.0	424.8	0.4	4.6
325—Chemicals.....	95.9	89.0	121.3	135.6	121.2	0.1	1.3
326—Plastics and Rubber Products.....	56.1	63.5	71.6	74.9	77.4	0.2	0.8
327—Nonmetallic Mineral Products.....	152.1	183.9	205.1	237.8	207.0	1.1	2.2
331—Primary Metal Manufacturing.....	557.4	575.2	506.0	394.5	550.0	0.6	5.9
332—Fabricated Metal Products.....	28.6	37.8	47.8	75.3	88.5	0.2	1.0
333—Machinery, Except Electrical.....	12.7	16.0	17.5	33.6	48.8	(²)	0.5
334—Computer and Electronic Products.....	5.5	5.0	9.3	11.2	19.7	(²)	0.2
335—Electrical Equipment, Appliances, and Components.....	13.2	16.4	26.1	44.7	61.7	0.1	0.7
336—Transportation Equipment.....	8.2	9.0	12.2	15.8	15.8	(²)	0.2
337—Furniture and Fixtures.....	22.8	29.3	31.7	36.7	34.9	0.1	0.4
339—Miscellaneous Manufactured Commodities.....	94.9	94.4	104.7	140.1	170.4	0.2	1.8
51—Information	(¹)	0.1	(¹)	0.1	(¹)	(²)	(²)
511—Publishing Industries (except Internet).....	(¹)	0.1	(¹)	0.1	(¹)	(²)	(²)
91-99—Special Classification Provisions	401.9	433.4	497.4	755.4	652.0	0.8	7.0
91—Waste and Scrap.....	16.0	28.7	32.7	181.1	147.5	2.9	1.6
92—Used or Second-hand Merchandise.....	2.8	4.1	2.9	10.6	12.2	0.1	0.1
98—U.S. Goods Returned and Reimported Items.....	98.3	88.3	71.7	131.4	78.3	0.2	0.8
99—Special Classification Provisions, not otherwise specified or included.....	284.8	312.3	390.0	432.4	414.0	1.5	4.5

(¹) Less than \$50,000.

(²) Less than 0.005 percent.

Note: The value of U.S. imports is the customs value (the appraised value of the merchandise, exclusive of import duties, freight, insurance, and other charges incurred in placing the merchandise alongside the carrier at the port of exportation) of U.S. merchandise imports for consumption (the amount that immediately enters U.S. consumption channels, but not bonded warehouses or Foreign Trade Zones). Because of rounding, figures may not add to totals shown. All data are in nominal terms.

Source: Official U.S. trade statistics from the U.S. Department of Commerce, Bureau of Census.

Table III.3: Customs Value, Dutiable Value, Calculated Duties, and Average Rate of Duty on U.S. Imports from Colombia by NAICS-based Subsector, 2007

NAICS-based U.S. Import Subsector	Customs Value (\$thous.)	Dutiable Value (\$thous.)	Calculated Duties (\$thous.)	Average Rate of Duty (percent)
315—Apparel and Accessories.....	386,458	33,603	5,690	16.9
314—Textile Mill Products.....	35,799	30,853	2,653	8.6
313—Textiles and Fabrics.....	18,506	6,681	536	8.0
324—Petroleum and Coal Products.....	424,842	241,868	223	0.1
316—Leather and Allied Products.....	48,514	1,831	217	11.9
311—Food Manufacturing.....	224,764	1,334	191	14.3
327—Nonmetallic Mineral Products.....	206,979	2,418	165	6.8
211—Oil and Gas.....	3,362,941	63,769	84	0.1
339—Miscellaneous Manufactured Commodities.....	170,380	835	45	5.4
All Other Subsectors.....	4,372,051	420,892	282	0.1
Total.....	9,251,233	804,085	10,087	1.3

Note: The customs value of U.S. merchandise imports is the appraised value of the merchandise, exclusive of import duties, freight, insurance, and other charges incurred in placing the merchandise alongside the carrier at the port of exportation. The customs value given is for imports for consumption, which represents the amount that immediately enters U.S. consumption channels, but not bonded warehouses or Foreign Trade Zones. The dutiable value represents the customs value of the foreign merchandise imported into the United States that is subject to duty. The calculated duty represents the estimated import duties collected. Estimated duties are calculated based on the applicable rates of duty as shown in the Harmonized Tariff Schedule of the United States Annotated for Statistical Reporting Purposes. Estimates of calculated duty do not necessarily reflect amounts of duty paid. The average rate of duty is the ratio of calculated duties over dutiable value, expressed in percentage terms. Because of rounding, figures may not add to totals shown. All data are in nominal terms.

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