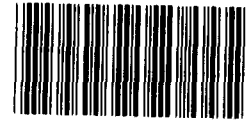


General Government Division

B-234511

July 30, 1992

The Honorable Lloyd Bentsen
Chairman, Committee on Finance
United States Senate

147232

Dear Mr. Chairman:

As you requested, we are providing information to help evaluate the impact of granting "most-favored-nation" (MFN)¹ trade status to Albania. Specifically, we are providing data on (1) leading U.S. imports from Albania from 1987 to 1991, (2) the potential impact of MFN status on tariff rates on items the United States has imported from Albania, (3) leading U.S. exports to Albania from 1987 to 1991, and (4) aggregate figures comparing U.S. trade with Albania to that of its major trading partners.

BACKGROUND

Albania is a very small country in Eastern Europe with a population of about 3.3 million people. It is the poorest country in Eastern Europe, with 1990 per capita gross domestic product of \$498, according to the World Bank. Its development has been limited by a rigid Communist ideology that governed economic and foreign trade policy. Until 1991, Albania had what could be considered a pure centralized command economy--no private property, little income disparity, and 5-year economic plans prepared and implemented by the central government.

For years, Albania was one of the most isolated countries in the world. A policy of self-reliance and a determination not to borrow from international lenders have hindered Albania's economic development. Due to its isolationist policies, Albania traded little with the East and even less with the West. Recently, however, with the

¹MFN treatment generally refers to the practice of extending to a country the best trade privileges granted to any other nation in the form of the lowest tariff rates and other charges imposed on imported products.

collapse of the rigid Communist system, Albania has begun economic reforms to stimulate its lagging economy.

LEADING U.S. IMPORTS FROM ALBANIA

U.S. imports from Albania have been limited in both value and mix. From 1987 to 1991, the Customs value² of all U.S. imports from Albania totaled about \$12.7 million, according to U.S. Department of Commerce data. The level of U.S. imports from Albania increased slightly each year, except for a modest temporary decline in 1990. During 1987 to 1991, the United States imported 16 different categories of products from Albania. Crude vegetable materials, and items under the Customs category that includes pig iron and iron and steel powder, were the leading U.S. imports from Albania during this period. These items made up more than 90 percent of the Customs value of total U.S. imports from Albania during the period covered by our review. Crude vegetable materials constituted the largest share of annual U.S. imports from Albania except in 1988, when the product category including pig iron and iron and steel powder was the leading import.

POTENTIAL IMPACT OF MFN STATUS ON TARIFF RATES

Unless there is a major change in the composition of U.S. imports from Albania, MFN status would have limited impact on the tariff rates paid on U.S. imports from Albania. Our analysis of U.S.-Albanian trade data shows that most of the items the United States has historically imported from Albania are ones that entered the United States duty free or with low tariff rates. For example, average duties on crude vegetable materials, which made up 79 percent of total U.S. imports from Albania over the 5-year period 1987-1991, fell from 1.45 percent in 1987 to 0.62 percent in 1988 to zero percent in 1989 and 1990. In 1991, only 0.09 percent of the total amount imported was subject to U.S. import duties.

²Customs value is generally defined as the price actually paid or payable for merchandise when sold for exportation to the United States, excluding U.S. import duties, freight, insurance, and other charges incurred in bringing the merchandise into the United States.

Our analysis indicates that MFN status would likely result in lower tariff rates for a few items that the United States has imported in limited quantities from Albania. For example, pig iron, which was the second leading item that the United States imported from Albania during the 1987 to 1991 period (total value of \$1.975 million) was subject to an average tariff rate of 7.5 percent. By comparison, U.S. pig iron imports from countries that have MFN status were subject to duties ranging from 1.5 percent to 1.6 percent. Similarly, we found tariff rate differences for other categories of items that were imported from Albania by the United States in insignificant quantities such as printed matter, spices, alcoholic beverages, and photographic supplies.

It is generally accepted economic theory that tariffs distort trade patterns, that is, to the extent that tariffs increase the price of an imported good, imports of the good will be lower than without the tariff. Thus, in theory, the more favorable treatment of manufactured or processed imports from Albania could result in an increase in import volumes, as well as a change in the mix of items that the United States imports from Albania. However, because the Albanian economy is so small and its industrial capacity and total exports potential are so limited, it is unlikely that any significant increase in imports from Albania would take place with the granting of MFN status. According to International Monetary Fund statistics, Albania's total exports were \$253 million in 1987, \$295 million in 1988, \$337 million in 1989, \$260 million in 1990, and only \$162 million in 1991.

Tables 1 to 5 show Customs values, dutiable values,³ and tariff data for all U.S. imports from Albania from 1987 to 1991.

³Dutiable value is that portion of a category of imports that is subject to U.S. tariffs. Dutiable share is the ratio of dutiable value to Customs value.

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Table 1: Customs Value, Dutiable Value,
and Tariff Data on U.S. Imports From Albania, 1987

Type commodity	Customs value	Dutiable value	Calculated duties collected	Calculated tariff rate	Dutiable share
Total all commodities	\$2,148,745	\$2,139,233	\$37,878	1.77%	99.56%
056--Vegs, roots and tubers, prepared or preserved, nes	3,307	0	0	0	0
075--Spices	118,113	118,113	6,212	5.26	100.00
112--Alcoholic beverages	11,323	11,323	1,417	12.51	100.00
292--Crude vegetable materials, nes	2,005,237	2,005,237	29,109	1.45	100.00
882--Photographic and cinematographic supplies	137	137	34	25.00	100.00
892--Printed matter	4,423	4,423	1,106	25.00	100.00
984--Estimate of low valued import transactions	6,205	0	0	0	0

Legend

Nes= not elsewhere specified

Note: Commodities listed with Standard International Trade Classification (SITC) code.

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

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Table 2: Customs Value, Dutiable Value,
and Tariff Data on U.S. Imports From Albania, 1988

Type commodity	Customs value	Dutiable value	Calculated duties collected	Calculated tariff rate	Dutiable Share
Total all commodities	\$2,391,106	\$2,331,150	\$112,644	4.83%	97.49%
075--Spices	5,550	0	0	0	0
292--Crude vegetable materials, nes	947,258	947,258	5,853	0.62	100.00
635--Wood manufactures, nes	3,854	3,854	1,284	33.33	100.00
671--Pig iron, spiegeleisen, etc. iron & steel powder etc.	1,286,478	1,286,478	94,486	7.50	100.00
676--Iron & steel bars, rods, angles, shapes & sections	89,507	89,507	8,951	10.00	100.00
892--Printed matter	3,850	3,850	2	0.05	100.00
896--Works of art, collectors' pieces and antiques	39,267	203	68	33.33	0.52
950--Coin including gold; proof and presentation sets	8,020	0	0	0	0
961--Coin (other than gold coin) not being legal tender	1,746	0	0	0	0
984--Estimate of low valued import transactions	5,576	0	0	0	0

Legend

Nes- not elsewhere specified

Note: Commodities listed with SITC code.

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

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Table 3: Customs Value, Dutiable Value,
and Tariff Data on U.S. Imports From Albania, 1989

Type commodity	Customs value	Dutiable value	Calculated duties collected	Calculated tariff rate	Dutiable share
Total all commodities	\$2,814,529	\$5,341	0	0%	0.19%
075--Spices	56,112	0	0	0	0
292--Crude vegetable materials, nes	2,719,469	0	0	0	0
892--Printed matter	13,470	0	0	0	0
950--Coin including gold; proof and presentation sets	20,137	0	0	0	0
984--Estimate of low valued import transactions	5,341	5,341	0	0	100.00%

Legend

Nes= not elsewhere specified.

Note: Commodities listed with SITC code.

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

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Table 4: Customs Value, Dutiable Value,
and Tariff Data on U.S. Imports From Albania, 1990

Type commodity	Customs value	Dutiable value	Calculated duties collected	Calculated tariff rate	Dutiable share
Total all commodities	\$2,197,098	\$726,115	\$59,515	8.20%	33.05%
075--Spices	43,895	0	0	0	0
292--Crude vegetable materials, nes	1,423,988	0	0	0	0
671--Pig iron, spiegeleisen etc. iron & steel powder etc.	688,630	688,630	51,647	7.50	100.00
792--Aircraft & associated equipment; spacecraft; & parts	28,600	28,600	7,865	27.50	100.00
892--Printed matter	8,885	8,885	3	0.03	100.00
896--Works of art, collectors' pieces and antiques	3,100	0	0	0	0

Legend

Nes= not elsewhere specified.

Note: Commodities listed with Standard International Trade Classification (SITC) code.

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

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Table 5: Customs Value, Dutiable Value,
and Tariff Data on U.S. Imports From Albania, 1991

Type commodity	Customs value	Dutiable value	Calculated duties collected	Calculated tariff rate	Dutiable share
Total all commodities	\$3,180,587	\$55,904	\$24,432	43.70%	1.76%
056--Vegetables, roots and tubers, prepared or preserved, nes	9,718	0	0	0	0
058--Fruit prsvd., fruit preparations (excl fruit juice)	10,177	10,177	3,562	35.00	100.00
075--Spices	31,351	0	0	0	0
292--Crude vegetable materials, nes	3,013,827	2,713	1,085	39.99	0.09
593--Explosives and pyrotechnic products	72,500	0	0	0	0
882--Photographic and cinematographic supplies	39,014	39,014	19,653	50.37	100.00
883--Cinema film, exp & develop, including sound track	4,000	4,000	132	3.30	100.00

Legend

Nes= not elsewhere specified.

Note: Commodities listed with (SITC) code.

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

U.S. EXPORTS TO ALBANIA

Our analysis of United Nations and U.S. Department of Commerce trade data shows that U.S. exports to Albania more than doubled from 1987 to 1988 (from \$3.3 million to \$7.2 million), dropped by about \$2 million in 1989, and then increased to \$10.4 million in 1990 and to \$18 million in 1991. The leading category of U.S. exports to Albania has been coal, coke, and briquettes. Coal made up 90 percent or more of total annual U.S. exports to Albania until 1991, when Albania began to import food items such as butter and wheat from the United States. Food items made up about 50 percent of U.S. exports to Albania in 1991.

ALBANIAN TRADE WITH THE UNITED STATES AND ITS MAJOR TRADING PARTNERS

Our analysis of trade data that EC countries reported to the United Nations shows that they imported a significantly larger quantity and broader mix of goods from Albania than did the United States. In 1988, for example, U.S. imports from Albania totaled \$2.5 million (including freight and insurance) as compared to \$88.2 million for EC countries and \$10.7 million for Japan. In addition to the items that the United States imported from Albania in 1988, EC countries' imports from Albania included nonferrous base metal ore (\$13.6 million); petroleum products (\$9.8 million); clothing (\$6.5 million); floor coverings (\$4.3 million); copper (\$4 million); and fresh vegetables (\$1.7 million); fresh fish (\$1.2 million); and dried fruits (\$738,000). EC countries also exported significantly more to Albania than the United States. Table 6 shows total U.S., Japan, and EC countries' imports from Albania from 1987 to 1990. Table 7 shows the total amount of goods that the United States, Japan, and the EC exported to Albania from 1987 to 1990.

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Table 6: U.S., Japan, and EC Countries' Imports From Albania, 1987 to 1990
(Dollars in thousands)

	1987	1988	1989	1990
United States	\$ 2,365	\$ 2,533	\$ 3,001	\$ 2,444
Japan	4,733	10,664	11,582	9,765
EC	65,783	88,244	108,875	97,716

Note: Trade figures in this table include costs for freight and insurance.

Source: United Nations Trade Data System.

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Table 7: U.S., Japan, and EC Countries' Exports to Albania, 1987 to 1990
(Dollars in thousands)

	1987	1988	1989	1990
United States	\$ 3,344	\$ 7,204	\$ 5,287	\$ 10,409
Japan	196	292	107	1,270
EC	63,839	78,329	113,143	146,125

Note: Trade figures in this table include costs for freight and insurance.

Source: United Nations Trade Data System.

SCOPE AND METHODOLOGY

We obtained figures on U.S. imports from Albania, U.S. exports to Albania, and tariff rate information from data reported by the U.S. Department of Commerce and the United Nations. We computed the average tariff rates as a ratio of calculated duties collected, divided by the dutiable value of U.S. imports, using data from the U.S. trade data base maintained by the Department of Commerce. We used data maintained by the United Nations and publications of the U.S. Central Intelligence Agency to report on Albania's trade with EC countries, Japan, and the United States.

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Please contact me at (202) 275-4812 if you or your staff have any questions concerning this letter. The information in this letter was developed by Benjamin F. Nelson, Assistant Director, and Bruce Kutnick, Senior Economist.

Sincerely yours,



Allan I. Mendelowitz, Director
International Trade and Finance Issues

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