CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

September 19, 1997

S. _____
OECD Shipbuilding Trade Agreement
As ordered reported by the Senate Committee on Finance on September 19, 1997

SUMMARY

The Shipbuilding Trade Agreement would reduce the 50 percent ad valorem duty on the cost of equipment and non-emergency repairs obtained in foreign countries imposed upon US flag vessels. The bill also expands the Capital Construction Fund, and increases penalties for failure to file a disclosure of exemption for income from certain international shipping. CBO and JCT estimate that this Agreement would increase governmental receipts by $3 million beginning in fiscal year 2000, and by $15 million over fiscal years 1997-2002 .

The Shipbuilding Trade Agreement contains no new private-sector or intergovernmental mandates as defined in the Unfunded Mandates Reform Act of 1995 (UMRA), and would not impose any costs on state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of the Shipbuilding Trade Agreement is shown in the following table.

ESTIMATED BUDGETARY IMPACT OF S.____, THE SHIPBUILDING TRADE AGREEMENT

	By Fiscal Year, in Millions of Dollars					
	1997	1998	1999	2000	2001	2002
REVENUES						
Proposed Changes to OECD Shipbuilding Trade Agreement	0	0	0	-7	-7	-7
Penalties for failure to file disclosure of exemption for income from international operation of ships or aircraft by foreign persons	0	0	0	12	15	15
Modify Capital Construction Fund	0	0	0	-2	-2	-2

The outlay effects of this legislation fall within budget function 800 (general government).

BASIS OF ESTIMATE

Revenues

The OECD Shipbuilding Trade Agreement was signed on December 21, 1994, by the following countries: The Commission of the European Communities including the United Kingdom, Germany, France, Italy, Spain, Ireland, the Netherlands, Belgium, Luxembourg, Greece, Portugal, Denmark, Austria, Sweden and Finland; Japan; South Korea; Norway; and the United States. Under current law (19 USC 1466), US flag vessels are subject to a 50 percent ad valorem duty on the cost of equipment and non-emergency repairs obtained in foreign countries. As mandated by the OECD agreement, section 111 of the proposed legislation would partially repeal the duty by exempting repairs to US flag vessels done in OECD signatory countries.

CBO estimates that section 111 of the bill, pertaining to vessel repair duties, would decrease governmental receipts by $7 million beginning in fiscal year 2000 and by $21 million over the fiscal years 1997-2002, net of payroll and income tax offsets. The estimate of revenue loss is based on the historical collections. Over the past several years, collections have been between $15 million and $25 million annually. According to the US Maritime Administration (MARAD), in December 1995 there were 141 vessels in the US flag fleet. However, MARAD predicts a steady decline in the size of the US fleet due to the impending expiration and expected termination of the operating-differential subsidy program, through which payments are made to US vessels on specified trade routes. This estimate assumes that future collections of the vessel repair duty would decline as a result of this reduction in the size of the fleet.

Currently about half of all repairs on US vessels in foreign ports are performed in OECD signatory countries. If section 111 of the bill is enacted, CBO assumes that additional US vessel repairs would be diverted to ports in OECD countries to take advantage of the duty-free repair treatment. This estimate assumes that this provision will be effective on October 1, 1999.

Section 201 of the bill expands penalties for failure to satisfy the filing requirements for claiming the exemption from US tax that is available to certain foreign persons with respect to income from international operation of ships. The Joint Committee on Taxation estimates that this provision would increase governmental receipts by $12 million in fiscal year 2000 and by $42 million over fiscal years 1997-2002. CBO concurs with this estimate.

Section 122 of the bill expands the eligibility requirement for the Capital Construction Fund by permitting repairs and construction to be undertaken overseas. JCT estimates that this provision will reduce governmental receipts by $2 million in fiscal year 2000, and by $6 million over fiscal years 1997-2002. CBO concurs with this estimate.

PAY-AS-YOU-GO CONSIDERATIONS

Section 252 of the Balanced Budget and Emergency Deficit Control Act of 1985 sets up pay-as-you-go procedures for legislation affecting direct spending or receipts through 1998. CBO estimates that the OECD Shipbuilding Trade Agreement would affect receipts. Therefore, pay-as-you-go procedures would apply to the bill. The pay-as-you-go impact is summarized below.

PAY-AS-YOU-GO CONSIDERATIONS

	By Fiscal Year, in Millions of Dollars	
	1997	1998
Changes in Outlays	Not Applicable	
Changes in Receipts	0	0

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

The bill contains no new private-sector or intergovernmental mandates as defined in UMRA, and would not impose any costs on state, tribal, or local governments.

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