CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

July 16, 1999

African Growth and Opportunity Act

As ordered reported by the Senate Committee on Finance on June 22, 1999

SUMMARY

The African Growth and Opportunity Act would authorize a new trade and investment policy for sub-Saharan Africa. The bill would extend and expand the Generalized System of Preferences (GSP) with respect to sub-Saharan Africa beyond its current expiration of June 30, 1999, through September 30, 2006. The legislation would also amend the Internal Revenue Code in order to limit the use of the nonaccrual experience method of accounting and to require information reporting on cancellations of indebtedness by nonbank financial institutions. CBO and the Joint Committee on Taxation (JCT) estimate that the bill would increase governmental receipts by $23 million over the 1999-2004 period. Because the bill would affect receipts, pay-as-you-go procedures would apply.

In addition, the bill could increase discretionary spending by an average of about $2 million a year, assuming appropriation of the necessary amounts. The legislation would authorize annual high-level meetings between officials of the United States government and their counterparts in sub-Saharan countries eligible for benefits under the bill. The bill would increase the number of foreign commercial service employees stationed in Africa. The legislation would require the creation of advisory committees and expanded reporting on trade and investment policy with sub-Saharan Africa.

The bill contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (URMA) and would not affect the budgets of state, local, or tribal governments. The legislation would impose two new private-sector mandates by limiting the use of the nonaccrual experience method of accounting and by requiring information reporting on cancellations of indebtedness by nonbank financial institutions. JCT estimates that the direct costs of the new mandates would not exceed the statutory threshold ($100 million in 1996, adjusted annually for inflation) established in UMRA in each of fiscal years 1999 through 2004.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of the bill is shown in the following table.

	By Fiscal Year, in Millions of Dollars					
	1999	2000	2001	2002	2003	2004
CHANGES IN REVENUES						
Trade Provisions						
Extension of GSP	0	-40	-33	-34	-36	-38
Expansion of GSP	0	-3	-10	-10	-10	-11
Subtotal of Trade Provisions	0	-43	-43	-44	-46	-49
Revenue Offset Provisions	12	77	67	40	35	17
Net Effect on Revenues	12	34	24	-4	-11	-32
CHANGES IN SPENDING SUBJECT TO APPROPRIATION						
Estimated Authorization Level	0	3	2	2	2	2
Estimated Outlays	0	2	3	2	2	2

BASIS OF ESTIMATE

Revenues

The bill would extend GSP, which expired on June 30, 1999, for sub-Saharan Africa on October 1, 1999, through September 30, 2006. The bill would allow for refunds for GSP-eligible goods entered between June 30, 1999, and October 1, 1999. The estimate of extending the existing GSP program with respect to sub-Saharan Africa was based on recent trade data on imports for U.S. consumption of goods from eligible countries. CBO assumes that GSP imports would remain a constant portion of total imports. CBO estimates a trade diversion of one-half of a percentage point from non-sub-Saharan African GSP beneficiaries who will no longer receive duty-free GSP treatment. Losses of revenues from customs duties were projected using a trade-weighted duty rate with respect to sub-Saharan Africa adjusted for tariff reductions scheduled by the World Trade Organization (WTO). CBO estimates that extending the existing GSP program with respect to sub-Saharan Africa would reduce governmental receipts by $182 million over the 2000-2004 period.

The current GSP excludes articles determined by the U.S. Trade Representative (USTR) to be import sensitive from receiving duty-free GSP treatment. The bill would allow countries of sub-Saharan Africa to ask the President to redetermine import sensitivity of GSP-excluded imports in the context of imports from sub-Saharan Africa. Based on discussions with the International Trade Commission (ITC), CBO identified products that are now import-sensitive but are likely not to be considered import-sensitive with respect to sub-Saharan Africa. USTR expects that the program to grant additional sub-Saharan African imports duty-free GSP treatment will not be implemented until eight months after the enactment of the law on October 1, 1999. CBO does not expect that sub-Saharan Africa will receive duty-free treatment for these articles prior to May 1, 2000. Using trade-weighted duty rates adjusted for reductions scheduled by the WTO, CBO estimates that this provision would reduce receipts by $39 million over the 2000-2004 period.

Current law also excludes from duty-free treatment a list of specific products, including apparel, textiles, footwear, leather goods, glass, certain electronic products, and watches. The legislation would extend duty-free treatment to these products if the USTR determines that they are not import sensitive with respect to Sub-Saharan Africa. CBO based its estimate of the loss of duties that would result from granting these goods duty-free GSP treatment on recent collections data. CBO assumed that under existing law, imports of these products would grow at the same rate as total non-petroleum imports. United States imports of footwear, leather goods, glass, certain electronic products, and watches from sub-Saharan Africa are insignificant compared with United States imports of similar goods from other countries. CBO assumes that the USTR will not rule these products import-sensitive. The bill would also authorize the administration to grant duty-free and quota-free treatment to apparel products assembled in sub-Saharan Africa from fabrics wholly formed and cut in the United States from yarn wholly formed in the United States. CBO estimates that almost no apparel imports would qualify for special treatment under this provision. CBO projects that granting these additional products duty-free GSP treatment would reduce receipts by $5 million over the 2000-2004 period.

All other revenue provisions in the bill were estimated by JCT.

Spending Subject to Appropriation

CBO estimates that implementing the legislation would increase discretionary spending by $3 million in fiscal year 2000 and between $2 million and $2.5 million each year thereafter, assuming appropriation of the necessary amounts.

The bill would authorize the U.S. Trade Representative and the Secretaries of Commerce, Treasury, and State to meet with their counterparts from sub-Saharan African countries in an annual trade and economic forum. It would require the United States to host the first forum within 12 months of enactment. Based on the cost of similar meetings, CBO estimates the meetings would cost $2 million a year.

The legislation includes several reporting requirements. It would require the Administration to determine whether sub-Saharan countries are eligible to benefit from the bill's preferential trade provisions and to monitor their compliance with certain requirements. The bill also would require the Customs Service to provide technical assistance to sub-Saharan African countries that benefit from the preferential trade provisions. To some extent, the Administration already performs these responsibilities under current law. CBO estimates that, subject to the availability of appropriated funding, implementing these provisions would cost about $1 million in fiscal year 2000 and less than $500,000 each year thereafter. The estimated cost for fiscal year 2000 is higher because the bill would require the administration to complete a one-time study of the feasibility of negotiating free-trade agreements with interested sub-Saharan countries. If the President determines that such agreements are feasible, the bill would require him to submit a detailed plan for such negotiations to the Congress.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in governmental receipts that are subject to pay-as-you-go procedures are shown in the following table. For the purpose of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

	By Fiscal Year, in Millions of Dollars										
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Changes in receipts	12	34	24	-4	-11	-32	-33	-35	23	25	27
Changes in outlays	not applicable										

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

The bill contains no intergovernmental mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

JCT has determined that the bill would impose two new private-sector mandates by limiting the use of the nonaccrual experience method of accounting and by requiring information reporting on cancellations of indebtedness by nonbank financial institutions. JCT estimates that the direct costs of the new mandates would not exceed the statutory threshold ($100 million in 1996, adjusted annually for inflation) established in UMRA in each of fiscal years 1999 though 2004.

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