CONGRESSIONAL BUDGET OFFICE
PAY-AS-YOU-GO ESTIMATE

May 25, 2000

H.R. 434
Trade and Development Act of 2000

As cleared by the Congress on May 11, 2000.

SUMMARY

H.R. 434, enacted as Public Law (P.L.) 106-200, authorizes new trade policies for certain countries in sub-Saharan Africa and the Carribean Basin. In addition, the bill temporarily reduces or eliminates tariffs on certain wool yarn and fabrics and creates a wool research, development, and promotion trust fund. The bill accelerates rum tax payments to Puerto Rico, changes procedures for the entry of goods into the United States through foreign trade zones, and makes new workers eligible for Trade Adjustment Assistance. CBO estimates that P.L. 106-200 will reduce government revenues by $442 million in fiscal year 2001, by $2.6 billion over the 2001-2005 period, and by $4.5 billion over the 2001-2010 period. In addition, CBO estimates that the bill will increase direct spending by $52 million in fiscal year 2000, by $24 million over the 2000-2005 period, and by $42 million over the 2000-2010 period .

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated impact of H.R. 434 on revenues and direct spending is shown in Table 1.

BASIS OF ESTIMATE

Revenues

The African Growth And Opportunity Act (Title I). Title I will extend the existing Generalized System of Preference (GSP) trade program with respect to sub-Saharan Africa through fiscal year 2008. It would otherwise expire at the end of fiscal year 2001. CBO estimates that extending the existing GSP program with respect to sub-Saharan Africa will reduce governmental receipts by $33 million in 2002, by $144 million over the 2002-2005 period, and by $273 million over the 2002-2008 period.

TABLE 1. ESTIMATED PAY-AS-YOU-GO IMPACT OF H.R. 434

	By Fiscal Year, in Millions of Dollars										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
CHANGES IN REVENUES											
Estimated Revenues	-8	-442	-507	-541	-573	-557	-590	-615	-651	0	0
CHANGES IN DIRECT SPENDING											
Estimated Budget Authority	53	-47	5	5	5	3	3	3	4	4	4
Estimated Outlays	52	-47	5	5	5	4	3	3	4	4	4

The estimated impact of this extension is based on recent import data. CBO estimates that GSP imports will remain a constant portion of total imports, whereas if GSP were allowed to expire, imports from sub-Saharan Africa would decrease. Losses of revenues from customs duties are projected using a trade-weighted duty rate with respect to sub-Saharan Africa, adjusted for tariff reductions scheduled by the World Trade Organization (WTO).

GSP excludes from duty-free treatment a list of specific products, including steel, footwear, leather goods, glass, certain electronic products, and watches. Title I will extend duty-free treatment to these products imported from sub-Saharan Africa if the United States Trade Representative (USTR) determines that they are not import-sensitive with respect to the United States. U.S. imports of these products from sub-Saharan Africa are insignificant compared with imports from other countries. For this reason, CBO assumes that the USTR will not rule most of these products import-sensitive. Based on recent trade data, CBO estimates that expanding the list of products eligible for GSP in sub-Saharan Africa will reduce governmental receipts by $1 million in fiscal year 2001, by $5 million over the 2001-2005 period, and by $9 million over the 2001-2008 period.

Title I will also grant duty-free treatment to certain apparel articles from sub-Saharan Africa beginning on October 1, 2000, as long as imports of such articles, in square meters, do not exceed 1.5 percent of all apparel articles imported into the United States in fiscal year 2001. The bill increases the maximum percent of duty-free apparel imports allowed from sub-Saharan Africa by approximately a quarter of a percentage point annually until October 1, 2007, when that amount will not be allowed to exceed 3.5 percent of United States imports of apparel articles. The special trade preference for apparel articles will begin on October 1, 2000, and will expire on September 30, 2008.

Apparel articles covered under Title I include products assembled in sub-Saharan Africa from fabrics wholly formed and cut in the United States from yarn wholly formed in the United States. Also included are articles made out of United States fabric cut in sub-Saharan Africa if it is assembled in sub-Saharan Africa from thread formed in the United States. In addition, apparel articles assembled in sub-Saharan Africa from regional fabric formed in sub-Saharan Africa will be accorded duty-free treatment. Title I will also allow duty-free imports of apparel articles assembled in sub-Saharan Africa from fabric formed outside sub-Saharan Africa through September 30, 2004. Duty-free imports of apparel made of fabric formed outside the United States or sub-Saharan Africa will be limited to only those assembled in a sub-Saharan African country whose per capita gross domestic product was under $1,500 in 1998.

Current U.S. imports from sub-Saharan Africa of apparel articles affected under Title I are less than one percent of all U.S. apparel imports. CBO does not expect such imports to exceed the import caps set by the legislation under its current baseline or under P.L. 106-200. CBO's estimates are based on recent trade collections data and information from various trade experts. Revenue losses were projected using a trade-weighted duty rate of the amount of imports expected before enactment of this legislation. CBO estimates that revenue losses resulting from granting duty-free treatment to certain apparel articles from sub-Saharan Africa will amount to $39 million in fiscal year 2001, $181 million over the 2001-2005 period, and $209 million over the 2001-2008 period. In total, CBO estimates that Title I will reduce revenues by $40 million in fiscal year 2001, by $330 million over the 2001-2005 period, and by $491 million over the 2001-2010 period.

TABLE 2. ESTIMATED CHANGES TO REVENUES

	By Fiscal Year, in Millions of Dollars					
	2000	2001	2002	2003	2004	2005
Title I. African Growth and Opportunity Act	0	-40	-76	-80	-85	-49
Title II. United States-Carribean Partnership Act	0	-391	-419	-454	-487	-508
Title IV. Other Trade Provisions	0	-1	0	0	0	0
Title V. Imports of Certain Wool Articles	-8	-12	-13	-6	-1	0
Total	-8	-442	-507	-541	-573	-557

United States-Caribbean Basin Partnership Act (Title II). Title II will take effect on October 1, 2000, and expire on September 30, 2008. It will offer immediate duty-free and quota-free treatment to certain articles of apparel assembled in countries that are beneficiaries under the Carribean Basin Initiative (CBI) trade program. Products covered under this title include articles assembled from fabric formed in the United States from yarn made in the United States (including fabrics that have undergone certain additional processing in a beneficiary country), articles cut in a beneficiary country from fabric formed of U.S. yarn and assembled with U.S. thread, and handmade or folklore articles from beneficiary countries. Based on collections data for 1999, CBO estimates that without this legislation, about $7 billion in such goods would have entered the United States in fiscal year 2001. (Currently, most of the products covered by this section enter under a special subheading in the Harmonized Tariff Schedule that allows for duties to be paid only on the value added to the product in the beneficiary country.) CBO estimates that this provision will reduce receipts by $293 million in fiscal year 2001, by $1.7 billion over the 2001-2005 period, and by about $3 billion over the 2001-2008 period.

Title II will also offer special duty-free treatment to certain knit apparel items that are assembled in beneficiary countries from regional fabric (fabric formed in beneficiary counties with yarn formed in the United States). Duty-free imports of such products (excluding outerwear t-shirts) will be limited to 250 million square meter equivalents (SMEs) in fiscal year 2001. That amount will increase by 16 percent, compounded annually, in each succeeding fiscal year ending in 2004. Imports of outerwear t-shirts will be limited to 4.2 million dozen in fiscal year 2001, increasing by 16 percent, compounded annually, through fiscal year 2004. Based on information from trade experts, CBO estimates that, without this legislation, imports into the United States of apparel articles assembled from regional fabric would have exceeded 130 million SMEs in fiscal year 2001. CBO estimates that the provisions in Title II that will grant duty-free treatment to apparel articles assembled with fabric formed in beneficiary countries will reduce receipts by $90 million in fiscal year 2001, by $500 million over the 2001-2005 period, and by $870 million over the 2001-2008 period.

In addition, Title II will grant NAFTA parity to other articles imported into the United States from beneficiary countries, including luggage and handbags, certain leather goods, footwear, tuna, petroleum, watches, and watch parts. Based on recent collections data, CBO estimates that this provision will reduce receipts by $8 million in fiscal year 2001, by $57 million over fiscal years 2001-2005, and by $108 million over the 2001-2008 period.

Title II will offer duty-free treatment to certain rum exported from a beneficiary country or the Virgin Islands of the United States to Canada and then exported from Canada to the United States. CBO estimates that this provision will have a negligible impact on revenues.

Normal Trade Relations (Title III). Title III will offer permanent normal trade relations (PNTR) to Albania and Kyrgyzstan. Both Albania and Kyrgyzstan were found to be in full compliance with the Jackson-Vanik freedom of emigration requirements in 1997 and since then have been granted normal trade relations (NTR), subject to a semiannual review and disapproval by a joint resolution of Congress. Without PNTR, the United States could not trade with these countries under the World Trade Organization (WTO). If these two counties enter the WTO, revenues could increase due to less restrictive quotas on textiles and apparel, but CBO estimates any such increases will be negligible.

Other Trade Provisions (Title IV). Title IV will provide for the reliquidation of certain fuel rod assemblies and the refund of duties paid on such entries. Based on information from the United States Customs Service, CBO estimates that this provision will reduce governmental receipts by $1 million in fiscal year 2001.

Title IV clarifies section 334 of the Uruguay Round Agreement Act to allow dyeing, printing, and two or more printing operations to confer the country of origin on certain products, including scarves, handkerchiefs, and bed linens. Changing the country of origin could possibly affect revenue collections, but CBO estimates that any such effect will be negligible. Title IV will also require the USTR to make periodic revisions to the list of goods to be sanctioned during a trade dispute. Changes to the retaliation list could affect revenues, but CBO has no basis for predicting future actions by the USTR and therefore cannot estimate the budgetary effect of this provision.

Imports of Certain Wool Articles (Title V). Title V will allow 2.5 million SMEs of wool fabric with average fiber diameters greater than 18.5 microns to imported into the United States under a reduced duty rate of 19.3 percent. Title V will also allow 1.5 million SMEs of wool fabric with average fiber diameters less than 18.5 microns to be imported into the United States under a reduced duty rate of 6 percent. In addition, Title V will allow certain wool fiber and yarn to be imported into the United States free of duty. In calendar years 2000, 2001, and 2002, manufacturers of suits or fabrics may be eligible for a refund of duties paid in each calendar year up to an amount equal to one-third of the amount of duties paid on such imports in 1999. All provisions related to the duty-rates for wool articles will become effective on January 1, 2001, and will expire on December 31, 2003. CBO estimates that this provision will reduce revenues by $8 million in fiscal year 2000 and by $40 million over the 2000-2004 period.

Direct Spending

Trade Adjustment Assistance (Title IV). Section 402 of the bill will amend the Trade Act of 1974 to allow workers who were originally covered by certification TA-W-28,438, but who were necessary for the decommissioning or closure of a nuclear power facility, to be deemed eligible to receive assistance. The Department of Labor estimates that the eligibility of 246 workers will be covered by this section. CBO estimates that enactment of this section will increase outlays, in total, by less than $500,000 over the 2001-2005 period.

TABLE 3. ESTIMATED CHANGES TO DIRECT SPENDING

	Outlays by Fiscal Year, in Millions of Dollars					
	2000	2001	2002	2003	2004	2005
Title IV. Trade Adjustment Assistance	0	a	a	a	a	a
Title IV. Entry Procedures for FTZ	0	2	3	3	3	3
Title V. Wool Trust Fund	1	2	2	2	2	1
Title V. Rum Tax Acceleration	51	-51	0	0	0	0
Total	52	-47	5	5	5	4

a. Less than $500,000.

Entry Procedures for Foreign Trade Zones Operations (Title IV). Section 410 will permit importers to file a weekly entry for certain merchandise entered into the United States through a foreign trade zone (FTZ). Previously, most entries had to be made on a daily basis. For each entry, an importer must pay a merchandise processing fee to the Customs Service equal to 0.21 percent of the value of the merchandise, up to $485. For users of FTZs that enter large quantities of goods more than once a week, this provision will lower the amount of fees paid to the Customs Service. Because there are relatively few major importers in FTZs, CBO estimates that the loss of fees from current users of FTZs will total less than $500,000 annually.

A firm's decision to use an FTZ involves many variables, including proximity to a zone, potential savings in Customs duties paid on products manufactured in a zone, and the cost and time required for the FTZ approval process. CBO expects that enacting this legislation will prompt some firms to use FTZs in order to reduce their payment of merchandise processing fees. The 1,000 largest importers account for more than half of all entries and seem most likely to utilize FTZs because they could achieve the greatest savings. In some cases, savings to importers could total about $100,000 annually, depending on the frequency and size of entries. Assuming that 30 companies, or just 3 percent of the largest 1,000 importers, join FTZs and save an average of $100,000 annually in merchandise processing fees, the government will lose about $3 million a year in fees (which are classified as offsetting receipts). If more companies choose to use FTZs, then the costs (from forgone fees) will be greater. Because the approval process for using an FTZ could take up to a year, any significant loss of fees probably will not occur until fiscal year 2001.

Wool Research, Development and Promotion Trust Fund. Section 506 will establish a trust fund in the Treasury of the United States, and transfer up to $2.25 million into it annually through calendar year 2003. Amounts in the fund, including interest earned, will be available without further appropriation action to make grants to a nationally recognized wool promotion council to improve the quality of wool and wool production, and to assist wool producers in developing and promoting the wool market. CBO estimates that enactment of this section will increase outlays by $10 million over the 2000-2005 period.

Acceleration of rum tax payments to Puerto Rico (Title V). A tax of $13.50 per proof gallon is assessed on distilled spirits produced in or brought into the United States. Under Public Law 106-170, the treasuries of Puerto Rico and the Virgin Islands will receive $13.25 of the tax assessed on rum manufactured in either territory between July 1, 1999, and December 31, 2001. (Beginning January 1, 2002, the amount of the federal excise tax the government shares with the territories falls to $10.50.) In addition, the territories share payments, at a similar rate, on all rum imported into the United States from any foreign country. Those payments to Puerto Rico and the Virgin Islands are recorded as outlays in the budget.

In addition to increasing the territories' share of the tax on rum to $13.25 per proof gallon, Public Law 106-170 limits additional payments from the increase in the tax that the government can transfer to Puerto Rico in 2000 to $20 million, with remaining amounts payable to the territory in 2001. Section 602 of H.R. 434 removes the $20 million limitation. By doing so, CBO estimates the bill will increase outlays to Puerto Rico by $51 million in 2000, while decreasing such outlays by the same amount in 2001.

PREVIOUS CBO ESTIMATE

African Growth and Opportunity Act. On June 10, 1999, CBO prepared an estimate for H.R. 434, the African Growth and Opportunity Act, as ordered reported by the House Committee on Ways and Means. CBO estimated that the trade provisions in that bill would reduce revenue by $271 million over the 2001-2005 period. CBO estimates that the trade provisions of Title I of P.L. 106-200 will reduce revenues by $330 million over the same period. The reported version of H.R. 434 allowed duty-free imports of all apparel articles assembled in sub-Saharan Africa if the USTR deemed such imports not import-sensitive with respect to the United States. CBO assumed that the USTR would exclude from duty-free treatment 90 percent of apparel imports from sub-Saharan Africa. In contrast, the current bill sets specific limits on the amount of sub-Saharan African apparel imports allowed into the United States. Those limits are higher than CBO assumed would be allowed by the USTR. Therefore, the estimate of the revenue loss from P.L. 106-200 is higher than the estimate for the reported House bill.

On July 16, 1999, CBO produced an estimate for S. 1387, the African Growth and Opportunity Act, as ordered reported by the Senate Committee on Finance. CBO estimated that the trade provisions in that bill would reduce revenues by $234 million over the 2001-2005 period. The current estimate and the previous estimate for the Senate differ mainly because S. 1387 did not contain the provisions in the enacted bill that allow for duty-free imports of apparel made of fabric produced outside the United States.

Additional differences between the current estimate and both the previous House and Senate estimates result from the fact that, when CBO prepared those estimates in June and July of 1999, GSP had not yet been extended through fiscal year 2001. Therefore, both previous cost estimates had an additional cost of $40 million for GSP in fiscal year 2001. The previous estimates for the African Growth and Opportunity Act are lower than the current estimate also because CBO now expects a higher rate of growth in imports.

United States-Caribbean Basin Partnership Act. On July 22, 1999, CBO transmitted an estimate for S. 1389, the United States-Caribbean Basin Trade Enhancement Act, as ordered reported by the Senate Committee on Finance. That bill was similar to Title II of H.R. 434 as enacted. CBO estimated that the trade provisions in S. 1389 would reduce revenues by $1.2 billion over the 2001-2005 period (using a December 31, 2004, expiration date). The current estimate differs from the estimate for S. 1389 mainly because S. 1389 did not include the provisions in Title II that will allow apparel imports containing fabric formed in the Carribean to enter the United States duty-free.

On January 6, 2000, CBO completed an estimate for H.R. 984, the Caribbean and Central America Relief and Economic Stabilization Act, as ordered reported by the House Committee on Finance. That bill was also similar to Title II of H.R. 434 as enacted. CBO estimated that the trade provisions in H.R. 984 would reduce revenues by $582 million (using an August 1, 2002, expiration date). The main difference between the current estimate and the estimate for H.R. 984 is CBO’s assumption about the amount of imports into the United States of apparel containing fabric formed in the Carribean region. Based on new information from the Office of Textiles and Apparel and the International Trade Commission, CBO now estimates a higher level of apparel imports containing regional fabric. Another major difference between the two estimates is that H.R. 984 contained a provision which would have authorized the President to grant "in-preference level tariff treatment" identical to that of NAFTA to other apparel products from beneficiary countries that would not otherwise be eligible for benefits under the bill. Title II of H.R. 434 contains no such provision. The estimated revenue effect of both S. 1389 and H.R. 984 was lower than estimated effect of Title II because CBO now expects a higher rate of growth in imports.

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