CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

August 11, 2003

H.R. 2738
United States-Chile Free Trade Agreement Implementation Act

As cleared by the Congress on July 31, 2003

SUMMARY

H.R. 2738 approves the free trade agreement (FTA) between the government of the United States and the government of Chile that was entered into on June 6, 2003. It provides for tariff reductions and other changes in law related to implementation of the agreement, such as provisions dealing with dispute settlement, rules of origin, and safeguard measures for textile and apparel industries. The act also allows the temporary entry of certain business persons into the United States.

The Congressional Budget Office estimates that enacting the legislation will reduce revenues by $5 million in 2004, by $38 million over the 2004-2008 period, and by $109 million over the 2004-2013 period, net of income and payroll tax offsets. The legislation will not have a significant effect on direct spending.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 2738 is shown in the following table.

	By Fiscal Year, In Millions of Dollars										
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
CHANGES IN REVENUES [a]											
Reductions in Tariff Rates	0	-5	-7	-8	-9	-10	-11	-13	-14	-16	-18
Civil Penalties	0	*	*	*	*	*	*	*	*	*	*
Total	0	-5	-7	-8	-9	-10	-11	-13	-14	-16	-18

a. H.R. 2738 also will affect discretionary spending, but by less than $500,000 a year.

* = Less than $500,000.

BASIS OF ESTIMATE

Revenues

Under the United States-Chile agreement, all tariffs on U.S. imports from Chile will be phased out over time. The tariffs will be phased out for individual products at varying rates according to one of several different timetables ranging from immediate elimination to partial elimination over 10 years. According to the U.S. International Trade Commission (ITC), the U.S. collected $24 million in customs duties in 2002 on about $3.6 billion of imports from Chile. These imports consist mostly of edible fruits and nuts, articles of wood or copper, fish and crustaceans, and certain organic chemicals. Based on these data, CBO estimates that phasing out tariff rates as outlined in the U.S.-Chile agreement will reduce revenues by $5 million in 2004, by $38 million over the 2004-2008 period, and by $109 million over the 2004-2013 period, net of income and payroll tax offsets.

This estimate includes the effects of increased imports from Chile that will result from the reduced prices of imported products in the United States, reflecting the lower tariff rates. It is likely that some of the increase in U.S. imports from Chile will displace imports from other countries. In the absence of specific data on the extent of this substitution effect, CBO assumes that an amount equal to one-half of the increase in U.S. imports from Chile will displace imports from other countries.

H.R. 2738 also allows the Secretary of Labor to assess civil monetary penalties on employers for violations of the labor attestation process with respect to certain workers from Chile. CBO expects that any additional revenues collected as a result will amount to less than $500,000 in any year.

Direct Spending

Title IV of H.R. 2738 establishes a new nonimmigrant category for certain professional workers from Chile. The legislation limits the number of annual entries under this category to 1,400, plus spouses and children. The Bureau of Citizenship and Immigration Services (BCIS) will charge fees of about $100 to provide nonimmigrant visas, so CBO estimates that the agency will collect less than $1 million annually in offsetting receipts (a credit against direct spending). The agency is authorized to spend such fees without further appropriation, so the net impact on BCIS spending will not be significant.

Under current law, the Department of State also collects a $100 application fee for nonimmigrant visas. These collections are spent on border security and consular functions. CBO estimates that the net budgetary impact will be less than $500,000 a year.

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