CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

July 21, 2004

S. 2677
A bill to implement the United States-Morocco Free Trade Agreement

As reported by the Senate Committee on Finance on July 20, 2004

SUMMARY

S. 2677 would approve the free trade agreement between the government of the United States and the government of Morocco that was entered into on June 15, 2004. It would provide for tariff reductions and other changes in law related to implementation of the agreement.

The Congressional Budget Office estimates that enacting the bill would reduce revenues by $5 million in 2005, by $52 million over the 2005-2009 period, and by $144 million over the 2005-2014 period, net of income and payroll tax offsets. The bill would not affect federal spending.

CBO has determined that S. 2677 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 2677 over the 2005-2014 period is shown in the following table.

	By Fiscal Year, in Millions of Dollars									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Changes in receipts	-5	-9	-11	-13	-15	-16	-18	-19	-19	-20

BASIS OF ESTIMATE

Under the United States-Morocco agreement, tariffs on U.S. imports from Morocco would be phased out over time. The tariffs would be phased out for individual products at varying rates according to one of several different timetables ranging from immediate elimination on January 1, 2005, to gradual elimination over 18 years. According to the U.S. International Trade Commission, the United States collected $15 million in customs duties in 2003 on $396 million of imports from Morocco. Those imports consist mostly of various types of apparel articles and produce. Based on these data, CBO estimates that phasing out tariff rates as outlined in the U.S.-Morocco agreement would reduce revenues by $5 million in 2005, by $52 million over the 2005-2009 period, and by $144 million over the 2005-2014 period, net of income and payroll tax offsets.

This estimate includes the effects of increased imports from Morocco that would 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 Morocco would 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 Morocco would displace imports from other countries.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

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

ESTIMATE PREPARED BY:

Federal Revenues: Annabelle Bartsch
Impact on State, Local, and Tribal Governments: Melissa Merrell
Impact on the Private Sector: Crystal Taylor

ESTIMATE APPROVED BY:

G. Thomas Woodward
Assistant Director for Tax Analysis