CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

December 15, 2005

H.R. 4340
United States-Bahrain Free Trade Agreement Implementation Act

As cleared by the Congress on December 13, 2005

SUMMARY

H.R. 4340 approves the free trade agreement between the government of the United States and the government of Bahrain that was entered into on September 14, 2004. It provides for tariff reductions and other changes in law related to implementation of the agreement.

The Congressional Budget Office estimates that implementing the agreement will reduce revenues by $20 million in 2006, by $143 million over the 2006-2010 period, and by $341 million over the 2006-2015 period, net of income and payroll tax offsets. CBO estimates that it will also increase direct spending by $1 million in 2006, $3 million over the 2006-2010 period, and $6 million over the 2006-2015 period.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 4340 over the 2006-2015 period is shown in the following table. The cost for spending under this legislation falls within budget function 750 (administration of justice).

	By Fiscal Year, in Millions of Dollars									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
					Changes in Revenues					
Estimated Revenues	-20	-28	-30	-32	-34	-35	-37	-39	-42	-45
					Changes in Direct Spending					
Estimated Budget Authority	1	1	1	1	1	1	1	1	1	0
Estimated Outlays	1	1	1	1	1	1	1	1	1	0

NOTE: Negative changes in revenues and positive changes in direct spending correspond to increases in budget deficits.

BASIS OF ESTIMATE

Revenues

Under the United States-Bahrain agreement, tariffs on U.S. imports from Bahrain 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 on the date the agreement enters into force, to gradual elimination over 10 years. According to the U.S. International Trade Commission, the United States collected $29 million in customs duties in 2004 on $406 million of imports from Bahrain. Those imports consist largely of various types of apparel articles, oils, aluminum, and chemicals. Based on these data, CBO estimates that phasing out tariff rates as outlined in the U.S.-Bahrain agreement will reduce revenues by $20 million in 2006, by $143 million over the 2006-2010 period, and by $341 million over the 2006-2015 period, net of income and payroll tax offsets.

This estimate includes the effects of increased imports from Bahrain 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 Bahrain 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 Bahrain will displace imports from other countries.

Direct Spending

This legislation will exempt certain goods imported from Bahrain from merchandise processing fees collected by the Department of Homeland Security. Such fees are recorded as offsetting receipts (a credit against direct spending). Based on the value of goods imported from those countries in 2004, CBO estimates that implementing this provision will reduce fee collections by under $1 million in fiscal year 2006 and in each year through 2014, for a total of $6 million over the 2006-2014 period. There will be no effects in later years because the authority to collect merchandise processing fees expires at the end of 2014.

PREVIOUS CBO ESTIMATES

On November 22, 2005, CBO transmitted a cost estimate for H.R. 4340 as ordered reported by the House Committee on Ways and Means on November 18, 2005. On November 29, 2005, CBO transmitted a cost estimate for S. 2027 – an identical bill – as ordered reported by the Senate Committee on Finance on November 18, 2005. The three versions of the legislation are identical, as are all of the CBO cost estimates.

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