



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

November 29, 2005

S. 2027 **United States-Bahrain Free Trade Agreement Implementation Act**

As ordered reported by the Senate Committee on Finance on November 18, 2005

SUMMARY

S. 2027 would approve 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 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 \$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 enacting S. 2027 also would increase direct spending by \$1 million in 2006, \$3 million over the 2006-2010 period, and \$6 million over the 2006-2015 period.

CBO has determined that S. 2027 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not directly affect the budgets of state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 2027 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 Revenue										
Changes in Revenue	-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 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 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 would 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 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 Bahrain 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 Bahrain would displace imports from other countries.

Direct Spending

This legislation would 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 would 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 would be no effects in later years because the authority to collect merchandise processing fees expires at the end of 2014.

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.

PREVIOUS CBO ESTIMATE

On November 22, 2005, CBO transmitted a cost estimate of H.R. 4340, an identically titled bill ordered reported by the House Committee on Ways and Means on November 18, 2005. The two bills are identical, as are CBO's estimates.

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