CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

October 12, 2011

S. 1643
United States-Panama Trade Promotion Agreement Implementation Act

As reported by the Senate Committee on Finance on October 11, 2011

SUMMARY

S. 1643 would approve the trade promotion agreement between the government of the United States and the government of Panama that was signed on June 28, 2007. It would provide for tariff reductions and other changes in law related to implementation of the agreement. In addition, the bill would extend user fees collected by Customs and Border Protection (CBP) that expire under current law. The bill also would shift some corporate income tax payments between fiscal years.

The Congressional Budget Office (CBO) and the staff of the Joint Committee on Taxation (JCT) estimate that enacting S. 1643 would increase revenues by $118 million in 2012 but would reduce revenues by $6 million over the 2012-2021 period. CBO estimates that enacting S. 1643 would increase direct spending by $1 million in 2012 but would decrease direct spending by $8 million over the 2012-2021 period. Thus, the net impact of those effects is an estimated reduction in deficits of $2 million over the 2012-2021 period. Pay-as-you-go procedures apply because enacting the legislation would affect direct spending and revenues.

Further, CBO estimates that implementing the legislation would cost $4 million over the 2012-2016 period, assuming the availability of appropriated funds.

CBO has determined that the nontax provisions of S. 1643 contain no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

CBO has determined that the nontax provisions of the bill contain private-sector mandates with costs that would fall below the annual threshold established in UMRA for private-sector mandates ($142 million in 2011, adjusted annually for inflation).

JCT has determined that the tax provision of S. 1643 contains no intergovernmental or private-sector mandates as defined in UMRA.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 1643 is shown in the following table. The costs of this legislation fall within budget functions 150 (international affairs), 370 (commerce and housing credit), 750 (administration of justice), and 800 (general government).

	By Fiscal Year, in Millions of Dollars											
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012-2016	2012-2021
CHANGES IN REVENUES												
Preferential Trade Agreement	*	*	*	*	-1	-1	-1	-1	-1	-2	-2	-6
Corporate Payment Shift	118	-118	0	0	172	-172	0	0	0	0	172	0
Estimated Revenues	118	-118	*	*	171	-173	-1	-1	-1	-2	170	-6
CHANGES IN DIRECT SPENDING[a]												
Extend Customs User Fees												
Estimated Budget Authority	0	0	0	0	0	0	0	0	0	-16	0	-16
Estimated Outlays	0	0	0	0	0	0	0	0	0	-16	0	-16
Exemption from Merchandise Processing Fee												
Estimated Budget Authority	1	1	1	1	1	1	1	1	0	0	5	8
Estimated Outlays	1	1	1	1	1	1	1	1	0	0	5	8
Total Direct Spending[a]												
Estimated Budget Authority	1	1	1	1	1	1	1	1	0	-16	5	-8
Estimated Outlays	1	1	1	1	1	1	1	1	0	-16	5	-8
NET INCREASE OR DECREASE (-) IN THE DEFICIT FROM CHANGES IN DIRECT SPENDING AND REVENUES												
Impact on Deficit	-117	119	1	1	-170	174	2	2	1	-14	-165	-2

Sources: Congressional Budget Office and the staff of the Joint Committee on Taxation.

Notes: Components may not sum to totals because of rounding; * Indicates a loss of revenue less than $500,000.

a. In addition, CBO estimates that implementing the provisions of S. 1643 would have a discretionary cost of $4 million over the 2012-2016 period, assuming appropriation of the necessary amounts.

BASIS OF ESTIMATE

For the purposes of this estimate, CBO assumes that S. 1643 will be enacted early in fiscal year 2012.

Revenues

Under the United States-Panama trade promotion agreement, tariffs on U.S. imports from Panama would be phased out over time. The tariffs would be phased out for individual products at varying rates, ranging from immediate elimination on the date the agreement enters into force to gradual elimination over 10 or more years. According to the U.S. International Trade Commission, the United States collected about $240,000 in customs duties in 2010 on $380 million of imports from Panama. However, since 1983, imports to the United States from Panama have been subject to reduced tariff rates in accordance with the Caribbean Basin Initiative (CBI), which was expanded in legislation enacted in 2000, and is scheduled to expire on September 30, 2020. The CBI overlaps to a large extent with the trade promotion agreement that would be implemented by this bill. As a result, enacting the bill would effectively replace trade preferences under the CBI for Panama until 2021, while also lowering tariff rates not covered by the CBI.

Based on expected imports from Panama, CBO estimates that implementing the tariff schedule outlined in the U.S.-Panama trade promotion agreement would reduce revenues by less than $500,000 in 2012 and by $6 million over the 2012-2021 period, net of income and payroll tax offsets.

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

S. 1643 also would shift payments of corporate estimated taxes between fiscal years 2012 and 2013 and between fiscal years 2016 and 2017. For corporations with at least $1 billion in assets, the bill would increase the portion of corporate estimated payments due from July through September in both 2012 and 2016. JCT estimates that those changes would increase revenues by $118 million in 2012 and decrease them by $118 million in 2013, and would increase revenues by $172 million in 2016 and decrease them by $172 million in 2017.

Direct Spending

Under current law, certain fees (known as COBRA fees, which were established in the Consolidated Omnibus Budget Reconciliation Act of 1985) collected by CBP will expire in January 2020. The bill would permit CBP to collect those fees from September 1, 2021, to September 30, 2021. CBO estimates that this change would increase offsetting receipts (a credit against direct spending) by $16 million in 2021.

In addition, the bill would exempt imports from Panama from merchandise processing fees. CBO estimates that this would reduce offsetting receipts by $8 million over the 2012-2021 period.

Spending Subject to Appropriation

Implementing provisions of S. 1643 would increase the costs of several agencies affected by the bill including:

- The Department of Commerce to provide administrative support for dispute-settlement panels established in the agreement;

- The International Trade Commission to conduct investigations, if petitioned, into whether Panamanian imports might threaten or cause serious injury to domestic competitors; and

- The Department of the Treasury and the United States Trade Representative to establish regulations to carry out provisions of the agreement.

Based on information from the agencies, CBO estimates that those activities would cost $4 million over the 2012-2016 period, assuming appropriation of the necessary amounts.

PAY-AS-YOU-GO CONSIDERATIONS

The Statutory Pay-As-You-Go Act of 2010 establishes budget-reporting and enforcement procedures for legislation affecting direct spending or revenues. The net changes in outlays and revenues that are subject to those pay-as-you-go procedures are shown in the following table.

CBO Estimate of Pay-As-You-Go Effects for S. 1643 as ordered reported by the Senate Committee on Finance on October 11, 2011

	By Fiscal Year, in Millions of Dollars											
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012-2016	2012-2021
NET INCREASE OR DECREASE (-) IN THE DEFICIT												
Statutory Pay-As-You-Go Impact	-117	119	1	1	-170	174	2	2	1	-14	-165	-2
Memorandum:												
Changes in Revenues	118	-118	0	0	171	-173	-1	-1	-1	-2	170	-6
Changes in Outlays	1	1	1	1	1	1	1	1	0	-16	5	-8

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

CBO has determined that the nontax provisions of S. 1643 contain no intergovernmental mandates as defined in UMRA, and would impose no costs on state, local, or tribal governments. JCT has determined that the tax provision of S. 1643 contains no intergovernmental mandates as defined in UMRA.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

CBO has determined that the nontax provisions of S. 1643 would impose private-sector mandates, as defined in UMRA, by extending the customs user fees and by enforcing new recordkeeping requirements on exporters of goods to Panama. CBO estimates that the aggregate costs of those mandates would not exceed the annual threshold established in UMRA for private-sector mandates ($142 million in 2011, adjusted annually for inflation). JCT has determined that the tax provision of S. 1643 contains no private-sector mandates as defined in UMRA.

PREVIOUS CBO ESTIMATE

On October 5, 2011, CBO transmitted a cost estimate for H.R. 3079, the United States-Panama Trade Promotion Agreement Implementation Act, as ordered reported by the House Committee on Ways and Means on October 5, 2011. S. 1643 and H.R. 3079 are similar, and the CBO cost estimates are the same.

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