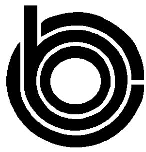

CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

July 31, 1998

Trade and Tariff Act of 1998

As ordered reported by the Senate Committee on Finance on July 21, 1998

SUMMARY

The Trade and Tariff Act of 1998 is an omnibus trade bill that would temporarily grant or renew duty reductions and change the carryback and carryforward rules on foreign tax credits. The Congressional Budget Office (CBO), along with the Joint Committee on Taxation (JCT), estimates that this bill would increase receipts by $472 million over the 1999-2003 period and by $1,326 million over the 1999-2007 period. In addition, CBO estimates that the bill would increase spending by $97 million over the 1999-2002 period.

The Trade and Tariff Act of 1998 contains no intergovernmental mandates, as defined in the Unfunded Mandates Reform Act (UMRA), and would impose no costs on state, local, or tribal governments. The change in the foreign tax credit rules would impose a private-sector mandate with costs that would exceed the annual threshold specified in UMRA ($100 million in 1996, adjusted for inflation).

DESCRIPTION OF MAJOR PROVISIONS

The Trade and Tariff Act of 1998 would make several changes in current trade law. Specifically the bill would:

- grant special duty-free tariff treatment to specified goods from eligible, developing countries in sub-Sahara Africa;
- renew the currently expired General System of Preferences (GSP) program, which offers duty-free tariff treatment on specified goods from approximately 140 eligible developing countries;

- offer specified products of Caribbean Basin partnership countries tariff and quota treatment similar to that accorded to products under the North American Free Trade Agreement (NAFTA);

- re-authorize Trade Adjustment Assistance programs;

- implement the Organization for Economic Cooperation and Development (OECD) Shipbuilding Trade Agreement;

- change the tariff classification on wool;

- change the drawback procedure on mobile offshore drilling units;

- and change the carryback and carryforward rules on foreign tax credits.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of the Trade and Tariff Act of 1998 is shown in the following table. The costs of this legislation fall within budget functions 450 (Community and Regional Development), 500 (Education, Employment, and Social Services), and 600 (Income Security). The legislation would also affect revenues.

BASIS OF ESTIMATE

CBO assumes that this bill will be enacted by October 1, 1998, and that the necessary sums will be appropriated by the beginning of each fiscal year.

Revenues

The major provisions in the Trade and Tariff Act that would affect receipts are summarized in Table 2.

African Growth and Opportunity Act. Subtitle A of Title I would grant sub-Saharan African countries that are eligible as beneficiary developing countries under the United States Generalized System of Preferences (GSP) additional benefits under the program. The bill would amend GSP as related to sub-Saharan African countries to lessen the rule of origin and competitive need limitation requirements. The provision also would authorize the President

TABLE 1. ESTIMATED BUDGETARY IMPACT OF THE TRADE AND TARIFF ACT OF 1998

	By Fiscal Year, in Millions of Dollars					
	1998	1999	2000	2001	2002	2003
CHANGES IN REVENUES						
Estimated Revenues	0	-436	39	185	347	337
DIRECT SPENDING						
Baseline Spending Under Current Law						
Estimated Budget Authority	325	307	311	318	324	332
Estimated Outlays	317	315	314	318	324	332
Proposed Changes						
Estimated Budget Authority	0	44	47	6	0	0
Estimated Outlays	0	34	43	17	3	0
Baseline Spending Under the Bill						
Estimated Budget Authority	325	351	358	324	324	332
Estimated Outlays	317	349	357	335	327	332
SPENDING SUBJECT TO APPROPRIATION						
Spending Under Current Law						
Budget Authority[a]	10	0	0	0	0	0
Estimated Outlays	9	9	6	5	2	0
Proposed Changes						
Authorization Level	0	10	10	0	0	0
Estimated Outlays	0	b	3	4	5	5
Spending Under the Bill						
Authorization Level[a]	10	10	10	0	0	0
Estimated Outlays	9	9	9	9	7	5

a. The 1998 level is the amount appropriated for that year.
b. Less than $500,000.

TABLE 2. ESTIMATED CHANGES TO REVENUES

	By Fiscal Year, in Millions of Dollars					
	1998	1999	2000	2001	2002	2003
African Growth and Opportunity Act[a]	0	-15	-21	-47	-57	-60
Extension of the Generalized System of Preferences	0	-393	-333	-88	0	0
United States-Caribbean Basin Trade Enhancement Act	0	-98	-138	-147	-26	0
OECD Shipbuilding Agreement	0	0	0	-5	-7	-7
Wool Tariff Correction	0	-13	-14	-14	-15	-17
Mobile Offshore Drilling Units	0	-1	-1	-1	-1	-1
Capital Construction Fund[b]	0	0	0	0	(c)	-1
Modify Foreign Tax Credit Carryback and Carryforward Rules[b]	0	84	546	487	454	424
Total	0	-436	39	185	347	337

a. The extension of the GSP program for sub-Saharan Africa through June 30, 2008, beyond its December 31, 2000, termination for other beneficiary countries, appears under Subtitle B, section 1101 (b) of Title I in the legislation, but is shown here with the other effects of Subtitle A of Title I.
b. Estimate provided by the Joint Committee on Taxation.
c. Amount less than $500,000.

to grant duty-free and quota-free treatment for many products that are currently excluded from GSP, if the International Trade Commission (ITC) determines that they are not import-sensitive in the context of imports from the region. In addition, certain textile and apparel products would be granted duty-free and quota-free tariff treatment. Subtitle A, section 1101(b) of Title I would extend the GSP program to beneficiary developing countries in sub-Saharan Africa through June 30, 2008. CBO estimates that these provisions would reduce receipts by $200 million over the 1999-2003 period, net of payroll and income tax offsets. The estimated loss is based on historical collections and the assumption that reducing tariffs and quotas on the affected products would increase the demand for them in the United States. This estimate assumes that some products that have been considered import-sensitive by ITC in the past would remain ineligible for GSP under the bill. The expansion of products from sub-Saharan Africa eligible for GSP would be effective January 1, 1999, and the GSP and textile provisions would expire on June 30, 2008.

Renewal of the Generalized System of Preferences. Subtitle B of Title I would renew the United States GSP program for approximately two years. GSP affords nonreciprocal tariff preferences to approximately 140 developing countries to aid their economic development and to diversify and expand their production and exports. Several industrial countries also offer similar preferences. Generally, duty-free treatment of imported goods from GSP-designated developing countries is extended to products that are not competitive internationally. Also, the program contains safeguards to protect domestic industries that are sensitive to import competition. GSP expired on June 30, 1998. Subtitle B would renew GSP from October 1, 1998, through December 31, 2000. In addition, taxpayers could apply for refunds for the period between July 1, 1998, and September 1, 1998, but no refunds could be paid out before October 1, 1998. CBO estimates that renewing GSP would cost $814 million over the 1999-2003 period, net of payroll and income tax offsets. This estimate is based on projections of total United States imports and historical data on collections from beneficiary countries under the GSP program.

United States-Caribbean Trade Enhancement Act. Subtitle C of Title I would provide tariff and quota treatment similar to that accorded to products under the North American Free Trade Agreement to products of Caribbean Basin partnership countries. Under current law, the United States offers duty-free treatment to a wide range of products of 24 countries in the Caribbean region through the Caribbean Basin Initiative trade program (CBI). The CBI excludes the following products from such treatment: textile and apparel articles, luggage and handbags, certain leather goods, footwear, tuna, petroleum, watches, and watch parts. This bill would extend immediate duty-free and quota-free treatment to certain textile and apparel articles. The remaining products covered under Subtitle B would receive an immediate tariff reduction equal to half of the difference between the duty rate that Mexican products receive under NAFTA and the duty rate on imports of the same articles from CBI beneficiaries. NAFTA parity would begin on January 1, 1999, and would terminate on December 31, 2001. CBO estimates that Subtitle C would decrease revenues by $409 million over the 1999-2003 period, net of payroll and income tax offsets. This estimate is based on projections of total United States imports, historical data on collections from Caribbean Basin partnership countries, and the assumption of an increase in demand for the affected products in the United States.

OECD Shipbuilding Agreement Act. Title V would implement the OECD Shipbuilding Agreement, an international agreement that was signed by the United States on December 21, 1994. Under current law (19 U.S.C. 1466), United States flag vessels are subject to a 50 percent ad valorem duty on the cost of equipment and non-emergency repairs obtained in foreign countries. As mandated by the OECD agreement, Subtitle B of Title V of the proposed legislation would partially repeal the duty by exempting repairs to United States flag vessels done in OECD signatory countries. Based on information from the United

States Trade Representative, this estimate assumes that this provision will be effective on January 1, 2001. CBO estimates that Subtitle B of the bill, pertaining to vessel repair duties, would decrease governmental receipts by $19 million over the fiscal years 1999-2003, net of payroll and income tax offsets. This estimate assumes that, as a result of this bill, additional repairs to United States vessels would be made in ports in OECD countries. It also reflects an estimate of the United States Maritime Administration of a steady decline in the size of the United States fleet. In addition, section 5103, in Subtitle A of Title V, would impose a fine of $10,000 on the master of any vessel who submits false information in requesting a permit to lade and unlade, or who attempts to, or actually does, lade and unlade in violation of a denial of such a permit. CBO estimates that this additional penalty would not have a significant impact on governmental receipts.

Wool Tariff Correction. Section 6101, in Subtitle B of Title VI, would amend the Harmonized Tariff System (HTS) to change the classification of certain wool products intended for making suits and would temporarily eliminate or decrease duties paid on some such products. CBO estimates that this provision would reduce revenues by $73 million over the 1999-2003 period, net of payroll and income tax offsets. This measure would take effect on October 1, 1998, and would terminate on December 31, 2004.

Mobile Offshore Drilling Units. Section 6105, in Subtitle B of Title VI, would amend section 313 of the Tariff Act of 1930 by providing for drawbacks for mobile offshore drilling units if such units are to be operated in international waters in the exclusive foreign economic zone for a period of one year or more. If such units were ever to return to the exclusive economic zone of the United States, any drawbacks previously granted would have to be repaid. CBO estimates that this provision would reduce governmental receipts by $4 million over the 1999-2003 period, net of payroll and income tax offsets. This provision would take effect on October 1, 1998.

Capital Construction Fund. Section 7001 of Title VII would expand the eligibility requirement for the Capital Construction Fund by permitting repairs and construction of vessels in the OECD Shipbuilding Agreement to be undertaken overseas. JCT estimates that this provision would decrease governmental receipts by about $2 million over the 1999-2003 period.

Modification to Foreign Tax Carryback and Carryover Provisions. Section 7002 of Title VII would reduce the period that excess foreign tax credits can be carried back from the current two years to one, but would increase the time that excess credits can be carried forward from five to seven years. JCT estimates that this provision would increase revenues by about $2.0 billion over the 1999-2003 period.

Other Provisions. Title II would restore the special authority to the President of the United States to enter into multilateral and bilateral trade agreements. Under this bill, the President could reduce certain tariffs by proclamation within specified bounds prescribed by the law. For provisions subject to Congressional approval, the Congress could not amend implementing legislation once it was introduced. Furthermore, as long as the President met statutory requirements concerning Congressional consultation during the negotiation process, the Congress would be required to act on the legislation following a strict timetable. CBO estimates that this provision would have no direct effect on revenues, because future trade agreements would require implementing legislation. The effect of any changes implemented by the President would be attributed to the legislation implementing the agreement.

Subtitle A of Title VI would extend Normal Trade Relations to Mongolia on a permanent basis. Mongolia has received Normal Trade Relations treatment since 1991 on a conditional basis. The CBO baseline revenue projections assume that Normal Trade Relations status for Mongolia will be extended on an annual basis. Therefore, enacting Title VI would have no budgetary impact when measured relative to the CBO baseline.

Section 6102, in Subtitle B of Title VI, would temporarily suspend the duties on personal effects of individuals associated with the 1999 International Special Olympics, the 1999 Women's World Cup Soccer competition, the 2001 International Special Olympics, the 2002 Salt Lake City Winter Olympics, and the 2002 Winter Paralympic Games. CBO estimates that this provision would have no significant impact on governmental receipts. Without this legislation, many of the subjected goods would enter informally and without bond. Personal goods would be admitted free of duty under personal exemptions. Other goods destined for export would enter free of duty under bond. Also, many educational and cultural goods already enter free of duty under various international agreements. As a result, this provision would not significantly affect governmental receipts. This measure would take effect fifteen days after the date of enactment of this bill and terminate on January 1, 2003.

Section 6103, in Subtitle B of Title VI, would amend the HTS of the United States to extend to certain fine jewelry that is the product of the Virgin Islands, Guam, and American Samoa some trade benefits currently extended to watch producers in insular possessions of the United States. Since 1983, watch producers in the insular possessions have been able to import into U.S. customs territory a specified quantity of watches and watch parts free of duty and to claim duty refunds, by means of a formula that takes into account wages paid to insular possession workers. This provision would amend chapter 71 of the HTS by allowing fine jewelry producers in the Virgin Islands, Guam, and American Samoa to share the benefits that have been granted to watch producers. The bill would not increase or decrease benefits already in effect or alter quantitative limits on imports. Watch producers would not experience a reduction in their benefits. CBO estimates that this proposal would not have

a significant impact on governmental receipts because producers of fine jewelry would be taking advantage of the unused certificates and the unfilled import quantities made available after watch producers had made use of the benefits available to them.

Section 6104, in Subtitle B of Title VI, would exclude gum arabic of Sudanese origin from Executive Order 13067. CBO estimates that this provision would not have an significant impact on governmental receipts.

Direct Spending

The Trade Adjustment Assistance (TAA) program for workers provides transitional adjustment assistance for workers who are dislocated as a result of federal policies that reduce barriers to foreign trade. The program has two components—one for all workers and one for workers dislocated because of the implementation of the North American Free Trade Agreement (NAFTA). Spending for assistance to workers is considered mandatory, and thus the outlays are direct spending. Together, the two TAA programs for workers are estimated to have outlays of $317 million for fiscal year 1998. The bill would extend these programs through fiscal year 2000, and CBO expects that they will cost, in total, in the vicinity of $350 million a year. The direct spending costs of extending the main TAA program are included in the baseline, as required by the Balanced Budget and Emergency Deficit Control Act of 1985. However, the costs of extending the NAFTA portion of TAA are not included in the baseline. CBO estimates that extending the NAFTA TAA program would cost $97 million over the 1999-2002 period.

Spending Subject to Appropriations

The bill would authorize the application of such sums as necessary for Trade Adjustment Assistance for firms in each of fiscal years 1999 and 2000. CBO estimates that this provision would result in outlays of about $17 million over the 1999-2003 period, assuming appropriation of the necessary amounts. This estimate assumes that the amount appropriated each year under this authorization would be about $9.5 million, the amount provided in 1998. Outlays are estimated based on historical spending rates for the Economic Development Administration.

PAY-AS-YOU-GO CONSIDERATIONS

Section 252 of the Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in outlays and governmental receipts that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing such procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

TABLE 3. EFFECTS ON DIRECT SPENDING AND RECEIPTS

	By Fiscal Year, in Millions of Dollars										
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Changes in outlays	0	34	43	17	3	0	0	0	0	0	0
Changes in receipts	0	-436	39	185	347	337	302	188	186	178	na

Note: na = not available.

PRIVATE-SECTOR MANDATES

The provision in the Trade and Tariff Act of 1998 that would modify the foreign tax credit carryback and carryforward rules would impose a private-sector mandate. The direct costs of the mandate would exceed the statutory threshold established in the Unfunded Mandates Reform Act of 1995 in fiscal years 2000 though 2003. The costs to the private sector are summarized in Table 4.

TABLE 4. ESTIMATED COST OF MANDATES ON THE PRIVATE SECTOR

	By Fiscal Year, in Millions of Dollars					
	1998	1999	2000	2001	2002	2003
Cost to the Private Sector	0	84	546	487	454	424

INTERGOVERNMENTAL MANDATES

The Trade and Tariff Act of 1998 contains no intergovernmental mandates, as defined in the Unfunded Mandates Reform Act, and would impose no costs on state, local, or tribal governments.

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