CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

January 6, 2000

H.R. 984
Caribbean and Central America Relief and Economic Stabilization Act

As ordered reported by the House Committee on Ways and Means on June 10, 1999

SUMMARY

H.R. 984 would provide tariff and quota treatment similar to that accorded to products under the North American Free Trade Agreement (NAFTA) to products of countries that are beneficiaries under the Caribbean Basin Economic Recovery Act. In addition, the legislation would amend the Internal Revenue Code to limit pre-funding of certain employee benefits. The bill would also increase by $0.25 the share of the excise tax on rum that is distributed to Puerto Rico and the Virgin Islands. The higher share would apply only to assessments made between July 1, 1999, and September 30, 1999**,** but because of a provision in Public Law 106-170, the government would not pay the higher share to the two territories until 2001.

CBO and the Joint Committee on Taxation (JCT) estimate that enacting H.R. 984 would increase governmental receipts by $34 million over the 2000-2004 period. In addition, CBO estimates that direct spending would increase by $1.5 million in fiscal year 2001. Because the bill would affect receipts and direct spending, pay-as-you-go procedures would apply. CBO estimates that implementing the bill's provisions would not significantly affect spending subject to appropriation.

The bill contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA). H.R. 984 contains one private-sector mandate that would limit the pre-funding of certain employee benefits. JCT estimates that the cost of the mandate would exceed the threshold for private-sector mandates established in UMRA ($100 million in 1996, adjusted annually for inflation) in each of fiscal years 2000 through 2004.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 984 is shown in the following table.

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
CHANGES IN REVENUES										
Estimated Revenues										
Carribean Basin Initiative	-76	-311	-271	0	0	0	0	0	0	0
Limitation of pre-funding of certain employee benefits	115	141	147	149	140	129	118	105	90	74
Total Revenues	39	-170	-124	149	140	129	118	105	90	74
CHANGES IN DIRECT SPENDING										
Spending Under Current Law[a]										
Estimated Budget Authority	275	389	272	255	255	255	255	255	255	255
Estimated Outlays	275	389	272	255	255	255	255	255	255	255
Proposed Changes										
Estimated Budget Authority	0	2	0	0	0	0	0	0	0	0
Estimated Outlays	0	2	0	0	0	0	0	0	0	0
Spending Under H.R. 984										
Estimated Budget Authority	275	391	272	255	255	255	255	255	255	255
Estimated Outlays	275	391	272	255	255	255	255	255	255	255

NOTE: Implementing the bill would also increase spending subject to appropriation, but CBO estimates that such costs would not be significant.

a. The amounts shown are estimated payments to Puerto Rico and the Virgin Islands for their share of excise taxes collected on rum produced in or brought into the United States.

BASIS OF ESTIMATE

CBO's estimate of H.R. 984 assumes an effective date of July 1, 2000.

Revenues

The bill would offer immediate duty-free and quota-free treatment to certain articles of apparel assembled in a beneficiary country. Products covered under this provision include articles assembled from fabric formed in the United States from yarn made in the United States (including fabrics that have undergone certain additional processing in a beneficiary country), articles cut in a beneficiary country from fabric formed of U.S. yarn and assembled with U.S. thread, and handmade or folklore articles from beneficiary countries. Based on collections data for 1998, CBO estimates that about $6 billion in goods would enter the United States under this provision in fiscal year 2001. (Under current law, most of the products covered by this provision enter under a special subheading in the Harmonized Tariff Schedule that allows for duties to be paid only on the value added to the product in the beneficiary country.) CBO estimates that this provision would reduce receipts by $62 million in fiscal year 2000 and by $545 million over the 2000-2002 period.

H.R. 984 would also offer special duty-treatment, equivalent to the staged tariff reductions in NAFTA, to other textile and apparel articles. This treatment would be granted to goods that are considered to have originated in beneficiary countries. Based on information from trade experts and collections data for 1998, CBO estimates that the total value of imports of textile and apparel articles that originate in beneficiary countries in fiscal year 2001 will be approximately $155 million. H.R. 984 also would authorize the President to grant "in-preference level tariff treatment" identical to that of NAFTA to other apparel products from beneficiary countries that would not otherwise be eligible for benefits under the bill. Special treatment of these products would be limited to no more than 71.5 million square meters of apparel in any given calendar year. CBO estimates that these provisions that would grant NAFTA parity treatment to certain textile and apparel articles would reduce receipts by $11million in fiscal year 2000 and by $98 million over the 2000-2002 period.

In addition, H.R. 984 would grant NAFTA parity to other articles imported into the U.S. from beneficiary countries, including luggage and handbags, certain leather goods, footwear, tuna, petroleum, watches, and watch parts. Based on recent collections data, CBO estimates that this provision would reduce receipts by $2 million in fiscal year 2000 and by $15 million over fiscal years 2000-2002.

The bill would also limit the tax deductions that certain employers may take for contributions to welfare benefit funds. The limits would apply to participants in plans that provide supplemental unemployment compensation, severance pay, and life insurance (other than group-term life) benefits and involve 10-or-more employer plans. The estimated budgetary impact of this provision—an increase in revenues totaling $692 million from 2000 through 2004—was provided by JCT.

Direct Spending

Under current law, a tax of $13.50 per proof gallon is assessed on distilled spirits produced in or brought into the United States. Under Public Law 106-170, the treasuries of Puerto Rico and the Virgin Islands will receive $13.25 of the tax assessed on rum manufactured in either territory between July 1, 1999, and December 31, 2001. (Beginning January 1, 2002, the amount of the federal excise tax the government shares with the territories falls to $10.50.) In addition, the territories receive payments, at a similar rate, on all rum imported into the United States from any foreign country. Those payments to Puerto Rico and the Virgin Islands are recorded as outlays in the budget.

Under H.R. 984, the governments of Puerto Rico and the Virgin Islands would receive the full $13.50 per proof gallon for assessments made between July 1, 1999, and September 30, 1999. Based on assessments collected during the three-month period, CBO estimates that retroactively increasing the territories' share of the excise tax would increase direct spending by $1.5 million in fiscal year 2001. The additional payments to the two territories would not occur until 2001 because Public Law 106-170 limits the amount of additional payments (from a rate that is higher than $10.50 per proof gallon) the government can transfer in 2000. As a result, CBO estimates that the $1.5 million in additional payments from enacting H.R. 984 would be deferred until fiscal year 2001.

Titles II through V would authorize programs to help countries in Central America and the Caribbean recover from the destruction caused by Hurricanes Georges and Mitch. Enacting the titles would have no budgetary impact because the authorized programs were funded in the 1999 Emergency Supplemental Appropriations Act, Public Law 106-31.

Spending Subject to Appropriation

The bill would require the Administration to determine whether Caribbean Basin countries are eligible to benefit from the bill's preferential trade provisions and to monitor their compliance with certain requirements. The Administration already performs similar responsibilities under the Caribbean Basin Economic Recovery Act. Based on information from the Office of the United States Trade Representative and other affected agencies, CBO estimates that implementing these provisions would not significantly increase those agencies' costs.

The legislation would also amend several existing reporting requirements of the Office of the United States Trade Representative and the International Trade Commission. The amendments would primarily change when and how often the reports are due. CBO estimates that those changes would cost less than $200,000 annually.

PAY-AS-YOU-GO CONSIDERATIONS

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 pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

	By Fiscal Year, in Millions of Dollars									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Changes in receipts	39	-170	-124	149	140	129	118	105	90	74
Changes in outlays	0	2	0	0	0	0	0	0	0	0

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

The bill contains no intergovernmental mandates as defined in UMRA. The bill would provide an additional $1.5 million to the governments of Puerto Rico and the Virgin Islands by increasing the portion of revenues those governments receive from excise taxes.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

The legislation contains one private-sector mandate that would limit pre-funding of certain employee benefits. JCT estimates that the cost of the mandate would exceed the threshold for private-sector mandates established in UMRA ($100 million in 1996, adjusted annually for inflation) in each of fiscal years 2000 through 2004.

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