CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

October 24, 2007

S. 2113
United States-Peru Trade Promotion Agreement Implementation Act

As ordered reported by the Senate Committee on Finance on October 4, 2007

SUMMARY

S. 2113 would approve the free trade agreement between the government of the United States and the government of Peru that was entered into on April 12, 2006. It would provide for tariff reductions and other changes in law related to implementation of the agreement. It also would shift some corporate income tax payments between fiscal years.

The Congressional Budget Office (CBO) and the Joint Committee on Taxation (JCT) estimate that enacting the legislation would reduce revenues by $20 million in 2008, increase revenues by $292 million over the 2008-2012 period, and reduce revenues by $423 million over the 2008-2017 period. CBO estimates that enacting S. 2113 also would increase direct spending by $4 million in 2008 and by $27 million over the 2008-2012 period, and reduce direct spending by $443 million over the 2008-2017 period. Further, CBO estimates that implementing the legislation would result in new discretionary spending of less than $500,000 per year, assuming the availability of appropriated funds.

CBO and JCT have determined that the bill contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA). CBO has reviewed the nontax provisions of S. 2113 and determined that the extension of customs user fees and the imposition of new record-keeping requirements on exporters of goods to Peru are private-sector mandates as defined in UMRA. We estimate that the aggregate costs of those mandates would greatly exceed the annual threshold established in UMRA for private sector mandates ($131 million in 2007, adjusted annually for inflation) in fiscal year 2015. JCT has determined that the tax provision of the bill (section 602) contains no private-sector mandate as defined in UMRA.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of the legislation over the 2008-2017 period is shown in the following table. The cost of this legislation falls within budget function 750 (administration of justice).

	By Fiscal Year, in Millions of Dollars											
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2008-2012	2008-2017
CHANGES IN REVENUES												
Free Trade Agreement	-20	-35	-37	-39	-41	-44	-47	-50	-53	-56	-173	-423
Payment of Corporate Estimated Tax	0	0	0	0	465	-465	0	0	0	0	465	0
Total Changes in Revenues	-20	-35	-37	-39	424	-509	-47	-50	-53	-56	292	-423
CHANGES IN DIRECT SPENDING												
Customs User Fees												
Estimated Budget Authority	4	5	6	6	6	7	7	-484	0	0	27	-443
Estimated Outlays	4	5	6	6	6	7	7	-484	0	0	27	-443

Sources: Congressional Budget Office and Joint Committee on Taxation.

BASIS OF ESTIMATE

Revenues

Under the United States-Peru agreement, tariffs on U.S. imports from Peru 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 about $5 million in customs duties in 2006 on $6 billion of imports from Peru. However, since 1991, imports to the United States from Peru have been subject to reduced tariff rates in accordance with the Andean Trade Preference Act (ATPA), which was expanded in legislation enacted in 2002, and is currently scheduled to expire on February 29, 2008. The ATPA overlaps to a large extent with the free trade agreement that would be implemented by this bill. As a result, enacting the bill would effectively extend the ATPA for Peru after February 29, 2008, while also lowering tariff rates not covered by the ATPA. Based on expected imports from Peru, CBO estimates that implementing the tariff schedule outlined in the U.S.-Peru agreement would reduce revenues by $20 million in 2008, by $173 million over the 2008-2012 period, and by $423 million over the 2008-2017 period, net of income and payroll tax offsets.

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

S. 2113 would also shift payments of corporate estimated taxes between 2012 and 2013. For corporations with at least $1 billion in assets, the bill would increase the portion of corporate estimated payments due from July through September of 2012. JCT estimates that this change would increase revenues by $465 billion in 2012 and decrease revenues by $465 billion in 2013.

Direct Spending

Under current law, customs user fees will expire either after October 7, 2014 (for COBRA fees) or after October 21, 2014 (for merchandise processing fees). Such fees are recorded in the budget as offsetting receipts (a credit against direct spending). S. 2113 would extend both COBRA fees and merchandise processing fees through December 13, 2014. CBO estimates that this provision would increase offsetting receipts by $485 million in fiscal year 2015.

In addition, the bill would exempt certain goods imported from Peru from merchandise processing fees. Based on the value of goods imported from Peru in 2007, CBO estimates that implementing this provision would reduce fee collections by about $4 million in fiscal year 2008 and by about $42 million over the 2008-2015 period. There would be no effects after December 13, 2014, because fees expire after that date.

Spending Subject to Appropriation

Title I of the bill would authorize the appropriation of necessary funds for the Department of Commerce to pay the United States' share of the costs of the dispute settlement procedures established by the agreement. Based on information from the agency, CBO estimates that implementing this provision would cost less than $500,000 per year, subject to the availability of appropriated funds.

Title III would authorize the International Trade Commission (ITC) to conduct investigations, if petitioned, into whether Peruvian imports might threaten or cause serious injury to domestic competitors. The ITC would report to the President on its findings and determinations, and if necessary, recommend the appropriate amount of import relief. Based on information from the agency, CBO estimates that implementing these provisions would cost less than $500,000 per year, subject to the availability of appropriated funds.

Title V would require the United States Trade Representative to prepare a report for Congress regarding activities carried out to promote legal trade in timber products as stipulated in the agreement. CBO estimates that complying with this reporting requirement also would cost less than $500,000 per year.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

CBO and JCT have determined that the provisions of S. 2113 contain no intergovernmental mandates as defined in UMRA.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

CBO has determined that the non-tax provisions of S. 2113 would impose private-sector mandates, as defined in UMRA, by extending the customs user fees and by enforcing new record-keeping requirements on exporters of goods to Peru. The aggregate costs of those mandates would greatly exceed the annual threshold established in UMRA for private-sector mandates ($131 million in 2007, adjusted annually for inflation) in 2015. JCT has determined that the tax provision of the bill (section 602) contains no private-sector mandate as defined in UMRA.

Customs User Fees

The bill would extend through December 13, 2014, the customs user fees that are scheduled to expire on October 7, 2014 or October 21, 2014. These fees are used to fund the processing costs of the U.S. Customs Service. CBO estimates that the aggregate cost to the private sector to comply with this mandate would be about $485 million in fiscal year 2015.

Record-Keeping Requirement

The bill also would require any person exporting goods to Peru who is required to complete a certificate of origin to keep all documents that relate to the origin of goods being certified for at least five years after the date of certification. CBO estimates that the cost of that record-keeping requirement would be minimal.

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