\NNUAL REPORT ON THE IMPACT)F THE CARIBBEAN BASIN :CONOMIC RECOVERY ACT)N U.S. INDUSTRIES \ND CONSUMERS

Third Report
987

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ANNUAL REPORT ON THE IMPACT OF THE CARIBBEAN BASIN ECONOMIC RECOVERY ACT ON U.S. INDUSTRIES AND CONSUMERS

Third Report
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Investigation No. 332-227

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Executive Summary

- The year 1987 marked the fourth year since the implementation of the Caribbean Basin Economic Recovery Act. Despite preferential duty-free treatment granted on U.S. imports from designated Caribbean Basin countries, the value of imports from CBERA beneficiaries declined from $8.8 billion in 1983 to $6.1 billion in 1986 and $6.0 billion in 1987.

- In 1987, U.S. exports to designated beneficiaries amounted to $6.7 billion, and U.S. imports were $6.0 billion, resulting in a surplus in trade with the designated countries.

- The decline in the value of U.S. imports from designated countries through 1986 was caused principally by steeply falling U.S. imports of crude and refined petroleum products. When U.S. petroleum imports ceased declining in 1987, overall U.S. imports from Caribbean beneficiaries also virtually stopped falling.

- Crude petroleum products ranked first and third on the list of leading import items from CBERA beneficiaries in 1987. Coffee ranked second on the list.

- Textiles and apparel accounted for 4.5 percent of total U.S. imports from CBERA countries in 1983 and rose to 19.0 percent of the total in 1987.

- The duty-free portion of U.S. imports from the CBERA countries (including duty-free imports under the CBERA and GSP preference programs, and duty-free imports under nonpreferential MFN provisions) increased from 35 percent in 1983 to 68 percent in 1986, and then decreased to 65 percent in 1987.

- Imports that entered duty free under CBERA provisions amounted to $578 million in 1984, $498 million in 1985, $690 million in 1986, and $906 million in 1987. Such imports accounted for 6.7 percent of total U.S. imports from beneficiary countries in 1984, 7.4 percent in 1985, 11.4 percent in 1986, and 15.0 percent in 1987. The U.S. content value of imports under TSUS items 806/807 (which is duty free) also increased in this period in both absolute and relative terms, but the value of entries under GSP declined.

- The amount of CBERA country imports that actually benefited from CBERA duty-free treatment in 1987 was $409 million. These were imports from CBERA beneficiary countries that entered under the duty-free provisions of CBERA and that were not articles which are also MFN duty free or GSP eligible. They accounted for 6.8 percent of total imports from CBERA beneficiaries. In terms of total U.S. imports in 1987, the percentage of imports that actually benefited from CBERA was 0.1 percent.

- A vast array of products benefits from CBERA duty-free treatment. However, the overwhelming bulk of these imports, in value terms, consists of a few, select products. In 1987, the top 20 items that actually benefited from CBERA accounted for 91 percent of the value of the total imports that benefited.

- Since the program's inception, seven products have consistently been among the top items benefiting from CBERA duty-free treatment. These items are beef and veal, sugar, ethyl alcohol, pineapples, fixed resistors, electrical capacitors, and orange juice. In 1987, these items plus analgesics constituted the top eight items in terms of actually benefiting from CBERA duty-free treatment. Since 1985, with the exception of sugar, all of these products have shown significant increases in the level of imports entering under CBERA. The decline in sugar imports is due mainly to the sugar quota.

- A number of items that were expected to benefit significantly from CBERA duty-free treatment have actually shown declines since 1985.

These products are wire rod, rum, and cigarette leaf, not stemmed. Nonetheless, all of these items were among the top 20 items that actually benefited from CBERA in 1987.

- The impact of the CBERA on U.S. industries and consumers in 1987 was minimal. For 76 percent of the value of imports that actually benefited from CBERA duty-free treatment, the losses in tariff revenue from CBERA and non-CBERA imports exceeded the gains to consumers by $6.1 million to $9.4 million. The items with the highest net welfare costs were analgesics, electrical capacitors, cigarette leaf, not mixed, and beef and veal.

- For individual industries, the level of domestic output that was displaced by imports benefiting from CBERA in 1987 was minimal. In terms of percentages, displaced domestic output from industries that competed with the top 20 items benefiting from CBERA did not exceed 1.2 percent for any one industry. The CBERA imports with the largest displacement effects were pineapples, cigars, scrap tobacco, cigarette leaf, not mixed, and artificial baits. These findings are consistent with those of the first two annual reports.

- Future growth in exports from CBERA beneficiaries will most likely depend upon current export-oriented investment. However, the pace of investment has remained cautious and slow. Several factors continue to hamper beneficiary countries' abilities to attract investment and gain increased access to the U.S. market. These factors include inadequate industrial infrastructure, lack of producer experience with the U.S. market, the perceived threat that U.S. protectionism would thwart any successful venture, inadequate local financing, and difficulties in diversifying farm production away from traditional products.

- The role that CBERA plays as an investment and export incentive relative to other factors in specific investment projects is difficult to assess. Relatively low wage rates continue to be an important factor in investment decisions. In addition, most investment projects have been undertaken in product areas that do not benefit specifically from duty-free entry under the CBERA, either because such products are excluded under the act or because the products were already eligible for duty-free entry under the GSP.

- The most active areas of CBERA-eligible investment in 1987 were nontraditional agriculture, fish processing and aquaculture, and wood products and wood furniture. The year also saw strong growth in the pharmaceuticals sector and some activity in electronics assembly operations. Some of these products were also eligible for GSP duty-free treatment.

- CBERA's importance as an advertising tool for investment in the Caribbean is reflected in the development of industries not eligible for the act's trade preferences. The CBERA may have indirectly encouraged the development of tourism and textiles and apparel assembly, the most important sectors for non-eligible new investment in the region in 1987.

- The Dominican Republic and Costa Rica continued to be the leading CBERA beneficiary countries in 1987. Although their combined share in total U.S. imports under the program from all beneficiaries declined from one-half in 1984 to 37.8 percent in 1987, the Dominican Republic and Costa Rica also ranked among the top three nations in the number of investment projects registered in 1987. Jamaica was the second ranking nation in terms of investment projects; and St. Lucia led among the smaller nations in number of investments.

- Eighteen projects that have complementary production operations with Puerto Rico were established throughout the CBERA region in 1987. Puerto Rico's twin plant initiative, which benefits from the CBERA and from financing under section 936 of the Internal Revenue Code, has experienced steady growth since its inception in 1986.

- Legislation was introduced in 1987 that would extend and expand the CBERA. "CBI II" would extend duty-free treatment of eligible imports for 12 additional years, allow duty-free entry of articles made exclusively from American-made parts, and permit restricted duty-free entry of previously excluded goods. Other provisions would exempt beneficiary countries from worldwide cumulation in injury tests under the antidumping and countervailing duty statutes, lower the minimum value-added content necessary for duty-free access for imports from East Caribbean states, triple U.S. sugar import quotas from beneficiary countries, and provide temporary duty-free entry for ethanol produced by five Caribbean facilities.

Introduction

The submission of this study to the Congress and the President continues a series of annual reports by the U.S. International Trade Commission on the impact of the Caribbean Basin Economic Recovery Act (CBERA) on U.S. industries and consumers. The reports are mandated by section 215(a) of the act, which requires that the Commission report annually on the operation of the program. The present study fulfills the requirement for calendar year 1987.

The CBERA, enacted on August 5, 1983 (Public Law 98-67, 97 Stat. 384), authorized the President to proclaim duty-free treatment to eligible articles from designated beneficiary Caribbean Basin countries. The President proclaimed duty-free treatment on certain eligible articles effective January 1, 1984, and such duty-free treatment is scheduled to remain in effect until September 30, 1995. Section 215 of the act requires the Commission to provide an assessment of the actual and probable future effects of the CBERA on the U.S. economy generally, on U.S. industries producing like or directly competitive products with those imported from beneficiary countries, and on U.S. consumers, and to submit its report to the President and the Congress by September 30 of each year. The provisions of the CBERA are listed and explained in the first CBERA report.

The following countries were designated beneficiary countries upon the implementation of the CBERA: Antigua and Barbuda, Barbados, Belize, Costa Rica, Dominica, the Dominican Republic, El Salvador, Grenada, Guatemala, Haiti, Honduras, Jamaica, Montserrat, Netherlands Antilles, Panama, Saint Christopher-Nevis (St. Kitts), Saint Lucia, Saint Vincent and the Grenadines, Trinidad and Tobago, and the Virgin Islands (British). The Bahamas became the 21st beneficiary nation in March 1985. Upon becoming independent of the Netherlands Antilles in April 1986, Aruba was designated as a beneficiary country, effective retroactively to January 1, 1986.

Public comment for the present report was solicited by the publication of a *Federal Register* notice (app. A). Such comment is included in chapters 2 and 3 of the report.

The report contains three chapters and two appendixes. Chapter 1 analyzes overall U.S. trade with the Caribbean Basin during 1987 and compares trade under special programs (CBERA, the Generalized System of Preferences (GSP), and TSUS items 806.30/807.00). Chapter 2 addresses the actual effects of the CBERA in 1987, the fourth year of the program's operation. The general methodological approach is explained as well as the CBERA's effects on the U.S. economy, U.S. industries, and U.S. consumers. Chapter 3 focuses on the probable future effects of the CBERA. An examination of significant investment projects in the region provides an indication of products most likely to be exported to the United States in the future. Appendix A contains a copy of the *Federal Register* notice by which the Commission called for public comment in connection with its investigation, and appendix B explains in detail the economic model used to derive the results in chapter 2.

CHAPTER 1

U.S. Trade With the Caribbean Basin

As in the previous two reports on the effects of the Caribbean Basin Economic Recovery Act (CBERA) by the U.S. International Trade Commission,[1] the Caribbean Basin (CB) is defined as including all 27 Caribbean countries and territories specified as potential eligible beneficiaries in section 212(b) of the act as well as Aruba, which became independent of the Netherlands Antilles in April 1986. The discussion in this chapter focuses either on all CB countries combined, or on groups of CB countries.

Caribbean countries are categorized as either "designated" or "nondesignated" under the CBERA. The designated country group (in this section also referred to as the "CBERA group") consists of those 22 Caribbean nations that were designated by the President as beneficiaries under the act before the end of 1987.[2] The nondesignated group contains six eligible Caribbean countries that had not received their designations before the end of 1987. These countries are Anguilla, Cayman Islands, Guyana,[3] Nicaragua, Suriname, and the Turks and Caicos Islands.

This chapter updates the second CBERA report by presenting trade developments in 1987, which marks the fourth year of the CBERA program. The discussion centers on U.S. imports from the 22 designated countries and the CBERA duty-free treatment that is applicable to this trade. The chapter also compares trade under the CBERA with trade under other duty provisions, such as the GSP. Whereas the focus is on 1987, import trends are examined over a 4-or 5-year period.

[1] *Annual Report on the Impact of the Caribbean Basin Economic Recovery Act on U.S. Industries and Consumers, First Report*, 1984-85, USITC Publication 1987, September 1986, and *Second CBERA Report*, 1986 USITC Publication 2024, September 1987.
[2] For a list of these countries, see the Introduction.
[3] Guyana's designation as a CBERA beneficiary is currently under consideration by the U.S. Government.

The data presented in this section are compiled from the statistics of the U.S. Department of Commerce and include certain adjustments to Census data made by the U.S. Department of Labor.

Two-Way Trade

In 1987, total U.S. imports from the Caribbean Basin countries amounted to $6.2 billion, or 1.5 percent of overall U.S. imports (table 1-1). Caribbean countries jointly constituted the fourteenth largest source of U.S. imports—a source ranking after China, but equal to Singapore, and larger than Venezuela or Sweden. Combined U.S. exports to all Caribbean countries in 1987 totaled $6.9 billion, or 2.8 percent of overall U.S. exports. Caribbean countries jointly constituted the tenth largest export market of the United States—a market ranking after Taiwan, but larger, for example, than Belgium and Luxembourg, Australia, or Italy. For the second year in a row, the United States registered a surplus in trade with the Caribbean countries collectively, making the CB one of the few areas of the world where no U.S. trade deficit was recorded. The surplus resulted from a significant decline in U.S. imports from the CB, from $9.0 billion in 1983 to $6.2 billion in 1986 and in 1987, whereas U.S. exports to the area increased from $5.9 billion in 1983 to $6.9 billion in 1987.

The designated CBERA beneficiaries constitute most of the Caribbean Basin in terms of trade; they accounted for 97.7 percent of combined U.S. imports from all CB countries and for 96.1 percent of U.S. exports to them in 1987. Therefore, the data showing combined U.S. trade with the 22 CBERA countries during 1983-87 (table 1-2) are almost identical to the data in table 1-1 for all 28 Caribbean countries.

U.S. Imports

U.S. imports for consumption from each designated and nondesignated CB country in 1983-87 are shown in table 1-3. Table 1-4 breaks down the CBERA group into four categories: three are geographic groups, separating the Central American, Eastern Caribbean, and Central Caribbean countries; the fourth includes those Caribbean nations that have

Table 1-1
U.S. trade with the Caribbean Basin countries, 1983-87

Year	U.S. exports	Share of U.S exports to the world	U.S. imports	Share of U.S. imports from the world	U.S. trade balance
	Million dollars	Percent	Million dollars	Percent	Million dollars
1983	5,888.8	3.0	9,006.0	3.5	(3,117.2)
1984	6,300.2	3.0	8,896.5	2.8	(2,596.3)
1985	5,996.4	2.9	6,849.9	2.0	(853.6)
1986	6,292.2	3.0	6,186.8	1.7	105.4
1987	6,940.6	2.8	6,178.1	1.5	762.6

Source: Compiled from official statistics of the U.S. Department of Commerce.

Table 1-2
U.S. trade with countries designated under the CBERA,[1] 1983-87

Year	U.S. exports	Share of U.S exports to the world	U.S. imports	Share of U.S imports from the world	U.S. trade balance
	Million dollars	Percent	Million dollars	Percent	Million dollars
1983	5,532.0	2.8	8,763.9	3.4	(3,231.9)
1984	5,952.9	2.8	8,649.2	2.7	(2,696.4)
1985	5,743.0	2.8	6,687.2	1.9	(944.2)
1986	6,064.6	2.9	6,064.7	1.6	(0.1)
1987	6,668.3	2.7	6,039.0	1.5	629.3

[1] Beneficiary countries during 1987.
Source: Compiled from official statistics of the U.S. Department of Commerce.

Table 1-3
U.S. imports for consumption, by countries, designated or nondesignated under the CBERA, 1983-87
(Customs-value basis, in thousands of dollars)

Country	1983	1984	1985	1986	1987
Designated:					
Antigua	8,809	7,898	24,695	11,849	8,621
Aruba[1]	([2])	([2])	([2])	1,797	2,452
Bahamas	1,676,394	1,154,282	626,084	440,985	377,881
Barbados	202,047	252,598	202,194	108,991	59,110
Belize	27,315	42,843	46,951	50,181	42,906
British Virgin Islands	880	1,335	11,902	5,904	11,162
Costa Rica	386,520	468,633	489,294	646,508	670,953
Dominica	242	86	14,161	15,185	10,307
Dominican Republic	806,520	994,427	965,847	1,058,927	1,144,211
El Salvador	358,898	381,391	395,658	371,761	272,881
Grenada	211	766	1,309	2,987	3,632
Guatemala	374,692	446,267	399,617	614,708	487,308
Haiti	337,483	377,413	386,697	368,369	393,660
Honduras	364,742	393,769	370,219	430,906	483,096
Jamaica	262,360	396,949	267,016	297,891	393,912
Montserrat	924	989	3,620	3,472	2,413
Netherlands Antilles[3]	2,274,510	2,024,367	793,162	453,333	478,836
Panama	336,086	311,627	393,605	352,206	342,700
St. Christopher-Nevis[4]	18,758	23,135	16,258	22,278	23,793
St. Lucia	4,700	7,397	13,796	12,269	17,866
St. Vincent and Grenadines	4,276	2,958	9,643	7,836	8,493
Trinidad and Tobago	1,317,534	1,360,106	1,255,498	786,405	802,838
Total	8,763,900	8,649,235	6,687,226	6,064,745	6,039,030
Nondesignated:					
Anguilla[5]	([2])	([2])	([2])	89	168
Cayman Islands	8,607	6,212	10,950	14,611	27,670
Guyana	67,332	74,417	46,010	62,928	58,828
Nicaragua	99,013	58,064	41,003	1,071	1,231
Suriname	63,147	104,636	60,091	38,591	46,445
Turks and Caicos Islands	3,965	3,935	4,649	4,792	4,680
Total	242,065	247,264	162,703	122,081	139,022
Grand Total	9,005,965	8,896,499	6,849,928	6,186,826	6,178,052

[1] Aruba's designation as a CBERA beneficiary became effective on Jan. 1, 1986. For statistical purposes, Aruba had been treated as part of the Netherlands Antilles until, in the second half of 1986, separate data became available.
[2] Not available.
[3] See footnote 1.
[4] Anguilla, which has not been designated as a beneficiary country, had been included with the data for St. Christopher-Nevis through 1985. For 1986 and 1987, data for Anguilla have been excluded and are shown separately among the nondesignated countries.
[5] See footnote 4.
Source: Compiled from official statistics of the U.S. Department of Commerce.

major oil-refining facilities and export crude or refined petroleum products to the United States. Table 1-5 shows each country's share of the combined U.S. imports.

Imports from nondesignated countries

U.S. imports from the nondesignated countries declined in 1985 and again in 1986 to $122 million but increased in 1987 to $139 million (table 1-3). The decline through 1986 reflected, in part, tenuous U.S.-Nicaraguan relations (as well as the poor state of the Nicaraguan economy); U.S. imports from Nicaragua fell to a negligible amount in 1986 and 1987.[1] The growth in U.S. imports from nondesignated countries in 1987 resulted primarily from increased U.S. imports from Suriname and the Cayman Islands; the earlier decline of imports from Suriname was reversed, and imports from the Cayman Islands almost doubled. The nondesignated countries supplied 2.7 percent of all U.S. imports from the Caribbean in 1983. Their share was 2.2 percent in 1987.

Imports from designated CBERA countries

Total U.S. imports from CBERA beneficiaries declined 31 percent between 1983 and 1987. This decline is principally the result of the dramatic decrease in the value of imports from oil-refining CBERA countries during 1984–86. As recently as 1983, 4 oil-refining countries—Trinidad and Tobago, the Netherlands Antilles, the Bahamas, and Aruba—were responsible for 60 percent of all U.S. imports from the 22 CBERA nations (tables 1-4 and 1-5), but this figure fell to 28 percent in 1986. In 1987, the value of U.S. imports from the oil-refining countries remained stable and resulted in a 28-percent share for this country grouping for a second year in a row (table 1-5).

After nearly doubling during 1983–86, the share of Central America, the largest nonoil-refining Caribbean region, dropped from 41 percent in 1986 to 38 percent of all imports from the CBERA-designated countries in 1987. This decline was caused primarily by decreasing imports from Guatemala and El Salvador (tables 1-4 and 1-5). On the other hand, the share of the Central Caribbean region continued to rise, accounting in 1987 for 32 percent of the total. This increase was caused by rapid growth in imports from all countries in the group: Jamaica, the Dominican Republic, and Haiti. Imports from the Eastern Caribbean region[2] continued to decline from a peak of 4.4 percent of the total in 1985 to 2.4 percent in 1987. The poor performance of this region was the result in large measure of consistently and rapidly falling imports from Barbados, the largest country in the group, reflecting the closing of a number of electronic assembly plants.

[1] In May 1985, the United States embargoed virtually all trade with Nicaragua.

[2] Proposed legislation to expand the CBERA (known as CBI II) defines the Eastern Caribbean differently from this report. See the ch. 3 section on CBI II legislation.

Product composition of imports

The contraction of U.S. imports from CBERA beneficiaries in 1983–87 was accompanied by a major change in their composition. Caribbean exports have traditionally consisted of a few items. Although a major effort to diversify exports has been under way in recent years, the region continued to depend on certain traditional items.

During 1983–86, the value of the region's crude and derived petroleum exports to the United States fell sharply and was primarily responsible for the decline of total exports (table 1-6 and fig. 1-1). In 1983, petroleum products accounted for 57 percent of total U.S. imports from the CBERA countries in terms of value, but in 1986 and 1987 such imports fell to 23 percent. Notably, when petroleum-related imports remained stable in 1987, overall U.S. imports from the CBERA beneficiaries stopped falling.

Figure 1-1 shows some other important changes in the composition of U.S. imports from the CBERA beneficiaries, including the steady, rapid decline in sugar imports. Caribbean exporters have suffered along with other foreign sugar suppliers from U.S. quota cutbacks.[3] Caribbean coffee exports, which surged during 1983–86, dropped sharply in 1987 as prices declined. Exports of bananas have generally increased throughout the period.

A notable change in the composition of this trade came from massive imports into U.S. customs territory of Caribbean textiles and apparel, consisting mostly of garments. These products represent a nontraditional export category for the CBERA countries. Textiles and apparel accounted for 4.5 percent of total U.S. imports from the Caribbean in 1983 and rose to 19.0 percent in 1987 (fig. 1-1).[4]

Table 1-6 shows U.S. imports during 1983–87 of 30 principal TSUS 5-digit items that together accounted for 72 percent of total imports from the Caribbean countries in 1987. In addition to the traditional U.S. imports of crude and derived petroleum products, coffee, fresh bananas, and sugar mentioned above, major imports from the Caribbean Basin included shellfish, gold, beef and veal, bauxite, analgesics, electronic and electrical articles, and a wide range of wearing apparel.

Dutiability and Special Duty-free Programs

Table 1-7 breaks down U.S. imports in 1983–87 from the 22 CBERA countries into their dutiable portion and the duty-free portion entering U.S. customs territory under the most-favored-nation (MFN) (col. 1) rates of the TSUS or under special rate provisions, including the CBERA.[5] The table shows separately U.S.

[3] For more details on sugar, see ch. 2.

[4] With regard to textiles and apparel, see also table 1-10 and the section on "Product Eligibility" later in this chapter.

[5] All CBERA-designated countries are eligible for MFN tariff treatment.

Table 1-4
U.S. imports for consumption from countries designated under the CBERA, by major source groups, 1983-87

(In thousands of dollars, customs-value basis)

Item	*1983*	*1984*	*1985*	*1986*	*1987*
Central America:					
Belize	27,315	42,843	46,951	50,181	42,906
Costa Rica	386,520	468,633	489,294	646,508	670,953
El Salvador	358,898	381,391	395,658	371,761	272,881
Guatemala	374,692	446,267	399,617	614,708	487,308
Honduras	364,742	393,769	370,219	430,906	483,096
Panama	336,086	311,627	393,605	352,206	342,700
Total	1,848,252	2,044,530	2,095,344	2,466,270	2,299,843
Eastern Caribbean:					
Antigua	8,809	7,898	24,695	11,849	8,621
Barbados	202,047	252,598	202,194	108,991	59,110
British Virgin Islands	880	1,335	11,902	5,904	11,162
Dominica	242	86	14,161	15,185	10,307
Grenada	211	766	1,309	2,987	3,632
Montserrat	924	989	3,620	3,472	2,413
St. Christopher-Nevis[1]	18,758	23,135	16,258	22,278	23,793
St. Lucia	4,700	7,397	13,796	12,269	17,866
St. Vincent and Grenadines	4,276	2,958	9,643	7,836	8,493
Total	240,846	297,161	297,578	190,771	145,397
Central Caribbean:					
Dominican Republic	806,520	994,427	965,847	1,058,927	1,144,211
Haiti	337,483	377,413	386,697	368,369	393,660
Jamaica	262,360	396,949	267,016	297,891	393,912
Total	1,406,364	1,768,790	1,619,560	1,725,186	1,931,783
Oil-refining countries:					
Aruba[2]	([3])	([3])	([3])	1,797	2,452
Bahamas	1,676,394	1,154,282	626,084	440,985	377,881
Netherlands Antilles[2]	2,274,510	2,024,367	793,162	453,333	478,836
Trinidad and Tobago	1,317,534	1,360,106	1,255,498	786,405	802,838
Total	5,268,438	4,538,754	2,674,744	1,682,519	1,662,006
Grand total	8,763,900	8,649,235	6,687,226	6,064,745	6,039,030

[1] From 1983 to 1985, data for St. Christopher-Nevis included Anguilla, a nondesignated beneficiary country. For 1986 and 1987, data for Anguilla have been excluded.
[2] Aruba's designation as a CBERA beneficiary became effective on Jan. 1, 1986. For statistical purposes, Aruba had been treated as part of the Netherlands Antilles until, in the second half of 1986, separate data became available.
[3] Not available.

Source: Compiled from official statistics of the U.S. Department of Commerce.

imports entering under the CBERA and under the GSP, which is the other preferential program available for CBERA countries.[1] Table 1-7 also shows the duty-free U.S. content of imports under TSUS items 806.30 and 807.00 and duty-free imports under other tariff provisions.[2]

Dutiable U.S. imports from the 22 CBERA beneficiaries declined markedly in the first 3 years of CBERA's operation but increased somewhat in 1987 in both absolute and relative terms. Dutiable imports were $5.7 billion, or 64.7 percent of the total, in 1983, the year before the CBERA became operational, and amounted to $2.1 billion, or 34.8 percent, in 1987. Such imports included oil and petroleum products that have declined significantly during the period.

In 1983, when the CBERA was not yet in effect, 6.5 percent of imports from the CBERA countries entered the United States under GSP, the only existing preferential duty-free program at that time. In 1984, the first year of the CBERA, the share of imports benefiting from duty-free preference programs (the GSP or the CBERA) increased to 13.6 percent. This share continued to rise in 1985 to 15.4 percent, in 1986 to 19.2 percent, and in 1987 to 20.1 percent. However, in absolute terms, duty-free imports under the two preference programs combined have remained relatively stable during the 4 years that the CBERA has been in effect, amounting to $1.2 billion dollars in each of the years 1984, 1986, and 1987.

[1] All designated CBERA beneficiaries are also GSP beneficiaries. A wide range of the CBERA exports are also eligible for duty-free treatment under the GSP. However, the GSP is more restrictive than the CBERA, since products entering the United States under GSP are subject to the competitive-need limit and rules-of-origin provisions of that program.
[2] As the CBERA became operational, certain articles, which formerly were entered under TSUS items 806.30/807.00, were switched to duty-free treatment under the CBERA.

Table 1-5

U.S. imports for consumption from countries designated under the CBERA, by major source groups, 1983-87

(Percent of customs value)

Item	1983	1984	1985	1986	1987
Central America:					
Belize	0.31	0.50	0.70	0.83	0.71
Costa Rica	4.41	5.42	7.32	10.66	11.11
El Salvador	4.10	4.41	5.92	6.13	4.52
Guatemala	4.28	5.16	5.98	10.14	8.07
Honduras	4.16	4.55	5.54	7.10	8.00
Panama	3.83	3.60	5.89	5.81	5.67
Total	21.09	23.64	31.33	40.67	38.08
Eastern Caribbean:					
Antigua	.10	.09	.37	.20	.14
Barbados	2.31	2.92	3.02	1.80	.98
British Virgin Islands	.01	.02	.18	.10	.18
Dominica	(1)	(1)	.21	.25	.17
Grenada	(1)	.01	.02	.05	.06
Montserrat	.01	.01	.05	.06	.04
St. Christopher-Nevis[2]	.21	.27	.24	.37	.39
St. Lucia	.05	.09	.21	.20	.30
St. Vincent and Grenadines	.05	.03	.14	.13	.14
Total	2.75	3.44	4.45	3.15	2.41
Central Caribbean:					
Dominican Republic	9.20	11.50	14.44	17.46	18.95
Haiti	3.85	4.36	5.78	6.07	6.52
Jamaica	2.99	4.59	3.99	4.91	6.52
Total	16.05	20.45	24.22	28.45	31.99
Oil-refining countries:					
Aruba[3]	(4)	(4)	(4)	.03	.04
Bahamas	19.13	13.35	9.36	7.27	6.26
Netherlands Antilles[3]	25.95	23.41	11.86	7.47	7.93
Trinidad and Tobago	15.03	15.73	18.77	12.97	13.29
Total	60.12	52.48	40.00	27.74	27.52
Grand Total	100.00	100.00	100.00	100.00	100.00

[1] Less than 0.005 percent.
[2] Through 1985, data for St. Christopher-Nevis included Anguilla, a nondesignated beneficiary country. For 1986 and 1987, data for Anguilla have been excluded.
[3] Aruba's designation as a CBERA beneficiary became effective on Jan. 1, 1986. For statistical purposes, Aruba had been treated as part of the Netherlands Antilles until, in the second half of 1986, separate data became available.
[4] Not available.
Note.—Because of rounding, percentages may not add to the totals shown.

Source: Compiled from official statistics of the U.S. Department of Commerce.

Meanwhile, imports that entered unconditionally free of duty under MFN rates have constituted a significant share of the overall duty-free part of U.S. imports from designated countries. In 1983, $1.7 billion, or 20.0 percent, of total imports from the CBERA countries entered in this category; in 1987, such imports amounted to $1.9 billion or 31.7 percent of the total. The MFN duty-free content of imports increased through 1986, mostly reflecting changes in the product mix of imports toward MFN duty-free products (such as coffee, shellfish, and bananas) and away from dutiable goods (such as petroleum products). In 1987, the unconditionally duty-free part of imports declined, principally because of the shrinking value of coffee imports.

Table 1-8 shows that the average rate of duty on the dutiable portion of U.S. imports from the CBERA countries has risen markedly since the advent of the CBERA, from 1.3 percent in 1983 to 6.1 percent in 1987. Table 1-8 also shows that the calculated adjusted U.S. customs revenues from the CBERA countries amounted to $75 million in 1983, dropped to $72 million in 1984, but increased significantly thereafter to $128 million in 1987.[1]

Despite a decline in the dutiable value of imports in each year between 1983 and 1986, the fast increase in calculated tariff revenues from CBERA country imports in 1985, 1986, and especially 1987 is apparently due to a sharp shift in the product mix of the dutiable imports from low-duty petroleum products toward high-duty goods, mostly wearing apparel.

[1] The "adjusted" adjective refers to calculated duties based on those dutiable values that themselves had been adjusted for the duty-free content of entries under TSUS items 806.30 and 807.00.

Table 1-6
Leading U.S. imports for consumption from countries designated under the CBERA, 1983-87

(In thousands of dollars, customs value)

TSUS item	Description	1983	1984	1985	1986	1987
475.10	Crude petroleum, 25 degrees A.P.I or more.	1,861,888	1,631,003	1,224,247	699,187	653,366
160.10	Coffee, crude, roasted or ground.	519,481	590,672	641,111	1,000,981	601,147
475.05	Crude petroleum, under 25 degrees A.P.I.	2,190,510	1,948,851	812,497	470,060	519,860
146.40	Bananas, fresh.	361,749	368,033	423,483	398,819	467,723
114.45	Shellfish other than clams, crabs	170,496	195,997	206,799	251,683	253,520
475.25	Motor fuel.	400,749	320,194	215,494	185,607	175,633
381.62	Men's cotton suits and slacks	(1)	(1)	1 18,946	87,623	128,407
106.10	Beef and veal, fresh, chilled	105,770	90,053	105,926	128,488	124,979
605.20	Gold or silver bullion/ore	118,982	182,931	128,752	116,193	117,515
155.20	Sugars, sirups, and molasses	400,490	426,763	262,994	205,591	113,834
601.06	Bauxite	97,413	149,864	51,176	77,900	106,692
412.22	Analgesics, antipyretics	51,036	54,837	78,105	138,069	98,346
685.90	Electrical switches	79,318	94,026	66,194	67,666	89,729
800.00	U.S. goods returned	183,053	114,816	106,330	95,844	85,217
376.24	Lace or net body-support garments	68,377	66,259	82,305	69,073	80,746
381.95	Men's man-made fiber disposable apparel	(1)	(1)	1 16,670	64,774	79,469
156.10	Cocoa beans	54,822	80,569	65,239	65,858	68,734
384.47	Women's cotton shirts, not knit	(1)	(1)	1 5,299	37,261	64,800
384.91	Women's other apparel, not knit	(1)	(1)	1 16,412	58,285	56,210
791.27	Leather, other than patent leather	27,433	41,332	39,771	35,098	55,682
381.56	Men's cotton shirts, other	(1)	(1)	1 10,687	39,511	52,853
384.46	Women's cotton blouses, not knit	(1)	(1)	1 10,064	47,459	48,395
381.41	Men's cotton knit shirts, other	(1)	(1)	1 2,967	17,517	47,248
740.70	Chains of precious metals	5,443	13,996	31,081	45,435	46,548
521.11	Asphaltum, bitumen and limestone	50,947	22,652	40,012	15,935	38,219
734.56	Baseball equipment and parts	39,034	38,649	38,322	37,709	37,622
480.65	Nitrogenous fertilizers	66,571	126,661	71,448	38,746	36,591
170.70	Cigars each valued 23 cents or more	34,142	36,459	33,564	32,440	34,979
685.80	Electrical capacitors	33,575	38,953	27,748	27,477	34,582
376.28	Body-supporting garments	31,671	29,052	37,716	31,735	33,157
	Total	6,952,952	6,662,623	4,871,358	4,588,024	4,351,804
	Total, all items imported from CBERA countries	8,763,900	8,649,235	6,687,226	6,064,745	6,039,030

[1] The TSUS numbers for apparel were revised in September 1985. Comparable data for the entire 1983-84 period are not available. Data for 1985 represent only September-December.

Source: Compiled from official statistics of the U.S. Department of Commerce.

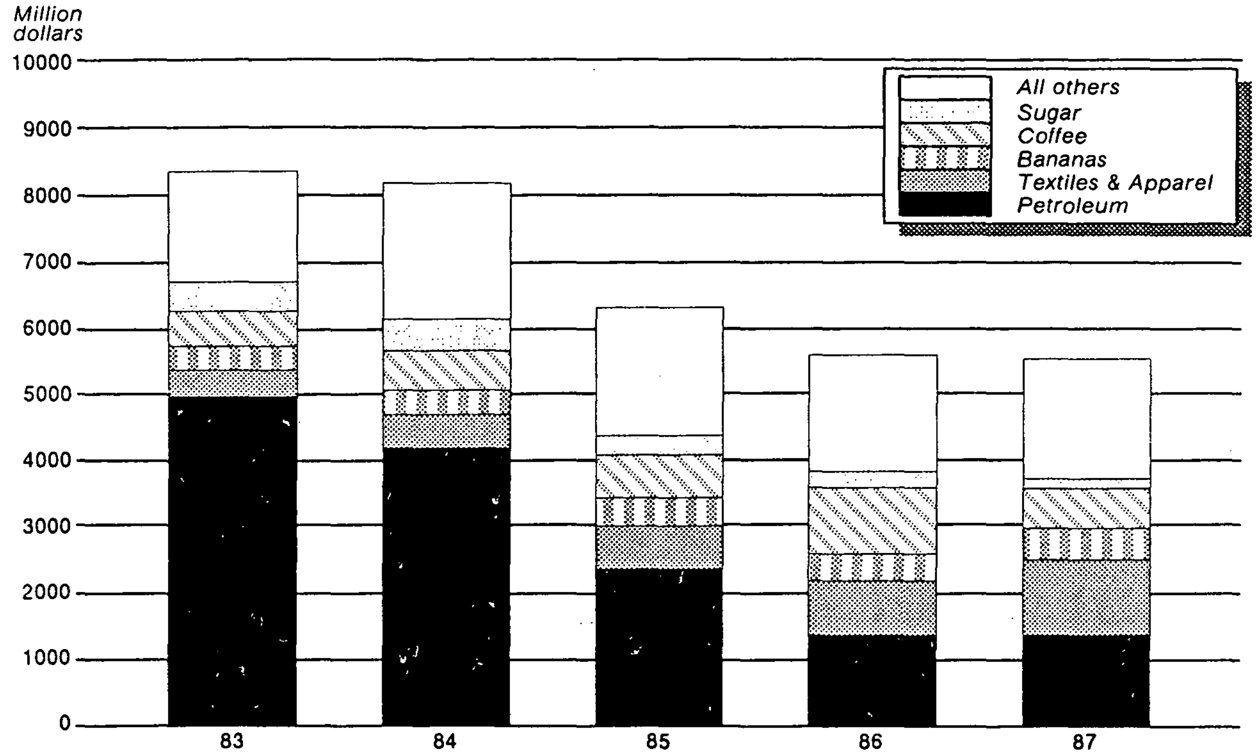
Imports entering under the CBERA

Imports entering the United States duty free under the CBERA amounted to $578 million in 1984, declined to $498 million in 1985, and rose to $690 million in 1986 and $906 million in 1987 (table 1-7). In relative terms, imports under the CBERA increased steadily during the first 4 years of the program. CBERA imports were responsible for 6.7 percent of overall U.S. imports from the 22 designated countries in 1984, 7.4 percent of the total in 1985, 11.4 percent in 1986, and 15.0 percent in 1987. In comparison, imports entering the United States under GSP accounted for 6.9 percent of the total in 1984, 8.0 percent in 1985, 7.9 percent in 1986, and 5.1 percent in 1987. The duty-free U.S. content of imports under TSUS items 806.30 and 807.00 amounted to 6.8 percent in 1984, and rose steadily to 12.5 percent of the total in 1987.

Table 1-9 shows the 1987 leading products entering free of duty under the CBERA in the first 4 years of the program and the principal CBERA source of these products in 1987. Beef and veal was the number one article on the list, followed by analgesics, sugar, bananas, electrical switches, and nonbeverage ethyl alcohol (ethanol). Many of the leading duty-free goods shown in table 9 entered the United States in part under duty-free provisions other than the CBERA. Those products that entered almost exclusively under the CBERA were beef and veal, analgesics, ethanol, jewelry, and fruit juices. Some leading CBERA items shown in table 9 (such as fresh bananas, coffee, and shellfish) are MFN duty-free, and one product listed in the table (petroleum) is not eligible for CBERA; therefore, their reporting as CBERA duty-free is erroneous and misleading.[1] A discussion of the effects of duty reduction resulting from the CBERA alone is contained in chapter 2.

[1] For a discussion of statistical reporting discrepancies under the CBERA, see *Trade and Employment Effects of the Caribbean Basin Economic Recovery Act*, U.S. Department of Labor, Economic Discussion Paper 21, September 1987, p. 108.

Figure 1-1
Principal U.S. imports from countries designated under the CBERA, 1983-87



Source: Compiled from official statistics of the U.S. Department of Commerce.

Table 1-7
U.S. imports for consumption from the CBERA countries, by reported duty treatment, 1983-87

Item	1983	1984	1985	1986	1987	Absolute change, 1987 over 1983	Percentage change, 1987 over 1983
Total imports (1,000 dollars)[1]	8,763,900	8,649,235	6,687,226	[2]6,064,834	[2]6,039,198	-2,724,702	-31.09
Dutiable value[3] (1,000 dollars)[1]	5,673,886	4,565,475	2,961,610	1,911,643	2,099,884	-3,574,002	-62.99
Duty-free under:							
MFN (1,000 dollars)[1]	1,749,904	2,014,159	2,036,556	2,300,424	1,915,722	165,818	9.48
TSUS 806.30/807.00 (1,000 dollars)[1]	519,007	587,560	547,368	612,361	756,116	237,109	45.69
GSP (1,000 dollars)[1]	567,138	593,949	533,507	476,151	310,430	-256,708	-45.26
CBERA (1,000 dollars)[1]	([5])	577,704	497,645	689,776	906,144	[4]328,441	[4]56.85
GSP/CBERA combined (1,000 dollars)[1]	567,138	1,171,652	1,031,152	1,165,928	1,216,575	649,437	114.51
Other special rate provisions (1,000 dollars)[1]	253,965	310,390	110,540	74,480	50,902	-203,063	-79.96
	Percent of total						
Total imports	100.00	100.00	100.00	100.00	100.00	([5])	([5])
Dutiable value[3]	64.74	52.78	44.29	31.52	34.77	([5])	([5])
Duty-free under:							
MFN	19.97	23.29	30.45	37.93	31.72	([5])	([5])
TSUS 806.30/807.00	5.92	6.79	8.19	10.10	12.52	([5])	([5])
GSP	6.47	6.87	7.98	7.85	5.14	([5])	([5])
CBERA	([5])	6.68	7.44	11.37	15.00	([5])	([5])
GSP/CBERA combined	6.47	13.55	15.42	19.22	20.14	([5])	([5])
Other special rate provisions	2.90	3.59	1.65	1.22	0.84	([5])	([5])

[1] Customs value.
[2] Total imports for 1986 and 1987 are slightly higher than shown in table 1-3 because Anguilla is included with St. Christopher-Nevis.
[3] Reported dutiable value has been reduced by the U.S. content of items imported under TSUS 806.30 and 807.00, which is duty free.
[4] 1987 over 1984.
[5] Not applicable.

Source: Calculated from official statistics of the U.S. Department of Commerce.

Table 1-8
U.S. imports from the CBERA countries: Calculated duties, eligibility, and utilization of the GSP and CBERA programs, 1983-87

Item	1983	1984	1985	1986	1987
Adjusted calculated duties, (1,000 dollars)[1]	75,293	72,152	83,056	92,245	127,974
Average duty (percent)[2]	1.33	1.58	2.80	4.83	6.09
Eligible duty-free under GSP (1,000 dollars)[3]	1,007,982	1,173,051	1,079,167	1,124,560	1,059,900
Reported entering under GSP (1,000 dollars)	567,138	593,949	533,507	476,151	310,430
GSP utilization ratio (percent)[4]	56.26	50.63	49.44	42.34	29.29
Eligible duty-free under CBERA (1,000 dollars)[5]	1,557,685	1,854,753	1,731,401	1,637,859	1,584,846
Reported entering under the CBERA (1,000 dollars)	-	577,704	497,645	689,776	906,144
CBERA utilization ratio (percent)[6]	-	31.15	28.74	42.11	57.18

[1] Calculated duties have been adjusted to account for the value of U.S. content of articles imported under TSUS items 806.30 and 807.00.
[2] Average duty = (calculated duty/dutiable value)*100.
[3] Based on 1987 product eligibility.
[4] (Actual entries/eligible entries under GSP)*100.
[5] Includes all TSUS items that have not been excluded under the CBERA or are not already duty free under MFN.
[6] (Actual entries/eligible entries under the CBERA)*100.

Source: Calculated from official statistics of the U.S. Department of Commerce.

Product eligibility under the CBERA

Table 1-10 shows U.S. imports of certain broad product categories that are not eligible for duty-free treatment under the CBERA. Although the decline of overall U.S. imports from beneficiary countries since the inception of the CBERA was principally the result of sharply falling petroleum imports, petroleum products still constituted the largest group in 1987 in trade-weighted terms among those tariff items that are excluded by statute from CBERA eligibility. Textiles and apparel, however, were a close second.[1] As pointed out in the two previous reports, petroleum products are subject to relatively low duties. Therefore, the absence of duty-free privileges for them has not severely restricted the benefits conferred by the CBERA.

More limiting was the exclusion of wearing apparel items, which carry high duties. Yet, as pointed out earlier, textile and apparel imports from beneficiary countries have expanded rapidly, reflecting their competitive edge based, in part, on geographic proximity. Competitiveness apparently outweighed the ineligibility of textiles and apparel for duty-free treatment under the CBERA. Additionally, for items assembled from U.S.- fabricated components, beneficiaries were able to take advantage of TSUS item 807.00, which exempts exporters from paying duties on the U.S. content.

In 1986, President Reagan announced a "special access program," referred to as 807-A or Super 807, that provides still another incentive to beneficiaries for exporting garments.[2] This program was designed to provide greater access to the U.S. market for the products CBERA countries ship under TSUS item 807.00, i.e., the portion that has been assembled with fabric both produced and cut in the United States. (Not all products imported under TSUS item 807.00 necessarily have to be manufactured from U.S.-produced fabric.) CBERA countries have been invited to enter into bilateral agreements with the United States under which guaranteed access levels (GAL's) will be permitted for their exports of qualifying textile and apparel products. These GAL's are separate from quotas under the Multifiber Arrangement that are applicable to other textile and apparel products. The program allows CBERA countries to increase their level of exports to the United States significantly faster than other countries that are not CBERA beneficiaries. To date, the CBERA countries that have entered into a bilateral textile agreement under the program are Costa Rica, the Dominican Republic, Haiti, Jamaica, and Trinidad and Tobago. In 1987, special access textile and apparel imports from beneficiaries amounted to $79 million.[3]

Although certain excluded categories—especially petroleum and apparel—weigh heavily in the commodity composition of U.S. imports from the CB, the trade-weighted product coverage of CBERA eligibility remains extensive. The imports of goods that were not excluded from CBERA benefits by statute (and that were consequently unconditionally CBERA-eligible or subject to certain restraints) amounted to $3.5 billion in 1987, or 57.6 percent, of all U.S. imports from designated countries.[4] However, as pointed out in the previous CBERA reports, the broad CBERA product coverage is somewhat deceptive if viewed as an indication of new preferential access to the U.S. market. This amount included imports worth $1.9 billion that were already free of duty under MFN tariff rates (table 1-7) and thus gained no new advantages from the CBERA; the remaining $1.6 billion in imports represented

[1] Sec. 213(b) of the CBERA lists the articles specifically exempted from duty-free treatment under the act.
[2] *Second CBERA Report*, p. 9.

[3] Jamaica accounted for $60 million of this amount, the remainder came mostly from the Dominican Republic and Haiti.
[4] Comparable data in 1986 were $3.8 billion.

Table 1-9
Leading U.S. imports for consumption entered under CBERA provisions, 1984-87, and ranked by descending value of duty-free imports in 1987
(In thousands of dollars, customs value)

TSUS item No	Description	1984 Duty free under CBERA	1984 Percent of CBERA duty free to total from CBERA	1985 Duty free under CBERA	1985 Percent of CBERA duty free to total from CBERA	1986 Duty free under CBERA	1986 Percent of CBERA duty free to total from CBERA	1987 Duty free under CBERA	1987 Percent of CBERA duty free to total from CBERA	Leading source[1]
106.10	Beef and veal, fresh, chilled	81,223	90.2	99,328	93.8	121,184	94.3	114,324	91.5	Costa Rica
412.22	Analgesics, antipyretics	37	.1	936	1.2	50,993	36.9	92,121	93.7	Bahamas
155.20	Sugars, sirups, and molasses	207,334	48.6	97,841	37.2	124,851	60.7	83,105	73.0	Dominican Republic
146.40	Bananas, fresh	722	.2	15	(2)	2,331	.6	65,226	13.9	Honduras
685.90	Electrical switches	5,444	5.8	23,114	34.9	27,099	40.0	37,002	41.2	Dominican Republic
427.88	Ethyl alcohol for nonbeverage use	0	(3)	13,147	67.4	25,092	90.7	27,468	95.5	Jamaica
160.10	Coffee, crude, roasted or ground	0	(3)	0	(3)	6,057	.6	26,205	4.4	Guatemala
170.70	Cigars each valued 23 cents or more	14,860	40.8	19,115	57.0	18,820	58.0	23,049	65.9	Dominican Republic
740.15	Jewelry, etc. and parts	0	(3)	5,839	78.4	11,137	92.6	21,701	98.6	Dominican Republic
734.56	Baseball equipment and parts	697	1.8	3,908	10.2	17,114	45.4	21,312	56.6	Haiti
148.96	Pineapples, fresh, in packages	7,561	79.4	9,948	94.3	13,446	77.8	15,634	68.4	Costa Rica
686.10	Resistors, fixed	7,246	25.0	6,480	35.6	7,415	45.4	14,390	77.9	Costa Rica
685.80	Electrical capacitors	9,296	23.9	10,819	39.0	10,244	37.3	14,217	41.1	El Salvador
114.45	Shellfish other than clams, crabs	76	(2)	321	.2	925	.4	12,146	4.8	Panama
148.30	Melons fresh, except cantaloupes	850	25.0	2,471	73.6	5,984	77.6	11,055	85.2	Panama
138.05	Broccoli, cauliflower, and okra	1,181	14.1	4,130	40.4	5,255	48.1	9,689	66.7	Guatemala
165.29	Fruit juices, not mixed, orange	(4)	(4)	9,161	95.4	7,498	89.3	9,482	96.8	Belize
791.27	Leather, other than patent leather	296	.7	740	1.9	3,849	11.0	8,690	15.6	Dominican Republic
475.05	Crude petroleum, under 25 degrees A.P.I.	0	(3)	0	(3)	0	(3)	8,520	1.6	Bahamas
110.35	Fresh fish, whole	1,464	31.3	3,909	43.4	7,729	48.2	7,913	40.5	Costa Rica
	Total of items shown	338,287	8.5	311,221	11.0	467,023	16.0	623,251	24.1	
	Total all commodities	577,704	6.7	497,645	7.4	689,776	11.4	906,144	15.0	

[1] Indicates leading source among all CBERA countries during 1987.
[2] Less than 0.05 percent.
[3] Not available.
[4] Item did not exist in 1984.

Source: Compiled from official statistics of the U.S. Department of Commerce.

Table 1-10
Imports to the United States of goods not eligible under CBERA from designated countries, 1983-87

(In thousands of dollars, customs value)

Product category[1]	*1983*	*1984*	*1985*	*1986*	*1987*	*Percentage change, 1987 from 1983*
Petroleum and petroleum products	5,004,058	4,219,024	2,384,271	1,375,742	1,377,172	-72.5
Textiles and apparel	398,226	502,443	649,150	825,537	1,144,823	187.5
Certain leather, rubber and plastic gloves, luggage, handbags, and flat goods.	20,442	22,039	20,370	22,477	30,148	47.5
Certain footwear products	14,590	10,005	8,739	10,618	13,013	-10.8
Canned tuna products	8	4	0	0	117	1,362.5
Total	5,437,324	4,753,515	3,062,529	2,234,374	2,565,273	-52.8

[1] Petroleum and petroleum products are in pt. 10, schedule 4, of the TSUS. Textile and apparel products constitute schedule 3 of the TSUS. Certain leather, rubber, and plastic gloves, lugguage, handbags, and flat goods are TSUS items 705.35 and 705.85-86; 706.05-706.16, 706.21-706.32, 706.34, 706.36, 706.38, 706.41, 706.43, 706.55, and 706.62; 791.76. Certain footwear products are TSUS items 700.05-700.27, 700.29-700.53, 700.56, and 700.95. Canned tuna products are TSUS items 112.30, 112.34, and 112.90.

Source: Compiled from official statistics of the U.S. Department of Commerce.

CBERA-eligible products that would have been dutiable without the CBERA (table 1-8). This leaves $2.5 billion, or 42.4 percent, of 1987 imports unconditionally excluded from the CBERA by statute.

Moreover, the CBERA has not contributed to preferential access for certain Caribbean exports that were also eligible for duty-free entry under the GSP. Although the CBERA permits duty-free entry for those products that lost GSP eligibility because their competitive-need limits were exceeded, the only item of significance in this category is sugar from the Dominican Republic.

The utilization rate of CBERA-eligible shipments rose to 57 percent in 1987 from 42 percent in 1986, 29 percent in 1985, and 31 percent in 1984 (table 1-8). Utilization rates of the CBERA program were calculated in this section by relating total actual entries under CBERA provisions to the total value of imports that are nominally eligible for CBERA duty-free entry, i.e., the portion not excluded by statute and not MFN duty free.[1]

Leading CBERA Beneficiaries

Table 1-11 ranks the CBERA-eligible countries by the 1987 value of their shipments to the United States under CBERA provisions. The table also shows the shifts in these countries' relative standings as CBERA beneficiaries over time. The Dominican Republic and Costa Rica remained the leading countries to take advantage of the CBERA throughout the program. However, the relative importance of these two countries has declined; in 1987, they jointly accounted for only 37.8 percent of all U.S. imports under the program, compared with one-half of all such imports in 1984.

In 1987, the Dominican Republic was the leading source of several products entering the United States under the program, such as sugar, cigars, jewelry and leather products. The total value of all such imports the Dominican Republic shipped under the CBERA, which edged up during the year, continued to be adversely affected by U.S. sugar quota cutbacks.[2] However, the Dominican Republic continued to have a production and export boom in textiles and apparel, of which it is the leading regional U.S. supplier. Although textiles and apparel are not eligible for duty-free entry under the CBERA (and therefore have not affected the ranking in table 1-11), the Dominican Republic enjoyed sizable benefits derived from the 807-A program that is available only to CBERA-designated countries. The rising dutiable portion of overall U.S. imports from the Dominican Republic and of calculated duties collected on imports from that country were further indications of the garment export boom.

Costa Rica remained the leading source of beef and veal imported under the CBERA in 1987; however, the value of such imports dropped from the 1986 level (table 1-9). Sugar imports from Costa Rica under the CBERA also felt the effects of U.S. quota cutbacks. On the positive side, Costa Rican shipments of fresh pineapple continued to rise. Costa Rica is the leading U.S. source of fresh pineapples among the CBERA-eligible countries.[3] Overall, CBERA imports from Costa Rica increased during the year under review.

Massive imports of analgesics made the Bahamas the third-ranking CBERA beneficiary in 1987. The Bahamas is the leading Caribbean source of imported analgesics. In the same year, Panama ranked fourth on the beneficiary list but this is misleading because U.S. imports from Panama under the CBERA consisted in large part of fresh bananas that are MFN duty free.[4] U.S. imports under the CBERA increased in 1987 from all other major beneficiaries.

[1] The resultant percentage is a measure of actual trade under the CBERA. Note that this percentage is not adjusted for the numerous erroneous entries which, if correct, would have been registered as MFN free, or duty-free under GSP or TSUS items 806.30/807.00. The utilization ratio is, however, not an indication of the amount of trade that was originally freed up by the enactment of the CBERA (i.e., previously not MFN duty-free or GSP eligible) or of the effectiveness of the CBERA program.

[2] Sugar quotas from the Dominican Republic were cut from 317,000 short tons in 1986 to 160,000 short tons in 1987. In 1984, the first year of the CBERA, the quota was 533, 000 short tons.

[3] The inappropriate entry of fresh bananas under CBERA provisions raises the total value that entered the United States from Costa Rica under the CBERA. Fresh bananas are MFN duty-free.

[4] As in the case of Costa Rica, the inclusion of fresh bananas under CBERA provisions unduly raises the amount of total 1987 imports from Panama under the CBERA.

Table 1-11
U.S. imports for consumption under CBERA provisions, by countries, 1984-87

(In thousands of dollars)

Rank	Country	1984	1985	1986	1987
1	Dominican Republic	222,462	173,693	192,137	195,835
2	Costa Rica	65,756	72,833	115,843	146,858
3	Bahamas	0	3,138	57,424	97,569
4	Panama	11,787	6,889	16,879	83,098
5	Haiti	21,856	46,554	60,660	79,765
6	Guatemala	43,442	43,138	58,888	67,148
7	Honduras	60,198	45,072	54,345	61,465
8	Jamaica	44,737	40,449	51,088	58,994
9	Trinidad and Tobago	6,422	15,791	26,795	34,721
10	El Salvador	71,986	19,322	12,787	29,089
11	Barbados	13,376	11,372	10,243	20,223
12	Belize	4,621	8,412	19,261	11,795
13	St. Christopher-Nevis [1]	6,757	5,503	6,192	9,592
14	St. Vincent and Grenadines	55	200	2,089	4,583
15	St. Lucia	1,413	1,556	2,183	2,568
16	Netherlands Antilles [2]	2,504	2,828	1,874	1,801
17	Dominica	9	321	496	626
18	Antigua	114	357	533	341
19	Grenada	2	95	40	31
20	British Virgin Islands	207	21	18	28
21	Aruba [2]	0	0	0	14
22	Montserrat	0	98	3	0
	Grand total	577,704	497,645	689,776	906,144

[1] Through 1985, data for St. Christopher-Nevis included Anguilla, a nondesignated beneficiary country. For 1986 and 1987, data for Anguilla have been excluded.

[2] Aruba's designation as a CBERA beneficiary became effective on Jan. 1, 1986. For statistical purposes, Aruba had been treated as part of the Netherlands Antilles until, in July-December 1986, separate data became available.

Source: Compiled from official statistics of the U.S. Department of Commerce.

CHAPTER 2

Effects of the CBERA in 1987

Since 1986, as required by section 215 of the CBERA, the Commission has annually analyzed the economic effects of the CBERA on U.S. consumers, specific U.S. industries that compete with goods imported from beneficiary countries, and the U.S. economy as a whole.[1] The assessment made in the first two reports was that, "because of the low value of U.S. trade with CBERA beneficiary countries and the small portion of that trade that benefits from CBERA duty-free treatment," the economic impact of CBERA on U.S. industries, consumers, and the overall economy was minimal. Between 1983 and 1986, the value of U.S. imports from CBERA countries that obtained duty-free status under the act amounted to less than 0.02 percent of U.S. Gross National Product (GNP). In addition, only a few U.S. industries, mainly producers of tropical agricultural products, experienced possible displacement of output exceeding 1 percent of domestic shipments. Since the total level of imports from CBERA beneficiary countries remained low in 1987, it is expected that the economic effect of CBERA imports on the U.S. economy will continue to be minimal.[2]

This chapter will analyze the economic effects of CBERA on the U.S. economy. It is divided into three sections. In the first section, a description of the imported products that benefited the most from the CBERA is presented. The second section discusses the analytical approach that is used to measure the net welfare effect of CBERA in 1987. The third section concludes the chapter with a presentation of the quantitative estimates of the welfare effects.

Products Most Affected by CBERA

The first CBERA report analyzed the effects of the one-time CBERA duty change in 1984. In the first report's analysis, it was assumed that the adjustment effects of the duty elimination would have occurred in the first two years of the program. Those products most affected by the CBERA duty elimination were pinpointed. The second CBERA report followed up by monitoring changes in the imported products that were identified in the first report. Not surprisingly, there was very little change in the product mix of CBERA imports during this period. Similarly, there was very little change in the types of products that received CBERA duty-free treatment in 1987. In brief, those products that benefited the most from duty-free treatment from 1984 to 1986 were the ones that continued to benefit the most in 1987.

Since the CBERA's initiation, the level of U.S. imports from CBERA countries that have actually benefited from the CBERA duty eliminations is small. The imports that actually benefit are those that (1) are not excluded by the CBERA,[3] (2) are not MFN duty free, and (3) are not eligible for GSP duty-free treatment. The last category includes products that have exceeded the GSP competitive-need limits in GSP-beneficiary countries.[4] Sugar from the Dominican Republic and analgesics from the Bahamas are the only items that fall into this category.

Table 2-1 shows that U.S. imports of products actually affected during the 4 years that the program has been in operation have fluctuated. Because sugar from the Dominican Republic is limited by import quotas, the level of sugar imports is not affected by CBERA duty-free treatment. Therefore, sugar can be excluded from the trend profile in table 2-1 of the imports that actually benefited from the CBERA. The level of U.S. imports of these products, excluding Dominican Republic sugar, was down, with 1987 imports decreasing 0.3 percent below those in 1986. U.S. Customs reported that 15 percent of 1987 imports from CBERA beneficiary countries entered duty free under the CBERA (see table

[1] The act states that the analysis of the effects is to be conducted during the first two years the CBERA is in effect and each calendar year thereafter until the act's termination. See *First CBERA Report*, p. 2-1 and *Second CBERA Report*, p. 13.

[2] See *First CBERA Report*, p. x, and *Second CBERA Report*, p. viii.

[3] Products that are excluded by the CBERA for duty-free treatment are leather products, footwear, processed tuna, petroleum and petroleum products, and watches and watch parts.

[4] *Second CBERA Report*, p. 16.

Table 2-1
Customs value of products potentially benefiting from CBERA duty elimination, 1984-87

Item	*1984*	*1985*	*1986*	*1987*
All items except Dominican Republic sugar:				
Value (million dollars)	336	317	361	360
Percent of total	(3.9)	(4.7)	(6.0)	(6.0)
Dominican Republic sugar (million dollars)	202	143	99	49
Total:				
Value (million dollars)	538	461	461	409
Percent of total	(6.2)	(6.9)	(7.6)	(6.8)
Total, CBERA country imports (million dollars)	8,649	6,687	6,065	6,039

Source: Calculated from official statistics of the U.S. Department of Commerce and from information contained in the *Tariff Schedules of the United States (Annotated)*.

1-7). This is in comparison with the 6.8 percent that actually benefited from the CBERA (see table 2-1).[1]

Products imported CBERA duty free, 1984-87

The products that were identified by the first CBERA report as most likely to benefit from the duty elimination in 1984, when the CBERA became effective, are listed in table 2-2.[2] These commodities were selected from a list of the 25 leading U.S. dutiable imports from CBERA beneficiary countries in 1983.[3] In addition, import data from years prior to 1983 and actual leading CBERA duty-free imports from 1984 and 1985 were examined to construct the list of products found in table 2-2.[4]

The second CBERA report compared leading CBERA duty-free imports in 1986 with those commodities listed in table 2-2. Since the products in table 2-2 were chosen because they stood to benefit the most from CBERA duty-free status, it was expected that they would rank "high on the list of items that entered under the CBERA duty free" in 1986.[5] The second CBERA report found no notable changes in the product mix imported between 1984 and 1986 under CBERA.[6]

Leading U.S. imports under CBERA in 1987 are shown in table 2-3. The data indicate that the pattern of trade remained relatively unchanged in 1987.

Table 2-2

TSUS items covered in commodity digests in the *First CBERA Report*

TSUS items	*Commodity digests*
106.10	Beef and veal
	Tropical vegetables:
136.00	Dasheens
137.75	Chayote
138.35	Yucca
	Fresh pineapples:
148.90	In bulk
148.93	In crates
148.96	In packages other than crates
155.20	Sugar
165.29	Concentrated orange juice
	Rum:
169.13	Small containers
169.14	Large containers
	Cigarette leaf tobacco and tobacco, n.s.p.f.:
170.32	Cigarette leaf, not stemmed
170.35	Cigarette leaf, stemmed
170.80	Tobacco, n.s.p.f.
	Filler tobacco, other than cigarette, and scrap tobacco:
170.40	Filler tobacco, other than cigarette, not stemmed
170.45	Filler tobacco, other than cigarette, stemmed
170.60	Scrap tobacco
425.52	Other nitrogenous compounds
	Ethanol and ethanol in chemical mixtures, n.s.p.f.:
427.88	Ethanol
432.10	Chemical mixtures, n.s.p.f.
	Synthetic hormones:
437.56	Adrenocortical
437.57	Other than adrenocortical
607.17	Wire rods
676.52	Certain parts of office machines
685.80	Electrical capacitors
686.10	Resistors
687.74	Monolithic integrated circuits
688.42	Miscellaneous electrical articles and parts
734.56	Baseball equipment

Source: *First CBERA Report*, p. 14.

Table 2-3

Leading U.S. imports for consumption entered under CBERA provisions, 1987

TSUS item No.	*Description*	*Duty free under CBERA*
		1,000 dollars
106.10	Beef and veal, fresh, chilled	114,324
412.22[1]	Analgesics, antipyretics,	92,121
155.20[1]	Sugars, sirups, and molasses	83,105
146.40[3]	Bananas, fresh	65,226
685.90[2]	Electrical switches	37,002
427.88	Ethyl alcohol for nonbeverage use	27,468
160.10[3]	Coffee, crude, roasted or ground	26,205
170.70[2]	Cigars each valued 23 cents or more	23,049
740.15[2]	Jewelry, etc., and parts	21,701
734.56[2]	Baseball equipment and parts	21,312
148.96	Pineapples, fresh, in packages	15,634
686.10	Resistors, fixed	14,390
685.80	Electrical capacitors	14,217
114.45[3]	Shellfish other than clams, crabs	12,146
148.30[2]	Melons fresh, except cantaloupes	11,055
138.05[2]	Broccoli, cauliflower, and okra	9,689
165.29	Fruit juices, not mixed, orange	9,482
791.27[2]	Leather, other than patent leather	8,690
110.35[2]	Fresh fish, whole	7,913
682.05[2]	Transformers	7,726

[1] Entries except analgesics from the Bahamas and sugar from the Dominican Republic are eligible for duty-free entry under GSP.
[2] Eligible for duty-free entry under GSP.
[3] Col. 1 duty rate is free.
Source: Calculated from official statistics of the U.S. Department of Commerce.

[1] Table 2-1 indicates that the total value of imports that actually benefited from the CBERA in 1987 was $409 million. This is smaller than the 1.6 billion dollars' worth of CBERA-eligible imports discussed earlier in the report. This latter figure includes some products that are both GSP-eligible and CBERA-eligible. In addition, some products that were erroneously reported to have entered CBERA duty-free but that were in fact erroneously reported to have entered CBERA duty-free but that were in fact MFN duty-free are also included in this latter figure.

[2] See table 12 of the *Second CBERA Report*, p. 14.

[3] See table 12 of the *First CBERA Report*, p. 2-3.

[4] See *First CBERA Report*, p. 2-3, for a discussion of the criteria used to select the products in table 2-2.

[5] See *Second CBERA Report*, p. 15.

[6] See *Second CBERA Report*, pp. 13-16 for a discussion of changes in product categories imported under CBERA during this period.

Examination of the top items imported under CBERA during the period 1984-87 (tables 1-9 and 2-3) shows that seven products have consistently been on the list of the top imports entering duty free. These items are sugars, sirups, and molasses (TSUS item 155.20); beef and veal (TSUS item 106.10); ethyl alcohol (TSUS item 427.88); pineapples (TSUS item 148.96); orange juice (TSUS item 165.29); fixed resistors (TSUS item 686.10); and electrical capacitors (TSUS item 685.80). Of the seven products, the two that increased their level of CBERA imports the most dramatically are pineapples and resistors, increasing by 106 and 98 percent, respectively. In addition, CBERA imports of ethyl alcohol showed a significant increase from zero in 1984 to $27.5 million in 1987.

Examination of the top CBERA imports between 1984 and 1987 also indicates that a number of these items such as baseball equipment (TSUS item 734.56), electrical switches (TSUS item 685.90), cigars (TSUS item 170.70), jewelry (TSUS item 740.15), and dasheens (TSUS item 136.00), also benefited from GSP duty-free treatment. As discussed above, these products did not exceed competitive-need limits under GSP and would, therefore, continue to benefit from GSP duty-free treatment if CBERA duty-free eligibility were eliminated. Therefore, they will not be considered in this report's analysis of the effects of the CBERA. The two exceptions are sugar from the Dominican Republic, which exceeds its competitive-need limits under GSP, and analgesics (TSUS item 412.22) from the Bahamas, which lost its GSP status in 1986.

In addition, a number of products that appeared on the list of top items entering under CBERA during this period were actually MFN duty free. In the 1987 list, these items were coffee (TSUS item 160.10), bananas (TSUS item 146.40), and shellfish (TSUS item 114.75). The appearance of these items on the list of top items should be observed as a bookkeeping error and therefore disregarded in any analysis of the effects of the CBERA.[1]

Finally a number of items that the first CBERA study identified to experience the greatest decrease in duties as a result of the CBERA have shown a steady decline since the program's initiation and did not appear on the list of top items in table 2-3. These were wire rods (TSUS item 607.17), cigarette leaf, not stemmed (TSUS item 170.32), and rum (TSUS item 169.14). The import decline of these items does not indicate that they were not affected by the CBERA. As noted in the first report, these imports might have declined more rapidly without the CBERA.[2] Between 1985 and 1987, CBERA imports of wire rods declined by 13 percent. This decline was attributed mainly to the Voluntary Restraint Agreement that Trinidad and Tobago, the sole CBERA exporter of wire rod, signed in September 1986. CBERA imports of rum declined by 51 percent between 1985 and 1987. CBERA rum imports appear to have declined between 1986 and 1987 because of a decline in apparent U.S. consumption and a displacement by increased rum shipments from Puerto Rico.[3] Between 1985 and 1987, CBERA imports of cigarette leaf, not stemmed, declined by 55 percent.[4]

Products that benefited the most from CBERA in 1987

What follows are recent industry highlights of the five leading items that were imported under CBERA in 1987 and that were not excluded, not MFN duty-free, or, with the exception of sugar from sources other than the Dominican Republic, that were not GSP eligible.[5]

Beef and veal (TSUS item 106.10).—Between 1986 and 1987, CBERA imports of beef and veal decreased by 6 percent. Even though imports of beef and veal that entered duty-free under the CBERA declined during the year, this product managed to top the list on table 2-3 of imports receiving CBERA duty-free treatment. Costa Rica, the Dominican Republic, and Honduras, in that order, continued to be the major CBERA sources of beef and veal. However, imports from these top three suppliers were all down in 1987.

Analgesics (TSUS item 412.22).—Between 1986 and 1987, CBERA imports of analgesics increased by 80 percent. The major CBERA source of analgesics is the Bahamas. In addition, these imports represented 93 percent of the total imports that entered the United States CBERA duty free from the Bahamas. The major reason for this dramatic increase in CBERA imports of analgesics appears to be the result of the Bahamas' loss of GSP eligibility for duty-free treatment of analgesics as of July 1, 1986. Hence, it appears that those analgesics that were previously imported GSP duty free were shifted to importation under CBERA duty-free provisions. Despite the increase in CBERA imports, total U.S. imports of analgesics were down by 13 percent during the year.

[1] For futher discussion of how import statistics are collected, including statistical reporting discrepancies under the CBERA, see *Trade and Employment Effects of the Caribbean Basin Economic Recovery Act*, U.S. Department of Labor, Economic Discussion Paper 21, September 1987, p. 108.
[2] *First CBERA Report*, p. 2-2.

[3] See *Rum: Annual Report on Selected Economic Indicators*, USITC Publication 2084, May 1988.
[4] In addition, a number of products that were identified in the first report to experience large declines in duties as a result of CBERA disappeared from the list of top CBERA imports between 1984 and 1986. In most instances the disappearance of these items was the result of changes in GSP or MFN duty-free status of the products. See *Second CBERA Report*, pp. 15-16 for futher discusssion.
[5] During the course of this investigation, the Commission gave interested parties an opportunity to present written submissions regarding the effects of the CBERA. Three submissions were received with respect to the effects of the CBERA in 1987. Two of these submissions, which are discussed later, were received from representatives of Florida's agricultural industry. The other was received from the American Cordage and Netting Manufacturers and the Cordage Institute, both of whom argued that CBERA provisions were being used by Costa Rica to export tying twine to the United States at below cost.

Sugar, sirups, and molasses (TSUS item 155.20).—Between 1986 and 1987, CBERA imports of sugar decreased by 34 percent. The decline in CBERA imports is principally the result of the decrease in the sugar quota. (U.S. imports of sugar are subject to restrictive absolute quotas to protect the domestic price-support program for sugar.) Between 1983 and 1987, the sugar quota declined from 2.6 million short tons, raw value, to approximately 1 million tons. Since allocations are made on a percentage basis, imports declined accordingly. CBERA beneficiaries have supplied their total yearly quotas during the program's operations. The CBERA specifies maximum quota allocations for sugar that may be imported duty free from the Dominican Republic (780 thousand metric tons); Guatemala (210 thousand metric tons); and Panama (160 thousand metric tons). In addition, other CBERA designated countries may request duty-free quota allocations. Imports of sugar, sirups, and molasses are generally eligible for GSP duty-free treatment; however, the Dominican Republic's sugar is currently ineligible for GSP treatment.

Ethyl alcohol (TSUS item 427.88).—Between 1986 and 1987, CBERA imports of ethyl alcohol (ethanol) increased by 9.5 percent. Because sugarcane juice can be converted into ethanol, some sugar-producing nations in the Caribbean have benefited significantly from CBERA duty-free treatment of ethanol. In the early 1980's, as surplus sugar increased, ethanol production became an alternate use for sugarcane. Further incentive was the CBERA exemption from the 3 percent ad valorem plus 60 cents per gallon U.S. duty that made it feasible to ship hydrous ethanol (in most instances surplus European wine) to CBERA countries, remove all water, and then export it duty free to the United States.

The Tax Reform Act of 1986 effectively eliminated this incentive by requiring that, by 1988, ethanol producers use at least 60 percent local feedstock to qualify for CBERA duty-free status. Dehydrated ethanol not meeting these requirements would be subject to the full tariff.[1]

Two Jamaican firms operated facilities in 1987. These firms were Tropicana International, a dehydration facility, and Petrojam, Ltd., a fermentation and dehydration facility. Another firm, Allied Ethanol Petroleum Co., a full-fermentation facility located in the Bahamas, began operations in 1988. Tropicana International and Allied Ethanol have a two-year (1987 and 1988) exemption from the feedstock requirement of the Tax Reform Act. In addition to Petrojam, two other firms with dehydration facilities, BioCom of St. Croix, Virgin Islands and LAICA of Punta Morales, Costa Rica are currently idle because of the 60-percent feedstock requirement.

[1] For a complete discussion of the provisions of the Tax Reform Act of 1986 relating to ethanol, and proposed legislation on ethanol in CBI II, see ch. 3 section on CBI II legislation.

Pineapples (TSUS item 148.96).—Between 1986 and 1987, CBERA imports of pineapples increased by 16 percent. A recent U.S. Department of Agriculture study, examining horticultural products imported from CBERA beneficiary countries, indicates that fresh pineapple was one of nine products that showed strong gains after the initiation of the CBERA in 1984.[2] During the program's operation, 191.2 million dollars' worth of horticultural products entered the United States duty free under the CBERA, of which pineapples accounted for 12 percent.[3] Between 1983 and 1987, the CBERA share of U.S. imports of pineapples increased from 57 percent to 96 percent. The principal sources of these imports were Costa Rica and Honduras.

Measuring the Net Welfare Cost of CBERA in 1987

Methodology

What follows is a brief description of the methodology that is employed to analyze the net welfare effects of CBERA duty-free treatment in 1987 on the U.S. economy, consumers, and industries that compete with CBERA imports. The net welfare effects of CBERA in 1987 were the opportunity cost of granting duty-free treatment to those imports: the foregone tariff revenue and producer surplus less the gain in consumer surplus.

Analytical approach.—This report will assess the economic effect of the CBERA. The effects of CBERA will be analyzed by posing the question, "How would net welfare have changed had the tariffs been in place in 1987?"[4]

The analytical exercise to answer this question is identical to the one used to analyze the effects of imposing a tariff on imports. Hence, tariff

[2] In addition, the study found that frozen concentrated orange juice accounted for 5.1 percent of the 191.2 million dollars' worth of horticultural products that entered duty-free under CBERA from 193 to 1987. Both pineapples and orange juice were among the products that the USDA study identified to have shown "big" gains after the initiation of the CBERA. See USDA, "Horticultural Imports Expand from Caribbean," *Agricultural Outlook*, August 1985, p. 15.

[3] The Commission received two submissions from representatives of U.S. idustries that compete with horticultural products benefiting from the CBERA. These representatives were the Florida Fruit & Vegetable Association, the Florida Tomato Exchange, and the Commissioner of the Florida Department of Agriculture and Consumer Services. All argued that CBERA horticultural imports "had an adverse impact on Florida's industries by reducing their share of the U.S. market." The Florida Fruit & Vegetable Association stated that "studies suggest that increased imports on such products as tomatoes, limes, and cut flowers have had an adverse impact on Florida's industries . . . ." In addition, some concern was expressed about the possible exposure of Florida's agri-industry to new strains of diseases and pests from CBERA agricultural imports.

[4] This question is posed as an analyical device and not as a policy recommendation.

revenues would increase, consumer surplus would decrease, and producer surplus for U.S. competing industries would increase. In this analysis, a simulation model of the elimination of duty-free status will provide measures of the tariff revenues and producer surplus foregone and consumer surplus generated, i.e., a measure equivalent to the opportunity cost of the CBERA duty benefits being in place. The balance of these three are the net welfare effects of CBERA.

In this analysis, imports from CBERA beneficiary countries, imports from non-CBERA countries, and competing domestic output are considered imperfect substitutes for each other.[1] Therefore, each of the three products is characterized by a separate market where differing equilibrium prices can exist for each.

Measurement of net welfare effects of CBERA.—The net welfare effect of duty-free treatment for CBERA imports is the balance of the benefits and economic costs to all U.S. residents.[2] In analyzing the effects of import relief, in this instance the hypothetical case of restoring duties to CBERA imports in 1987, these costs and benefits are composed of "the cost to consumers, the benefits to the protected U.S. industry . . . , and the net gain or loss in U.S. tax revenues."[3]

The increased cost to consumers would be reflected in the higher price U.S. consumers would pay for CBERA imports and is measured by the loss in consumer surplus.[4] Similarly, the increased benefits to the domestic competing industry and its factors of production would be reflected in the increased demand that would result for the U.S. domestic product. This benefit to the domestic industry and its factors is measured by the increase in producer surplus. However, since the domestic supply curve is assumed to be horizontal, there is no corresponding increase in net welfare benefits to producers. (Nor is there any welfare loss to consumers in the market for domestic output.) Instead, this analysis will measure the amount by which domestic output would be displaced by CBERA imports.[5]

Finally, a welfare benefit would be realized from the elimination of CBERA duty-free treatment through the increases in tariff revenue of the U.S. Treasury. Increases in tariff revenue would benefit all U.S. residents through the reduction of income tax burdens. In this case, increased tariff revenues would be received from both CBERA and non-CBERA imports. The increase in non-CBERA import tariff revenue would result from an increase in the demand of non-CBERA imports, i.e., with an increase in the price of CBERA imports, the sales of competing non-CBERA imports would also increase. (See the Technical Notes in app. B for a complete discussion of the methodology.)

Quantitative results

In 1987, the value of U.S. imports from CBERA beneficiary countries was $6,039 million, representing only 1.5 percent of total U.S. imports. The imports that actually benefited from the CBERA, i.e., those that were not specifically excluded or that were not either GSP eligible or MFN duty free, amounted to $409 million, or 6.8 percent of total imports from CBERA beneficiary countries. These imports that benefited from the CBERA alone also represented 0.1 percent of total U.S. imports. Therefore, any estimates of the effects of the CBERA on the U.S. economy will be minimal.

The estimates in this study should not be markedly different from those in the first two CBERA reports. The first CBERA report found that the upper estimate of domestic production that was displaced after the duty elimination in 1984 amounted to 0.003 percent of U.S. production.[6] It was also found that only a few domestic industries, mainly producers of tropical agricultural products, "experienced possible displacement of output exceeding 1 percent of shipments."[7]

This section presents dollar estimates of the net welfare costs of duty-free treatment for the top 20 products that actually benefited from the CBERA in 1987. In addition, estimates of the tariff revenue foregone, the consumer surplus generated, and the domestic shipments displaced in 1987 are also presented.

Description of Items Analyzed.—The effects of the CBERA were calculated for the 20 items listed in table 2-4. These are the top 20 items that were imported from CBERA beneficiary countries and that were not excluded in the act, GSP eligible, nor MFN duty free. These same items correspond to the CBERA imports in table 2-1 and account for 91 percent of the value of imports that actually benefited from CBERA duty-free treatment. The economic effects of duty-free treatment for these top 20 items are summarized in tables 2-5 and 2-6. Table 2-5 presents dollar calculations of the consumer surplus that was generated and tariff revenue from CBERA and non-CBERA imports that was foregone. Import data from 1987 for both CBERA and non-CBERA imports were used for the dollar calculations in table 2-5; however, since data were not available for 1987 domestic

[1] Imperfect substitutability between imports and competing domestic output is a standard assumption from one of the two basic models that have traditionally been used to analyze the effects of tariff reductions. See R.E. Baldwin, "Trade Reductions," *American Economic Review*, Papers and Proceedings, 66:142-148, 1976 for futher discussion.

[2] See Donald J. Rousslang and John W. Suomela, *Calculating the Consumer and Net Welfare Costs of Import Relief*, USITC, Office of Economics, Staff Research Study No. 15, July 1985, p. 2. Rousslang and Suomela provide a detailed exposition of this topic.

[3] Rousslang and Suomela, p. 2.

[4] See Technical Notes in app. B. for a more detailed explanation.

[5] See app. B.

[6] *First CBERA Report*, p. 2-7.

[7] *Second CBERA Report*, p. 17.

shipments, the displacement of U.S. shipments by the CBERA imports listed in table 2-4 is presented in percentage terms in table 2-6. (See Technical Notes in app. B for a more complete discussion of the data that were used in this analysis and the derivations of the effects shown in tables 2-5 and 2-6.)

Effects on the U.S. economy in 1987: Net welfare costs and the displacement of domestic output.—In 1987, the estimated net welfare cost to U.S. residents of granting duty-free treatment to the items listed in table 2-5, excluding sugar and resistors,[1] ranged from $6.1 million to $9.4 million.[2] These ranges reflect the welfare cost for 76 percent of the value of the items that actually benefited from CBERA duty-free treatment, i.e., the items in table 2-4. For each of the items analyzed, the loss in tariff revenues was not offset by the corresponding increase in consumer surplus. The four items with the highest net welfare costs were analgesics, electrical capacitors, cigarette leaf, not mixed, and beef and veal.

As expected, the level of domestic output from competing industries that was displaced in 1987 by the list of selected CBERA imports was minimal. Table 2-6 shows the range of the percent of domestic output displaced by each of the products. The maximum amount of domestic shipments displaced did not exceed 1 percent for any of the selected products. The largest effects occurred for pineapples where the displacement of domestic shipments ranged from 0.9 to 1.2 percent. The five products with the largest displacement effects were pineapples, cigars, scrap tobacco, cigarette leaf, not mixed, and artificial baits. Similar to the findings in the first report, the U.S. products with the largest displacement effects were agricultural products.

[1] Sugar and resistors were excluded from the list of items in table 2-5 because necessary data were not available to calculate the net welfare costs. With the exclusion of these two items, the remaining products in this table accounted for 76 percent of the value of the items that actually benefited from CBERA duty-free treatment.

[2] As noted in the Technical Notes, app. B, the range of the welfare costs reflects the range of the elasticity of the CBERA import supply curve, 2 to 5, that was used to make these calculations.

Table 2-4

U.S. imports for consumption that actually benefited under CBERA provisions, 1987

TSUS item No.	*Description*	*Duty free under CBERA*
		1,000 dollars
106.10	Beef and veal, fresh, chilled	114,324
412.22	Analgesics, antipyretics	90,641
155.20	Sugars, sirups, and molasses	48,573
427.88	Ethyl alcohol for nonbeverage use	27,468
148.96	Pineapples, fresh, in packages	15,634
686.10	Resistors, fixed	14,390
685.80	Electrical capacitors	14,217
165.29	Fruit juices, not mixed, orange	9,482
170.35	Cigarette leaf, not mixed	7,677
607.17	Wire rods	4,814
165.36	Fruit juices, other	4,128
169.14	Rum	3,808
606.79	Deformed concrete reinforcing	2,996
731.65	Artificial baits and flies	2,677
192.18	Fresh cut roses	2,335
606.83	Steel bars	2,283
170.32	Filler tobacco leaf, not stemmed	2,280
170.68	Cigars each valued 15 cents	2,216
165.46	Pineapple juice, not mixed	2,027
170.60	Scrap tobacco	1,647

Source: Calculated from official statistics of the U.S. Department of Commerce.

Table 2-5
The estimated range[1] of U.S. net welfare effects of CBERA duty-free treatment, by leading imports, 1987

(In thousands of dollars)

TSUS item No.	Description	Gain in consumer surplus		Loss in tariff revenue from CBERA countries		Loss in tariff revenue from non-CBERA countries		Net welfare effects	
		lower range	upper range	lower range	upper range	lower range	upper range	lower range	upper range
106.10	Beef and veal, fresh, chilled	1,563	2,029	2,503	2,500	127	165	-1,067	-636
412.22	Analgesics, antipyretics	2,551	3,807	5,516	5,393	135	205	-3,100	-1,791
155.20	Sugars, sirups, and molasses	[2]	[2]	[2]	[2]	[2]	[2]	[2]	[2]
427.88	Ethyl alcohol for nonbeverage use	422	588	784	780	1	1	-363	-194
148.96	Pineapples, fresh, in packages	490	623	743	742	75	96	-328	-214
686.10	Resistors, fixed	[2]	[2]	[2]	[2]	[2]	[2]	[2]	[2]
685.80	Electrical capacitors	1,003	1,197	1,318	1,322	766	912	-1,080	-1,037
165.29	Fruit juices, not mixed, orange	1,841	2,433	2,519	2,455	206	274	-885	-296
170.35	Cigarette leaf, not mixed	520	725	912	889	686	966	-1,078	-1,131
607.17	Wire rods	37	58	91	90	5	7	-58	-39
165.36	Fruit juices, other	762	1,007	1,055	1,029	4	6	-297	-28
169.14	Rum	483	670	771	735	[3]	[3]	-289	-66
606.79	Deformed concrete reinforcing	57	87	135	132	3	4	-81	-49
731.65	Artificial baits and flies	60	103	200	185	61	108	-200	-189
192.18	Fresh cut roses	149	168	179	180	11	12	-41	-24
606.83	Steel bars	42	64	99	97	4	7	-62	-39
170.32	Filler tobacco leaf, not stemmed	140	196	249	243	44	62	-153	-110
170.68	Cigars each valued 15 cents	100	131	160	159	7	9	-68	-36
165.46	Pineapple juice	83	110	135	134	3	4	-55	-28
170.60	Scrap tobacco	193	268	313	299	108	152	-228	-184
	Total	10,495	14,264	17,679	17,366	2,245	2,991	-9,428	-6,091

[1] Ranges correspond to the lower range and upper range of the CBERA import supply elasticities, 2 and 5, that were used to make these calculations. See Technical Appendix.
[2] Not available.
[3] Less than $500.

Source: Calculated by the staff of the U.S. International Trade Commission.

Table 2-6

The estimated range[1] of the effects of CBERA duty-free treatment on competing U.S. domestic industries, 1987

(In percent)

TSUS		*U.S. domestic shipments displaced by CBERA imports*	
Item No	*Description*	*lower range*	*upper range*
106.10	Beef and veal, fresh, chilled	0.01	0.01
412.22	Analgesics, antipyretics	.07	.10
155.20	Sugars, sirups, and molasses	(3)	(3)
427.88	Ethyl alcohol for nonbeverage use	(2)	(2)
148.96	Pineapples, fresh, in packages	.93	1.19
686.10	Resistors, fixed	(3)	(3)
685.80	Electrical capacitors	.09	.11
165.29	Fruit juices, not mixed, orange	.02	.03
170.35	Cigarette leaf, not mixed	.14	.20
607.17	Wire rods	(2)	(2)
165.36	Fruit juices, other	.02	.03
169.14	Rum	.04	.06
606.79	Deformed concrete reinforcing	(2)	(2)
731.65	Artificial baits and flies	.12	.22
192.18	Fresh cut roses	.01	.01
606.83	Steel bars	(2)	(2)
170.32	Filler tobacco leaf, not stemmed	.13	.18
170.68	Cigars each valued 15 cents	.67	.86
165.46	Pineapple juice, not mixed	(2)	.01
170.60	Scrap tobacco	.25	.36

[1] Ranges correspond to the lower range and upper range of the CBERA import supply elasticities, 2 and 5, that were used to make these calculations. See Technical Appendix.
[2] Smaller than 0.01 percent.
[3] Not available.

Source: Calculated by the staff of the U.S. International Trade Commission.

CHAPTER 3

Probable Future Effects of the CBERA

Most of the effects of the one-time elimination of duties on imports from the Caribbean Basin region granted by the CBERA took place during the first two years of the act.[1] Any future effects on U.S. industries and consumers can be expected to occur through export-oriented investment as investors attempt to take advantage of the lowered tariff levels and increasingly seek business opportunities in the region. This chapter presents an overview of the investments that occurred during 1987 and the degree to which such investments can be expected to affect U.S. industries and consumers. The general investment environment of the region is described, including the effects of political, economic, or social factors within beneficiary countries that enhance or diminish the likelihood of investment-induced exports to the United States under the CBERA. This chapter also examines Puerto Rico's program to promote complementary investment projects with CBERA beneficiary countries. Finally, the status of legislation to extend and expand the CBERA is presented.

Methodology

This chapter is based on information from a variety of sources including field visits to four CBERA-eligible countries. These countries—Barbados, Costa Rica, the Dominican Republic, and St. Lucia—were selected to provide a representative sample of countries at differing stages of economic and infrastructure development and engaged in a variety of investment activities. Meetings were held with foreign government officials involved in export promotion, representatives of the local business community, and individuals in private sector organizations responsible for promoting investment. Among the American Embassy staff interviewed in these countries were economic and foreign commercial officers.

Information was also obtained from regional and commodity analysts in a number of Government agencies including the USITC, the U.S. Department of State, the U.S. Department of Commerce (Commerce), the U.S. Agency for International Development (USAID), and the Overseas Private Investment Corp. (OPIC). Another important source of information was the ongoing investment survey conducted by the International Trade Administration of Commerce.

[1] See ch. 2 of the *Annual Report on the Impact of the Caribbean Basin Economic Recovery Act on U.S. Industries and Consumers, First Report 1984-85*, USITC publication 1897, September 1986.

Overview of Investment and Export Potential

Several factors, including political instability in the region, inadequate industrial infrastructure, and a lack of international marketing expertise on the part of both the government and private sectors, historically impeded the growth of export industries in the Caribbean until the late 1970's.[2] Moreover, self-promotion by the Caribbean countries as viable investment sites was almost unheard of until the 1980's, which also contributed to a lack of awareness among foreign investors about the business potential of the region. Consequently, despite the trade preferences offered by developed countries to the Caribbean Basin region through the Generalized System of Preferences (GSP), TSUS items 806.30 and 807.00, and the Lome Convention,[2] a general unfamiliarity with the region prevailed before passage of the CBERA in 1983. The CBERA, while offering trade preferences, also actively promotes the region to investors. Complementary U.S. Government policy and programs have committed funds and expertise through Commerce and USAID to foster private sector and export-oriented development. Thus, the CBERA has directly and indirectly made business communities in the United States and elsewhere aware of investment opportunities in the region. One of the most oft-repeated comments made to staff during the field visits was that a very important—if not the most important —aspect of CBERA is that it has heightened awareness of the region as a business option for the production of goods destined for the United States.

Although the CBERA has resulted in a few investments producing products eligible for duty-free entry under the CBERA, the act has not contributed to the growth of the economies of CBERA beneficiaries or their exports in a way that is likely to significantly affect U.S. industries or consumers in the near future. This is due to a number of factors. First, although those countries with strong, aggressive investment promotion agencies are being rewarded with significant increases in investment, the overall pace and amount of investment in the region remains low. Second, the scope of products that are eligible for duty-free entry under the CBERA and not otherwise eligible under GSP is limited.[4] In drawing attention to the region, the CBERA is

[2] See the *Annual Report on the Impact of the Caribbean Basin Economic Recovery Act on U.S. Industries and Consumers, Second Report, 1986*, USITC publication 2024, September 1987, p. 20, and Jean-Marie Burgaud, *The New Caribbean Deal*, The Economist Intelligence Unit, Special Report No. 240, March 1986, pp. 8-9.
[3] The Lome Convention is the organization for trade, aid, and cooperation between 66 African, Caribbean, and Pacific (ACP) nations and the EC. The EC grants duty-free access or places very low tariffs on ACP manufacturers, but is more protectionist towards agricultural products. In general, the smaller Caribbean countries are parties to Lome. None of the Central American nations except Belize belong to Lome.
[4] For a list of these products, see table 2-4 in ch. 2.

attracting a disproportionate number of CBERA-ineligible projects, such as textile assembly operations.[1] Finally, as noted in the first and second CBERA reports, most imports of CBERA-eligible products represent only a small proportion of total U.S. imports and consumption of such products.[2]

The earlier USITC reports noted several problems that are present in the Caribbean that have hampered beneficiary countries' abilities to attract investment and gain increased access to U.S. markets. Many of these problems are structural in nature and common to developing countries; many require long-term solutions and are unlikely to be resolved in the near future.

First, while the industrial infrastructure of the CBERA countries is gradually improving, inadequate inland transportation, ports, and energy supplies make operations uncertain and costly in many countries. In the Dominican Republic, for example, frequent electricity blackouts are serious problems and any new investment project must have its own back-up generator to ensure uninterrupted production. This substantially increases the cost of an investment and can be a disincentive for investors. In St. Lucia, the infrastructure is relatively good but the island has only one port (Vieux Fort, located at the south end of the island) capable of servicing containerized shipping. Consequently, all industrial cargoes to and from the north end of the island are moved overland, a two-and-one-half hour journey that adds about 25 percent to the cost of sea freight between St. Lucia and Florida.[3] This expense is a deterrent to investors when comparing the cost structure of St. Lucia with that of other islands.

Another continuing problem is lack of producer experience with the U.S. market. Establishing distributor relationships in the United States can be a long and difficult process for the novice exporter, particularly for low-volume producers. Local producers also have difficulties maintaining constancy in quality control and timely deliveries. To address these issues, a number of beneficiary countries have opened trade promotion centers in the United States and have funded local private organizations to facilitate entry into U.S. markets. In addition, the International Trade Administration of Commerce operates the Caribbean Basin Information Center that provides information, arranges joint-venture matches, and promotes trade fairs. To date, these activities have had only limited success.

A third problem, noted in the previous reports as deterring expansion of exports to the United States and still in evidence during the current year under review, was the perceived threat that U.S. protectionism would thwart any successful venture. The setbacks encountered by CBERA projects in ethanol, cut flowers, parakeets,[4] and scuba wetsuits,[5] are viewed in the region as examples of measures that undermine the intent of the CBERA, and as being indicative of future measures that will retard efforts to take advantage of the act.

Local financing also remains a problem in the region. The banking system in the Caribbean is very conservative and appears reluctant to make loans to adventurous entrepreneurs. The result is that little venture capital is available and real constraints are placed on investing in non-traditional venues.[6] A related problem, not reported in the earlier USITC reports but nevertheless one that many CBERA beneficiaries are seeking to remedy, involves the difficulty of diversifying farm production away from traditional products such as sugar and bananas, into non-traditional products. With little technical assistance and financial incentives available regionally, many countries are finding it difficult to persuade farmers to switch from historically long-successful crops into new fruit and vegetable

[1] Textile assembly operations are becoming increasingly important to the economies of the Caribbean Basin. In St. Lucia, for example, the largest employer on the island (500-600 employees) is an apparel manufacturer. Interviewees in each country visited also pointed out increased new investment from Asia (particularly from Hong Kong, Republic of Korea, and Taiwan) in textile assembly operations. Textile and apparel producers from these nations are looking for alternative production sites to gain increased access to the U.S. market.

[2] A submission to the USITC from the American Dehydrated Onion and Garlic Association (ADOGA) notes that, although no problem currently exists, a potential area of concern for their industry involves the transshipment of products through CBERA countries from countries not eligible for the duty-free treatment. ADOGA recommends stricter rules-of-origin as a preventive measure.

[3] St. Lucia National Development Corp., "Country Action Plan: St. Lucia," Draft.

[4] According to news accounts and information gathered in field interviews, the parakeet incident began in 1984 when the Hartz Mountain Corp.—at the recommendation of USAID—launched a project in St. Lucia to breed parakeets in disease-free closed breeders and export them to the United States under the CBERA. Hartz projected eventual sales of 200,000 low-cost birds annualy, or 10 percent of the U.S. market. Reportedly, the U.S. Department of Agriculture (USDA) agreed to exempt the birds from the 30-day quarantine requirement when they landed in the United States. When notice was published to that effect in the *Federal Register*, the U.S. parakeet lobby and other bird lobby groups successfully persuaded USDA to withdraw the concession, effectivley stalling the project. See Clifford Krauss, "Is Hartz Mountain breeding parakeets on idyllic St. Lucia," *The Wall Street Journal*, Mar. 24, 1986, p. 1.

[5] A Florida producer of scuba diving wetsuits set up an operation for production in St. Lucia hoping to take advantage of CBERA duty-free provisions as a producer of sporting goods. However, the product has been classified as rubber rainwear by U.S. Customs and is ineligibile for duty-free treatment. At this writing, the producer is continuing production in St. Lucia but is challenging Customs' determination.

[6] The lack of venture captial in certain Caribbean nations is being addressed in part by the High Impact Agricultural Marketing Production Project (HIAMP). HIAMP is a USAID-funded agricultural diversification program for Eastern Caribbean countries. Emphasis is placed on projects with strong export potential or local market development opportunities. HIAMP created a $12 million venture capital fund for new ventures such as exotic fruits, root crops, cut flowers, and medicinal herbs and spices.

crops.[1] Moreover, it is difficult to develop foreign markets for the new products.[2]

Most CBERA beneficiaries, however, are giving agricultural diversification programs high priority. In the Dominican Republic, for example, the Government provides incentives for sugar growers to diversify into pineapples. As a result, the island's largest pineapple producer is now successfully exporting all of its production to the United States.[3]

Other constraints to investment and increased exports that continued during the year under review include political instability perceived by investors, controls on exports and imports, exchange controls that result in shortages of hard currencies needed for inputs, and inefficient local bureaucracies.[4]

Summary of Investment Activities and Trends

The Caribbean Basin Investment Survey being conducted by Commerce is intended to collect information on all investments made since 1984 in beneficiary countries that will result in export goods or generate foreign exchange. The ongoing survey seeks to identify investment registration dates, value of investments, products produced, export sales, principal markets, and employment generated for each investment project. Commerce provided the USITC with preliminary survey results that included total investment value and export sales for 1984-87[5] for each CBERA-eligible country, by six broad product categories. Commerce also provided individual survey responses. This database was used by the USITC to compile a list of projects by broad category and by year of registration. However, the Commerce survey does not identify products by TSUS number, making it difficult in a large number of cases to distinguish between investments resulting in imports that are CBERA-only eligible from investments producing goods that are also eligible for duty-free entry under GSP.[6] The survey results are used here to provide a broad view of recent investment patterns in 1987 and over time, across product areas, and across countries in the region.

Investment projects by product category

An important aspect of the CBERA is that it can also encourage the development of industries not eligible for the act's trade preferences. For example, the recent provision of a guaranteed access program for imports of apparel from the region (under Item 807-A of the U.S. tariff schedule) is directly related to U.S. policy objectives expounded in the CBERA. Of the 648 projects identified in the preliminary survey data, 187 were identified as producing nonagricultural CBERA-eligible goods, and 144 as CBERA-eligible agricultural producers. Thus, slightly more than one-half of the projects registered during the entire survey period were producing CBERA-eligible goods. Textiles and apparel, ineligible under CBERA, accounted for 187 investments, with other non eligible goods (mostly shoes and leather products) accounting for 19 projects. The non-eligible "tourism" category, composed primarily of hotel projects, included 83 investments and "other services" (mostly data entry) accounted for the remaining 28 projects.

For the 127 investments registered in 1987, about two-fifths were CBERA eligible: 37 nonagricultural and 15 agricultural projects produced eligible goods, while textiles, other noneligible goods, tourism, and other services accounted for 42, 5, 25, and 3 projects, respectively.

The first two CBERA reports listed seven product areas in which investment was concentrated: apparel manufacturing, agriculture, fish processing and aquaculture, wood products and wood furniture, ethanol, electrical and electronic components assembly, and cut flowers and ornamental plants. The current Commerce survey generally reconfirms the importance of these sectors during the 4-year period and certain trends identified in the earlier reports, but it also

[1] The HIAMP program has met with some success in encouraging diversification in the Eastern Caribbean countries. In addition to providing technical expertise and venture capital, HIAMP offers seed money grants. Some examples of grants for non-traditional products with export potential to the United States include garlic and okra from Grenada, Black Belly sheep from Barbados, passion fruit from Dominica, and tumeric from St. Vincent.

[2] During field visits, several interviewees provided examples of insufficient product development that led to failed export sales. In Barbados, for example, sweet peppers were viewed as a potentially lucrative export crop, but the end product was the wrong size, weight, and quality for the U.S. market. A flower grower in Barbados reported numerous difficulties (including failure to pass pest inspections) in passing through U.S. Customs.

[3] The pineapple grower currently has 2000 hectares under pineapple cultivation. All production is intended for export but about 30 percent is rejected for quality reasons and is sold locally. Although pineapples are CBERA eligible, a company official indicated that high demand in the United States was the principle reason behind his company's decision to invest. Moreover, pineapple production in Hawaii, the traditional source of pineapples for the U.S. market, has declined as real estate there becomes too valuable for agriculture. Dole Corp. has also invested heavily in pineapple production in the Dominican Republic.

[4] During the field visit, one country official indicated the CBERA beneficiaries have not taken sufficient advantage of the program because the local private sector is risk averse, insular, and lacks entrepreneurial initiative. On the other hand, an American company official in the Caribbean indicated that the U.S. management system has limited U.S. investment in the region. Mid-sized firms, the most likely to purchase overseas, lack the management resources necessary to set up operations abroad.

[5] Some investments registered in 1988 or prior to 1984 are also included in the Commerce survey.

[6] Despite this limitation, the current survey provides much valuable information not contained in the earlier one. (See app. B, "Data Problems and the USITC CBERA Report," *Second CBERA* Report, p. B-2.) A 1986 GAO study found that the earlier Commerce Survey on investment in the Caribbean was "not a reliable indicator of business investments made as a result of the CBI." (U.S. General Accounting Office, *Caribbean Basin Initiative: Need for More Reliable Data on Business Activity Resulting From the Initiative,* August 1986, GAO/NSIAD-86-201BR.)

suggests that another area, tourism, is surpassing most other areas in terms of number of projects and value of investments.

Of the seven product areas, apparel manufacturing has received the most attention from investors; the 187 textiles and apparel projects cited earlier represent $134 million in assets and $193 million in export sales, according to the Commerce survey.[1] Apparel is also one of the fastest growing areas, with 42 projects registering $26 million in new investment in 1987. Although apparel is not CBERA eligible, this high level of investment is at least partially attributable to the more liberal quotas negotiated with CBERA-eligible countries under the 807-A program than with other textile producers under the TSUS item 807.00 program.

Agriculture has been another active area of investment in the region over the last 4 years with 144 projects, representing $229 million in assets and $113 million in export sales.[2] The survey data indicate that investment in fruit and vegetable projects may be declining. Of the 66 producers of fruits and vegetables registering projects during the period, only 5 registered in 1987, compared with 12 in 1986, 23 in 1985, and 24 in 1984.

Fresh pineapple and citrus are the only agricultural products identified in the survey that are eligible under CBERA but not under GSP. Two investments listing citrus or pineapple as a product were registered in 1987, whereas 15 others registered between 1984 and 1986. These 17 projects reported a total of $77 million in the value of investments made during the 4-year period, accounting for about one-third of the assets listed by all 144 agricultural projects in the survey.

Other significant areas of investment include fish processing and aquaculture, and wood products and wood furniture. Both of these product areas benefit from duty-free entry under the CBERA and under GSP. Six investments listing wood products were registered in 1987, for a total of 27 during the survey period, accountingfor over $7 million in value and $12 million in export sales.[3] Fish and aquaculture investment is apparently slowing with only 3 of the 29 projects in the survey registering in 1987. The value of these 29 investments was reported as $72 million, with $18 million in export sales.[4]

Investment in ethanol facilities has declined dramatically in the last two years, primarily because of provisions in the 1986 Tax Reform Act restricting the CBERA eligibility of ethanol imports.[5] The Commerce survey contains only two ethanol projects. Both projects are located in Jamaica—one registered in 1986 and the other in 1984. Numerous other investments are known to have taken place during the survey period, although some of these plants have been abandoned.[6]

Only 5 new investments in electrical and electronic components were registered in 1987, down from 13 the previous year, when the industry was already seen to be in decline because of reduced U.S. demand.[7] The total value of investment during the survey period was $51 million, with $42 million in export sales.

Investment in cut flowers and ornamental plants began declining in 1986 as a result of U.S. antidumping and countervailing duty cases against a number of producing countries, including Costa Rica. Only 5 projects contained in the survey were registered in 1987, compared with 9 in 1986, 11 in 1985, and 13 in 1984. The total value of investment during the survey period was $24 million, with $11 million in export sales. It is most likely that many small investments in flowers and ornamental plants have gone unreported since farmers can easily convert acreage to plant production, but the trend is probably similar to that for large projects.

The current Commerce data confirms the trend noted in last year's report toward increased investment in the production of medical supplies. Of the six projects contained in the survey, only one was registered before 1987. These companies listed a total of approximately $5 million in assets and an amount equal to that in export sales.

The tourism sector—which does not benefit from CBERA preferences—is currently undergoing dramatic growth, in contrast to the decline in the investment areas discussed above. Eighty-three tourism-related projects, mostly hotels, are in-

[1] Dollar figures contained in this section are intended as approximate indicators of business activity. Many of the survey responses listed $0 in assets and/or export sales. Numerous firms reported total export sales for the 1984-and-after period, others reported only current annual export sales, some included projected sales, and others reported only the value-added portion of their export sales. Similarly, assets are sometimes reported as the addition to a firm's value during the 4-year period, in some cases a firm's pre-1984 value is also included, and in other instances projected value of a firm is reported.

[2] About 31 aquacultural and other projects are not included in this number because they were classified by the survey respondent as nonagricultural. These include a number of food-processing ventures, shrimp farms, and cut-flower operations.

[3] Several countries in the Caribbean region, including Costa Rica and the Dominican Republic, are experiencing severe deforestation problems because of lumber overharvesting. Any wood-related investment projects in these countries are tied closely to conservation efforts. In Haiti, overexploitation of the forest is so severe it has caused drastic ecological imbalances, including soil erosion and depleted water reserves.

[4] In St. Lucia, fishing is viewed as a potentially lucrative export industry but many fishermen use traditional methods and equipment and can only supply the local market.

[5] See section entitled, "CBI II Legislation" in ch. 3 for details on this issue.

[6] See ch. 2 section on ethanol.

[7] USITC analysts found that net investment was negative in some electronic categories during 1986. Three investments were registered as of Apr. 30, 1988.

cluded in the survey with investment values totaling $622 million. Twenty-five of these projects were registered in 1987 (3 others registering in 1988) with values totaling $347 million. Exchange-rate movements are one likely source for the increased tourism sector investment in the Caribbean. The U.S. dollar declined in value significantly against European currencies in 1986 and 1987, while many Caribbean currencies are fixed against the dollar. The consequent price decline of Caribbean vacations relative to European vacations for American tourists has presumably stimulated demand for resort space in the Caribbean.

Investment projects by country

Although investors are more aware of business opportunities in the Caribbean region since the enactment of the CBERA, the availability of duty-free treatment is only part of the investment decision. Interviewees said the decision to invest on a particular island is based on a number of factors including wage rates, labor supply and productivity, infrastructure, political stability, unions, language, and financial incentives. During the field visits, many of the interviewees said that competitive wage rates and several of the other factors were more important to the decision to invest in the Caribbean region than the provision of CBERA benefits.

The preliminary Commerce survey results indicate that the Dominican Republic (137 projects), Jamaica (110), and Costa Rica (81) are the leading countries in terms of number of investments. Among the smaller nations, St. Lucia stands out with 25 investments. The Dominican Republic also leads in number of 1987 registrations, with 33, followed by Costa Rica (15), Jamaica and El Salvador (7 each), and St. Lucia and Aruba (6 each). In terms of the value of the investments over the survey period, the Dominican Republic leads with $323 million, followed by the Bahamas at $216 million, Trinidad and Tobago at $207 million, Jamaica at $171 million, Antigua at $134 million, Aruba at $121 million, and Costa Rica at $89 million. The Bahamas, Antigua, and Aruba are all in a strong position because of tourism-related projects, whereas a large ammonia plant is responsible for Trinidad's position.

The Dominican Republic leads CBERA nations in terms of the number of projects in apparel, agriculture, and tourism. In terms of the value of the investment, it leads in tourism, and ranks third in apparel and agriculture.

Jamaica ranks second among CBERA countries in number of agricultural projects and first in value of textile and apparel investment. It also dominates in data entry projects (CBERA-ineligible) with 17 of the 24 registered data entry investments in the region located there. However, the survey indicates that in 1987 Jamaica benefited less from new business activity. In particular, new projects in fruit and vegetables and data entry appear to be declining in number. As the leading ethanol producer in the Caribbean, Jamaica has also suffered the most from U.S. measures to limit ethanol imports.

In spite of the U.S. antidumping order against its cut-flower exports, Costa Rica was the site of three of the five investments in flowers and ornamental plants registered in 1987 and included in the survey. It also ranks high in textile and apparel investment and matches the Dominican Republic as the leader in investments in medical products (two for each country). Among other Central American nations, investment is generally less than in Costa Rica. Bright spots include fruit and vegetables, and wood products, in both Honduras and Belize.

Among the remaining CBERA nations, investment in Haiti has been extremely weak. The Commerce survey indicates that only 22 projects, almost all in apparel and electronic assembly, were initiated between 1984 and 1987. Investment in Antigua (17 projects) and Aruba (14) has been relatively strong, but is dominated by hotel construction. New activity has been weak in Trinidad and Tobago (5) and in the Bahamas (11) with the exception of one very large ammonia investment mentioned above.

St. Lucia (25 projects) and Barbados (14) have been the beneficiaries of the most diversified investment among the smaller Eastern Caribbean nations, with St. Lucia having particularly notable success in attracting new investment in apparel, electronics, and tourism.

Puerto Rico: Twin Plant Investments

When the CBERA was originally under consideration, there was concern that Puerto Rico might be adversely affected by the program because of its similarities in climate, culture, and industry to CBERA beneficiary countries. However, despite its concerns about Caribbean competition, current Puerto Rican policies strongly favor the CBERA. Puerto Rico's support of the CBERA derives in part from certain provisions in U.S. tax law concerning the island. In particular, tax preferences are granted under section 936 of the Internal Revenue Code to U.S. firms operating in Puerto Rico. These tax preferences and its precursor in the tax code have attracted much industry to the island and are credited with supporting more than one-third of the total employment in Puerto Rico today.[1]

During the 1985–86 Congressional tax reform debates, proposals to change or eliminate section 936 were met with criticism from the Puerto Rican Government. In an effort to save this tax preference, the Government of the Commonwealth of Puerto Rico supported an amended section 936 as a mechanism for economic development not only in Puerto Rico but also throughout the Caribbean Basin. The

[1] Robert R. Nathan Associates, Inc., *Section 936 and Economic Development in Puerto Rico*, August 1987, p.1.

Government endorsed changes in its own tax laws as well as in section 936 that would allow and encourage firms to invest in "twin plants" in Puerto Rico and CBERA beneficiary countries.[1] Complementary projects or twin plant operations enable producers to take advantage of lower wage rates offered in Caribbean countries as well as the developed infrastructure and skills available in Puerto Rico. Under twin plant projects, components manufactured in Puerto Rico (or perhaps the United States) are sent to CBERA beneficiary countries for labor-intensive assembly work. In most cases, finishing, quality control, packaging, and shipping are performed in Puerto Rico.

Although close to 20 twin plant operations were in existence prior to the enactment of the CBERA, U.S. companies have been encouraged by the act to establish complementary projects between Puerto Rico and CBERA beneficiary countries. Under the CBERA, the value of materials and processing operations added in Puerto Rico may contribute any percentage of the 35-percent value-added requirement for duty-free entry into the U.S. market. CBERA differs from GSP in that the value-added requirement can be filled in more than one location, including Puerto Rico.

Changes in section 936 enacted in the Tax Reform Act of 1986 set up further incentives to promote complementary production projects. Section 936 permits domestic corporations that meet specified requirements to elect to take a credit equal to the portion of their U.S. tax that is attributable to taxable income from sources outside the United States from the active conduct of business in a U.S. possession (including Puerto Rico) and from qualified possessions source investment income. Earnings repatriated to the mainland United States by the section 936 company to its U.S. parent are subject to a Puerto Rican "toll gate tax," which declines from a rate of 10 percent the longer the funds remain in Puerto Rico. Because section 936 companies can effectively retain their earnings in Puerto Rico tax-free, large deposits of section 936 funds have accumulated in Puerto Rican banks. Deposits of these 936 funds, known as "qualified possession source investment income" or QPSII funds, currently average between $10 and $14 billion. Prior to the enactment of the Tax Reform Act of 1986, QPSII were lent to finance projects in Puerto Rico. However, under the new 1986 act, QPSII funds now may be used to finance projects at below-market rates in CBERA beneficiary countries that have signed Tax Information Exchange Agreements (TIEA's) with the United States. Although some 936 funds are deposited in the Government Development Bank of Puerto Rico or invested in Government obligations of Puerto Rico, most of the funds are invested in private financial institutions which can also lend 936 funds.[2]

As of yearend 1987, TIEA's were in force with Barbados, Jamaica, and Grenada. Costa Rica and St. Lucia had signed but not ratified TIEA's. Dominica was awaiting the exchange of diplomatic notes.[3] Field visits in Costa Rica and St. Lucia indicated that ratification of TIEA's in these countries has been delayed because of concerns over the possible violation of privacy and sovereignty.[4] Likewise, both business and government officials in the Dominican Republic, which has an active twin plant program with Puerto Rico, indicated a similar concern in their country.

Eligible projects for 936 financing include both complementary plant operations with Puerto Rico and stand-alone projects in a qualified CBERA beneficiary. Puerto Rico limits access to 936 funds to those projects that will not adversely affect the economy of Puerto Rico (e.g., that create or retain Puerto Rican jobs). Although the Tax Reform Act of 1986 became effective on January 1, 1987, no 936 funds were distributed to CBERA nations to finance twin plant projects in 1987.[5] By yearend 1987, neither Puerto Rico nor the U.S. Department of the Treasury had issued final regulations governing the structure and requirements of the 936 financing program.[6]

According to the Economic Development Administration of Puerto Rico (Fomento), since 1985 the organization has promoted a total of 51 production-sharing projects in the region under its Caribbean Development Program.[7] Among these projects, the most recent Fomento data indicate that 2 projects were established in 1985, 10 were set up in 1986, 18 were established in 1987, and the remainder are scheduled to start up in 1988.[8] The twin plants have been located in Barbados, Costa Rica, Dominica, the Dominican Republic,

[1] Raphael Hernandez Colon, "Tax Breaks Are Viewed Essential to the Economy," *The Journal of Commerce,* July 15, 1985, supplement, p. 1.

[2] All 936 loans must be approved by the Administrator of Fomento and the Commissioner for Financial Institutions.

[3] On May 9, 1988, a TIEA with Dominica entered into force.

[4] U.S. Embassy sources indicated that implementing legislation for a TIEA with St. Lucia is included in a local tax reform package that has been under debate for about 1 year in the St. Lucian Parliament.

[5] Government-to-government projects have been financed with section 936 funds, including for example a loan to the Jamaican Government to purchase prefabricated homes manufactured in Puerto Rico.

[6] Puerto Rican implementing regulations were finalized in June 1988, and implementing regulations of the Treasury Department are expected to be completed by August 1988. Approval of 936 loans on a project-by-project basis was possible throughout 1987; however, U.S. Embassy personnel in Costa Rica indicated that the absence of finalized implementing regulations contributed to a lack of enthusiasm toward enacting a TIEA in that country.

[7] This figure represents the number of promoted projects as of June 30, 1988. Separate figures for promoted projects in 1987 alone were unavailable.

[8] Commonwealth of Puerto Rico, Economic Development Administration, *Fomento's Caribbean Highlights,* July 1988. Fomento is involved in promoting an additional 21 projects that should become operational in fiscal years 1988 and 1989.

Grenada, Guatemala, Haiti, Jamaica, Panama, St. Kitts, and Trinidad and Tobago. The Dominican Republic, the largest beneficiary of twin plant investments, hosted 28 of the 51 projects. The majority of the projects have been undertaken in such product lines as electrical equipment, textiles and apparel, and pharmaceuticals.

Field visits were made to countries covering all stages of involvement in complementary investment projects with Puerto Rico. Although the Dominican Republic has not signed a TIEA, it has hosted over one-half of the twin plant projects undertaken since 1985. Barbados has enacted a TIEA, and Costa Rica and St. Lucia have signed but not ratified TIEA's. During the field visit it was learned from officials in the Dominican Republic that whereas relatively low wage rates have played an important role, complementary production projects with Puerto Rico have been a natural outgrowth of their close proximity, common language, and common heritage. The extensive development of free trade zones in the Dominican Republic, home to many exports under the TSUS item 807.00 program, may also have attracted twin plants. Furthermore, CBERA provisions permitting the value added in Puerto Rico to contribute to the 35-percent value-added requirement for duty-free access to the U.S. market may also have been a valuable factor in promoting the large growth of twin plant operations over the past 3 years.

Although Barbados was the first country to ratify a TIEA in 1984, field-work in Barbados indicated that the country had not benefited from twin plant operations to the extent anticipated. Officials in Barbados cited a variety of reasons for this lack of success: high wages relative to other CBERA beneficiary countries, which would counteract any benefits gained from below-market rate financing under section 936; long distance from Puerto Rico; Hispanic discrimination; and a relatively unaggressive private sector. Officials pointed out, however, that high productivity and good infrastructure in Barbados should offset the disincentive of relatively high wage rates.

St. Lucia has not yet established any complementary production operations with Puerto Rico; however, officials in the country look forward to growth in this area once a TIEA is enacted. Fifteen companies have shown an interest in setting up twin plant facilities in the Eastern Caribbean, according to the St. Lucian National Development Corp. However, several reasons were cited explaining why 936 benefits are expected to result in only a limited number of new projects in St. Lucia: long distance from Puerto Rico; different language from Puerto Rico; and higher wage rates than alternative sites like Jamaica and the Dominican Republic. Because of the size of the economy, St. Lucian experts pointed out that a small number of twin plant projects would be sufficient to make the program worthwhile.

Costa Rica has several twin plants in operation in the pharmaceutical field and in medical uniforms. However, despite high productivity rates in the country, growth in this area is expected to be gradual given alternative sites that are closer in proximity to Puerto Rico and have lower wage rates.

CBI II Legislation

Legislation to extend and expand the CBERA was introduced in August 1987 by House Ways and Means Trade Subcommittee Chairman Sam Gibbons along with 24 cosponsors. The content of this "Caribbean Basin Economic Recovery Expansion Act of 1987" (HR 3101) grew largely out of the recommendations of the Ways and Means Subcommittee on Oversight following its factfinding investigation on the impact and effectiveness of the CBERA.[1] The sponsors of "CBI II," as it is often called, believe that the original legislation did not liberalize trade sufficiently, and that some of the intended effects of the program were circumvented by later measures, such as restrictions on citrus and ethanol, decreased sugar quotas, and the antidumping order issued covering certain cut flowers from Costa Rica. With these events in mind, Gibbons has argued that "we gave with one hand but took away with a bushel basket in the other."[2]

Caribbean government officials, who criticized the original CBERA for excluding some of their major exports and potential foreign-exchange earning activities, generally agree that this supplementary legislation responds positively to many of their chief concerns.[3] In addition, country officials during the field visit emphasized that the positive effects of the CBERA are just beginning to surface, given that development through investment is a long-term process.

Opponents of CBERA counter that not enough time has elapsed since enactment of the initiative to assess its effects and therefore "there is no basis to extend the program....the question of CBI I's success must be fully and fairly reviewed before CBI II can be considered."[4] Alternatively, other opponents argue that the CBERA has had a sufficiently long trial, but that the program has not worked, pointing to the drop

[1] U.S. Congress, House, Subcommittee on Oversight, Committee on Ways and Means, *Report on the Committee Delegation Mission to the Caribbean Basin and Recommendations to Improve the Effectiveness of the Caribbean Basin Initiative*, 100th Congress, 1st sess., May 6, 1987.

[2] "Legislation to Expand Trade Preferences for CBI Beneficiaries Introduced in House," *International Trade Reporter*, Aug. 12, 1987, p. 1007.

[3] "Caribbean Nations Welcome New CBI Bill, But Optimism is Tempered With Caution," *International Trade Reporter*, Aug. 12, 1987, p. 1007.

[4] Written statement of Jeffrey Gargiulo, President of the Florida Fruit & Vegetable Association, to the Subcommittee on Trade, Committee on Ways and Means, U.S. House of Representatives, Mar. 28, 1988.

in Caribbean exports to the United States since 1984: "There is little sign that the decline is a temporary phenomenon or that the CBI program has not had sufficient time to germinate."[1]

Hearings on CBI II were held by the Trade Subcommittee on December 14, 1987, and on March 28, 1988. According to Chairman Gibbons, it is unlikely that there will be time for further consideration of the bill in 1988. Identical legislation was introduced in the Senate by Senator Bob Graham of Florida in August 1987 (S1594), but no hearings have yet been held or scheduled by the Senate. The provisions of CBI II are discussed below.

Twelve-year extension

Duty-free treatment under the CBERA is currently due to expire September 30, 1995. The new legislation would extend duty-free treatment of CBERA-eligible imports for an additional 12 years, to September 30, 2007. According to the report by the Subcommittee on Oversight, this extension will create an incentive for additional investment in the Caribbean; CBERA advocates argue that an assurance that the program will be in effect for a long time is required to encourage potential investors. However, a further recommendation by the Subcommittee on Oversight for a roll-over provision that would automatically extend the program annually 12 years into the future was not included in the bill.

Expansion of eligible products

Articles produced exclusively from U.S.-made parts, components, or products would be allowed to enter the United States totally duty free under the proposed legislation. The value of the U.S.-fabricated components already enters duty free; the effect would therefore be to eliminate duties currently paid on the value-added portion (primarily labor costs) of the article. This provision is expected to affect mainly textiles.[2]

Goods that the USITC finds are either not produced in the United States, or not produced "in quantities sufficient to meet the domestic demand," or which do not directly compete with U.S.-made articles would also become eligible for duty-free treatment. A foreign supplier (or other interested party) would be required to file a petition with the USITC to request a determination on whether a certain product meets these criteria. The USITC determination would be made within 120 days of the request date.[3]

Other previously excluded goods would be allowed to enter duty free up to specified quantities, based on past levels of exports to the United States. The duty-free quota for each article for each country could be increased by only 3 percent annually. Imports over such limits would be subject to duty, unless they were exempt under one of the above provisions. Products which may become eligible under this and the immediately preceding provision include cotton, wool, manmade fiber and textiles and apparel articles, footwear, leather goods, watches, tuna, and petroleum products.

Injury determination

CBERA beneficiary countries would be exempted from worldwide cumulation in the application of injury tests in antidumping and countervailing duty cases. A separate cumulation of imports from CBERA beneficiaries as a group would be established in making injury determinations. Since CBERA countries account for only a small percentage of U.S. imports for most products, the likelihood of a ruling against a CBERA nation would be greatly reduced.

Special rule of origin

For East Caribbean States only, the minimum value-added content necessary to qualify for duty-free access would be lowered. Specifically, the value of U.S. components that may be counted toward the 35 percent minimum value-added requirement would be increased from 15 percent to 25 percent for these countries, which include: Antigua and Barbuda, Anguilla, Aruba, the British Virgin Islands, the Cayman Islands, Dominica, Grenada, Montserrat, Netherlands-Antilles, St. Christopher-Nevis, St. Lucia, St. Vincent and the Grenadines, and the Turks and Caicos Islands.[4] The intent of this provision is to further benefit the region's smallest and least developed economies. This special rule of origin will have "little or no impact," however, without increased aid for infrastructural improvements in these countries, according to the Costa Rican Trade Minister, testifying at the December 14 hearing. Reactions from country officials during the field visit ranged from very positive to skeptical regarding its practical impact.

Restoration of sugar quotas

U.S. sugar import quotas for CBERA beneficiary countries would be restored to the levels existing during the period beginning September 26, 1983, and ending September 30, 1984. This provision would have the effect of raising the quotas to roughly three times their current levels, from 350,690 short tons to 1,166,286 short tons. Strong opposition by domestic sugar producers has made it perhaps the most controversial provision contained in the legislation. The Florida Department of Agriculture and Consumer Services argues that

[1] Written statement of Jay Mazur, President of the International Ladies' Garment Workers Union, to the Subcommittee on Trade, Mar. 28, 1988.

[2] During the field visit, CBERA producers of textiles and apparel strongly supported this provision. Olympic Fibers, S.A., among other firms, argued that the proposal would permit them to compete more effectively in the U.S. market with Far East and European producers, which do not incorporate U.S.-fabricated parts in their products. Thus, they argued that duty-free status for the entire value of 807-A imports would actually benefit the U.S. economy since it would encourage the use of U.S.-fabricated inputs.

[3] Currently, the USITC has no role in determining whether or not products are eligible under the CBERA.

[4] Anguilla, the Cayman Islands, and the Turks and Caicos Islands are nondesignated countries under the CBERA. This status would not be changed by CBI II.

restoration of these increased quota levels would result in "serious injury" to the sugar industry in Florida and other States. The Reagan administration, although generally supportive of CBI II, opposes the sugar provision on the grounds that increasing quotas for Caribbean countries while at the same time reducing them for other nations would violate the General Agreement on Tariffs and Trade. Advocates of the provision stress the importance of sugar to the region. Senator Bob Graham noted at the December 14 hearing that although the focus of the CBERA has been to develop non-traditional exports, traditional sectors such as sugar should also be supported.

Ethanol

Duty-free entry would be provided temporarily for ethanol produced by two Caribbean facilities.[1] The 1986 Tax Reform Act required that Caribbean ethanol producers use at least 30 percent local feedstock in 1987 to qualify for duty-free status, with the minimum rising to 60 percent in 1988 and to 75 percent thereafter. According to industry sources, this measure was passed in response to concern by U.S. producers of ethanol who argued that the use by Caribbean facilities of surplus European Community wine, rather than local sugarcane, was an abuse of the CBERA program. Three producers were "grandfathered," however, under the 1986 Tax Reform Act, so that investments undertaken under the prior rules could be recouped. Tropicana and Allied, U.S.-owned companies operating in Jamaica and the Bahamas, respectively, were granted exemptions from the domestic feedstock requirements for 20 million gallons of ethanol imports per year through 1988. BioCom, an Australian- and U.S.-owned company in the Virgin Islands, was granted a similar exemption through 1987. The provision contained in CBI II would also create 20 million gallon per year exemptions through 1988 for LAICA, a locally owned Costa Rican producer, and for Petrojam, a Government-owned Jamaican producer.[2] [3] After 1988, the 75 percent minimum mandated by the 1986 Act would again be in effect. Although no domestic feedstock use by these two producers would be required during the period covered, the original "substantial transformation" and 35 percent value-added rule-of-origin requirements of CBERA would still apply. U.S. Customs has ruled that merely dehydrating alcohol imported from outside the region fulfills the substantial transformation rule. Industry sources estimate, however, that 10 to 20 percent CBERA-origin feedstock would still be needed to meet the 35 percent value-added requirement for LAICA and Petrojam.

[1] This provision has been superseded by a provision included in the revised omnibus trade legislation (HR 4848) signed into law by President Reagan on August 23, 1988. "Expanded ethanol imports that could harm U.S. producers" was cited by President Reagan as one of several reasons for his veto of the original legislation in May. The ethanol provision remained intact in the revised bill, but with accompanying instructions that the USITC and GAO each submit studies to Congress within six months with their findings as to whether CBERA ethanol production and exports are consistent with the principles of the program.

[2] These two plants were closed in 1988 due to the 60 percent local feedstock requirement, according to the U.S. Embassy in Jamaica and a representative of the Costa Rican ethanol industry. Biocom had not yet begun production as of mid-year 1988 for the same reason, according to industry analysts.

[3] The omnibus trade bill provision extends exemptions for all five companies discussed in this section through 1989. After 1989, the 75 percent minimum mandated by the 1986 Act will again be in effect, in the absence of further legislation.

Duty-free allowance

The duty-free allowance for U.S. citizens returning from a beneficiary country would be increased from $400 to $600, and from $800 to $1,000 for persons returning from U.S. territories. This provision is intended to create incentives for tourists to purchase goods in the region.[4] No further provisions relating to tourism are included in the bill, although CBERA countries have requested a change in the U.S. law that bars the Department of Commerce from providing assistance to the Caribbean tourism industry.

Reporting requirement

Each beneficiary nation would be required to submit a report to the U.S. President every 3 years describing how it has promoted and used CBERA benefits, and any changes in its policies for encouraging investment and promoting exports. Failure to comply with this reporting requirement could result in the suspension of duty-free treatment for a country's exports. Currently, no reports on the effects of the CBERA are required of beneficiary countries.

Conclusion

The major finding of this chapter is the same as that found in the earlier USITC reports: although the CBERA has resulted in a number of investments producing products eligible for duty-free entry under the CBERA, the act has not contributed to the growth of the economies of beneficiary countries or their exports in a way that is likely to pose significant adjustment problems for U.S. industries. New CBERA-eligible investment in the region has proceeded at a cautious pace and much of it has taken place in product areas and with productive capacities that are unlikely to generate significant exports to the United States that threaten the market position of U.S. industries in the near future.

The impact of CBERA on U.S. consumers consists of the benefits resulting from lower prices for certain imported articles from CBERA countries. Because of duty reductions, prices are expected to be lower than they would have been. These benefits continue as long as the act is in effect. The act is not likely to have very significant benefits for U.S. consumers in the immediate future because of the low value of U.S. trade with beneficiary countries.

[4] *Report on the Committee Delegation Mission to the Caribbean Basin and Recommendations to Improve the Effectiveness of the Caribbean Basin Initiative*, p. 40.

The most active areas of CBERA-eligible investment among the beneficiary countries during 1987 were nontraditional agriculture, fish processing and aquaculture, and wood products and wood furniture. The year also saw strong growth in the pharmaceuticals sector and some activity in electronics assembly operations. Given the current trend in investment, it is likely the agricultural sectors of the CBERA-country economies will derive the greatest benefits from CBERA in the immediate future.

It is difficult to assess the effect of the CBERA on a particular investment decision because other factors, including wage rates, political stability, infrastructure, and labor supply, are significant in the decisionmaking process. The decision to diversify away from traditional products is also as much a function of the economic conditions of the region as an attempt to take advantage of CBERA benefits. Indeed, much investment in the region has taken place in products that do not qualify for CBERA duty-free treatment. In particular, tourism projects and textiles and apparel assembly industries experienced large numbers of investments during 1987. However, CBERA indirectly stimulates the growth of these noneligible industries and, according to interviewees in the region, this is a very important aspect of the act. Caribbean policymakers view CBERA as an important development tool with the potential to help the beneficiary countries develop themselves.

APPENDIX A
FEDERAL REGISTER NOTICE

antifriction bearings (other than tapered roller bearings) and parts thereof, whether finished or unfinished, provided for in items 681.10, 681.39, and 692.32 of the Tariff Schedules of the United States (TSUS),[2] that are alleged to be subsidized by the governments of Singapore and Thailand.

The Commission also determines, pursuant to section 733(a) of the Act (19 U.S.C. 1673b(a)), that there is a reasonable indication that an industry in the United States is materially injured by reason of imports from the Federal Republic of Germany, France, Italy, Japan, Romania, Singapore, Sweden, Thailand, and the United Kingdom of antifriction bearings (other than tapered roller bearings) and parts thereof, whether finished or unfinished, provided for in items 680.30, 680.33, 680.37, 680.39, 681.04, 681.10, 681.39, and 692.32 of the Tariff Schedules of the United States,[3] that are alleged to be sold in the United States at less than fair value (LTFV).

Background

On March 31, 1988, petitions were filed with the Commission and the Department of Commerce by the Torrington Company, Torrington, CT, alleging that an industry in the United States is materially injured and threatened with material injury by reason of subsidized imports of antifriction bearings (other than tapered roller bearings) and parts thereof from Singapore and Thailand, and by reason of LTFV imports of antifriction bearings (other than tapered roller bearings) from the Federal Republic of Germany, France, Italy, Japan, Romania, Singapore, Sweden, Thailand, and the United Kingdom. Accordingly, effective March 31, 1988, the Commission instituted preliminary countervailing duty investigations Nos. 303-TA-19 and 20 (Preliminary) and preliminary antidumping investigations Nos. 731-TA-391-399 (Preliminary).

Notice of the institution of the Commission's investigations and of a public conference to be held in connection therewith was given by posting copies of the notice in the Office of the Secretary, U.S. International Trade Commission, Washington, DC, and by publishing the notice in the **Federal Register** of April 11, 1988 (53 FR 11917). The conference was held in Washington, DC, on April 21, 1988, and all persons who requested the opportunity were permitted to appear in person or by counsel.

The Commission transmitted its determinations in these investigations to the Secretary of Commerce on May 16, 1988. The views of the Commission are contained in USITC Publication 2083 (May 1988), entitled "Antifriction bearings (other than tapered roller bearings) and parts thereof, from the Federal Republic of Germany, France, Italy, Japan, Romania, Singapore, Sweden, Thailand, and the United Kingdom, Determinations of the Commission in Investigations Nos. 303-TA-19 and 20 and 731-TA-391-399 (Preliminary) Under the Tariff Act of 1930, Together With the Information Obtained in the Investigations."

Issued: May 17, 1988.

Kenneth R. Mason,

Secretary.

[FR Doc. 88-11723 Filed 5-24-88; 8:45 am]

BILLING CODE 7020-02-M

[2] Antifriction bearings (other than tapered roller bearings) and parts thereof from Singapore and Thailand subject to investigation include ball or roller bearing type flange, take-up, cartridge, and hanger units, and parts of the foregoing (TSUSA items 681.1010 and 681.1030 and proposed Harmonized Tariff Schedule (HTS) subheadings 8483.20.40, 8483.30.40, 8483.90.20, and 8483.90.30); machinery parts containing any of the foregoing bearings, not containing electrical features and not specially provided for (TSUSA item 681.3900 and HTS subheading 8485.90.00); and parts of motor vehicles containing any of the foregoing bearings and not specially provided for (TSUSA item 692.3295 and HTS subheading 8708.99.50).

[3] For purposes of these investigations, the subject bearings and parts thereof include the following articles, whether finished or unfinished: antifriction balls and rollers (TSUSA items 680.3025, 680.3030, and 680.3040, and HTS subheading 8482.91.00); ball bearings with integral shafts (TSUSA item 680.3300 and HTS subheading 8482.10.10); ball bearings (including radial ball bearings) and parts thereof (TSUSA items 680.3704, 680.3708, 680.3712, 680.3717, 680.3718, 680.3722, 680.3727, and 680.3728, and HTS subheadings 8482.10.50 and 8482.99.10); spherical roller bearings and parts thereof (TSUSA items 689.3952 and 689.3956, and HTS subheadings 8482.30.00 and 8482.99.50); other roller bearings (except tapered roller bearings) and parts thereof (TSUSA items 680.3960 and HTS subheadings 8482.40.00, 8482.50.00, 8482.80.00, and 8482.99.70; ball or roller bearing type pillow blocks and parts thereof (TSUSA items 681.0410 and 681.0430, and HTS subheadings 8483.20.80, 8483.30, 8483.90.30, and 8483.90.70); ball or roller bearing type flange, take-up, cartridge, and hanger units, and parts of the foregoing (TSUSA items 681.1010 and 681.1030, and HTS subheadings 8483.20.40, 8483.30.40, 8483.90.20, and 8483.90.30); machinery parts containing any of the foregoing bearings, not containing electrical features and not specially provided for (TSUSA item 681.3900 and HTS subheading 8485.90.00); and parts of motor vehicles containing any of the foregoing bearings and not specially provided for (TSUSA item 092.3295 and HTS subheading 8708.99.50). Finished but unground or semiground balls are not included in the scope of these investigations.

[Investigation No. 332-227]

Annual Reports on the Impact of the Caribbean Basin Economic Recovery Act on U.S. Industries and Consumers

AGENCY: United States International Trade Commission.

ACTION: Notice of deadline to submit comments in connection with 1988 annual report.

EFFECTIVE DATE: May 13, 1988.

FOR FURTHER INFORMATION CONTACT: Joanne Guth (202-252-1264), Trade Reports Division, Office of Economics, U.S. International Trade Commission, Washington, D.C. 20436.

Background: Section 215(a) of the Caribbean Basin Economic Recovery Act (CBERA) (19 U.S.C. 2704(a)) requires that the Commission submit annual reports to the Congress and the President on the impact of the act. The Commission instituted the present investigation under section 332(b) of the Tariff Act of 1930 (19 U.S.C. 1332(b)) on March 21, 1986, for the purpose of gathering and presenting such information through 1995. Notice of institution of the investigation and the schedule for such reports was published in the **Federal Register** of May 14, 1986 (51 FR 17678). The third report, convering calendar year 1987, is to be submitted by September 30, 1988.

In the original notice of investigation, it was announced that, as provided in section 215(b) of the CBERA, the Commission in such reports is required to assess the actual effect of the act on the United States economy generally as well as on appropriate domestic industries and assess the probable future effect which the act will have on the United States economy generally and on such domestic industries.

Written Submission

The Commission does not plan to hold public hearing in connection with the 1988 report. However, interested persons are invited to submit written statements concerning the matters to be addressed in the report. Commercial or financial information that a party desires the Commission to treat as confidential must be submitted on separate sheets of paper, each clearly marked "Confidential Business Information" at the top. All submissions requesting confidential treatment must conform with the requirements of § 201.6 of the Commission's *Rules of Practice and Procedure* (19 CFR 201.6). All written submissions, except for confidential business information, will be made available for inspection by interested persons in the Office of the Secretary to the Commission. To be assured of consideration by the Commission, written statements relating to the Commission's 1988 report should be submitted at the earliest practical date and should be received no later than June 24, 1988. All submissions should be addressed to the Secretary of the Commission at the Commission's office in Washington, D.C.

Hearing-impaired persons are advised that information on this matter can be obtained by contacting the Commission's TDD terminal on (202) 252-1809.

By order of the Commission.

Issued: May 18, 1988.

Kenneth R. Mason,

Secretary.

[FR Doc. 88-11727 Filed 5-24-88; 8:45 am]

BILLING CODE 7020-02-M

[Investigation No. 337-TA-276]

Certain Erasable Programmable Read Only Memories, Components Thereof, Products Containing Such Memories, and Processes for Making Such Memories; Prehearing Conference

Notice is hereby given that the prehearing conference in this matter will commence at 9:00 a.m. on June 6, 1988, in Courtroom C (Room 217), U.S. International Trade Commission Building, 500 E St. SW., Washington, DC, and the hearing will commence immediately thereafter.

The Secretary shall publish this notice in the Federal Register.

Issued: May 17, 1988.

Janet D. Saxon,

Administrative Law Judge.

[FR Doc. 88-11728 Filed 5-25-88; 8:45 am]

BILLING CODE 7020-02-M

[Investigation No. 337-TA-264]

Commission Decision to Review and Affirm With Modification an Initial Determination Terminating the Investigation With Prejudice on the Basis of Withdrawal of the Complaint

AGENCY: U.S. International Trade Commission.

ACTION: Review and affirmance with modification of an initial determination terminating the above-captioned investigation with prejudice on the basis of withdrawal of the complaint.

SUMMARY: Notice is hereby give that the U.S. International Trade Commission has determined to review and affirm with modification an initial determination (ID) (Order No. 14) of the presiding administrative law judge (ALJ) terminating the investigation with prejudice on the basis of withdrawal of the complaint.

FOR FURTHER INFORMATION CONTACT: Mitchell Dale, Esq., Office of the General Counsel, U.S. International Trade Commission, telephone 202-252-1087.

SUPPLEMENTARY INFORMATION: On April 6, 1987, the Commission instituted this investigation on the basis of a complaint filed by OPEX Corporation ("Opex") alleging unfair methods of competition and unfair acts in the importation of certain mail extraction desks and components thereof, the effect or tendency of which is to destroy or substantially injure an industry, efficiently and economically operated, in the United States. The complaint alleged infringement of claims 12, 2, 5-7, 10-12, and 14 of U.S. Letters Patent Re. 32,328 owned by Opex. Named as respondent in the investigation were Stielow GmbH & Co. ("Stielow"), Almega Systems ("Almega"), and Automated Equipment Services, ("Automated")., The Commission's notice of investigation was published in the Federal Register on April 15, 1987 (52 FR 12266).

On January 22, 1988, complainant Opex and respondents Stielow, Almega, and Automated filed a joint motion (Motion No. 264-21) to terminate the investigation with prejudice on the basis of withdrawal of the complaint. On April 12, 1988, the presiding ALJ issued an ID (Order No. 14) granting the joint motion to terminate. Complainant Opex filed a petition for review of the ID and the Commission investigative attorney and counsel for respondents filed responses to the petition. No government agency comments were received.

The Commission's action is taken under the authority of section 337 of the Tariff Act of 1930 (19 U.S.C. 1337) and Commission rules 210.54(b) and 210.56(c) (19 CFR 210.54(b) and 210.56)c)).

Copies of the Commission's Order, the Commission Opinion in support thereof, the ID, and all other nonconfidential documents filed in connection with this investigation are available for inspection during official business hours (8:45 a.m. to 5:15p.m.) in the Office of the Secretary, U.S. International Trade Commission, 500 E Street, SW., Washington, DC 20436, telephone 202-252-1000. Hearing impaired persons are advised that information on the matter can be obtained by contacting the Commission's TDD terminal on 202-252-1810.

By order of the Commission.

Issued: May 17, 1988.

Kenneth R. Mason,

Secretary.

[FR Doc. 88-11726 Filed 5-24-88; 8:45 am]

BILLING CODE 7020-02-M

[Investigation No. 337-TA-267]

Certain Minoxidil Powder, Salts and Compositions for Use in Hair Treatment; Suspension of Investigation

AGENCY: U.S. International Trade Commission.

ACTION: Suspension of investigation.

SUMMARY: Notice is given that the Commission has determined to suspend the above-captioned investigation until thirty (30) days from the date of publication of this notice in the Federal Register.

FOR FURTHER INFORMATION CONTACT: Wayne W. Herrington, Esq., Office of the General Counsel, U.S. International Trade Commission, 500 E Street SW., Washington, DC 20436, telephone 202-252-1092.

SUPPLEMENTARY INFORMATION: This action is taken pursuant to section 337(b)(1) of the Tariff Act of 1930 (19 U.S.C. 1337(b)(1)) and Commission rule 210.59 (19 CFR 210.59). The basis for suspension is the pendency before the Food and Drug Administration (FDA) of complainant The Upjohn Company's new drug application (NDA) for the topical minoxidil compositions which are the subject of this investigation.

On February 16, 1988, the presiding administrative law judge (ALJ) issued an initial determination (ID) finding a violation of section 337. The Commission investigative attorney (IA) filed a petition for review which included a suggestion to suspend the investigation pending final action by the FDA on Upjohn's NDA. On April 4, 1988, the Commission determined to review portions of the ID.

Copies of the nonconfidential version of the commission Order, the ID, and all other nonconfidential documents filed in connection with this investigation are available for inspection during official business hours (8:45 a.m. to 5:15 p.m.) in the Office of the Secretary, U.S. International Trade Commission, 500 E Street SW., Washington, DC 20436, telephone 202-252-1000.

Hearing-impaired individuals are advised that information on this matter

APPENDIX B
TECHNICAL NOTES TO CHAPTER 2

Technical Notes

The CBERA has been in effect since 1984, therefore the current level of imports from CBERA beneficiary countries contains the effects of the duty-free treatment. The welfare effects of CBERA in 1987 are analyzed by examining the net welfare costs that would result from the elimination of the duty-free treatment.[1] The model used in this report is similar to those models that are used to analyze the effects of granting import relief.

The Model

Geometric presentation

The removal of CBERA duty-free treatment is analyzed in a partial equilibrium framework. Imports from CBERA beneficiary countries, imports from non-CBERA countries, and competing domestic output are assumed to be imperfect substitutes for each other.[2] Therefore, each of the three products is characterized by a separate market where differing equilibrium prices can exist. The three markets are depicted in figure B-1. In each of the three diagrams, B-1a, B-1b, and B-1c, the vertical axis measures price, and the horizontal axis measures the physical quantity of the product.

It is assumed that the CBERA import supply curve to the U.S. market is upward sloping. This is shown by the curve S_c. (Henceforth, the subscripts c, n, and u refer to CBERA imports, non-CBERA imports, and U.S. output, respectively.) As noted by Rousslang and Lindsey in a 1984 journal article, it is customary to assume that import supply curves are perfectly elastic, or horizontal. However, in the case of CBERA imports, this assumption is inappropriate because the CBERA countries export a substantial portion of their production to the United States. Therefore, they have few opportunities to divert sales from other markets to the U.S. market in response to an increase in U.S. demand.[3]

On the other hand, it is assumed that the supply elasticity for the competing domestic industry is perfectly elastic. This is shown by curve S_u in figure B-1c. This assumption has been made so as to estimate the maximum possible effect of the CBERA on domestic production.[4]

In addition, it is assumed that the non-CBERA import supply curve is perfectly elastic. This is shown by the curve S_n in figure B-1b. This assumption is made since non-CBERA countries export a much smaller proportion of their total production to the United States than do CBERA countries. Therefore, the import supply curve for non-CBERA countries would be much more elastic than the import supply curve for CBERA countries.

It is assumed that the CBERA and non-CBERA import demand curves, D_c and D_n, and the demand curve for the domestic competing output, D_u, are all downward sloping.

In addition, it is assumed that an existing ad valorem tariff, t, is in place for non-CBERA imports. This is shown in figure B-1b by the supply curve, S'n, where the relation between the nontariff and tariff equilibrium prices, P_n and P'_n, is $P'_n = P_n(1 + t)$.

Elimination of duty-free treatment for CBERA imports causes the import supply curve, S_c, in figure B-1a to shift up by the amount of the ad valorem tax, t. Therefore, the equilibrium price in the U.S. market for CBERA imports increases from Pc to P"c while the quantity demanded decreases from Q_c to Q'_c. The price that CBERA exporters receive, P'c, is related to the price that U.S. consumers pay by $P''_c = P'_c(1 + t)$.

With an increase in the price of CBERA imports, the demand curves for both non-CBERA imports and domestic output, D_n and D_u, shift out to D'_n and D'_u, respectively. Since the supply curves in both these markets (figs. B-1b and B-1c) are perfectly elastic, the equilibrium prices do not change. The equilibrium quantity supplied in each market increases from Q_n and Q_u to Q'_n and Q'_u, respectively.

The increase in the tariff for CBERA imports causes the tariff revenue collected from CBERA imports to increase. This is measured by the area of the rectangle $P''_c acP'_c$ in figure B-1a. In the U.S. market for CBERA imports, there is also a simultaneous decrease in consumer surplus. This is measured by the trapezoid $P''_c abP_c$.

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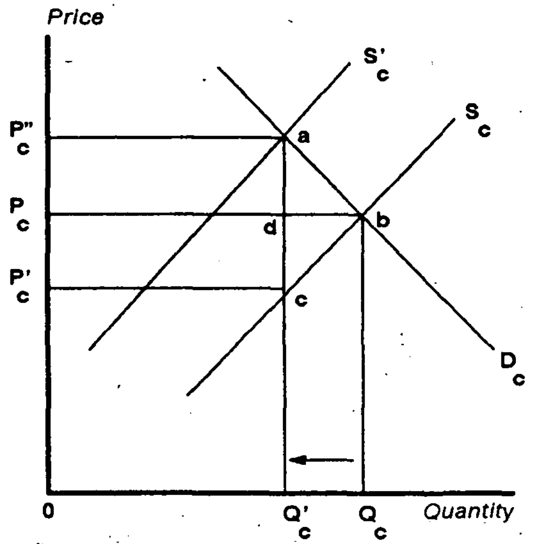
[1] A similar approach is taken by Mendez and Murray in analyzing the effects on LDC's under special tariff provisions of the United States. See Jose Mendez and Tracy Murray, "LDC Benefits Under Special Tariff Provisions of the United States: A Comparison," USITC, Office of Economics, unpublished mimeo, July 11, 1988.

[2] Imperfect substitutability between imports and competing domestic output is a standard assumption from one of the two basic models that have traditionally been used to analyze the effects of tariff reductions. See R.E. Baldwin, "Trade and Employment Effects in the United States of Multilateral Tariff Reductions," *American Economic Review*, Papers and Proceedings, 66:142-148, 1976, for further discussion.

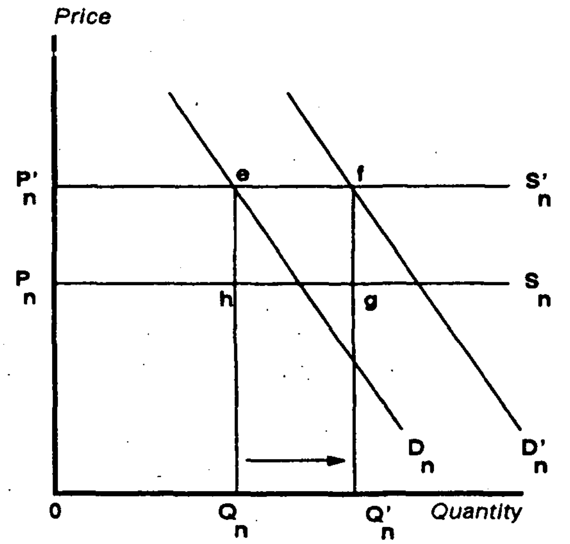
[3] Donald Rousslang and John Lindsey, "The Benefits to Caribbean Basin Countries from the U.S. CBI Tariff Eliminations," *Journal of Policy Modeling*, 6(4):513-530 (1984).

[4] A similar assumption is made by Richard Boltuck, Jose Mendez, Tracy Murray and Donald Rousslang, "The Trade Effects of Repealing the U.S. OAP," USITC, Office of Economics, unpublished mimeo, 1988.

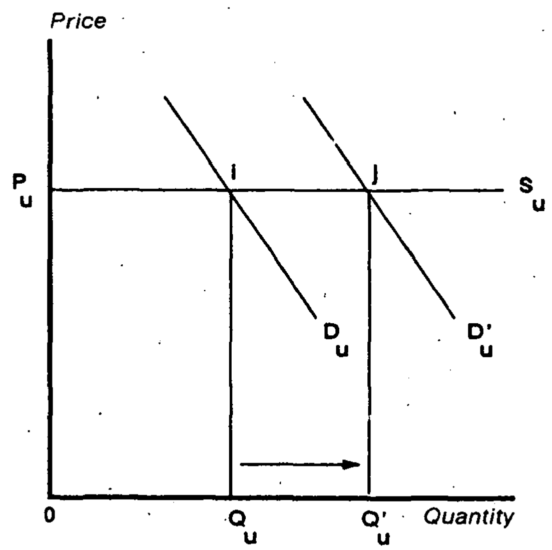
Figure B-1
Partial equilibrium analysis of the effects of removing CBERA duty-free privileges on U.S. imports from CBERA beneficiaries, U.S. imports from competing non-CBERA countries, and competing domestic industries



a. US market for CBERA imports



b. US market for non-CBERA imports



c. US market for the competing domestic industry

In addition, since the level of U.S. imports from non-CBERA countries increases in figure B–1b, the tariff revenue collected from these imports also increases. This amount is measured by the rectangle efgh in figure B–1b. There are no corresponding changes in tariff revenues or consumer surplus in the market for competing domestic output. However, it is possible to measure the amount by which U.S. output displaces CBERA imports. This is measured by the rectangle $Q_u ijQ'_u$ in figure B–1c.

The net welfare cost of eliminating the duty-free treatment granted CBERA imports is the balance of the increase in tariff revenue and the decrease in consumer surplus. This balance is the sum of the rectangles $P_c dcP'_c$ and efgh in figures B–1a and B–1b, respectively, minus the triangle abd in figure B–1a.

The equations

The equations that follow were obtained from the equilibrium conditions in each of the three markets and allow the calculation of the net national welfare costs and the displacement of CBERA imports by domestic products that would result from a duty increase. To obtain these equations, it was assumed that the supply and demand curves had constant elasticities.

The U.S Market for CBERA imports.—The increase in tariff revenues in figure B–1a, the rectangle $P''_c acP'_c$, is obtained from the equations for market supply and demand

$$(1)\quad \frac{Q'_c}{Q_c} = \left(\frac{P''_c}{P_c}\right)^{-n_{cc}} \left(\frac{P'_n}{P'_n}\right)^{n_{cn}} \left(\frac{P_u}{P_u}\right)^{n_{cu}}$$

and

$$(2)\quad \frac{Q'_c}{Q_c} = \left(\frac{P'_c}{P_c}\right)^{e_c}$$

where $-n_{cc}$ is the elasticity of U.S. demand for imports from the CBERA beneficiaries, n_{cn} is the cross-price elasticity of demand between CBERA imports and non-CBERA imports, n_{cu} is the cross-price elasticity of demand between CBERA imports and competing domestic products, and ec is the elasticity of the U.S. import supply curve of CBERA beneficiaries. Because the supply curves in figures B–1b and B–1c are perfectly elastic, there is no change in the equilibrium price in the markets for non-CBERA imports and competing domestic output that results from the imposition of a tariff on CBERA imports. Therefore, the two corresponding terms on the right-hand side of equation (1) are equal to one. By substituting $P''_c = P'_c(1 + t)$ into equation (1), where t is the ad valorem tariff, market demand can be rewritten as

$$(3)\quad \frac{Q'_c}{Q_c} = \left(\frac{P'_c\ (1+t)}{P_c}\right)^{-n_{cc}}$$

By combining equations (2) and (3), the price that is received by exporters from CBERA beneficiaries after the imposition of the duty can be expressed as

$$(4)\quad P'_c = P_c\ (1 + t)^{\frac{-n_{cc}\ e_c}{e_c + n_{cc}}}$$

Substituting (4) into (2) gives the expression for the equilibrium quantity of CBERA imports after the imposition of the tariff

$$(5)\quad Q'_c = (1 + t)^{\frac{-n_{cc}\ e_c}{e_c + n_{cc}}}\ Q_c$$

Multiplying (4) and (5), the increase in tariff revenues from CBERA imports, the rectangle $P''_c acP'_c$, is expressed as

$$\text{(6)}\quad tP'_c Q'_c = P_c Q_c\, t\,(1+t)^{\frac{-n_{cc}\,(1_c + e_c)}{e_c + n_{cc}}}$$

where $P'_cQ'_c$ is the value of imports after the imposition of the tariff and P_cQ_c is the value of CBERA imports that is actually observed before the imposition of the tariff.

From (4) and (5), and from the relation $P''c = P'c(1 + t)$, it is possible to obtain the expression for the decrease in consumer surplus.[1] The trapezoid $P''_c abP_c$ in figure B-1a is given by

$$\text{(7)}\quad (P''_c - P_c)\,(Q_c + Q'_c)/2 =$$

$$P_cQ_c\left[(1+t)^{\frac{-n_{cc}}{e_c + n_{cc}}} - 1\right]\left[(1+t)^{\frac{-n_{cc}\,e_c}{e_c + n_{cc}}} + 1\right]/2$$

The U.S. market for non-CBERA imports.—Similar to the equations obtained in the market for CBERA imports, the increase in tariff revenues from non-CBERA imports, the rectangle efgh, is obtained from the equations for market supply and demand

$$\text{(8)}\quad \frac{Q'_n}{Q_c} = \left(\frac{P'_n}{P'_n}\right)^{-n_{nn}} \left(\frac{P''_c}{P_c}\right)^{n_{nc}} \left(\frac{P_u}{P_u}\right)^{n_{nu}}$$

and

$$\text{(9)}\quad \frac{Q'_n}{Q_n} = \left(\frac{P'_n}{P'_n}\right)^{e_n}$$

where $-n_{nn}$ is the elasticity of U.S. demand for imports from non-CBERA countries, n_{nc} is the cross-price elasticity of demand between non-CBERA imports and CBERA imports, n_{nu} is the cross-price elasticity of demand between non-CBERA imports and competing domestic products, and e_n is the elasticity of the U.S. import supply curve of non-CBERA countries. Similar to the market demand equation for CBERA imports in (1), there is no change in the equilibrium price in the markets for non-CBERA imports and competing domestic output that results from the imposition of a tariff on CBERA imports. The two corresponding terms on the right-hand side of equation (8) are equal to one. By substituting $P''_c = P'_c(1 + t)$ into equation (8), market demand can be rewritten as

$$\text{(10)}\quad \frac{Q'_n}{Q_n} = (1+t)^{\frac{e_c\, n_{nc}}{e_c + n_{cc}}}$$

Because the import supply curve for non-CBERA imports is perfectly elastic, the equilibrium quantity of non-CBERA imports after the imposition of the tariff on CBERA imports is obtained solely from (10)

$$\text{(11)}\quad Q'_n = (1+t)^{\frac{e_c\, n_{nc}}{e_c + n_{cc}}}\; Q_n$$

[1] See Rousslang and Lindsey, *U.S. CBI Tariff Elimination*, and Rousslang and Soumela, *Import Relief* for further discussion of the calculation of consumer surplus.

The increase in tariff revenues from non-CBERA imports, the rectangle efgh in figure B-1b, is the expression $tP_n(Q'_n - Q_n)$. By substituting (11) into this expression, the increase in tariff revenues is

$$(12)\quad tP_n(Q'_n - Q_n) = tP_nQ_n\left[(1+t)^{\frac{e_c n_{nc}}{e_c + n_{cc}}} - 1\right]$$

where tP_nQ_n are the duties collected from non-CBERA imports before the imposition of the tariff on CBERA imports.

The U.S. market for competing domestic output.—The amount by which domestic sales (shipments), would displace CBERA imports, the rectangle $Q_uijQ'_u$, is obtained from the market demand and supply equations for competing domestic products

$$(14)\quad \frac{Q'_u}{Q_u} = \left(\frac{P_u}{P_u}\right)^{-n_{uu}} \left(\frac{P''_c}{P_c}\right)^{n_{uc}} \left(\frac{P'_n}{P'_n}\right)^{n_{un}}$$

and

$$(15)\quad \frac{Q'_u}{Q_u} = \left(\frac{P_u}{P_u}\right)^{e_u}$$

where $-n_{uu}$ is the elasticity of demand for U.S. products that compete with CBERA imports, n_{uc} is the cross-price elasticity of demand between U.S. products and CBERA imports, n_{un} is the cross-price elasticity of demand between competing domestic products and non-CBERA imports, and e_n is the elasticity of the supply curve of U.S. products. Equation (14) is similar to the market demand equations for CBERA for non-CBERA imports, (1) and (8) respectively; i.e., since there is no change in the equilibrium price in the markets for non-CBERA imports and competing domestic output, the two corresponding terms on the right-hand side of equation (14) are equal to one. By substituting $P''_c = P'_c(1 + t)$ into equation (14), market demand can be rewritten as

$$(16)\quad \frac{Q'_u}{Q_u} = (1+t)^{\frac{e_c n_{uc}}{e_c + n_{cc}}}$$

Because the domestic supply curve is perfectly elastic, the equilibrium quantity of domestic shipments after the imposition of the tariff on CBERA imports is obtained solely from (16). The expression for the equilibrium quantity of domestic shipments after the imposition of the tariff on CBERA imports is

$$(17)\quad Q'_u = (1+t)^{\frac{e_c n_{uc}}{e_c + n_{cc}}}\; Q_u$$

The increase in the value of domestic shipments, the rectangle $Q_uijQ'_u$ in figure B-1c, is the expression $P_u(Q'_u - Q_u)$. By substituting (17) into this expression, the increase in the value of domestic shipments is

$$(18)\quad P_u(Q'_u - Q_u) = P_uQ_u\left[(1+t)^{\frac{e_c n_{uc}}{e_c + n_{cc}}} - 1\right]$$

where P_uQ_u is the level of domestic shipments before the imposition of the tariff on CBERA imports.

Description of Data

Import data were taken from official statistics of the U.S. Department of Commerce. The dollar estimates of consumer surplus and tariff revenues that were presented in the text of chapter 2 and the average ad valorem tariff rates that were used in equations above were calculated from 1987 U.S. import data for CBERA and non-CBERA imports aggregated at the five-digit TSUSA (Tariff Schedules of the United States Annotated) level.

The calculations for ncc, the price elasticity of CBERA import demand, nnc, the cross elasticity between non-CBERA and CBERA imports, and nuc, the cross elasticity between U.S. domestic output and CBERA imports, were made from import and domestic shipment data aggregated at the four digit SIC (Standard Industrial Classification) level and from aggregate import demand elasticities that were reported in the literature.[1] Unfortunately, data for 1987 domestic shipments were not available; instead, U.S. Census data from 1982, the most recent year for which complete data for both agricultural and manufactured domestic shipments exist, were used. This use of the 1982 data is appropriate since a standard assumption is that elasticities remain stable over time.

Finally, as noted by Rousslang and Lindsey, it is extremely difficult to obtain reliable estimates of import supply elasticities. For the CBERA import supply elasticity, this report used the range suggested by Rousslang and Lindsey, 2 to 5.[2] Therefore, calculations of net welfare effects and the displacement of U.S. domestic output by CBERA imports are presented in ranges corresponding to the two supply elasticities.

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[1] The aggregate import demand elasticities were taken from Robert E. Baldwin, *U.S. Tariff Policy: Formation and Effects*, U.S. Department of Labor, Discussion Paper, June 1976.

The derivation of cross price elasticities from the aggregate import demand elasticities makes use of the following relations:

$$n_{nc} = n_{uc} = (V_c / V_u)\, n_A$$

and

$$n_{cc} = n_A (V_n + V_u) / V_u$$

where Vc Vn and Vu are the U.S. market shares for CBERA imports, non-CBERA imports, and domestic shipments, respectively. The elasticity nA is the aggregate import demand elasticity. See Donald Roussland and Stephen Parker, "Crosss-Price Elasticities of U.S. Import Demand," *The Review of Economics and Statistics*, August 1984, pp. 518-523 for a complete discussion of this method.

[2] Rousslang and Lindsey, *U.S. CBI Tariff Eliminations*, p. 52.

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