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

Report to Congress and the President on Investigation No. 332-227 Under Section 332(b) of the Tariff Act of 1930

Seventh Report 1991


ITC PUBLICATION 2553
PTEMBER 1992

UNITED STATES INTERNATIONAL TRADE COMMISSION

**UNITED STATES INTERNATIONAL TRADE COMMISSION**

## COMMISSIONERS

**Don E. Newquist, Chairman**
**Peter S. Watson, Vice Chairman**
**David B. Rohr**
**Anne E. Brunsdale**
**Carol T. Crawford**
**Janet A. Nuzum**

---

Office of Economics
Joseph F. Francois
*Acting Director*

---

Martin F. Smith
*Chief, Trade Reports Division*

Kim S. Frankena
*Chief, Major Trading Nations Branch*

James E. Stamps
*Project Director*

Joanne E. Guth
Hugh M. Arce
Thomas F. Jennings
Todd T. Schneider
Dean M. Moore

*Office of Industries*

Lee Frankel
David G. Michels
David E. Ludwick
Ann Shildneck
Timothy McCarty
Joan Williams

*Office of Information Resources Management*
Steven K. Hudgens, statistician

*Office of Management Services*
Clifford H. Brown, editor
Pamela Chase, chief designer
Keven Blake, Joyce Bookman, and Paulette Henderson, designers

Secretarial assistance was provided by Paula R. Wells and Linda D. Cooper

**Address all communications to**
**Secretary of the Commission**
**United States International Trade Commission**
**Washington, DC 20436**

# PREFACE

The submission of this study to the Congress and the President continues a series of annual reports by the U.S. International Trade Commission (USITC) 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 USITC report annually on the operation of the program. The present study fulfills the requirement for calendar year 1991, the 8th year of program operation.

The CBERA, enacted on August 5, 1983 (Public Law 98-67, title II), authorized the President to proclaim duty-free treatment for eligible articles from designated Caribbean Basin countries. Duty-free treatment became effective January 1, 1984. Section 215 of the act continues to require the USITC to assess actual and probable effects of the CBERA in the future on the U.S. economy generally, on U.S. industries producing like products or products directly competitive with those imported from beneficiary countries, and on U.S. consumers. It requires the USITC to submit its report to the President and the Congress by September 30 of each year.

The following countries were designated beneficiary countries of the CBERA during 1991: Antigua and Barbuda, Aruba, the Bahamas, Barbados, Belize, the British Virgin Islands, Costa Rica, Dominica, the Dominican Republic, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Montserrat, Netherlands Antilles, Nicaragua, Panama, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago.

The report contains four chapters and three appendixes. Chapter 1 provides an overview of the CBERA program and summarizes other duty-free programs and U.S. investment incentive programs available for eligible Caribbean Basin countries. Chapter 2 analyzes overall U.S. trade with the Caribbean Basin during 1991 and compares trade under special programs—CBERA, the Generalized System of Preferences (GSP), and Harmonized Tariff Schedule (HTS) subheadings 9802.00.60 and 9802.00.80. Chapter 3 addresses the actual effects of the CBERA in 1991, covering CBERA's effects on the economy, industries, and consumers of the United States. Chapter 4 focuses on the probable effects of the CBERA in the future. It looks at investment in the region and indicates which products are 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 USITC solicited public comment for this investigation and a list of submissions received. Appendix B contains U.S.-Caribbean trade data, a table of the leading imports under CBERA provisions, by source, in 1991, and data on projects financed with section 936 funds in 1991. Appendix C explains the economic model used to derive the results contained in chapter 3.

# EXECUTIVE SUMMARY

## The Caribbean Basin Economic Recovery Act

The Caribbean Basin Economic Recovery Act (CBERA) marked its 8th year of operation in 1991. The CBERA affords nonreciprocal preferential treatment to most products of designated Caribbean Basin countries by reducing the tariff rate to free or, for a small group of products, by establishing tariff rates below the most-favored-nation (MFN) rate.

A total of 24 Caribbean, Central American, and South American countries were eligible for CBERA benefits in 1991.[1] No new countries were designated for or suspended from CBERA benefits during the year. However, the October 1991 U.S. embargo on most trade with Haiti effectively suspended that country from the program.

Benefits under the CBERA were expanded in 1991. Effective September 1991, the United States extended new or expanded duty-free entry under the CBERA to 94 previously ineligible or restricted products.

## U.S. Trade with the Caribbean Basin in 1991

For the 6th consecutive year, the United States registered a trade surplus with the Caribbean Basin countries. The trade surplus was driven by continued growth in U.S. exports to the region, which rose to $10.2 billion in 1991 from $9.7 billion in 1990. The Caribbean Basin accounted for 2.5 percent of total U.S. exports in 1991, and ranked as the 10th-largest export market for the United States—ahead of such countries as Singapore and Italy. Total U.S. imports from the Caribbean Basin countries rose for the third consecutive year to $8.3 billion in 1991 from $7.6 billion in 1990. Imports from the Caribbean Basin countries accounted for 1.7 percent of total U.S. imports worldwide in 1991, placing the region as the 14th-largest supplier of U.S. imports—ahead of nearby Venezuela and Brazil.

The countries designated under the CBERA were responsible for all but a small portion of the trade between the United States and the Caribbean Basin. Total imports from the CBERA countries increased for the 4th consecutive year to just over $8.2 billion in 1991 from $7.5 billion in 1990. The rise in U.S. imports from the CBERA countries continued to be fueled by a rapid expansion of textile and apparel imports. A few countries—notably Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, and Jamaica—dominated this boom. Most textile and apparel articles are not eligible for duty-free entry under the CBERA, however. Increasing textile and apparel imports from CBERA countries, as well as a shift away from imports of basic commodities to imports of higher valued manufactured goods (one of the goals of the act), are at least partly responsible for the increase in the average rate of duty on products of CBERA countries—from 1.3 percent in 1983 to almost 9.0 percent in 1991.

Almost two-thirds of all U.S. imports from the CBERA countries, valued at $5.4 billion, entered free of duty under various U.S. provisions. Some 23.2 percent of all imports from the CBERA countries, valued at $1.9 billion, entered MFN duty free; 13.6 percent, valued at $1.1 billion, entered duty free under the CBERA. The portion of imports entering duty free under the CBERA in 1991 was double the 6.7 percent in 1984, the first year of the program, but has remained unchanged since 1989.

---

[1] The countries were: Antigua and Barbuda, Aruba, the Bahamas, Barbados, Belize, the British Virgin Islands, Costa Rica, Dominica, the Dominican Republic, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Montserrat, Netherlands Antilles, Nicaragua, Panama, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago.

A small number of CBERA countries continued to dominate trade with the United States under the act. The Dominican Republic, Costa Rica, Guatemala, Honduras, Jamaica, and Haiti accounted for four-fifths of all CBERA imports in 1991. The Dominican Republic and Costa Rica alone accounted for over one-half of all CBERA imports. These two countries have been the leading suppliers under the CBERA in almost every year since the program became operative in 1984. The Dominican Republic was the leading CBERA source of footwear uppers, medical, surgical and dental instruments, cigars, jewelry, electrical switching apparatus, and molasses. Costa Rica was the leading supplier of beef, pineapples, melons, and fresh fish. Leading CBERA suppliers of other important products were Jamaica (nonbeverage ethyl alcohol and rum), Haiti (baseballs and softballs), and Guatemala (sugar and tobacco).

Several countries did not utilize CBERA provisions during 1991 or experienced a significant decline in sales to the United States. These countries included Antigua and Barbuda, Aruba, Belize, the British Virgin Islands, Grenada, Montserrat, the Netherlands Antilles, St. Kitts and Nevis, and St. Vincent and the Grenadines. Some of these countries experienced poor economic performance in their key export sectors. A few exported primarily to Europe because of historical and political ties. Others, with service-based economies, relied on revenue from tourism and financial services rather than on export earnings.

# Impact of the CBERA in 1991

Although the total value of duty-free imports entered under the CBERA in 1991 was $1.121 billion, less than half of these imports would not have received duty-free entry without the CBERA. The value of such goods increased by 22 percent between 1990 and 1991, from $422 million to $515 million.

Since the CBERA has been operative, six products have consistently ranked among the leading items that actually benefited from CBERA tariff preferences, i.e. were not excluded by the act or would not otherwise have entered the United States free of duty either at MFN rates or under provisions of the Generalized System of Preferences. These items were: beef, pineapples, frozen concentrated orange juice, rum, ethyl alcohol (except in 1984), and raw cane sugar (except in 1989). In 1991, for the first time, leather footwear uppers also ranked as a leading item benefiting from the CBERA. U.S. imports of leather footwear uppers under CBERA provisions nearly tripled in value during 1990-91, rising from $25.9 million to $77.7 million, and increased from 2.8 million pairs to 6.3 million pairs during the same period. Some U.S. footwear manufacturers have expressed concern about the future impact of CBERA imports.

The $515 million in imports actually benefiting from the program was 6.3 percent of the customs value of total imports entered from CBERA beneficiaries. In each year between 1984 and 1991, the value of CBERA duty-free U.S. imports was equal to about 0.02 percent of U.S. GNP. With CBERA duty-free imports at such low levels, the overall impact of the act on the U.S. economy and consumers was minimal in 1991, as in previous years. On average, about 1 percent or less of U.S. domestic sales was displaced by the leading competing duty-free imports from CBERA countries. In 1991, the six products with the largest displacement effects from competing CBERA duty-free imports, in value terms, were ethyl alcohol, beef, frozen vegetables, tobacco, cigars, and frozen orange juice. The largest effect occurred for ethyl alcohol, for which $31.2 million of U.S. domestic sales, or 2.05 percent of the value of the total domestic market, was displaced by CBERA-origin products.

# Probable Effects of the CBERA in the Future

The U.S. International Trade Commission identified 122 new investments in CBERA-related projects and 18 expansion projects in 1991, more than double the number identified in 1990. A total of $297.4 million in investment, triple the value of investment in 1990, was reported for the 140 projects, with $264.1 million going for new projects and $33.3 million in investments to expand existing projects.

This report uses CBERA-related investment activity to estimate the possible future trade effects of the act on the U.S. economy. Despite the increase in investment reported in 1991, the act is not likely to significantly affect the U.S. economy in the near future.

Most of the new investment reported in 1991 was directed toward only a few CBERA countries—namely Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, and Jamaica. These countries, which rank among the leading suppliers of imports under CBERA provisions, have aggressive export promotion policies and provide significant foreign investment incentives.

Despite the act's minimal impact on the U.S. economy, business and government officials interviewed during this investigation reported that the CBERA has benefited the economies of the CBERA countries. The CBERA was reported to have increased investor awareness of new and previously overlooked market opportunities for offshore production for the U.S. market in the Caribbean Basin countries. The act also was credited with stimulating agricultural and industrial diversification in the region and the export of nontraditional products to the United States.

Although some of the new investment taking place in specific CBERA countries during the past year focused on products eligible for duty-free entry, the CBERA also has encouraged investment in areas not eligible for duty-free benefits under the act such as textile and apparel sewing and assembly operations. Much of this new investment is the result of processing-for-export operations that take place within a rapidly growing number of specially designated free-trade zones. Other areas receiving new investment as a result of the CBERA but not eligible for CBERA trade preferences include data processing, tourism, and petroleum processing.

Fourteen projects with capital requirements totaling an estimated $233.4 million received low-interest loans from Puerto Rican financial institutions under section 936 of the U.S. tax code in 1991. Jamaica was the single largest beneficiary in 1991, with projects in that country receiving approximately $150 million in section 936 loans. The second-largest recipient was the Dominican Republic, with $31.1 million, followed by Barbados with $22.0 million, and Trinidad and Tobago with $20.0 million.

Fieldwork was conducted in El Salvador, Guatemala, and Panama to review economic conditions and the impact of the CBERA. All three of these countries are recovering from extended periods of political instability and, through application for membership in the General Agreement on Tariffs and Trade (GATT), are making efforts to integrate more closely with the world economy. Additionally, each of these countries is liberalizing its trade and investment regimes, and is pursuing regional integration measures to varying degrees. Among the challenges they face in diversifying their economies are poor infrastructure and investor uncertainty in light of previous political and economic strife.

The possibility of a North American Free-Trade Agreement (NAFTA) has aroused a degree of concern in the region. Officials in the Caribbean Basin countries are concerned that investment and trade will be diverted away from the region as Mexico strengthens its economic ties with the United States. The formation of a Central American Common Market and increased economic cooperation among the Caribbean Basin countries is being pursued as a way to forge a closer relationship between the NAFTA trading partners and the CBERA beneficiaries.

# TABLE OF CONTENTS

# TABLE OF CONTENTS-*Continued*

# TABLE OF CONTENTS-*Continued*

*Page*

## Appendixes



## Figures



## Tables

# TABLE OF CONTENTS–*Continued*

Page

## Tables–*Continued*

# CHAPTER 1
# The Caribbean Basin Economic Recovery Act

The Caribbean Basin Economic Recovery Act (CBERA) marked its eighth year of operation in 1991.[1] This chapter provides an overview of the CBERA. It summarizes the trade-related benefits of the program as well as related incentives to increase investment in Caribbean Basin countries provided under section 936 of the U.S. Internal Revenue Code. This chapter ends with a summary of the submissions received by the USITC during the course of this seventh annual investigation.

## Overview of the CBERA Program

President Reagan launched the Caribbean Basin Initiative (CBI) in 1982.[2] The CBI is a broad, private-sector-based program that, with government involvement, aims to promote increased foreign and domestic investment in nontraditional sectors of the Caribbean Basin countries,[3] to diversify their economies, and to expand their exports.[4] The CBERA, which contains the statutory provisions that implement the trade-related aspects of the CBI, became operative on January 1, 1984.[5] Legislation significantly expanding the CBERA and eliminating a statutory 1993 termination date for CBERA benefits, the Caribbean Basin Economic Recovery Expansion Act of 1990 (hereafter referred to as 1990 CBERA), was signed into law by President Bush on August 20, 1990.[6]

The CBERA was designed to encourage economic development in the Caribbean Basin principally by authorizing certain U.S. nonreciprocal preferential trade benefits for Caribbean Basin countries and territories.[7] The most important component of the CBERA is nonreciprocal duty-free entry into the United States, or reduced duties, for a wide range of Caribbean Basin products. The CBERA also provides U.S. tax incentives to encourage investment in eligible Caribbean Basin countries.

As part of the CBI, the United States assists eligible Caribbean Basin countries by promoting business with and facilitating private investment in the area. In 1991, the U.S. Department of Commerce continued to lead these activities through its Latin America/Caribbean Business Development Center (LA/C Center).[8] The LA/C Center, which is funded in part by the U.S. Agency for International Development (USAID), issues numerous publications and conducts trade- and investment-promotion projects including business counseling, seminars on trade and investment opportunities, matchmaker events to link investors and suppliers with specific regional needs and interests, and business development missions.

[1] General information and specific data on trade and economic activity under the CBERA between 1984 and 1990 can be found in the Commission's prior annual reports on the impact of CBERA on U.S. industries and consumers. See U.S. International Trade Commission (USITC), *Annual Report on the Impact of the Caribbean Basin Economic Recovery Act on U.S. Industries and Consumers, First Report, 1984-1985*, USITC publication 1897, Sept. 1986. Hereafter in series *CBERA, First Annual Report, 1984-1985; CBERA, Second Annual Report, 1986*, USITC publication 2024, Sept. 1987; *CBERA, Third Annual Report, 1987*, USITC publication 2122, Sept. 1988; *CBERA, Fourth Annual Report, 1988*, USITC publication 2225, Sept. 1989; *CBERA, Fifth Annual Report, 1989*, USITC publication 2321, Sept. 1990; and *CBERA, Sixth Annual Report, 1990*, USITC publication 2432, Sept. 1991.

[2] "Address Before the Permanent Council of the Organization of American States," *Weekly Compilation of Presidential Documents*, Feb. 24, 1982, pp. 217-223.

[3] Nontraditional sectors include all CBERA-eligible exports except coffee, sugar, fresh bananas, gold or silver bullion, beef, cocoa beans and butter, bauxite and other aluminum ores, tobacco products, ferronickel, and rum.

[4] For more detailed information on the CBI, see Latin America/Caribbean Business Development Center (LA/C Center), *1991 Guidebook: Caribbean Basin Initiative*, U.S. Department of Commerce, International Trade Administration, Nov. 1990.

[5] Public Law 98-67, title II, 97 Stat. 384, 19 U.S.C. 2701 et seq. Relatively minor changes to the CBERA were made by Public Laws 98-573, 99-514, 99-570, and 100-418.

[6] Public Law 101-382, title II, 104 Stat. 629, 19 U.S.C. 2101 note. See "Statement on Signing the Customs and Trade Act of 1990," *Presidential Documents*, Aug. 20, 1990, p. 1266.

[7] "Address Before the Permanent Council of the Organization of American States," *Presidential Documents*, Feb. 24, 1982, pp. 217-223.

[8] Formerly known as the Caribbean Basin Information Center.

# CBERA Beneficiaries

The President has the authority to designate certain Caribbean Basin countries and territories as eligible for CBERA benefits and to terminate such designations. Although the actions of designation and termination are accomplished through Presidential proclamations, the President must notify the Congress before either action is taken and specify the factors entering into such decisions.[9]

A total of 28 Caribbean, Central American, and South American countries and territories (or their successor political entities) potentially are eligible to be designated for CBERA benefits.[10] Twenty-four of these countries were designated for CBERA benefits during 1991 (table 1-1).

Section 212(b) of the CBERA stipulates that the President may not designate a country if it—

1. Is a Communist country;
2. Has nationalized or expropriated U.S. property, including intellectual property;
3. Fails to recognize awards arbitrated in favor of U.S. citizens;
4. Broadcasts U.S. copyrighted material without the owners' consent;
5. Has not or is not taking steps to afford internationally recognized worker rights as defined under the U.S. Generalized System of Preferences (GSP), including the right of association, the right to organize and bargain collectively, a prohibition on the use of forced or compulsory labor, a minimum age for the employment of children, and acceptable working conditions regarding minimum wages, hours of work, and occupational safety and health[11];
6. Affords preferential tariff treatment to products of other developed countries that has or is likely to have a significant adverse impact on the United States; or
7. Has not signed an extradition agreement with the United States.

The President may waive conditions 1-5 if he determines that the designation of a particular country would be in the economic or security interest of the United States and so reports to Congress.[12]

In addition to the President's authority to terminate CBERA benefits, the President also may suspend or limit a country's CBERA benefits as a result of a change in circumstances that would make the country ineligible for designation under conditions 1-7 above.[13] The President is required to publish a notice in the *Federal Register* at least 30 days before a country's CBERA benefits are suspended or limited, and the Office of the United States Trade Representative (USTR) is required to hold a public hearing and accept public comments during this 30-day period on the proposed action.[14]

The President did not designate new countries for benefits or terminate or suspend any country's benefits during 1991. Although President Bush declared an embargo on nonhumanitarian exports to and most imports from Haiti following an October 1991 military coup in that country,[15] Haiti did not lose its CBERA designation. However, the embargo effectively suspended CBERA benefits for Haiti.

# Trade Benefits Under the CBERA

The United States affords most-favored-nation (MFN) tariff treatment to all CBERA countries under U.S. domestic law[16] in accordance with U.S. international obligations under the General Agreement on Tariffs and Trade (GATT) or other agreements.[17]

9 Sec. 211 and sec. 212(a), CBERA, as amended.

10 Sec. 212(b) of the CBERA lists 27 Caribbean Basin countries and territories as eligible for CBERA benefits. Aruba became the 28th CBERA country when it gained independence from Netherlands Antilles in 1986. President Reagan designated Aruba for CBERA benefits in Apr. 1986 effective retroactively to Jan. 1, 1986. See general note 3(c)(v)(A) to the Harmonized Tariff Schedule of the United States and Presidential Proclamation 5458, "To Designate Aruba As a Beneficiary for Purposes of the Generalized System of Preferences and the Caribbean Basin Economic Recovery Act," *Presidential Documents*, Apr. 11, 1986, p. 471.

11 Sec. 502(a)(4), Trade Act of 1974, title V (Generalized System of Preferences), Public Law 93-618, approved Jan. 3, 1975, 19 U.S.C. 2461.

12 Sec. 212(b), CBERA, as amended.

13 Sec. 212(e)(1), CBERA, as amended.

14 Sec. 212(e)(2), CBERA, as amended.

15 "Executive Order 12779 of Oct. 28, 1991 Prohibiting Certain Transactions With Respect to Haiti," published in *Federal Register*, vol. 56, Oct. 30, 1991, p. 55975.

16 Nondiscriminatory MFN treatment became a permanent feature of U.S. trade policy by the Reciprocal Trade Agreements Act of 1934 (Public Law 73-316, ch. 474, approved Jun. 12, 1934, 48 Stat. 943, 19 U.S.C. 1001, 1201, 1351-1354). The basic statute currently in force with respect to MFN treatment is sec. 126(a) of the Trade Act of 1974 (Public Law 93-618, approved Jan. 3, 1975, 88 Stat. 1978, 19 U.S.C. 2136).

17 The United States became a signatory of the GATT effective January 1, 1948. Article I of the General Agreement on Tariffs and Trade (GATT) requires each contracting party to extend "any advantage, favor, privilege or immunity" granted to any one contracting party to all other contracting parties.

**Table 1-1**
**Caribbean Basin countries, CBERA-designated and undesignated**

| | |
|---|---|
| Countries designated as eligible for benefits under the CBERA program as of Dec. 31, 1991: | |
| Antigua and Barbuda | Guyana |
| Aruba | Haiti |
| Bahamas | Honduras |
| Barbados | Jamaica |
| Belize | Montserrat |
| British Virgin Islands | Netherlands Antilles |
| Costa Rica | Nicaragua |
| Dominica | Panama |
| Dominican Republic | St. Kitts-Nevis |
| El Salvador | St. Lucia |
| Grenada | St. Vincent/Grenadines |
| Guatemala | Trinidad and Tobago |
| Countries that have not formally requested CBERA designation as of Dec. 31, 1991, but which are potentially eligible: | |
| Anguilla | Suriname |
| Cayman Islands | Turks and Caicos Islands |

MFN tariff rates are set forth in column 1 of the Harmonized Tariff Schedule of the United States (HTS). The column 1—general duty rates are, for the most part, concessional and have been set through reductions in full statutory rates in negotiations with other countries. For some products, the MFN tariff rate is free.

The CBERA affords nonreciprocal preferential rates below the MFN rates to most products of Caribbean Basin countries by reducing the tariff rate to free or, for a small group of products, by establishing tariff rates below the MFN rate.[18] As a result, a wide range of Caribbean Basin products receive duty-free entry into the United States. The United States secured a waiver of GATT article 1 in February 1985 to permit the application of preferential tariffs to products from CBERA countries.[19]

As discussed in greater detail in chapters 2 and 3, duty-free eligibility under MFN, CBERA, and GSP provisions overlaps for certain products. To receive duty-free admission under the CBERA, Caribbean Basin exporters are required to accompany all CBERA-eligible products with a properly completed Certificate of Origin Form A (Revised), which also is used for products entering under GSP, and to show compliance with the rule of preference.[20]

One key requirement for CBERA duty-free and reduced-duty entry into the United States is that products must be exported directly to the customs territory of the United States (including Puerto Rico).[21] The following sections discuss in more detail other CBERA product eligibility requirements and products specifically excluded from the CBERA.

## *Products of CBERA Origin*

Products generally either must be wholly grown, produced, or manufactured in a CBERA country or must be "new or different" from any foreign materials used in their manufacture to receive CBERA duty-free or reduced-duty entry into the United States.[22] Products not wholly grown, produced, or manufactured in a CBERA country must meet minimum value contribution rules to establish that such products indeed are the product of a CBERA country. These rules require that the sum of—

(a) the cost or value of the materials produced in one or more CBERA countries, plus

(b) the direct costs of processing operations performed in one or more CBERA countries

must total at least 35 percent of the customs value of the product. Inputs from Puerto Rico and the U.S. Virgin Islands are allowed to count toward the 35-percent local content. Alternatively, CBERA products may meet the 35-percent minimum local content requirement if the costs of (a) and (b) above total 20 percent of the customs value of the product, with the additional 15 percent attributable to

[18] General note 3 to the HTS established special tariff treatment to eligible products of designated countries under various U.S. trade programs including the CBERA.

[19] For more background, see *USITC, Operation of the Trade Agreements Program (OTAP)*, 36th Report, 1984, USITC publication 1725, July 1985, p. 37.

[20] The exporter deletes the words "Generalized System of Preferences" on the Form A and substitutes the words "Caribbean Basin Initiative," and the letter "C" is inserted as a prefix to the applicable tariff schedule provision. LA/C Center, *1991 Guidebook*, p. 7.

[21] Sec. 213(a)(1)(A), CBERA, as amended.

[22] Products undergoing the following operations do not qualify: simple combining or packaging operations, dilution with water, or dilution with another substance that does not materially alter the characteristics of the article. Sec. 213(a)(2), CBERA, as amended.

U.S.-made (excluding Puerto Rican) materials or components.[23]

## Products of Puerto Rican Origin

Articles grown, produced, or manufactured in Puerto Rico that are sent to a CBERA country to be "by any means advanced in value or improved in condition" also are eligible for duty-free entry into the United States. Any materials added to such articles must be of U.S. or CBERA-country origin and the goods must be imported directly into the customs territory of the United States from the CBERA country.[24]

## U.S.-Origin Components

Note 2 to chapter 98 of the HTS affords duty-free entry into the United States for certain articles that are "assembled or processed" in CBERA countries wholly from components or materials originating in the United States.[25] Textiles and apparel and petroleum products and derivatives are excluded.

This note pertains to HTS subheadings 9802.00.60 (imported products containing certain metal of U.S. origin processed abroad and returned for further processing) and 9802.00.80 (imported assembled products containing U.S. components).[26] Normally, products entered under these HTS provisions are treated as foreign articles and duties are assessed on the value added to the articles as a result of foreign processing or assembly, but not on the value of the exported and re-imported U.S. content. The modification to the HTS introduced by section 222 of the 1990 CBERA effectively establishes that eligible products of CBERA countries are to be treated as U.S. articles and thus enter the United States free of all duties.

This note, as well as the provision for products of Puerto Rican origin described above, also affords duty-free entry into the United States for certain articles that otherwise might not meet the CBERA substantial transformation and minimum value contribution requirements described above. Merchandise likely to benefit from this provision includes articles produced through operations such as enameling, minor assembly or finishing operations, and repairs or alterations that were not significant enough to create a "new and different article of commerce" required under section 213 of the CBERA.[27]

## New and Expanded CBERA Benefits in 1991

In September 1991, President Bush announced that the United States will expand CBERA duty-free entry to 94 product categories from CBERA countries.[28] These new and expanded CBERA benefits will apply to products valued at an estimated $47 million in 1991 U.S. imports. Eligible products include athletic equipment, bandages, certain carpets, certain meats (chickens, ducks, geese, turkeys), conveyor belts, headgear (headbands), jute yarns, mattresses, plastic and rubberized fabrics, plastic sheets, sporting goods, and wrist watches.[29]

## Reduced Duties for Certain Goods

The 1990 CBERA directed the President to reduce duties by 20 percent for handbags, luggage, flat goods, work gloves, and leather wearing apparel beginning January 1, 1992.[30] These products were excluded from benefits in the original CBERA legislation (see the discussion below on excluded products). Reduced duties became effective through amendments to the HTS, and are being implemented in five equal annual stages.[31] The duty reduction may not exceed 2.5 percent ad valorem, meaning that the full 20-percent duty reduction will apply only to products with a tariff rate of 12.5 percent or lower.

[23] Sec. 213(a)(1), CBERA, as amended.

[24] Sec. 213(a)(5), CBERA, as amended.

[25] By law, such goods are considered not to be of foreign origin. Pursuant to sec. 222 of the 1990 CBERA, which amended ch. 98, subch. II, note 2 of the HTS.

[26] For further information, see USITC, *Production Sharing: U.S. Imports Under Harmonized Tariff Schedule Subheadings 9802.00.60 and 9802.00.80, 1986-1989*, USITC publication 2349, Jan. 1991.

[27] For a more detailed discussion of this issue, see LA/C Center, *1991 Guidebook*, p. 58.

[28] Presidential Proclamation 6343, Sept. 28, 1991, published in *Federal Register*, vol. 56, Oct. 2, 1991, p. 50003. The changes affected the rates of duty 1-special subcolumn in the HTS for the 94 HTS subheadings. For 24 of the HTS subheadings, the symbol "E" in parentheses was inserted following the "free" rate of duty. The symbol "E" indicates that all articles provided for in the designated provision are eligible for preferential treatment except watches and watch parts containing material which is the product of a Communist country. For 70 of the HTS subheadings, the symbol "E*" was replaced with the symbol "E". The symbol "E*" indicates that some articles provided for in the designated provision are not eligible for preferential treatment, namely beef and sugar from Antigua and Barbuda, Montserrat, the Netherlands Antilles, St. Lucia, and St. Vincent and the Grenadines; sugar subject to U.S. quotas; and certain textiles. For further information on CBERA product eligibility, see general note 3(c)(v)(C)-(E) to the HTS.

[29] Office of the United States Trade Representative (USTR), "United States Expands Caribbean Basin Initiative Benefits," press release 91-43, Oct. 3, 1991.

[30] Articles must be the product of any CBERA country and must not have been eligible for duty-free entry under the GSP as of Aug. 5, 1983. Applies to goods entering the United States or withdrawn from warehouse for consumption on or after Jan. 1, 1992.

[31] Sec. 213(h), CBERA, as amended. Implemented by Presidential Proclamation 6428, May 1, 1992, published in *Federal Register*, vol. 57, May 6, 1992, p. 19363.

# Products Eligible Under Special Conditions and Excluded Products

Ethyl alcohol (ethanol) for fuel use, sugar, and beef products are eligible for duty-free entry only under certain conditions. Ethyl alcohol must meet certain value contribution requirements, which vary according to the volume exported. Sugar and beef products, which are subject to applicable U.S. quotas and food safety requirements, are permitted such treatment to the extent that the production of sugar and beef for export does not interfere with food production, nutritional levels, and land use and ownership in the exporting countries. These special requirements are discussed in more detail below.

## *Ethyl Alcohol (Ethanol)*

Imports of ethyl alcohol (or a mixture thereof) produced from agricultural feedstock grown in a CBERA country are eligible for duty-free entry into the United States in unlimited quantities. Special conditions apply to ethyl alcohol produced in a CBERA country from imported (non-CBERA) feedstock. Up to 60 million gallons (227.1 million liters) of ethyl alcohol or 7 percent of the U.S. domestic ethanol market, whichever is greater (known as the "base quantity"), do not require CBERA feedstock to enter the United States free of duty. Imports in excess of the base quantity must meet the following content requirements to receive duty-free entry:

1. The next 35 million gallons (132.5 million liters) must contain 30 percent (by volume) CBERA feedstock.

2. Imports in excess of the amounts provided for in 1 above must contain 50 percent CBERA feedstock.[32]

The United States International Trade Commission (USITC) is required to determine annually the U.S. domestic market for ethyl alcohol during the 12-month period ending September 30.[33] This determination is used to establish the base quantity of ethyl alcohol that can be imported under the 7-percent requirement above. For the 12-month period ending September 30, 1991, the USITC established the level of U.S. consumption of ethyl alcohol to be 84.0 million gallons (318.0 million liters). Because 7 percent of this amount is equal to 58.8 million gallons (222.6 million liters), less than the 60-million-minimum base quantity set by statute, the base quantity for 1992 was preliminarily set at 60 million gallons (227.1 million liters).[34]

## *Sugar and Beef Products*

Imports of certain agricultural products, including sugar, dairy products, cotton, peanuts, and beef, are subject to quotas to support U.S. domestic prices. Although the CBERA affords duty-free entry to all qualifying agricultural products from beneficiaries and does not impose quantitative limits on the duty-free entry itself (except for sugar), total imports are subject to existing U.S. quotas.[35]

In addition, duty-free imports of sugar (including sugars, syrups, and molasses) and beef (including veal) products are allowed only from CBERA countries that submit a "Stable Food Production Plan" to the United States. Such a plan consists of—

> measures and proposals designed to ensure that the present level of food production in, and the nutritional level of the population of, a beneficiary country will not be adversely affected by changes in land use and land ownership that will result if increased production of sugar and beef products is undertaken in response to the duty-free treatment.[36]

A food plan must include information on current levels of food production and nutritional health of the population; current levels of production and export of sugar and beef products; anticipated increases in production and exports of sugar and beef products as a result of the duty-free access to the United States; measures to be taken to ensure that food production for domestic consumption will not be adversely affected by increased production of sugar and beef for export; and proposals for a system to monitor the impact of duty-free access on food production for domestic consumption, land use, and land ownership patterns.[37]

The President has the authority to suspend duty-free entry for sugar and beef products from countries that do not submit an acceptable food plan within 90 days from the date of their CBERA designation, that have submitted plans determined unacceptable, or that are failing to make a good faith effort to implement their plans. Before duty-free entry is suspended, the President "must offer to enter into consultations" with the beneficiary country; during that time, if the country "undertakes to formulate remedial action in good faith," the President must withhold the suspension. The United States may grant

[32] Sec. 423 of the Tax Reform Act of 1986, as amended by sec. 7 of the Steel Trade Liberalization Program Implementation Act of 1989 (19 U.S.C. 2703 nt; Public Law 99-514 as amended by Public Law 101-221).
[33] Ibid.

[34] *Federal Register*, vol. 56, Dec. 26, 1991, p. 66874.
[35] For more detailed information on current U.S. agricultural policies for Caribbean Basin products, see Office of International Cooperation and Development, U.S. Department of Agriculture and Agency for International Development (USDA/USAID), *Agricultural Marketing Handbook for Caribbean Basin Products*, Nov. 1991. Subsequent sections of this chapter on sugar and beef products rely extensively on this USDA/USAID document.
[36] Sec. 213(c)(1)(B), CBERA, as amended.
[37] Ibid.

duty-free entry at a later date following the review of food plans submitted at a later time.[38] Antigua and Barbuda, Montserrat, Netherlands Antilles, St. Lucia, and St. Vincent and the Grenadines have not submitted food production plans and are ineligible for duty-free treatment of sugar and beef.[39]

## Sugar

Imports are subject to absolute tariff-rate quotas to protect the U.S. sugar price-support program.[40] Overall sugar imports from CBERA countries generally are eligible for duty-free entry, subject to a maximum of each country's U.S. import quota allocation, under both the CBERA and the U.S. GSP program.[41] As a result, CBERA beneficiaries are able to export sugar duty free under the CBERA (up to the limits specified below) even after exports have exceeded the maximum allowed (so-called "competitive need limits") under the GSP program, so long as total exports remain within each country's overall quota.[42]

The following regulations govern duty free imports under CBERA provisions. Imports from all beneficiaries except the Dominican Republic, Guatemala, and Panama are restricted either to a maximum based on GSP competitive need limits[43] or, if the country so requests, specified absolute quotas.[44] Duty-free imports from the Dominican Republic, Guatemala, and Panama are subject to statutory maximum absolute quotas of 780,000 metric tons (mt), 210,000 mt, and 160,000 mt, respectively.[45] The President has the authority to suspend or adjust upward CBERA sugar quotas. The President also has the authority to suspend all or part of CBERA duty-free sugar imports depending on U.S. market conditions or to protect the sugar price support program.[46]

[38] Sec. 213(c)(3)-(5), CBERA, as amended.

[39] General note 3(c)(v)(D)(1) to the HTS. For additional information, see USDA/USAID, *Agricultural Marketing Handbook*, p. 4.

[40] The President's authority to protect the domestic price support program for sugar is provided in sec. 22 of the Agricultural Adjustment Act of 1933, ch. 25, 48 Stat. 31, 7 U.S.C. 601 et seq. as amended by sec. 31 of Public Law 74-320, 49 Stat. 773 and sec. 301 of Public Law 100-449, 102 Stat. 1851, 1965, 7 U.S.C. 624.

[41] The GSP program is discussed in more detail in the section "Other U.S. Special Duty Programs" below.

[42] The competitive need limit is a statutory feature of the GSP program that limits a country's GSP benefits on a product-specific basis when U.S. imports of a product from one beneficiary exceed a specific annually adjusted value. Competitive need limits are discussed in more detail in the section "Other U.S. Special Duty Programs" below.

[43] See the discussion of the GSP program below. The President, upon the recommendation of the Secretary of Agriculture, may suspend or adjust upward these limitations if such action will not interfere with the U.S. price support program. Sec. 213(d)(1)(A), CBERA, as amended.

[44] Sec. 213(d)(1)(B), CBERA, as amended.

[45] Sec. 213(d)(2), CBERA, as amended.

[46] Sec. 213(d)(3), CBERA, as amended.

## Beef

In addition to U.S. quotas on imports of beef,[47] such imports (as well as poultry) are subject to procedures established by the U.S. Department of Agriculture's Food Safety and Inspection Service (FSIS). Countries gain eligibility to export meat (including poultry) products by initiating an application, through the U.S. Embassy, with the FSIS. There also may be restrictions on beef exports imposed by the Animal and Plant Health Inspection Service (APHIS). APHIS restrictions depend on animal diseases present in the exporting country.

## *Excluded Products*

The following articles are specifically excluded from CBERA benefits:

1. Most textiles and apparel, i.e., textile and apparel articles that are subject to textile agreements;[48]
2. Canned tuna;
3. Petroleum and petroleum derivatives;
4. Footwear (except disposable items and footwear parts such as uppers) that was not eligible for GSP duty-free entry as of August 5, 1983;[49]
5. Watches and watch parts, if such watches or parts contain any material that is the product of a Communist country;[50] and
6. Sugar from any Communist country in the Caribbean Basin or in Central America.[51]

[47] The President's authority to impose quotas on imports of beef, veal, mutton, and goat meat is provided in the Meat Import Act of 1979 (Public Law 96-177, approved Dec. 31, 1979, 93 Stat. 1291, as amended by sec. 301 of Public Law 100-449, approved Sept. 28, 1988, 102 Stat. 1851, 19 U.S.C. 1202).

[48] Textiles and apparel not subject in 1983 to the Arrangement Regarding International Trade in Textiles (the so-called Multifiber Arrangement, which has controlled much of world trade in textiles and apparel since 1974) and made of silk blends or vegetable fibers other than cotton are eligible for duty-free entry. Bilateral agreements can be negotiated for duty-free entry of traditional hand-loomed, hand-sewn articles. For more information on these bilateral agreements, see general note (3)(c)(v)(D)(3) to the HTS and LA/C Center, *1991 Guidebook*, p. 18.

[49] The GSP program is discussed in more detail below. The United States eliminated certain restrictions on duty-free imports of footwear (footwear uppers except formed uppers) in Oct. 1991. For additional information, see the section "New and Expanded CBERA Benefits for 1991" above. USTR, "United States Expands Caribbean Basin Initiative Benefits," press release 91-43, Oct. 3, 1991.

[50] Sec. 213(b), CBERA, as amended. The United States eliminated certain content restrictions on wrist watches in Oct. 1991. For additional information, see the section "New and Expanded CBERA Benefits for 1991." USTR, "United States Expands Caribbean Basin Initiative Benefits," press release 91-43, Oct. 3, 1991.

[51] Sec. 231, CBERA, as amended.

Handbags, luggage, flat goods, work gloves, and leather wearing apparel originally were excluded from benefits. Effective January 1, 1992, duties on these products are being reduced under the CBERA.[52]

# Other U.S. Special-Duty Programs

CBERA preferences constitute one of three preferential trade arrangements made available to Caribbean Basin countries by the United States. The other programs are the GSP and liberalized quotas for exports provided under HTS subheadings 9802.00.60 and 9802.00.80.

## *U.S. GSP Program*

The U.S. GSP program[53] is a temporary tariff preference scheme for products of developing countries.[54] The GSP program provides nonreciprocal duty-free entry for designated articles shipped directly from beneficiary countries, provided that at least 35 percent of the value of the product is added in the beneficiary country. The objective of the system is to help these countries to compete better in U.S. markets and to diversify their economic structures away from the production of primary goods.[55]

Many products of Caribbean Basin countries are eligible for duty-free entry either under GSP or CBERA provisions. However, benefits under the two programs differ in several ways:

1. GSP applies to most developing countries worldwide, provided they are designated for benefits by the President, whereas CBERA duty-free entry is limited to designated Caribbean Basin countries.

2. GSP has a statutory 1993 expiration date, whereas the CBERA has no expiration date.

3. GSP requires that the 35-percent value-added be from a single beneficiary country.[56] Under the CBERA, the 35-percent value-added can be from one or more CBERA countries, including Puerto Rico and the U.S. Virgin Islands. Alternatively, under the CBERA as little as 20-percent value-added need be from one or more CBERA countries where at least 15 percent of the value is attributable to U.S.-made components. Duty-free entry into the United States also is given to products of Puerto Rico or of 100-percent U.S. origin that are processed or assembled in a CBERA country and shipped directly to the United States.

4. GSP beneficiaries may lose their eligibility for the program based on certain statutory economic or trade-related criteria. A country may lose all GSP privileges if its GNP exceeds a specified amount or other conditions arise.[57] In addition, a country may lose GSP benefits for specific products when imports of these products exceed specified limits (so-called competitive need limits).[58] CBERA has no statutory provisions to suspend eligibility of a beneficiary country on the basis of such economic or trade-related criteria. Eligible products that are excluded from duty-free entry into the United States under GSP because their competitive-need limits have been exceeded can still receive duty-free treatment under CBERA.

## *HTS subheading 9802.00.60 and heading 9802.00.80*

HTS subheading 9802.00.60 (imported products containing certain metal of U.S. origin processed abroad and returned for further processing) and heading 9802.00.80 (imported assembled products containing U.S. components)[59] provide for reduced duties for certain U.S. products processed or assembled

[52] For a more detailed discussion of these duty reductions, see the section "Reduced Duties for Certain Goods" above.

[53] The original U.S. GSP was established under title V of the Trade Act of 1974 (Public Law 93-618, approved Jan. 3, 1975, 88 Stat. 1978, 19 U.S.C. 2461) for a period of 10 years, beginning Jan. 3, 1975. The current GSP program, the result of amendments to and renewal of the original act by the Trade and Tariff Act of 1984 (Public Law 98-573, approved Oct. 30, 1984), has been in effect since Jan. 4, 1985. The program is scheduled to expire on July 4, 1993.

[54] Nineteen industrialized countries, all members of the Organization for Economic Cooperation and Development, offer GSP tariff preference schemes for products of developing countries.

[55] For a more detailed discussion of the GSP program, see ch. 5 of USITC, *OTAP*, 42d Report, 1990, USITC publication 2403, July 1991.

[56] The value-added requirement may also be met by two or more beneficiaries that are members of the same designated association of countries (customs union or free-trade area). Sec. 502(a)(3) and sec. 503(b)(1)(B), title V of the Trade Act of 1974, as amended.

[57] The GNP ceiling is set at $8,500 per capita in 1985 and indexed to growth in U.S. GNP in subsequent years. Sec. 504(f)(1) and (2), title V of the Trade Act of 1974, as amended.

[58] When imports from a country exceed either a specific annually adjusted value ($97.2 million in 1991) or exceed 50 percent of the value of total U.S. imports of the product in the preceding calendar year, the country loses GSP benefits for that product and the normal rate of duty is applied. Sec. 504(c)(1), title V of the Trade Act of 1974, as amended.

[59] Formerly Tariff Schedules of the United States (TSUS) items 806.30 and 807.00.

outside of the United States and subsequently returned. U.S. customs duties for such articles, otherwise payable at the normal duty rate even on most goods of U.S. origin, are assessed only on the value added to the U.S. products (or on the labor costs involved) as a result of processing or assembly in the foreign location. Duty is not assessed on the value of the exported and re-imported U.S. content.[60]

Costa Rica, the Dominican Republic, Honduras, and to a lesser extent St. Lucia, St. Kitts and Nevis, Panama, and Haiti have exported to the United States under HTS subheading 9802.00.60 in recent years. Several CBERA beneficiaries export textiles, apparel, footwear, and other products under HTS heading 9802.00.80. The low cost of labor in CBERA countries is a key incentive for U.S. producers to locate sewing operations in Caribbean Basin countries. Tight quotas facing Asian exports have prompted many Asian manufacturers to shift their production destined for the U.S. market into CBERA countries.[61]

In 1986, the United States began to negotiate bilateral agreements with the CBERA countries that improved access for apparel exports to the U.S. market (most of which are not afforded duty-free entry under the CBERA), especially for those items assembled from fabric parts knit or woven (i.e. formed) and cut in the United States. The goal of the so-called Special Access Program[62] is to liberalize quotas for Caribbean Basin exports within the context of the overall U.S. textile policy.[63] These more liberal quotas provide guaranteed access levels (GALs) for qualifying textile and apparel products, and such quotas may be increased upon request by the CBERA country. Because the fabric for the articles qualifying for GAL treatment must be formed and cut in the United States, these articles qualify for 9802 treatment. GAL articles are separately treated under HTS statistical reporting number 9802.00.8010, and duties are levied only on the value added in the CBERA countries. Costa Rica, the Dominican Republic, Guatemala, Haiti, Jamaica, and Trinidad and Tobago have GAL agreements. The United States signed no new GAL agreements during 1991.

For goods other than textiles and apparel, the CBERA affords more liberal treatment than is available under the HTS. Like the HTS provisions, under the CBERA no duty is assessed on the value of the exported and re-imported U.S. content. Unlike the HTS chapter 98 provisions, however, products entered under the CBERA face no duties on the foreign value added to the U.S. products. Thus, goods other than textiles and apparel that qualify for entry under one of these HTS provisions are afforded duty-free entry under the CBERA.[64]

# Benefits Under Section 936 of the Internal Revenue Code

The U.S. Internal Revenue Code grants certain incentives to increase U.S. investment in the CBERA countries. Section 936 of the code applies to the profits of the subsidiaries of U.S. companies operating in U.S. possessions such as Puerto Rico.[65] Under section 936, these profits are exempt from Federal taxes as long as they are invested directly in eligible projects or retained in local financial institutions.[66] The principal objective of the program is to stimulate economic development in the U.S. possessions by encouraging U.S. firms to reinvest their profits there. U.S. companies with funds qualifying for the Federal tax exemption under section 936 (so-called section 936 funds) have invested some of these funds directly in the Puerto Rican economy. Most section 936 funds, however, remain on deposit in Puerto Rican financial institutions as surplus capital that is available for lending purposes.

In 1986, U.S. and Puerto Rican tax laws were modified[67] to allow investors to borrow section 936

[60] For more detailed discussions of HTS subheadings 9802.00.60 and 9802.00.80, see USITC, *Production Sharing: U.S. Imports Under Harmonized Tariff Schedule Subheadings 9802.00.60 and 9802.00.80, 1985-1988*, USITC publication 2243, Dec. 1989; *Production Sharing: U.S. Imports Under Harmonized Tariff Schedule Subheadings 9802.00.60 and 9802.00.80, 1986-1989*, USITC publication 2349, Jan. 1991; and *Production Sharing: U.S. Imports Under Harmonized Tariff Schedule Subheadings 9802.00.60 and 9802.00.80, 1987-1990*, USITC publication 2469, Dec. 1991.

[61] For more information, see USITC, *Production Sharing, 1986-1989*, p. 28.

[62] Formerly referred to as 807-A or Super 807. A similar program, the Special Regime, was enacted for apparel products from Mexico.

[63] For more information on the Special Access Program, see USITC, *CBERA, Second Annual Report, 1986*, p. 9 and *CBERA, Third Annual Report, 1987*, p. 1-9. The Special Access Program also is discussed in more detail in USITC, *Potential Effects of a North American Free Trade Agreement on Apparel Investment in CBERA Countries*, USITC publication 2541, July 1992, p. 2.

[64] For a more detailed discussion, see the section "U.S.-Origin Components" above.

[65] 28 U.S.C. 936. Puerto Rico offers manufacturers a 90-percent tax exemption on all local and commonwealth taxes on corporate earnings, real estate, personal property, and municipal taxes for periods ranging from 10 to 25 years. When U.S. and Puerto Rican tax incentives are combined, the effective rate of taxation for U.S. subsidiaries in Puerto Rico ranges from 2.4 to 4.5 percent. For further information, see *Caribbean Update*, vol. 7, No. 9, Oct. 1991, p. 3.

[66] Such funds are referred to as "qualified possession source of investment income," or QPSII funds.

[67] Changes to U.S. and Puerto Rican tax laws are discussed in USITC, *CBERA, Third Annual Report, 1987*, pp. 3-5 to 3-6. Prior to the U.S. Tax Reform Act of 1986, QPSII funds were eligible for the Federal tax credit only if earned in Puerto Rico. Under the 1986 act, however, section 936 was amended to allow income from investments in qualified CBERA countries to be considered QPSII as well. The act took effect on Jan. 1, 1987.

deposits for qualifying projects in CBERA countries.[68] Because section 936 funds are tax exempt, firms with such funds on deposit in Puerto Rico are willing to accept relatively low rates of return. This allows Puerto Rican financial institutions to lend section 936 funds on deposit at below-market interest rates. Typically, section 936 funds are lent to investors at 1 or 2 percentage points below the London Interbank Offer Rate (LIBOR),[69] which can represent as much as a 20-percent reduction in finance costs for the investor.[70] The Government of Puerto Rico pledged in 1986 to ensure that a minimum of $100 million annually in section 936 loans would be channeled to projects in qualifying CBERA countries. This pledge was formally incorporated into the CBERA legislation in 1990.[71]

Section 936 funds are privately owned bank deposits, and are not government-owned development funds. However, the Government of Puerto Rico and the U.S. Department of the Treasury enforce numerous regulations governing loans of section 936 funds. Although individuals borrowing section 936 funds may be of any nationality, only projects located in CBERA countries that have concluded Tax Information Exchange Agreements (TIEAs) with the United States are eligible for section 936 loans.[72] Loans are made for eligible development projects[73] or for the purchase of active business assets (such as expanding an existing business) by commercial and investment banks in Puerto Rico. Section 936 loans are also made through the Government Development Bank for Puerto Rico (GDB), and the Puerto Rico Economic Development Bank.[74] Eligible projects include complementary operations involving both Puerto Rico and a CBERA country, and stand-alone projects in any qualified CBERA country. On May 13, 1992, the U.S. Department of the Treasury issued a revised set of regulations for establishing project eligibility for section 936 loans. Significantly, the new regulations set forth the conditions under which section 936 funds can be used for a development project involving privatization in CBERA countries. Key eligibility criteria for privatizations and other section 936-funded projects are listed below:

1. Acquisition of real property is eligible only if it is acquired in connection with a development project or a privatization that is approved by USAID or the Overseas Private Investment Corporation (OPIC). An eligible privatization project must have a positive impact in the Caribbean country. The government must completely terminate its ownership interest in the privatized assets or facility.[75]

2. Capital expenditures for construction, rehabilitation, improvement, or the upgrading of real property are eligible for section 936 loans. This excludes the cost of acquiring land unless the property is for a government-backed development project (property must be new or unused for 3 years).[76]

3. Projects must have a neutral or positive impact on the economy of Puerto Rico, and a positive impact on the CBERA country.

4. The borrower must own any personal property being financed, and the property or equipment must be predominantly used in the CBERA country.[77]

Types of development and commercial projects eligible for financing with section 936 funds include—

1. Transportation, communication, and sewage, solid waste, or water facilities;

2. Industrial parks (including support infrastructure) and hydroelectric power plants;

3. Oil and gas exploration;

4. Purchases of machinery and farming equipment;

[68] For detailed information regarding the qualifications for loans of Section 936 funds, see U.S. Department of the Treasury, Internal Revenue Service (IRS), "Requirements for Investments to Qualify Under Section 936(d)(4) as Investments in Qualified Caribbean Basin Countries," *Federal Register*, vol. 51, June 17, 1986, p. 21926.

[69] Commercial banks can charge below-market interest rates on section 936 funds because they are able to pay lower interest rates than in the United States on 936 deposits. The combination of Federal and local tax preferences continue to make it more profitable for section 936 firms to retain profits in Puerto Rico than to repatriate them, despite receiving lower interest rates on their deposits.

[70] For additional background, see Economic Development Administration of Puerto Rico (Fomento), *Some Common Questions on CBI/936 Financing*, pamphlet (San Juan: Fomento, Apr. 1990).

[71] Section 227, CBERA, as amended.

[72] See the discussion on TIEAs below.

[73] Under the U.S. tax code, a development project is one or more facilities in an eligible CBERA country that support economic development and that satisfy a public use requirement as specified by the IRS. "Requirements for Investments to Qualify Under Section 936(d)(4) as Investments in Qualified Caribbean Basin Countries," sec. 1.936-10(c)(5)(ii).

[74] Ibid., sec. 1.936-10(c)(3).

[75] For a privatization project to qualify for section 936 loans, the new regulations stipulate that the loan must be used to finance the acquisition of assets that were or are currently used in a trade or business, and the assets must be at least 50-percent owned by the government of the CBERA country for a 3-year period prior to acquisition. IRS, "Requirements For Investments to Qualify Under Section 936(d)(4) as Investments in Qualified Caribbean Basin Countries," sec. 1.936-10(c)(5).

[76] Ibid., sec. 1.936-10(c)(4).

[77] Ibid., sec. 1.936-10(c)(10)(i).

5. Tourism development (including hotel construction and refurbishing and purchases of aircraft); and

6. Incidental expenditures, including up to 3.5 percent of the costs of arranging financing (except financing related to loan guarantees[78]).[79]

In addition, loans must be approved by and meet the regulatory requirements of the Administrator of the Economic Development Administration of Puerto Rico (known by the Spanish acronym Fomento) and by the Puerto Rico Commissioner of Financial Institutions.[80] Like any commercial bank loan, section 936-funded projects must be economically viable and meet acceptable levels of risk, as determined by the lending institution. Borrowers must establish the same creditworthiness they would need for any commercial bank loan, and are also required to obtain some type of "credit enhancement" or loan guarantee to compensate the lender in the event of default. Forms of credit enhancement include a letter of credit from a commercial bank, a corporate guarantee from an internationally creditworthy company, a guarantee from a multilateral or foreign government organization, or a guarantee from a creditworthy international insurance company. Numerous sources have reported that obtaining credit enhancement is particularly difficult for small and medium-sized projects.[81]

On July 2, 1991, the U.S. Department of the Treasury formally notified Puerto Rico that the U.S. Government would no longer guarantee section 936 loans.[82] Such guarantees had been provided in the past by OPIC and USAID.[83] The decision to withdraw U.S. Government guarantees of section 936 loans was based on Office of Management and Budget Circular A-70, which precludes Federal guarantees of loans of tax-exempt funds. In May 1992, however, Treasury Secretary Nicholas Brady reversed the decision and extended U.S. guarantees of section 936 loans through fiscal year 1995. Secretary Brady also changed Puerto Rico's matching requirement,[84] reducing the share of required loan guarantees made by Puerto Rico from 50 percent to 25 percent through fiscal 1993, to one-third in fiscal 1994, and back to 50 percent in fiscal 1995.[85]

While the U.S. Federal loan guarantee program survived, the section 936 program came under attack on other fronts during 1991. In light of the U.S. recession and concern over relatively high levels of unemployment, the section 936 program came under congressional scrutiny as a tax haven for "runaway plants"—companies that move operations out of the mainland United States to Puerto Rico to take advantage of section 936 tax breaks. Concern over the possibility of mainland jobs being lost because of section 936 tax incentives led to the introduction of H.R. 2632 ("To Deny the Benefits of the Puerto Rico and Possession Tax Credit in the Case of Runaway Plants") in the House of Representatives on June 12, 1991.[86] As of this writing, the bill remains before the House Ways and Means Committee.[87]

If passed into law, H.R. 2632 would require companies taking advantage of section 936 tax breaks to obtain the approval of the U.S. Secretary of the Treasury prior to commencing or substantially expanding operations in Puerto Rico. The Secretary would be required to determine that the operations at the facility would not have a significant adverse effect on employment at the U.S. plant operated by the corporation in question.

The section 936 program encountered further scrutiny during the first half of 1992 from Congress, the General Accounting Office (GAO), and the Internal

[78] The requirements for loan guarantees (credit enhancement) are discussed below.

[79] Ibid., sec. 1.936-10(c)(4).

[80] Fomento performs an economic analysis to determine if the project will have a negative impact on income, employment, and industries in Puerto Rico, as well as what the effect on interest rates will be as a result of the outflow of section 936 funds. Fomento also scrutinizes projects involving the sale of products in Puerto Rican markets in direct competition with local Puerto Rican producers of similar products or involving competition with Puerto Rico-based producers of identical products outside Puerto Rico. The Commissioner reviews the loan to ensure that it complies with relevant banking and legal requirements. For additional background information, see Fomento, *Some Common Questions on CBI/936 Financing*, and LA/C Center, *1991 Guidebook*, p. 67.

[81] For a more detailed discussion of the difficulties in obtaining credit enhancement for section 936 loans, see USITC, *CBERA Report, 1990*, pp. 4-11 to 4-19.

[82] For further detail, see USITC, *CBERA, Sixth Annual Report, 1990*, Sept. 1991, p. 1-7.

[83] Since 1990, another important source of loan guarantees has been the Multilateral Investment Guarantee Agency (MIGA). MIGA is a World Bank agency that provides guarantees for equity investments in developing countries, and also will guarantee loans if it is guaranteeing equity in the same project.

[84] U.S. regulations required recipients of section 936 loan guarantees from OPIC or USAID to obtain an equivalent amount of matching loan guarantees from the Government of Puerto Rico.

[85] Information obtained during Commission interview at U.S. Department of the Treasury, Office of the Assistant Secretary for Tax Policy, International Tax Counsel, June 19, 1992. See also, Tom Bryan, "Federal Guarantees of 936 Loans Extended," *Caribbean Business*, May 14, 1992.

[86] *Congressional Record*, June 13, 1991, p. E 2175. HR 2632 was introduced by Representative Fortney Pete Stark of California and has 28 co-sponsors. If passed into law, the bill would require companies taking advantage of section 936 tax breaks to obtain the approval of the U.S. Secretary of the Treasury prior to commencing or substantially expanding operations in Puerto Rico. The Secretary also would be required to determine that the operations at the facility would not have a significant adverse impact on employment at the U.S. plant operated by the company in question.

[87] Office of the Honorable Fortney Pete Stark, informal communication with USITC staff, Aug. 31, 1992.

Revenue Service (IRS).[88] Elimination of the section 936 tax credit has been suggested as a means of significantly increasing tax revenue in light of the U.S. Federal budget deficit.[89] Proponents of section 936, however, have pointed out that, without such a program to provide a boost to the local economy, Puerto Rico might be more likely to seek statehood and access to Federal entitlement programs.[90]

## *Tax Information Exchange Agreements (TIEAs)*

A TIEA is a mutual and reciprocal obligation to exchange information with the United States relating to the enforcement of tax laws. A TIEA provides a means by which a signatory government can pursue certain tax evaders, particularly in cases involving large tax claims, and is an important element in the U.S. drug enforcement policy.[91]

Signing a TIEA is required before a CBERA country can become eligible to receive section 936 loans. A TIEA also facilitates the approval of the Internal Revenue Service when U.S. citizens and companies seek to justify attending business conventions and seminars in a signatory country as a necessary business expense to deduct it from their Federal income tax. A TIEA thus provides a boost to tourism in the signatory country.

To conclude a TIEA with the United States, a country must negotiate and sign an agreement with the U.S. Department of the Treasury, ratify the agreement in its legislature, and exchange diplomatic notes with the United States concerning the agreement. Countries that sign a TIEA agree to the following:

1. Tax information must be exchanged at the government level (information can only be used for tax purposes and must be held in confidence by the signatory country);
2. Information exchanged must be in a form admissable to U.S. or host country courts;
3. Information must be collected without regard to the taxpayer's nationality;
4. Signatory countries must establish some means of compelling the production of tax information; and
5. Local nondisclosure laws cannot prohibit the sharing of tax information.[92]

As of yearend 1991, nine CBERA countries (along with the U.S. Virgin Islands) were eligible to receive section 936 funds by virtue of having concluded a TIEA with the United States: Barbados, Dominica, the Dominican Republic, Grenada, Jamaica, Trinidad and Tobago, Costa Rica, St. Lucia, and Honduras.[93] Nicaragua, Guyana, and Belize are currently considering entering into TIEAs with the United States.[94] Bermuda, while not eligible for CBERA benefits, also has signed a TIEA with the United States.

Many Caribbean Basin governments are reluctant to enter into TIEAs with the United States because of concerns that such an agreement would disrupt nascent offshore banking sectors and force them to eliminate banking secrecy provisions, particularly the use of bearer shares.[95] Officials of the U.S. Treasury Department, however, contend that these concerns are somewhat exaggerated and have pointed out that Bermuda, which has significant offshore banking operations, has experienced no negative impact on its banking sector and no infringement on its banking secrecy laws as a result of having signed a TIEA.[96]

[88] During May 1992, the section 936 program was criticized by a member of the House of Representatives for promoting Puerto Rico as a tax haven for U.S. pharmaceutical companies. This assertion was based on a report by the GAO, *Pharmaceutical Industry: Tax Benefits of Operating in Puerto Rico* (GDD-92-72 BR) May 4, 1992. In that same month, the IRS proposed changes to section 482 of the tax code on the reporting of earnings. The proposed changes could result in significant reduction in tax exempt profits for companies using section 936 benefits. For further detail, see Alexander Diaz, "Section 936 to Escape Congress, but not IRS," *Caribbean Business*, May 28, 1992.

[89] In 1991, the Joint Committee on Taxation estimated the revenue loss arising from the section 936 program to be approximately $2.6 billion. In May 1992, House Ways and Means Committee Chairman Dan Rostenkowski and Representative Bill Gradison introduced H.R. 5270 (Foreign Income Tax Rationalization and Simplification Act of 1992) which, along with other provisions, would reduce the section 936 credit from 100 percent to 85 percent of the pre-credit U.S. tax on a company's possession-based operations and qualified possession source investment income. See Joint Committee on Taxation, *Explanation of H.R. 5270 (Foreign Income Tax Rationalization and Simplification Act of 1992)*, May 22, 1992.

[90] See, for example, M.-M. Kateri Scott MacDonald, "Where Fiscal and Foreign Policy Meet: 936 and the Caribbean," *North South*, Feb.-Mar. 1992, p. 45.

[91] For a more detailed description of the role of TIEAs in U.S. drug enforcement policies, see Peter D. Whitney, Director of Economic Policy for Latin America and the Caribbean, U.S. Department of State, "TIEAs Deserve Support on their Merits," *Caribbean Action*, No. 2, 1988, p. 6.

[92] Information obtained during Commission interview with official of the U.S. Internal Revenue Service at the 7th annual Caribbean Business Conference, San Juan, Puerto Rico, June 2-5, 1992.

[93] Costa Rica, St. Lucia, and Honduras ratified TIEAs with the United States in Feb., Apr., and Oct. 1991, respectively.

[94] Information obtained during a Commission interview with an official at the U.S. Department of the Treasury, Internal Revenue Service, June 19, 1992.

[95] Bearer shares are bonds that do not require a transfer deed because the holder has legal ownership. Bearer shares are an important banking secrecy provision in many Caribbean countries.

[96] Information obtained during Commission interview at U.S. Department of the Treasury, Office of the Associate Chief Counsel, International Division, June 22, 1992.

## *Caribbean Basin Financing Authority (CARIFA)*

In 1990, the Government of Puerto Rico created the Caribbean Basin Financing Authority (CARIFA is the Spanish acronym) to facilitate the financing of projects with section 936 funds. CARIFA is a public corporation backed by the Government of Puerto Rico. CARIFA provides borrowers of section 936 funds the option of bond financing. CARIFA issues bonds on behalf of investors seeking to finance projects qualified for section 936 loans. CARIFA bonds are purchased directly by U.S. corporations using their section 936 funds. By eliminating the need for a bank intermediary, CARIFA can issue bonds at a lower cost than commercial bond issues, allowing the possibility of a significant reduction in the overall financing costs of obtaining section 936 loans.[97] CARIFA also has the authority to make loans directly to investors and to provide loan guarantees for qualified section 936 projects.

Given market acceptance, a CARIFA bond issue can be structured to best meet the needs of the borrower or the type of project being financed.[98] Projects are considered on a case-by-case basis, and the bond issues may be secured through letters of credit, OPIC insurance, or any other form of private or governmental guarantee.[99] The bond proceeds are placed with a trustee for disbursements to the projects upon receipt of expense confirmations.

## *Caribbean Basin Partners for Progress (CBPP)*

In 1991, a number of U.S. manufacturing interests operating in Puerto Rico under the section 936 program established the Caribbean Basin Partners for Progress (CBPP). Essentially, CBPP works as a small development bank, financing new enterprises or expansion projects in CBERA countries that have signed a TIEA with the United States. CBPP loans are specifically targeted at small and medium-size projects. The CBPP has been authorized to invest up to a total of $100 million in 936 funds to further advance economic development in the Caribbean.

[97] Typically, an investment bank buys a company's bonds, which the bank then resells to other investors. The borrower pays both principal and interest to those who invest in these bonds, as well as a management fee charged by the investment bank for floating the bond issue. The fee is typically a percent of the total issue, raising the borrower's cost as more money is borrowed. CARIFA lowers bond-financing costs by granting tax-exempt status under section 936 to the income earned by bond investors. This reduction in the cost of financing becomes significant when project borrowing reaches $10 million or more.

[98] CARIFA bond issues can bear interest at a fixed or variable rate.

[99] Government of the Commonwealth of Puerto Rico, *Caribbean Basin Projects Financing Authority*, pamphlet.

During its first year of operation, the CBPP disbursed two loans totalling just over $1.1 million.[100] While maximum CBPP financing for any single project or client is $10 million, there is no minimum loan size. The smallest loan has been for $300,000. Interest rates and finance charges are determined on a loan-by-loan basis and depend on (1) the cost of funds in the 936 market; (2) the term of the loan; and (3) costs of administration and risks associated with the project.[101] CBPP expects to complete five more transactions by the end of 1992 for financing in Barbados, Costa Rica, Honduras, and the Dominican Republic.

## *Twin-Plant Program*

Section 936 has also indirectly contributed to investment in CBERA countries through promotion by Puerto Rico of its "twin-plants" program. Fomento encourages firms with operations on the island to seek opportunities for splitting production between Puerto Rico and a "twin" operation in a CBERA country site. Because Puerto Rican wage rates are considerably higher than those in most CBERA countries, it is usually the labor-intensive portion of the operation that is relocated. Twin plants are eligible to receive section 936 funding even if the participating CBERA country has not signed a TIEA with the United States. A twin-plant operation is eligible for section 936 funds so long as one plant continues to operate in Puerto Rico. Setting up twin operations allows firms to reap the benefit of lower overall costs.

Section 213(a) of the CBERA encourages U.S. firms to establish twin plants by allowing Puerto Rican materials and processing to be fully counted toward meeting the 35-percent Caribbean value-added requirement for products to receive duty-free treatment under the CBERA. Moreover, the CBERA grants duty-free entry to articles grown, produced, or manufactured in Puerto Rico that are sent to a CBERA country to be "by any means advanced in value or improved in condition" and subsequently imported directly into the United States.[102]

[100] State Department of the Commonwealth of Puerto Rico, *Puerto Rico's Caribbean Development Program: Executive Summary and Graphs of Projects Promoted Including the Use of 936 Funds*, May 1992.

[101] Caribbean Basin Partners for Progress, Ltd., *Caribbean Basin Partners for Progress: A Development Fund*, pamphlet.

[102] For additional information, see "Products of CBERA Origin" and "Products of Puerto Rican Origin" above.

# Concerns of Interested Persons and Industries

In connection with this seventh annual investigation of the CBERA program, the USITC received two submissions from interested persons and industries.[103] Concerning the overall impact of the CBERA on the Caribbean Basin countries, one submission characterized the CBERA as a "limited mechanism [that] is not solving the well intentioned goals of helping the Caribbean private sectors help themselves" as evidenced by the large trade surplus the United States continues to maintain with the Caribbean Basin countries (tables B-1 and B-2).[104]

[103] Appendix A includes a copy of the *Federal Register* notice of this investigation and a list of submissions received pursuant to this seventh annual report on the CBERA.

[104] Submission dated June 18, 1992 by Bruce Zagaris, of the law firm Cameron & Hornbostel.

The Rubber and Plastic Footwear Manufacturers Association (RPFMA)[105] commented on section 222 of the 1990 CBERA that allows duty-free entry for articles assembled in CBERA countries from components produced in the United States.[106] The RPFMA stated that this provision would adversely affect U.S. footwear producers. In its submission, the RPFMA noted that because of the duty-free provision—

> some domestic slipper producers have begun to leave the United States in favor of the Caribbean and are now shipping products back to this country for sale at prices at least 20 percent below what the market has previously commanded.

The RPFMA cautioned that domestic producers cannot meet the lower prices of Caribbean imports, and that "there is good reason to believe that the result will be serious unemployment for domestic footwear workers and the shift of production facilities to the Caribbean."

[105] The RPFMA's concerns also are documented in USITC, *CBERA, Sixth Annual Report, 1990*, p. 1-9.

[106] For additional information, see the section "U.S.-Origin Components" above.

# CHAPTER 2
# U.S. Trade with the Caribbean Basin

## Two-Way Trade

Total U.S. imports from countries in the Caribbean Basin (including countries not designated under the Caribbean Basin Economic Recovery Act (CBERA) amounted to $8.3 billion in 1991, an increase of 9.2 percent over the 1990 level of $7.6 billion. This was the third consecutive year to show an increase in U.S. imports from the region (table 2-1 and figure 2-1).

**Table 2-1**
**U.S. imports for consumption, designated and nondesignated countries under the CBERA, 1987-91**
*(In thousands of dollars, customs-value basis )*

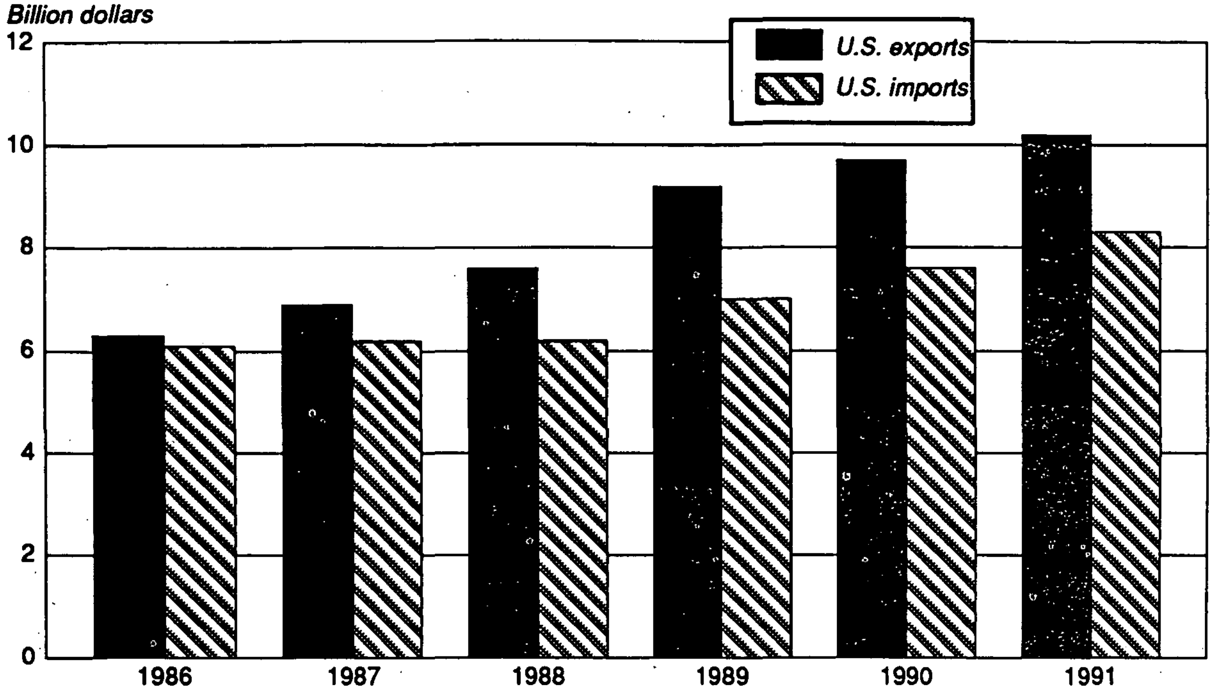
| *Country* | *1987* | *1988* | *1989* | *1990* | *1991* |
|---|---|---|---|---|---|
| Designated: | | | | | |
| Antigua | 8,621 | 6,893 | 12,274 | 4,120 | 3,895 |
| Aruba | 2,452 | 647 | 1,156 | 967 | 100,246 |
| Bahamas | 377,881 | 268,328 | 460,723 | 506,772 | 465,324 |
| Barbados | 59,110 | 51,413 | 38,725 | 30,898 | 31,457 |
| Belize | 42,906 | 52,049 | 43,056 | 43,978 | 35,623 |
| British Virgin Islands | 11,162 | 684 | 1,112 | 1,999 | 2,567 |
| Costa Rica | 670,953 | 777,797 | 967,901 | 1,006,473 | 1,143,982 |
| Dominica | 10,307 | 8,530 | 7,664 | 8,345 | 5,877 |
| Dominican Republic | 1,144,211 | 1,425,371 | 1,636,931 | 1,725,430 | 1,976,624 |
| El Salvador | 272,881 | 282,584 | 243,922 | 237,538 | 302,449 |
| Grenada | 3,632 | 7,349 | 7,862 | 7,783 | 8,086 |
| Guatemala | 487,308 | 436,979 | 608,280 | 790,900 | 892,280 |
| Guyana[1] | (4) | 50,432 | 55,858 | 52,260 | 73,733 |
| Haiti | 393,660 | 382,466 | 371,875 | 339,177 | 284,264 |
| Honduras | 483,096 | 439,504 | 456,790 | 486,330 | 552,238 |
| Jamaica | 393,912 | 440,934 | 526,726 | 563,723 | 561,206 |
| Montserrat | 2,413 | 2,393 | 2,285 | 562 | 2,179 |
| Netherlands Antilles | 478,836 | 408,100 | 374,358 | 421,789 | 620,784 |
| Nicaragua[2] | (4) | (4) | (4) | 15,254 | 59,528 |
| Panama[3] | 342,700 | 256,046 | (4) | 226,555 | 242,580 |
| St. Kitts and Nevis. | 23,793 | 20,822 | 21,447 | 16,100 | 15,553 |
| St. Lucia | 17,866 | 26,044 | 23,985 | 26,920 | 21,731 |
| St. Vincent and Grenadines | 8,493 | 13,950 | 9,244 | 8,672 | 7,507 |
| Trinidad and Tobago | 802,838 | 701,738 | 765,265 | 1,002,661 | 819,653 |
| Total | 6,039,030 | 6,061,054 | 6,637,440 | 7,525,208 | 8,229,366 |
| Nondesignated: | | | | | |
| Anguilla | 168 | 497 | 348 | 227 | 1,407 |
| Cayman Islands | 27,670 | 18,195 | 48,041 | 21,387 | 17,615 |
| Guyana[1] | 58,828 | (4) | (4) | (4) | (4) |
| Nicaragua[2] | 1,231 | 1,121 | 31 | (4) | (4) |
| Panama[3] | (4) | (4) | 258,319 | (4) | (4) |
| Suriname | 46,445 | 87,894 | 73,892 | 50,901 | 51,679 |
| Turks and Caicos Islands | 4,680 | 3,517 | 2,507 | 3,547 | 4,210 |
| Total | 139,022 | 111,224 | 383,137 | 76,063 | 74,911 |
| Grand total | 6,178,052 | 6,172,278 | 7,020,577 | 7,601,271 | 8,304,278 |

[1] Guyana was designated as a CBERA beneficiary effective Nov. 24, 1988.
[2] Nicaragua was designated as a CBERA beneficiary effective Nov. 13, 1990.
[3] Panama lost its designation as a beneficiary effective Apr. 9, 1988, and was reinstated on Mar. 17, 1990.
[4] Not applicable.

Note.—Because of rounding, figures may not add to totals shown.

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

Figure 2-1
U.S. trade with the Caribbean Basin countries, 1986-91




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

Imports from the Caribbean Basin countries accounted for 1.7 percent of total U.S. imports worldwide in 1991 (appendix table B-1). This trade performance ranked the Caribbean Basin as the 14th-largest supplier of U.S. imports in 1991—ahead of nearby Venezuela and Brazil but behind the entrepôt trade states of Singapore and Hong Kong.

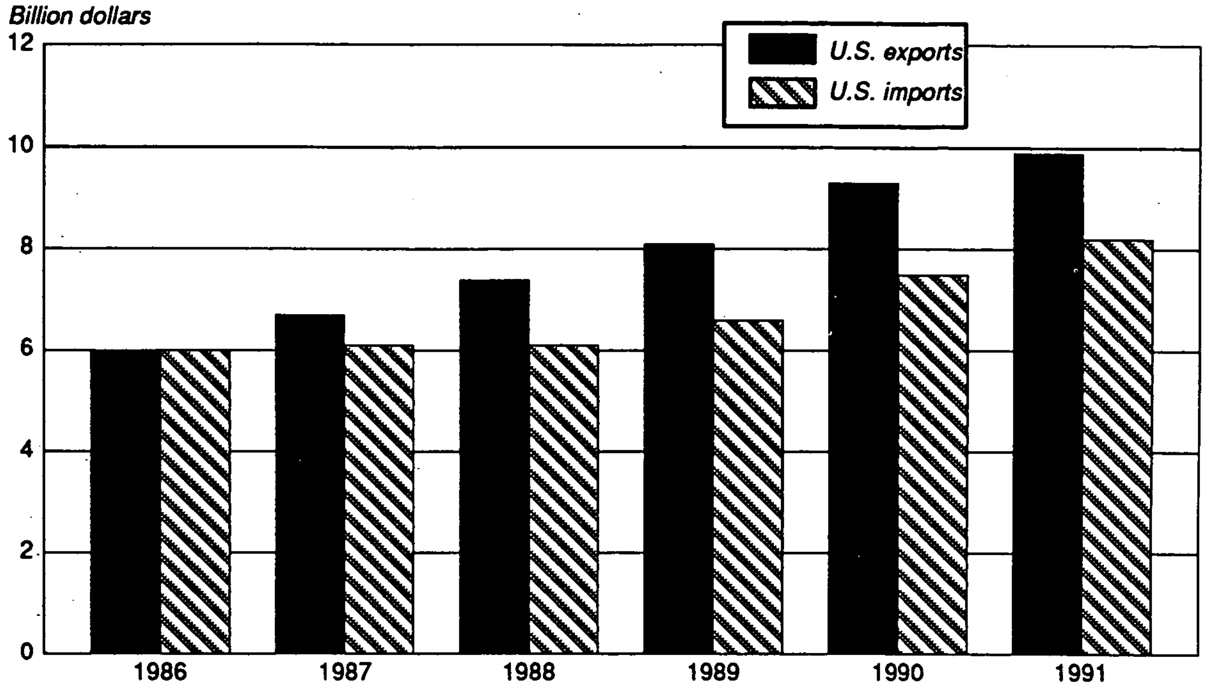
Combined U.S. exports to countries in the Caribbean Basin totaled $10.2 billion in 1991, rising approximately 4.9 percent over the 1990 total of $9.7 billion (appendix table B-1). Accounting for over 2.5 percent of total U.S. exports in 1991, the Caribbean Basin ranked 10th as an export market for the United States, placing ahead of such countries as Singapore and Italy but behind South Korea and Taiwan. With the exception of 1985, U.S. exports to the Caribbean Basin have increased every year since the CBERA was implemented. Since 1986, the United States consistently has had a trade surplus with the Caribbean Basin. The U.S. trade surplus with the region amounted to roughly $1.9 billion in 1991. However, 1991 marked the second consecutive year that this trade surplus decreased from the record high level of $2.2 billion in 1989.

Since the 1984 enactment of the CBERA program, U.S. exports to the region have surged by an estimated 61.4 percent. The growth in U.S. exports to the region was one of the unexpected developments since the CBERA was enacted. U.S. imports from the region, on the other hand, first declined to a period low of $6.2 billion in 1988, but have steadily increased since that time (appendix table B-1). While the rise in U.S. exports to the Caribbean Basin mirrored the increase in U.S. exports worldwide during 1984-91, U.S. imports from the region during the same period ran counter to the trend seen in U.S. imports from all countries. This phenomenon is in large part due to a steady decline in U.S. imports of petroleum and petroleum products from the Caribbean Basin between 1983 and 1989.[1] In fact, Caribbean Basin suppliers accounted for just 1.7 percent of total U.S. imports in 1991, compared to 2.8 percent in 1984.

The countries designated under the CBERA are responsible for all but a small portion of the trade between the United States and the Caribbean Basin (figure 2-2 and appendix table B-2). In 1991 the CBERA countries accounted for just over 99 percent of U.S. imports from the region, as well as 97 percent of U.S. exports. Therefore, the data and figures showing combined U.S. trade with the CBERA countries during the period 1987-91 in figure 2-2 and appendix table B-2 are almost identical to the data in figure 2-1 and appendix table B-1 for all 28 Caribbean Basin countries.

[1] Trends in U.S. petroleum imports are discussed in more detail below.

**Figure 2-2**
**U.S. trade with the countries designated under CBERA, 1986-91**




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

# Imports From Nondesignated Countries

Imports from nondesignated Caribbean countries dropped to $74.9 million in 1991, down 1.5 percent from 1990 and more than 80 percent below the 1989 highpoint of $383.1 million.[2] Imports from Anguilla (principally rhodium, palladium, and transmission apparatus) rose by more than 500 percent over imports of 1990. Imports from Suriname and Turks and Caicos Islands also increased in 1991. Shipments from the Cayman Islands, the second-largest source of U.S. imports in this group, declined for the second consecutive year—down by about two-thirds from the record high level of $48.0 million in 1989 (table 2-1).

# Imports From CBERA Countries

Total U.S. imports from the CBERA countries grew by 9.4 percent in 1991 to just over $8.2 billion (figure 2-2 and appendix table B-2). Imports increased for the fourth consecutive year following declines in each of the first four years of the CBERA. Textiles and apparel products represented the largest source of growth of imports from CBERA countries in 1991. Petroleum and petroleum products, which accounted for roughly one-third of the growth in U.S. imports in 1990, showed only a small increase in 1991.

## *Total Imports from CBERA Country Groups*

Despite the U.S. economic recession and subsequent decline in demand for imported products, U.S. imports from all CBERA country groups increased in 1991 (table 2-2). Since the CBERA was implemented in 1984, the relative positions of the four CBERA subregional country groups—Central American, Eastern Caribbean, Central Caribbean, and oil-producing countries—as suppliers to the U.S. market have shifted.

In 1984, U.S. imports from the oil-producers (Aruba, the Bahamas, the Netherlands Antilles, and Trinidad and Tobago) far outpaced imports from other Caribbean Basin subregional groups, accounting for 52.5 percent of the total. The oil-producing group was followed by the Central American countries (Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama) with a 23.6-percent share of total U.S. imports, the Central Caribbean (Dominican Republic, Haiti, and Jamaica) with 20.5 percent, and

[2] The 1989 highpoint was a temporary phenomenon caused by Panama's loss of CBERA benefits. Panama was suspended from CBERA eligibility on Apr. 9, 1988 for lack of full cooperation with the United States in preventing exports of illegal narcotics. Panama was reinstated to the program effective Mar. 17, 1990.

**Table 2-2**
**U.S. imports for consumption from countries designated under the CBERA, by major groups, 1987-91**

*(In thousands of dollars, customs value)*

| Country | 1987 | 1988 | 1989 | 1990 | 1991 |
|---|---|---|---|---|---|
| Non-oil-producing countries: | | | | | |
| Central America: | | | | | |
| Belize | 42,906 | 52,049 | 43,056 | 43,978 | 35,623 |
| Costa Rica | 670,953 | 777,797 | 967,901 | 1,006,473 | 1,143,982 |
| El Salvador | 272,881 | 282,584 | 243,922 | 237,538 | 302,449 |
| Guatemala | 487,308 | 436,979 | 608,280 | 790,900 | 892,280 |
| Honduras | 483,096 | 439,504 | 456,790 | 486,330 | 552,238 |
| Nicaragua[1] | ([4]) | ([4]) | ([4]) | 15,254 | 59,528 |
| Panama[2] | 342,700 | 256,046 | ([4]) | 226,555 | 242,580 |
| Subtotal | 2,299,843 | 2,244,959 | 2,319,949 | 2,807,030 | 3,228,681 |
| Eastern Caribbean: | | | | | |
| Antigua | 8,621 | 6,893 | 12,274 | 4,120 | 3,895 |
| Barbados | 59,110 | 51,413 | 38,725 | 30,898 | 31,457 |
| British Virgin Islands | 11,162 | 684 | 1,112 | 1,999 | 2,567 |
| Dominica | 10,307 | 8,530 | 7,664 | 8,345 | 5,877 |
| Grenada | 3,632 | 7,349 | 7,862 | 7,783 | 8,086 |
| Guyana[3] | ([4]) | 50,432 | 55,858 | 52,260 | 73,733 |
| Montserrat | 2,413 | 2,393 | 2,285 | 562 | 2,179 |
| St. Kitts and Nevis | 23,793 | 20,822 | 21,447 | 16,100 | 15,553 |
| St. Lucia | 17,866 | 26,044 | 23,985 | 26,920 | 21,731 |
| St. Vincent and Grenadines | 8,493 | 13,950 | 9,244 | 8,672 | 7,507 |
| Subtotal | 145,397 | 188,510 | 180,457 | 157,659 | 172,585 |
| Central Caribbean: | | | | | |
| Dominican Republic | 1,144,211 | 1,425,371 | 1,636,931 | 1,725,430 | 1,976,624 |
| Haiti | 393,660 | 382,466 | 371,875 | 339,177 | 284,264 |
| Jamaica | 393,912 | 440,934 | 526,726 | 563,723 | 561,206 |
| Subtotal | 1,931,783 | 2,248,771 | 2,535,532 | 2,628,330 | 2,822,094 |
| Total non-oil producing countries | 4,377,024 | 4,682,240 | 5,035,938 | 5,593,017 | 6,223,360 |
| Oil-producing countries: | | | | | |
| Aruba | 2,452 | 647 | 1,156 | 967 | 100,246 |
| Bahamas | 377,881 | 268,328 | 460,723 | 506,772 | 465,324 |
| Netherlands Antilles | 478,836 | 408,100 | 374,358 | 421,789 | 620,784 |
| Trinidad and Tobago | 802,838 | 701,738 | 765,265 | 1,002,661 | 819,653 |
| Total oil producing countries | 1,662,006 | 1,378,813 | 1,601,501 | 1,932,189 | 2,006,006 |
| Grand total | 6,039,030 | 6,061,054 | 6,637,440 | 7,525,208 | 8,229,367 |

[1] Nicaragua was designated a beneficiary country effective Nov. 13, 1990.
[2] Panama lost its designated beneficiary status effective Apr. 9, 1988, and was reinstated on Mar. 17, 1990.
[3] Guyana was designated as a beneficiary effective Nov. 24, 1988.
[4] Not applicable.

Note.—Because of rounding, figures may not add to totals shown.

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

the Eastern Caribbean (Antigua and Barbuda, Barbados, the British Virgin Islands, Dominica, Grenada, Guyana, Montserrat, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines) with 3.4 percent. In 1991, the Central American countries accounted for 39.2 percent of U.S. imports from all CBERA countries, followed by the Central Caribbean countries with 34.3 percent, the oil-producing countries with 24.4 percent, and the Eastern Caribbean countries with roughly 2.1 percent (table 2-2).

U.S. imports from the Central American countries exceeded $3.2 billion in 1991, an increase of 15.0 percent over 1990 (table 2-2). This was the third consecutive year in which imports from the subregion increased. Imports from all but one of the countries in this subregion increased during 1991. Costa Rica was the leading source of imports within this group, supplying roughly $1.1 billion of U.S. imports from the Central American countries, or 35.4 percent of the group's total, with imports up by 13.6 percent over 1990. Imports increased by 12.8 percent from Guatemala, by 13.6 percent from Honduras, by 27.3 percent from El Salvador, by 7.1 percent from Panama, and by nearly 300 percent from Nicaragua (Nicaragua was eligible for CBERA benefits during only part of 1990).[3] Imports from Belize declined by 19.0 percent in 1991 as a result of poor harvests in that country of several key crops.

Imports from the oil-producing countries increased by some 3.8 percent in 1991. Aruba showed the most impressive growth, as imports from that country jumped from $967,000 to a record $100.2 million in 1991. Imports from Netherlands Antilles also grew in 1991, while shipments from the Bahamas and Trinidad and Tobago declined (table 2-2).

Imports from the Central Caribbean countries continued to increase in 1991, although this group's share of total U.S. imports from all CBERA countries edged down slightly. Imports from this subregional group have expanded by nearly 60 percent since the beginning of the CBERA in 1984, making the Central Caribbean countries the fastest growing source of imports. The Dominican Republic is by far the largest source of U.S. imports both within this group as well as among all CBERA countries. Imports from the Dominican Republic rose by 14.6 percent to nearly $2 billion in 1991. U.S. imports from Haiti declined by 16.2 percent in 1991, while shipments from Jamaica showed little change (table 2-2).

The Eastern Caribbean is the smallest subregional source of U.S. imports from the CBERA countries and is also the only non-oil-producing CBERA group to show an overall decline in shipments to the United States since the CBERA has been operational. Despite the long-term decline, however, U.S. imports from the Eastern Caribbean countries climbed by 9.5 percent in 1991 to $172.6 million. Increases were seen in imports from Guyana, Montserrat, Grenada, Barbados, and the British Virgin Islands. U.S. imports declined, however, from Antigua and Barbuda, Dominica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines.

## *Product Composition of Total Imports*

U.S. imports from the CBERA countries traditionally have consisted of basic commodities and raw materials such as petroleum and petroleum products, sugar, coffee, cocoa, bananas, and aluminum ores and concentrates. Although exports of such traditional products continue to play a significant role in the regional economies, the relative importance of these products in trade with the United States has diminished. Diversification away from traditional exports, one of the key goals of the CBERA, has occurred since the CBERA has been operational because of changing terms of trade on world markets as well as efforts by CBERA countries to diversify their exports. Light manufactures and other nontraditional exports now account for an increasing share of U.S. imports from the region and constitute the fastest growing sectors for new investment in Caribbean Basin countries.

Table 2-3 shows the 35 leading U.S. imports from the CBERA countries during 1987-91 on an 8-digit Harmonized Tariff Schedule (HTS) subheading basis. Altogether, these goods accounted for two-thirds of total U.S. imports from CBERA countries in 1991. The two leading imports in 1991 were combined textile and apparel articles followed by combined petroleum and petroleum products. Other leading imports were bananas, coffee, and aromatic drugs.

# Dutiable and Special-Duty Imports

## *Dutiable Imports*

Table 2-4 shows trends in dutiable U.S. imports from the CBERA countries since 1983. Following an initial period of sharp decline after the act was implemented, U.S. dutiable imports from CBERA beneficiaries have increased slightly in recent years. Nearly two-thirds of U.S. imports from CBERA countries, totaling $5.7 billion, were dutiable in 1983. Dutiable imports declined to $2.0 billion, less than one-third of the total, by 1988. The declining share of dutiable imports between 1983 and 1988 mirrored the decline in U.S. imports of Caribbean petroleum and petroleum products. Since 1988, dutiable imports have increased by nearly $1 billion to account for almost 35 percent of total U.S. imports from the region. This increase mirrors the higher level of oil imports in 1990, which declined in 1991. More important, it reflects the increasing level of dutiable textile and apparel products as discussed in greater detail below as well.

---

[3] The dramatic increase in imports from Nicaragua reflects the lifting of an Executive Order imposing economic sanctions on that country and the restoration of CBERA benefits to Nicaragua. Executive Order 12513 of May 1, 1985, imposed an embargo on trade with Nicaragua in response to the policies and actions of the Sandinista government; this order was terminated by Executive Order 12707—Termination of Emergency with Respect to Nicaragua, *Presidential Documents*, Mar. 13, 1990, p. 402. For additional information, see "Letter to the Speaker of the House and the President of the Senate Transmitting the Executive Order Terminating the National Emergency with Respect to Nicaragua," *Presidential Documents*, Mar. 13, 1990, p. 412. Nicaragua became eligible for CBERA benefits effective Nov. 13, 1990. Presidential Proclamation 6223, published in *Federal Register*, vol. 55, Nov. 13, 1990, p. 47447.

**Table 2-3**
**Leading U.S. imports for consumption from countries designated under the CBERA,[1] 1987-91**

*(In thousands of dollars, customs value)*

| *HTS item* | *Description* | *1987* | *1988* | *1989* | *1990* | *1991* |
|---|---|---|---|---|---|---|
| 2709.00.20 | Petroleum oils and oils from bituminous minerals, crude | 521,755 | 413,181 | 474,047 | 649,365 | 516,764 |
| 0803.00.20 | Bananas, fresh or dried | 467,736 | 468,021 | 476,866 | 441,861 | 443,179 |
| 2710.00.05 | Distillate and residual fuel oils (including blends) | 516,056 | 412,005 | 312,291 | 426,916 | 405,628 |
| 6203.42.40 | Men's or boys' trousers, breeches and shorts, not knitted | 147,205 | 201,960 | 275,566 | 314,361 | 399,701 |
| 0901.11.00 | Coffee, not roasted, not decaffeinated | 592,130 | 372,559 | 367,994 | 401,969 | 368,251 |
| 2918.90.30 | Aromatic drugs derived from carboxylic acids with additional oxygen | 74,470 | 50,212 | 277,732 | 294,757 | 306,374 |
| 6204.62.40 | Women's or girls' trousers, breeches and shorts, not folklore | 63,440 | 100,689 | 156,276 | 150,722 | 197,797 |
| 9801.00.10 | U.S. goods returned without having been advanced in value | 86,677 | 109,090 | 129,020 | 183,228 | 183,027 |
| 6212.10.20 | Brassieres, other than containing lace, net or embroidery | 24,326 | 28,668 | 106,204 | 133,442 | 152,509 |
| 2606.00.00 | Aluminum ores and concentrates | 130,676 | 114,791 | 131,678 | 138,182 | 152,505 |
| 0306.13.00 | Shrimps and prawns, cooked in shell or uncooked, frozen | 154,435 | 147,681 | 156,597 | 115,268 | 144,131 |
| 1701.11.01 | Cane sugar entered pursuant to its provisions | (2) | (2) | (2) | 20,988 | 142,186 |
| 6110.20.20 | Sweaters, pullovers and similar articles, knitted | 41,952 | 46,090 | 40,337 | 82,323 | 137,350 |
| 2710.00.10 | Distillate and residual fuel oils (including blends) | 131,612 | 59,329 | 56,953 | 56,740 | 132,267 |
| 6109.10.00 | T-shirts, singlets, tank tops and similar garments | 21,490 | 41,298 | 48,685 | 84,042 | 128,228 |
| 6406.10.65 | Footwear uppers, other than formed, of leather | 56,588 | 63,865 | 71,488 | 116,656 | 121,305 |
| 6205.20.20 | Men's or boys' shirts, not knitted or crocheted, of cotton | 69,960 | 86,659 | 92,050 | 111,463 | 120,118 |
| 2710.00.15 | Motor fuel derived from bituminous minerals | 175,614 | 134,671 | 145,453 | 126,757 | 117,536 |
| 2710.00.25 | Naphthas (except motor fuel or motor fuel blending stock) | 19,473 | 7,281 | 33,109 | 41,647 | 113,696 |
| 2814.10.00 | Anhydrous ammonia | 38,446 | 56,693 | 77,429 | 71,235 | 107,644 |
| 9018.90.80 | Medical and surgical instruments and appliances | 1,494 | 17,101 | 63,466 | 83,451 | 107,601 |
| 2818.20.00 | Aluminum oxide, except artificial corundum | 16,989 | 49,174 | 92,144 | 100,762 | 106,884 |
| 0306.11.00 | Rock lobster and other sea crawfish, cooked in shell | 39,110 | 35,069 | 41,954 | 70,882 | 93,581 |
| 6203.43.40 | Men's or boys' trousers, breeches and shorts, not knitted | 57,971 | 61,718 | 68,045 | 53,001 | 86,886 |
| 0202.30.60 | Frozen boneless beef, except processed | 111,263 | 118,837 | 73,134 | 85,376 | 82,604 |
| 1701.11.02 | Other sugar to be used for the production (other than by distillation) of polyhydric alcohols | (2) | (2) | (2) | 3,204 | 79,384 |
| 6108.21.00 | Women's or girls' briefs and panties, knitted or crocheted | 10,183 | 17,628 | 29,743 | 45,851 | 77,014 |
| 7202.60.00 | Ferronickel | 32,390 | 59,938 | 56,634 | 67,426 | 62,984 |
| 6105.10.00 | Men's or boys' shirts, knitted or crocheted, of cotton | 43,189 | 53,672 | 62,397 | 59,084 | 58,708 |
| 7113.19.10 | Rope, curb, etc. in continuous lengths | 27,929 | 21,069 | 28,232 | 16,842 | 58,084 |
| 6108.22.00 | Women's or girls' briefs and panties, knitted or crocheted | 11,504 | 14,583 | 29,151 | 42,497 | 54,165 |
| 0201.30.60 | Fresh or chilled boneless beef, except processed | 12,363 | 13,201 | 49,576 | 45,657 | 51,127 |
| 7108.12.10 | Unwrought gold bullion and dore, nonmonetary | 63,232 | 48,314 | 64,833 | 49,485 | 51,120 |
| 6206.40.30 | Women's or girls' blouses and shirts, not knitted | 32,185 | 39,712 | 41,780 | 33,237 | 47,250 |
| 7113.19.50 | Articles of jewelry and parts thereof of precious metals | 11,449 | 12,954 | 42,333 | 54,346 | 41,883 |
| | Total of items shown | 3,805,290 | 3,477,717 | 4,173,197 | 4,773,025 | 5,449,472 |
| | Total all commodities | 6,099,089 | 6,062,175 | 6,895,789 | 7,525,208 | 8,229,366 |

[1] Data reflect the designated CBERA countries for each year as indicated.
[2] HTS item 1701.11.00 (raw cane sugar) became obsolete effective Oct. 1, 1990, when it was replaced by items 1701.11.01, 1701.11.02 and 1701.11.03.

Note.—1987-88 data are estimated under the HTS classification system.
Note.—Because of rounding, figures may not add to totals shown.
Source: Compiled from official statistics of the U.S. Department of Commerce.

Meanwhile, as table 2-4 also shows, the adjusted calculated duties the United States collected from the CBERA countries grew from $75.3 million in 1983 to $257.8 million in 1991. Calculated duties increased by nearly $48 million from 1990 to 1991 alone. Moreover, the average rate of duty has risen markedly since the CBERA has been in effect, from 1.3 percent in 1983 to almost 9.0 percent in 1991. The increase in U.S. tariff revenue from CBERA countries, despite fluctuations in the dutiable part (due largely to changes in petroleum imports) also reflects a shift in the product mix of dutiable U.S. imports from these countries towards high-duty goods, mostly wearing apparel.

Table 2-5 shows U.S. imports of selected product categories that, by statute,[4] are not eligible for CBERA duty-free entry. These categories include textiles and apparel; petroleum and petroleum products; certain handbags, luggage, and flat goods; footwear; work gloves; and certain leather apparel; and tuna.[5] Imports of these products declined from $4.8 billion, or slightly over one-half of imports in 1984 during the first year of the CBERA,[6] to a low of $2.2 billion, slightly above one-third of imports in 1986. Since 1986, non-CBERA-eligible imports have nearly doubled to reach $4.0 billion in 1991, or nearly one-half of total U.S. imports from the CBERA countries (table 2-6). The following sections discuss significant trends in U.S. imports of specific dutiable product categories.

## Textiles and apparel

Since 1988, textiles and apparel have been the leading category of non-CBERA-eligible U.S. imports from the region. Such imports have risen by over $1.0 billion since 1988 to a total of over $2.5 billion in 1991. From 1990 to 1991 alone, imports increased by over $500 million. Imports of some textile and apparel products have grown at an even more rapid pace—more than doubling since 1987 for items such as men's and boys' trousers (HTS subheading 6203.42.40), women's and girls' trousers (HTS subheading 6204.62.40), sweaters (HTS subheading 6110.20.20), and t-shirts (HTS subheading 6109.10.00) (table 2-3). However, only a few countries—notably the Dominican Republic, Costa Rica, Guatemala, Honduras, and Jamaica—account for this boom.[7] The Dominican Republic is the leading CBERA source of textiles and apparel. In recent years, several Central American countries, including Costa Rica, El Salvador, Guatemala, and Honduras have witnessed significant increases in investment and production in textile and apparel industries.

The growing U.S. demand for Caribbean textile and apparel products is a result of several different factors. These factors include the closeness of the CBERA countries to the U.S. mainland, easier access Caribbean producers have to the U.S. market than through the availability of guaranteed access levels (GALs),[8] the lower production costs of Caribbean producers relative to some producers in Asia, and quotas on Asian textile products.[9]

## Petroleum

Although U.S. imports of petroleum and petroleum products from all sources have increased during the years since the CBERA has been operative, imports of these products from the CBERA countries have declined sharply. Between 1984 and 1989, the annual value of U.S. petroleum imports from CBERA countries fell from $4.2 billion to $1.0 billion (table 2-5),[10] accounting for a significant portion of the decline in overall U.S. imports from the oil-exporting CBERA countries—Aruba, the Bahamas, the Netherlands Antilles, and Trinidad and Tobago.[11] The decline was chiefly due to reduced U.S. demand for Caribbean petroleum products and decisions by major oil companies to halt refining operations throughout the Caribbean Basin. Since 1989, U.S. petroleum imports from CBERA countries have recovered somewhat, rising to $1.4 billion in 1991 (table 2-5). A large jump in U.S. imports from Aruba in 1991 was largely due to the re-opening of the island's oil-refining plant, which had been closed since 1988.

[4] Sec. 213(b), CBERA, as amended. For a discussion of these statutory exclusions, see the section "Excluded Products" in ch. 1 of this report.

[5] Some of these products actually may have received duty-free entry under other U.S. programs or qualified for special tariff treatment under HTS heading 9802.00.80.

[6] For data prior to 1987, see U.S. International Trade Commission (USITC), *Annual Report on the Impact of the Caribbean Basin Economic Recovery Act on U.S. Industries and Consumers*. Hereafter in series *CBERA, Fourth Annual Report, 1988*, USITC publication 2225, Sept. 1989, table 1-9, p. 1-13.

[7] For a more detailed discussion of apparel imports form these countries, see USITC, *Potential Effects of a North American Free Trade Agreement on Apparel Investment in CBERA Countries*, USITC publication 2541, July 1992, p. 13.

[8] For a more detailed discussion of GALs, see the section "HTS Subheadings 9802.00.60 and 9802.00.80" in ch. 1 of this report.

[9] The 1986 Multifiber Arrangement (MFA) limited the growth of textile quotas for the then-dominant Asian suppliers, Taiwan, Korea, and Hong Kong. This limited quota growth raised the prices of these products, forcing Asian producers to shift production of basic goods to lower cost nations in the Caribbean and elsewhere. For further information, see USITC, *Operation of the Trade Agreements Program (OTAP)*, 42d Report 1990, USITC publication 2403, July 1991, p. 83.

[10] For data prior to 1987, see USITC, *CBERA, Fourth Annual Report, 1988*, table 1-9, p. 1-13.

[11] Imports from the Bahamas fell from $1.7 billion in 1983 to $378 million in 1987; imports from the Netherlands Antilles fell from $2.3 billion in 1983 to $479 million in 1987; and imports from Trinidad and Tobago declined from $1.3 billion in 1983 to $803 million in 1987. For additional information, see USITC, *CBERA, Third Annual Report, 1987*, USITC publication 2122, Sept. 1988, table 1-4, p. 1-4.

**Table 2-4**
**U.S. imports from the CBERA countries: Dutiable value, calculated duties, and average duty, 1983 and 1988-1991**

| *Item* | *1983* | *1988* | *1989* | *1990* | *1991* |
|---|---|---|---|---|---|
| Dutiable value (1,000 dollars)[1] | 5,673,886 | 1,975,850 | 2,101,839 | 2,573,813 | 2,869,880 |
| Dutiable as a percent of total imports | 64.7 | 32.6 | 31.7 | 34.2 | 34.9 |
| Calculated duties( 1,000 dollars)[1] | 75,293 | 157,605 | 180,130 | 209,913 | 257,785 |
| Average duty (percent)[2] | 1.3 | 8.0 | 8.6 | 8.2 | 9.0 |

[1] Dutiable value and calculated duty exclude the U.S. content entering under HTS heading 9802.00.80 and misreported imports. Data based on product eliibility corresponding to each year.
[2] Average duty = (calculated duty/dutiable value) x 100.

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

**Table 2-5**
**U.S. imports for consumption from CBERA countries of goods not eligible for duty-free treatment under CBERA, 1987-91**

*(In thousands of dollars, customs value)*

| *Product category*[1] | *1987* | *1988* | *1989* | *1990* | *1991* |
|---|---|---|---|---|---|
| Textiles and apparel | 1,148,432 | 1,488,812 | 1,753,055 | 2,006,348 | 2,558,240 |
| Petroleum and petroleum products | 1,376,662 | 1,058,524 | 1,044,432 | 1,340,317 | 1,399,607 |
| Footwear | 30,365 | 39,255 | 45,215 | 35,806 | 38,700 |
| Certain handbags, luggage, and flat goods | 20,215 | 20,410 | 16,669 | 18,264 | 26,651 |
| Certain leather apparel | 2,348 | 3,386 | 11,279 | 15,194 | 14,064 |
| Work gloves | 3,996 | 3,906 | 5,452 | 4,360 | 4,415 |
| Tuna | 117 | 14 | 2 | 111 | 0 |
| Total | 2,582,135 | 2,614,307 | 2,876,103 | 3,420,400 | 4,041,677 |

[1] Product categories are defined by HTS subheading in table B-3.

Note.—Figures for 1987-88 under the HTS classification system (see table B-3) are estimated.

Note.—Because of rounding, figures may not add to totals shown.

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

**Table 2-6**
**U.S. imports from CBERA countries of goods not eligible for CBERA duty-free treatment, 1984-91**

| *Item* | *1984* | *1985* | *1986* | *1987* | *1988* | *1989* | *1990* | *1991* |
|---|---|---|---|---|---|---|---|---|
| Non-eligible imports ($ billions) | 4.7 | 3.1 | 2.2 | 2.6 | 2.6 | 2.9 | 3.4 | 4.0 |
| Non-eligible imports (% of total imports) | 54.9 | 45.8 | 37.1 | 42.7 | 43.1 | 43.3 | 45.4 | 49.1 |

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

## Other products not eligible for the CBERA

U.S. imports of dutiable Caribbean footwear increased from $35.8 million in 1990 to $38.7 million in 1991, but remained below the $45.2 million level attained in 1989. Imports of handbags, luggage, and flat goods rose from $18.3 million in 1990 to $26.7 million in 1991—a record high level of imports for this category since the CBERA has been operative. Imports of work gloves remained virtually unchanged at $4.4 million in 1991 although imports of leather wearing apparel declined from $15.2 million in 1990 to $14.1 million in 1991. Effective January 1, 1992, duties on handbags, luggage, flat goods, work gloves, and leather wearing apparel from CBERA countries are being reduced by 20 percent in five equal annual stages.[12]

## *Special-Duty Imports*

Table 2-7 breaks down U.S. imports from the CBERA countries between 1989 and 1991 into their dutiable and duty-free portions. The dutiable value of items entered under HTS subheading 9802.00.60 (imported products containing certain metal of U.S.

[12] For further discussion of these duty reductions, see the section "Reduced Duties for Certain Goods" in ch. 1 of this report and the note in table B-3.

**Table 2-7**
**U.S. imports for consumption from countries designated under CBERA, by duty treatment, 1989-91**

| *Item* | *1989* | *1990* | *1991* |
|---|---|---|---|
| | *Value (1,000 dollars, customs value)* | | |
| Total imports | 6,637,440 | 7,525,208 | 8,229,366 |
| Dutiable value[1] | 2,101,839 | 2,573,813 | 2,869,880 |
| HTS 9802.00.60 and 9802.00.80 | 504,882 | 520,107 | 691,052 |
| HTS 9802.00.80.10 | 106,055 | 112,770 | 146,307 |
| HTS 9802.00.80.50 | 398,241 | 406,235 | 544,695 |
| Other | 1,596,957 | 2,053,706 | 2,178,828 |
| Duty-free value[2] | 4,535,601 | 4,951,395 | 5,359,486 |
| MFN[3] | 1,854,400 | 1,968,007 | 1,912,824 |
| CBERA[4] | 905,762 | 1,020,717 | 1,120,697 |
| GSP[4] | 415,859 | 472,303 | 410,439 |
| HTS 9802.00.60 and 9802.00.80 | 1,089,694 | 1,153,325 | 1,418,075 |
| HTS 9802.00.80.10 | 286,437 | 318,106 | 410,905 |
| HTS 9802.00.80.50 | 785,766 | 815,542 | 1,007,115 |
| Other duty free[5] | 269,886 | 337,042 | 497,451 |
| | *Percent of total* | | |
| Total imports | 100.0 | 100.0 | 100.0 |
| Dutiable value[1] | 31.7 | 34.2 | 34.9 |
| HTS 9802.00.60 and 9802.00.80 | 7.6 | 6.9 | 8.4 |
| HTS 9802.00.80.10 | 1.6 | 1.5 | 1.8 |
| HTS 9802.00.80.50 | 6.0 | 5.4 | 6.6 |
| Other | 24.1 | 27.3 | 26.5 |
| Duty-free value[2] | 68.3 | 65.8 | 65.1 |
| MFN[3] | 27.9 | 26.2 | 23.2 |
| CBERA[4] | 13.6 | 13.6 | 13.6 |
| GSP[4] | 6.3 | 6.3 | 5.0 |
| HTS 9802.00.60 and 9802.00.80 | 16.4 | 15.3 | 17.2 |
| HTS 9802.00.80.10 | 4.3 | 4.2 | 5.0 |
| HTS 9802.00.80.50 | 11.8 | 10.8 | 12.2 |
| Other duty free[5] | 4.1 | 4.5 | 6.0 |

[1] Reported dutiable value has been reduced by the duty-free value of imports recorded under HTS subheadings 9802.00.60 and 9802.00.80 and increased by the value of ineligible items that were reported as entering under the CBERA and GSP programs.
[2] The total duty-free value is calculated as total imports less dutiable value as defined above.
[3] Figures for MFN duty-free imports represent the value of imports which have a col. 1-general duty rate of zero.
[4] Values for CBERA and GSP duty-free imports have been reduced by the value of MFN duty-free imports and ineligible items that were misreported as entering under the programs.
[5] The value for other duty-free imports was calculated as a remainder and represents imports entering free of duty under special rate provisions.

Note.—Because of rounding, figures may not add to totals shown.

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

origin returned for further processing) and heading 9802.00.80 (imported assembled products containing U.S. components) totaled $691.1 million in 1991, an increase of about 32.9 percent over 1990 (table 2-7).[13]

The dutiable value recorded under HTS heading 9802.00.80 consists largely of the value of sewing or assembling U.S. textiles and apparel articles in CBERA countries.[14] Such dutiable imports, reported under HTS item 9802.00.80.50, totaled $544.7 million in 1991—an increase of 34.1 percent over 1990. The dutiable value of textile and apparel products entered under quotas set by GAL agreements,[15] reported under HTS statistical number 9802.00.8010, totaled $146.3 million in 1991—an increase of 29.7 percent over 1990 (table 2-7).

[13] For a more detailed discussion of HTS subheading 9802.00.60 and heading 9802.00.80, see the section "Special-Duty Imports" in ch. 1 of this report.
[14] For a discussion of modifications to the HTS to allow duty-free entry to certain articles other than textiles, apparel, and petroleum, see the section "U.S.-Origin Components" in ch. 1 of this report.
[15] For further discussion of GAL agreements for textiles and apparel, see the section "Special-Duty Imports" in ch. 1 of this report.

# Duty-Free Imports

Imports from Caribbean Basin countries are afforded duty-free entry under several U.S. trade provisions, including most-favored-nation status (MFN), the Generalized System of Preferences (GSP), and the CBERA.[16] Because of overlapping eligibility provisions, certain Caribbean Basin products may be eligible for duty-free entry under more than one U.S. program.

## *MFN Duty-free Imports*

Imports that entered unconditionally free of duty as MFN products (i.e., goods with a column 1-general duty rate of free) totaled $1.9 billion in 1991—about equal to the average value of MFN duty-free imports since the CBERA began. However, since 1986, MFN duty-free imports have consistently made up a declining portion of overall U.S. imports from the CBERA countries. MFN duty- free imports peaked at 38.6 percent of the total in 1986,[17] and declined to 23.2 percent by 1991 (table 2-7).

## *GSP Duty-free Imports*

CBERA-origin imports entering the United States free of duty under the GSP program[18] were valued at $410 million in 1991—the smallest value for GSP imports since the CBERA became effective. GSP imports accounted for only 5.0 percent of U.S. imports from the CBERA countries in 1991—the lowest share of total imports during the period of the CBERA since 1987, when the share also totaled 5.0 percent (table 2-7).[19]

## *CBERA Duty-free Imports*

U.S. imports afforded duty-free entry under the CBERA[20] totaled over $1.1 billion in 1991, nearly double the $576 million in 1984, the first year of the program. CBERA duty-free imports made up 13.6 percent of total U.S. imports from beneficiaries in 1991, double the 6.7 percent in 1984 but unchanged since 1989 (table 2-7).[21]

Table 2-8 shows the leading CBERA duty-free imports in 1988-91, the value of these imports, the percentage of these imports to total imports of the products from the CBERA countries,[22] and the principal CBERA source of each product in 1991. As in recent years, in 1991 beef (HTS subheadings 0202.30.60, 0201.30.60, and 0201.30.40) by far was the leading product the United States imported under the CBERA. Almost 99 percent of beef imports from CBERA countries actually entered under the CBERA. Costa Rica was the leading supplier. U.S. beef imports under the CBERA totaled $147.4 million ($142.0 million in 1990) or 13.2 percent of all 1991 CBERA imports.

The CBERA utilization ratio is calculated as the percentage of eligible imports (i.e., imports not excluded from CBERA benefits or already eligible for MFN duty-free entry) that actually entered free of duty under the CBERA. As already mentioned, all or nearly all products that entered free of duty under the CBERA also were eligible for duty-free entry under the GSP. Nevertheless, the ratio provides an estimate of the extent to which the CBERA has been used. The CBERA utilization ratio rose substantially from 33.5 percent in 1984[23] to a peak of 53.8 percent in 1987, and declined moderately to 46.6 percent in 1989. The ratio increased to 48.7 percent in 1991 (table 2-9).

## *Import Profiles of Leading CBERA Countries*

Table 2-10 ranks the CBERA-eligible countries by the value of their shipments to the United States under CBERA provisions in 1991 and shows the relative changes in these rankings since 1987. Appendix table B-4 lists the leading items the United States imported under the CBERA from each of the beneficiaries in 1991.

The Dominican Republic and Costa Rica continued to lead the countries taking advantage of the CBERA, as they have in almost every year since the program became effective in 1984. Since 1989, these two countries collectively have been responsible for more than one-half of overall annual U.S. imports under the CBERA; in 1991, they provided nearly 58.2 percent of all duty-free CBERA imports (table 2-10).

From the beginning of the program, the Dominican Republic has been the leading source of duty-free imports under the CBERA. The Dominican Republic was the leading CBERA source of U.S. imports of footwear uppers, medical instruments, electrical apparatus, cigars, certain jewelry items, and cane

[16] These programs are discussed in greater detail in ch. 1 of this report.

[17] For data prior to 1989, see USITC, *CBERA, Fourth Annual Report, 1988*, table 1-6, p. 1-8.

[18] Data in this chapter on the GSP show the value of products with duty-free entry less MFN duty-free imports. However, these imports also were eligible for duty-free entry under the CBERA.

[19] For data prior to 1989, see USITC, *CBERA, Fourth Annual Report, 1988*, table 1-6, p. 1-8.

[20] Data in this chapter on the CBERA show the value of products entered free of duty less MFN duty-free imports. However, some of these imports also were eligible for duty-free entry under the GSP program. The data are disaggregated further in ch. 3.

[21] For data prior to 1989, see USITC, *CBERA, Fourth Annual Report, 1988*, table 1-6, p. 1-8.

[22] The values of total imports for some of these products are listed in table 2-3.

[23] USITC, *CBERA, Fourth Annual Report, 1988*, table 1-7, p. 1-10.

**Table 2-8**
**Leading U.S. imports for consumption entered under CBERA provisions, by descending customs value of duty-free imports, 1988-91**

| HTS item | Description | 1988 CBERA duty-free imports | 1988 CBERA imports as a percent of total imports | 1989 CBERA duty-free imports | 1989 CBERA imports as a percent of total imports | 1990 CBERA duty-free imports | 1990 CBERA imports as a percent of total imports | 1991 CBERA duty-free imports | 1991 CBERA imports as a percent of total imports | Leading Source[1] |
|---|---|---|---|---|---|---|---|---|---|---|
| | | 1,000 dollars | | 1,000 dollars | | 1,000 dollars | | 1,000 dollars | | |
| 1701.11.00 | Cane sugar, raw, not containing added flavoring or coloring[2] | 93,137 | 69.7 | 106,446 | 61.7 | 117,377 | 51.1 | 116,356 | 52.5 | Guatemala |
| 0202.30.60 | Frozen boneless beef, except processed | 109,989 | 92.6 | 70,804 | 96.8 | 84,320 | 98.8 | 80,321 | 97.2 | Costa Rica |
| 6406.10.65 | Footwear uppers, other than formed, of leather | 12,320 | 19.3 | 11,877 | 16.6 | 25,148 | 21.6 | 70,479 | 58.1 | Dominican Republic |
| 0201.30.60 | Fresh or chilled boneless beef, except processed | 12,218 | 92.6 | 47,685 | 96.2 | 45,525 | 99.7 | 50,951 | 99.7 | Costa Rica |
| 9018.90.80 | Instruments and appliances, medical, surgical, dental and other | 8,660 | 50.6 | 27,054 | 42.7 | 55,164 | 66.1 | 48,659 | 45.2 | Dominican Republic |
| 8538.90.00 | Parts n.e.s.i., suitable for use solely or principally with apparatus of heading 8535, 8536, 8537 | 4,737 | 60.9 | 11,850 | 62.1 | 12,457 | 71.4 | 35,198 | 92.3 | Dominican Republic |
| 2402.10.80 | Cigars, cheroots and cigarillos valued over $0.23 | 22,121 | 62.5 | 25,613 | 78.8 | 35,459 | 96.2 | 33,008 | 97.4 | Dominican Republic |
| 2207.10.60 | Undenatured ethyl alcohol, for nonbeverage use | 10,641 | 62.2 | 21,093 | 100.0 | 14,534 | 84.6 | 32,368 | 97.2 | Jamaica |
| 7113.19.50 | Articles of jewelry and parts thereof of precious metal | 1,226 | 9.5 | 16,106 | 38.1 | 27,099 | 49.9 | 29,529 | 70.5 | Dominican Republic |
| 0804.30.40 | Pineapples, fresh or dried | 29,438 | 98.3 | 32,000 | 87.5 | 34,195 | 84.5 | 29,442 | 76.9 | Costa Rica |
| 9506.69.20 | Baseballs and softballs | 26,293 | 69.2 | 28,833 | 77.8 | 33,607 | 77.7 | 29,386 | 83.1 | Haiti |
| 0807.10.20 | Cantaloupes, fresh, entered between 9/16-7/31 | 8,517 | 76.1 | 12,167 | 64.3 | 22,466 | 95.0 | 28,288 | 98.8 | Costa Rica |
| 0807.10.70 | Melons, n.e.s.i., fresh, entered between 12/1-5/31 | 8,406 | 80.2 | 7,182 | 72.0 | 9,599 | 92.1 | 20,070 | 98.5 | Costa Rica |
| 0302.69.40 | Fish, excl. fillets, livers and roes, fresh, chilled | 7,785 | 34.0 | 11,054 | 45.7 | 16,828 | 50.1 | 18,694 | 60.8 | Costa Rica |
| 0201.30.40 | Fresh or chilled boneless beef, processed | 0 | 0.0 | 1,217 | 100.0 | 12,110 | 100.0 | 16,162 | 100.0 | Costa Rica |
| 2401.20.80 | Tobacco, partly or wholly stemmed | 2,590 | 76.1 | 9,617 | 99.7 | 13,272 | 99.9 | 12,487 | 100.0 | Guatemala |
| 8536.90.00 | Electrical apparatus n.e.s.i., for switching/making connections | 3,406 | 52.4 | 21,326 | 55.1 | 21,802 | 60.8 | 11,547 | 49.6 | Dominican Republic |

**Table 2-8—Continued**
**Leading U.S. imports for consumption entered under CBERA provisions, by descending customs value of duty-free imports, 1988-91**

| | | 1988 | | 1989 | | 1990 | | 1991 | | |
|---|---|---|---|---|---|---|---|---|---|---|
| *HTS item* | *Description* | *CBERA duty-free imports* | *CBERA imports as a percent of total imports* | *CBERA duty-free imports* | *CBERA imports as a percent of total imports* | *CBERA duty-free imports* | *CBERA imports as a percent of total imports* | *CBERA duty-free imports* | *CBERA imports as a percent of total imports* | *Leading Source*[1] |
| | | *1,000 dollars* | | *1,000 dollars* | | *1,000 dollars* | | *1,000 dollars* | | |
| 7213.31.30 | Bars and rods, hot-rolled, of iron or non-alloy steel | 1,094 | 100.0 | 5,322 | 60.7 | 10,211 | 100.0 | 10,822 | 100.0 | Trinidad and Tobago |
| 1703.10.50 | Cane molasses n.e.s.i | 8,922 | 52.0 | 7,933 | 58.4 | 8,211 | 42.0 | 9,799 | 46.6 | Dominican Republic |
| 2208.40.00 | Rum and tafia | 4,065 | 64.7 | 7,770 | 79.9 | 13,669 | 89.6 | 9,216 | 81.4 | Jamaica |
| | Total of above items | 375,565 | 6.2 | 482,949 | 7.3 | 613,053 | 8.2 | 692,782 | 8.4 | |
| | Total, all items entering under CBERA | 790,941 | 13.0 | 905,762 | 13.6 | 1,022,686 | 13.6 | 1,120,697 | 13.6 | |

[1] Indicates leading CBERA source based on total U.S. imports for consumption during 1991.
[2] HTS item 1701.11.00 became obsolete effective Oct. 1, 1990, when it was replaced by items 1701.11.01, 1701.11.02, and 1701.11.03. In this report, 1990 and 1991 data on all three of these items are included under item 1701.11.00.

Note.—Figures for 1988 are estimated under the HTS classification system.

Note.—Because of rounding, figures may not add to totals shown.

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

**Table 2-9**
**U.S. imports for consumption from the designated CBERA countries: Eligibility and utilization of the CBERA program, 1987-91**

*(In thousands of dollars or percent)*

| *Item* | *1987* | *1988* | *1989* | *1990* | *1991* |
|---|---|---|---|---|---|
| Eligible duty-free under CBERA[1] | 1,427,192 | 1,559,577 | 1,906,937 | 2,136,801 | 2,272,420 |
| Entered duty-free under CBERA[2] | 768,467 | 790,941 | 905,762 | 1,020,717 | 1,120,697 |
| CBERA utilization ratio[3] | 53.84 | 50.72 | 47.50 | 47.77 | 48.67 |

[1] Calculated as: total CBERA imports (table 2-7) minus imports not eligible for CBERA duty-free entry (table 2-5) minus MFN duty-free imports (table 2-7).
[2] From table 2-7.
[3] Utilization ratio = (entered duty-free entries/eligible entries) * 100.

Note.—For data for years not shown, see USITC, *CBERA, Third Annual Report, 1987*, table 1-8, p. 1-9.

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

**Table 2-10**
**U.S. imports for consumption under CBERA provisions, by designated country, 1987-91**

*(In thousands of dollars)*

| *Rank* | *Country* | *1987* | *1988* | *1989* | *1990* | *1991* |
|---|---|---|---|---|---|---|
| 1 | Dominican Republic | 178,938 | 242,549 | 299,173 | 311,074 | 402,507 |
| 2 | Costa Rica | 129,577 | 141,076 | 190,756 | 218,380 | 249,553 |
| 3 | Guatemala | 57,621 | 77,256 | 112,627 | 154,205 | 137,157 |
| 4 | Honduras | 53,150 | 56,181 | 52,647 | 67,891 | 80,463 |
| 5 | Jamaica | 58,293 | 42,022 | 51,542 | 60,689 | 60,080 |
| 6 | Haiti | 77,906 | 83,309 | 67,548 | 63,792 | 50,053 |
| 7 | El Salvador | 22,135 | 22,177 | 27,606 | 28,313 | 30,041 |
| 8 | Trinidad and Tobago | 26,044 | 41,938 | 32,368 | 38,274 | 26,542 |
| 9 | Panama[1] | 18,539 | 9,717 | (4) | 12,343 | 17,417 |
| 10 | Nicaragua[2] | (4) | (4) | (4) | 174 | 16,849 |
| 11 | Barbados | 20,223 | 19,125 | 14,850 | 15,198 | 15,728 |
| 12 | Bahamas | 95,488 | 10,692 | 9,085 | 8,578 | 10,651 |
| 13 | St. Kitts and Nevis | 9,592 | 9,417 | 14,033 | 10,136 | 5,857 |
| 14 | Belize | 11,579 | 18,845 | 14,028 | 18,566 | 5,445 |
| 15 | Netherlands Antilles | 1,199 | 2,603 | 2,529 | 4,518 | 5,240 |
| 16 | St. Lucia | 2,568 | 3,007 | 2,971 | 3,552 | 3,195 |
| 17 | Dominica | 626 | 358 | 844 | 1,329 | 1,364 |
| 18 | Grenada | 31 | 118 | 2,200 | 2,808 | 1,307 |
| 19 | Antigua | 333 | 255 | 2,309 | 675 | 548 |
| 20 | Guyana[3] | (4) | 131 | 2,769 | 521 | 506 |
| 21 | St. Vincent and Grenadines | 4,583 | 9,990 | 5,642 | 1,516 | 140 |
| 22 | British Virgin Islands | 28 | 56 | 138 | 157 | 51 |
| 23 | Aruba | 14 | 0 | 0 | 4 | 0 |
| 24 | Montserrat | 0 | 118 | 96 | 0 | 0 |
| | Total | 768,467 | 790,941 | 905,762 | 1,020,717 | 1,120,697 |

[1] Panama lost its beneficiary status effective Apr. 8, 1988 and was reinstated effective Mar. 17, 1990.
[2] Nicaragua was designated as a beneficiary effective Nov. 13, 1990.
[3] Guyana was designated as a beneficiary effective Nov. 24, 1988.
[4] Not applicable.

Note.—Because of rounding, figures may not add to totals shown.

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

molasses in 1991. Costa Rica, the second-largest source of CBERA imports in all years except 1984,[24] was the leading CBERA supplier of beef, pineapples, melons, and fish (table 2-8).

Guatemala and Honduras ranked as the third- and the fourth-leading sources, respectively, of CBERA imports in 1991. While Guatemala has been the third-leading CBERA source of U.S. imports since 1989, imports from that country fell from a record high of $154.2 million in 1990 to $137.2 million in 1991. Contributing to the decline in U.S. imports from

[24] For data prior to 1987, see USITC, *CBERA, Third Annual Report, 1987*, table 1-11, p. 1-13.

Guatemala were sugar, down from $35.0 million in 1990 to $29.5 million in 1991;[25] beef, down from $39.1 million to $27.6 million; and tobacco, down from $13.4 million to $10.9 million. U.S. imports from Honduras expanded, however, led by increases in imports of beef and baseballs and softballs (appendix table B-4).[26]

Imports under CBERA provisions from Jamaica totaled $60.1 million in 1991, down from $60.7 million in 1990. Despite this marginal decline, Jamaica replaced Haiti as the fifth-largest source of imports under the CBERA. As in past years, Jamaica was the leading Caribbean source of both nonbeverage ethyl alcohol (ethanol) and rum (table 2-8). U.S. imports of Jamaican ethyl alcohol rose from $14.5 million in 1990 to $26.3 million in 1991,[27] more than offsetting lower imports of Jamaican rum, down from $9.8 million in 1990 to $5.7 million in 1991, sugar, down from $8.2 million to $4.8 million,[28] and cigars, down from $5.5 million to $4.5 million (appendix table B-4).[29]

The embargo on most U.S. trade with Haiti,[30] and the ensuing acceleration of Haiti's economic deterioration, displaced Haiti from the fifth- to the sixth-leading source of imports under the CBERA. Imports from Haiti fell from $63.8 million in 1990 to $50.1 million in 1991. Although Haiti remained the principal Caribbean source of baseballs and softballs for the U.S. market (table 2-8), imports of these products declined from $19.7 million to $12.5 million in 1991 (appendix table B-4).

El Salvador displaced Trinidad and Tobago as the seventh-leading source of imports under the CBERA. U.S. imports from El Salvador increased moderately from $28.3 million to $30.0 million, led by an increase in imports in raw cane sugar from $7.6 million in 1990 to $9.1 million in 1991, as El Salvador shipped its full quota allocation.[31] Conversely, imports from Trinidad and Tobago fell sharply, from $38.3 million to $26.5 million, led by a fall in raw cane sugar imports due to rising production costs in that country's sugar industry—resulting in no reported U.S. sugar imports from Trinidad and Tobago during 1991.[32] Trinidad and Tobago remained the principal CBERA supplier of iron and steel bars (table 2-8).

There were several trade developments in 1991 regarding the smaller CBERA countries. Imports from St. Kitts and Nevis fell from $10.1 million in 1990 to $5.9 million in 1991 as at least three electronics assembly plants, one locally owned and two subsidiaries of U.S. companies, cut production and reduced staff due to declining U.S. demand.[33] Imports from Belize plummeted from $18.6 million in 1990 to $5.4 million in 1991. Belize was the principal CBERA supplier of frozen concentrated orange juice and grapefruit juice in 1990,[34] and shipments fell off sharply due to the effects of a poor citrus crop harvest. U.S. imports from St. Vincent and the Grenadines declined to $140,000 as that country continued to reel from the impact of the 1990 loss of manufacturing firms that had employed nearly one-third of the local work force.[35] There were no CBERA imports from either Aruba or Montserrat in 1991. Aruba is an oil-exporting country and—like Antigua and Barbuda and the British Virgin Islands—has an economy based on tourism and offshore financial services. Montserrat, like Dominica and the Netherlands Antilles, exports primarily to the European Community.[36]

[25]Total sugar imports from Guatemala increased, however, from $62.9 million in 1990 to $84.6 million in 1991 (compiled from official statistics of the U.S. Department of Commerce). The United States reduced the quota for sugar from Guatemala from 79,640 metric tons (mt) during 1990-1991 to 63,424 mt during 1991-1992. U.S. quotas on sugar are discussed in greater detail in ch. 3.

[26] For 1990 data, see USITC, *CBERA, Sixth Annual Report, 1990*, USITC publication 2432, Sept. 1981, table B-4.

[27] U.S. imports of ethyl alcohol from CBERA countries are discussed in more detail in ch. 3 of this report.

[28] The United States reduced the quota for sugar from Jamaica from 18,251 mt during 1990-91 to 14,535 mt during 1991-92. U.S. sugar quotas are discussed in greater detail in ch. 3.

[29]For 1990 data, see USITC, *CBERA, Sixth Annual Report, 1990*, table B-4.

[30]For additional information, see the discussion of Haiti in the section "CBERA Beneficiaries" in ch. 1 of this report.

[31]The United States has reduced the quota for sugar from El Salvador from 43,138 mt during 1990-91 to 34,355 mt during 1991-92. U.S. sugar quotas are discussed in greater detail in ch. 3.

[32]For further information on problems in the sugar industry in Trinidad and Tobago, see "Business Opportunities in Trinidad and Tobago," *Caribbean Week*, Special Section, Nov. 16-29, 1991, p. 11. The United States reduced the quota for sugar from Trinidad and Tobago from 11,614 mt during 1990-91 to 9,249 mt during 1991-92. U.S. sugar quotas are discussed in greater detail in ch. 3.

[33]*Caribbean Update*, Oct. 1991, p. 17.

[34]For data on Belize, see USITC, *CBERA, Sixth Annual Report, 1990*, table 2-5, p. 2-10 and table B-4, p. B-6.

[35]The 1990 shut-down of a sporting goods manufacturer in St. Vincent is reported in USITC, *CBERA, Sixth Annual Report, 1990*, p. 4-3.

[36]For further information on the primary export markets for the CBERA countries, see *Caribbean Business Directory, 1991* (Caribbean Publishing Company, Ltd., 1991).

# CHAPTER 3
# Impact of the CBERA in 1991

Since it began in 1984, the Caribbean Basin Economic Recovery Act (CBERA) has had almost no economic effects on industries, consumers, or the overall economy of the United States. In each year between 1984 and 1991, the value of CBERA duty-free U.S. imports from CBERA countries was equal to about 0.02 percent of U.S. GNP. The total value of imports from CBERA countries remained small—amounting to 1.7 percent of total U.S. imports in 1991.

This chapter presents estimates of the net welfare effects of the CBERA on the U.S. economy in 1991. The first section describes the imported products that benefited most from the CBERA in 1991. The second section discusses how the analytical approach used here measures the net welfare effects of CBERA in 1991. The third section discusses quantitative estimates of CBERA impact in terms of net welfare and domestic output, leading to the conclusion that the economic impact of CBERA imports on the U.S. economy was minimal again in 1991.

## Products Most Affected by the CBERA

Since the inception of the program, U.S. imports that benefited from CBERA elimination of duties have accounted for a very small portion of total U.S. imports from CBERA countries. This chapter defines imports benefiting from the CBERA as products that are not excluded by the CBERA,[1] or that would not otherwise have entered the United States free of duty either at most-favored-nation (MFN) rates or under the Generalized System of Preferences (GSP).[2] This definition includes imports that either exceeded the GSP competitive need limits or that had never been eligible for GSP treatment, but that nevertheless were eligible for duty-free entry under the CBERA.

Between 1990 and 1991, the value of imports that would not have received duty-free entry without the CBERA increased by 22 percent from $422 million to $515 million (table 3-1). Such imports made up 6.3 percent of total U.S. imports from CBERA countries in 1991, a modest increase from 5.6 percent of total imports in 1990.

Since 1984, there has been little change in the product mix of CBERA imports (table 2-8). As in previous years, some leading items imported under the CBERA free of duty in 1991 were also eligible for GSP duty-free treatment (for example, medical, surgical and dental instruments and appliances, baseballs and softballs, and jewelry). These products did not exceed the GSP competitive need limits and thus could have received duty-free entry (under GSP) even if CBERA duty-free eligibility had been eliminated. For the reasons stated above, these GSP-eligible products were not considered to contribute to the effects of the CBERA. Five GSP-eligible products exceeded the competitive need limits and thus are included in this report analysis. These products were cigars, raw cane sugar, and leather footwear uppers from the Dominican Republic, and pesticides and frozen vegetables from Guatemala (table 3-2).

Products that were identified in previous annual CBERA reports as benefiting the most from the CBERA between 1984 and 1990 continued to rank among the leading products entered under CBERA provisions in 1991.[3] Beef, pineapples, frozen

[1] For more detailed information on items excluded from duty-free entry under the CBERA, see the discussions of the CBERA in ch. 1 of this report.

[2] MFN tariff treatment is discussed in the section "Trade Benefits Under the CBERA" in ch. 1 of this report. GSP duty-free entry is discussed in the section "Other U.S. Special Duty Programs" in ch. 1 of this report.

[3] The first CBERA report analyzed the effects of the one-time duty change in 1984 and identified those products most affected by the CBERA. The products that were identified as most likely to benefit from the duty elimination in 1984 were selected from a 1983 list of the leading U.S. dutiable imports from CBERA beneficiary countries. 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 most affected products. For further discussion, see U.S. International Trade Commission (USITC), *Annual Report on the Impact of the Caribbean Basin Economic Recovery Act on U.S. Industries and Consumers*. Hereafter in series *CBERA, First Annual Report, 1984-1985*, USITC publication 1897, Sept. 1986, pp. 2-2 to 2-4; *CBERA, Second Annual Report, 1986*, USITC publication 2024, Sept. 1987, pp. 13-15; *CBERA, Third Annual Report, 1987*, USITC publication 2122, Sept. 1988, pp. 2-2 to 2-3; *CBERA, Fourth Annual Report, 1988*, USITC publication 2225, Sept. 1989, pp. 2-3 to 2-4; *CBERA, Fifth Annual Report, 1989*, USITC publication 2321, Sept. 1990, pp. 3-2 to 3-3; and *CBERA, Sixth Annual Report, 1990*, USITC publication 2432, Sept. 2992, pp. 3-2 to 3-3.

**Table 3-1**
**Customs value of products that benefited from CBERA duty elimination, 1989-1991**

| Item | 1989 | 1990 | 1991 |
|---|---|---|---|
| Items benefiting from CBERA:[1] | | | |
| Value (million dollars) | 331 | 422 | 515 |
| Percent of total | 5.0 | 5.6 | 6.3 |
| Items entered under CBERA:[2] | | | |
| Value (million dollars) | 906 | 1,021 | 1,121 |
| Percent of total | 13.6 | 13.6 | 13.6 |
| Total CBERA country imports: | | | |
| Value (million dollars) | 6,637 | 7,525 | 8,229 |

[1] CBERA duty-free imports less MFN duty-free imports and less GSP duty-free imports (except imports that exceeded GSP competitive need limits and were eligible for duty-free entry under the CBERA).
[2] CBERA duty-free imports less MFN duty-free imports.

Source: Estimated by USITC staff from official statistics of the U.S. Department of Commerce.

concentrated orange juice, and rum consistently have ranked among the leading items entering under CBERA provisions since 1984. Raw cane sugar from the Dominican Republic also ranks as one of these leading products during the past eight years, with the exception of 1989, a year when it also was eligible for GSP duty-free entry.[4] Ethyl alcohol ranked as one of the leading items entering under CBERA provisions in each of the past seven years. Table 3-2 presents the leading 30 eligible items, on an 8-digit Harmonized Tariff Schedule (HTS) subheading basis, imported under the CBERA that were not GSP-eligible (except those that had exceeded the competitive need limits) or MFN free of duty.

# Products That Benefited Most from the CBERA in 1991

Recent industry highlights follow of the seven leading eligible items that benefited from the CBERA in 1991 and that were not unconditionally free of duty or that were not GSP-eligible goods: beef and veal, leather footwear uppers, sugar, pineapples, ethyl alcohol, cigars, and frozen vegetables.

## *Beef and Veal*

U.S. imports of beef and veal (HTS subheadings 0201.30.40, 0201.30.60, 0202.30.40, and 0202.30.60) under CBERA provisions increased from $157.5 million in 1990 to $164.0 million in 1991, or by 4.1 percent.[5] The quantity of imports increased by 4.4 percent, from 129.2 million pounds to 134.9 million pounds during the same period. U.S. imports of all quota-type meats (which include all fresh, chilled, or frozen beef and veal) from CBERA countries increased from 128.3 million pounds in 1990 to 136.2 million pounds in 1991, or by 7.9 million pounds.[6] A 32.8 million pound decline in combined imports of quota-type meats from Australia and New Zealand[7] may have given CBERA countries a chance to increase exports to the United States. Voluntary restraint agreements (VRAs) with Australia and New Zealand limited beef imports from those countries during the last quarter of 1991.[8] Imports from CBERA countries have not been subject to VRAs since 1979.[9] Also, the U.S. Department of Agriculture (USDA) reports that "tight supplies and relatively high prices for domestic cow beef"[10] may have stimulated U.S. demand for imports.

Costa Rica is the leading Caribbean source of beef for the U.S. market. Imports of quota-type meats from Costa Rica increased from $49.8 million in 1990 to $56.3 million in 1991 (from 41.9 million pounds to 46.1 million pounds).[11] On September 3, 1991, two plants in Costa Rica were authorized by the USDA to ship meat to the United States, thereby increasing from four to six the total number of authorized plants in that

[4] Because sugar from the Dominican Republic is subject to U.S. quotas, the elimination of tariffs on Dominican Republic sugar does not affect its price to U.S. consumers. In this instance, the CBERA tariff elimination merely redistributes tariff revenue from the U.S. Treasury to the quota rents of Dominican Republic sugar exporters. There is no benefit to U.S. consumers nor is there any displacement of U.S. producers' domestic shipments with the elimination of the tariff on sugar. Sugar quotas are discussed in further detail in the section "Products That Benefited Most from the CBERA in 1991" below.

[5] Compiled from official statistics of the U.S. Department of Commerce.
[6] Facsimile transmission from U.S. Department of Agriculture (USDA) Foreign Agricultural Service (FAS), July 1, 1992.
[7] Ibid.
[8] USDA Economic Research Service, *Livestock and Poultry Situation and Outlook Report* (LPS-53), May 1992, p. 25.
[9] Ibid.
[10] USDA Economic Research Service, *Livestock and Poultry Situation and Outlook Report* (LPS-51), Jan. 1992, p. 13.
[11] Facsimile transmission from USDA FAS, July 1, 1992.

**Table 3-2**
**C.i.f. value of leading imports that benefited from CBERA duty-free entry in 1991**

*(In thousands of dollars)*

| *HTS subheading* | *Description* | *CBERA-beneficiary imports* |
|---|---|---|
| 0202.30.60 | Frozen boneless beef, except processed | 185,022 |
| 6406.10.65[1] | Footwear uppers, other than formed, of leather | 59,380 |
| 0201.30.60 | Fresh or chilled boneless beef, except processed | 54,308 |
| 1701.11.01[1] | Raw cane sugar | 53,893 |
| 0804.30.40 | Pineapples, fresh or dried | 34,215 |
| 2207.10.60 | Undenatured ethyl alcohol, for nonbeverage purposes | 33,906 |
| 2402.10.80[1] | Cigars, cheroots, and cigarillos valued ≥ $0.23 | 22,642 |
| 0710.80.95[2] | Frozen vegetables (asparagus, broccoli, and other), reduced in size | 18,152 |
| 0201.30.40 | Fresh or chilled boneless beef, processed, except high quality | 17,394 |
| 2401.20.80 | Tobacco, partly or wholly stemmed | 12,837 |
| 7213.31.30 | Irregularly wound coils of hot-rolled rod | 11,989 |
| 2208.40.00 | Rum and tafia | 9,871 |
| 8533.40.00 | Electrical variable resistors | 8,494 |
| 2009.40.40 | Pineapple juice, concentrated | 8,199 |
| 8533.21.00 | Electrical fixed resistors | 7,876 |
| 8532.24.00 | Ceramic dielectric fixed capacitors, multilayer | 7,873 |
| 0202.30.40 | Frozen boneless beef, processed, except high quality | 7,248 |
| 2009.11.00 | Frozen orange juice, concentrated | 6,611 |
| 0710.80.70[3] | Frozen vegetables (carrots and other), not reduced in size | 6,606 |
| 2401.10.60 | Cigarette leaf, not stemmed | 6,306 |
| 0603.10.60 | Roses, fresh cut | 5,070 |
| 8532.21.00 | Tantalum electrolytic fixed capacitors | 4,439 |
| 2933.19.25[3] | Aromatic pesticides | 3,905 |
| 2402.10.60 | Cigars, cheroots, and cigarillos valued ≥ $0.15 and < $0.23 | 3,097 |
| 0807.10.10 | Cantaloupes, fresh, entered between 8/1-9/15 | 2,543 |
| 3926.20.50 | Articles of plastic apparel and clothing | 2,531 |
| 9113.20.40 | Watch straps, watch bands, and watch bracelets | 2,474 |
| 0802.90.90 | Shelled nuts, n.e.s.i | 2,470 |
| 7214.40.00 | Hot-rolled bars and rods containing < 0.25% carbon | 2,289 |
| 2004.90.90 | Frozen prepared vegetables and vegetable mixtures | 1,923 |

[1] Items benefiting from CBERA duty-free treatment from the Dominican Republic that were not GSP eligible during all or part of 1991. The dates when these items lost GSP eligibility are as follows: sugar-July 1990, cigars-July 1989, footwear uppers-July 1991.
[2] Includes imports entered under HTS subheadings 0710.80.93 and 0710.80.97. Effective July 1, 1991, HTS subheadings 0710.80.93 and 0710.80.97 replaced HTS subheading 0710.80.95.
[3] Items benefiting from CBERA duty-free treatment from Guatemala that were not GSP eligible during all or part of 1991. The dates when these items lost GSP eligibility are as follows: frozen vegetables-July 1991, pesticides-July 1990. GSP eligibility for pesticides was regained in July 1991.

Source: Estimated by USITC staff from official statistics of the U.S. Department of Commerce.

country.[12] The 7.9 million pound increase in U.S. imports from CBERA countries during 1991 was equivalent to 0.03 percent of U.S. beef and veal consumption (24.4 billion pounds) during the year.[13] Because of this small share of the U.S. market, the change in imports from CBERA countries is thought to have had little overall effect on the U.S. beef and veal sector or on U.S. consumers.

[12] USDA Food Safety and Inspection Service, *Foreign Countries and Plants Certified to Export Meat and Poultry to the United States*, Mar. 1, 1992, p. 123.
[13] USDA Economic Research Service, *Livestock and Poultry Situation and Outlook Report* (LPS-53), May 1992, p. 41.

## *Leather Footwear Uppers*

U.S. imports of leather footwear uppers (HTS subheading 6406.10.65) under CBERA provisions nearly tripled in value during 1990-91, rising from $25.9 million to $71.7 million. The quantity of imports more than doubled, growing from 2.8 million pairs to 6.3 million pairs during the same period.[14]

[14] Leather footwear uppers from the Dominican Republic lost GSP eligibility in July 1991. The imports from the Dominican Republic that benefited from CBERA duty-free treatment—i.e., the value entered July 1991 through December 1991—was $59 million and is the value reported in tables 3-2 and 3-3.

Imports under the CBERA accounted for 32 percent of the total value of U.S. imports and 29 percent of the total volume in 1991. Total U.S. imports of leather footwear uppers fell 1 percent by value and 8 percent by volume over the period, from $228.9 million to $226.0 million, and from 23.8 million pairs to 21.9 million pairs. Some U.S. manufacturers are concerned that CBERA will encourage the expansion of Caribbean exports such as footwear products in a way that will have an adverse impact on certain U.S. industries in the near future.[15]

Imports under CBERA provisions of leather footwear uppers from the Dominican Republic increased over 200 percent in value, from $23.5 million in 1990 to $71.1 million in 1991, and by 156.2 percent in quantity, from 2.4 million pairs to 6.1 million pairs during the same period. These imports accounted for 99 percent of U.S. imports of leather footwear uppers under CBERA by value and 98 percent by volume in 1991. In addition, total imports from the Dominican Republic provided 52 percent by value of overall U.S. imports of these products, and 46 percent by volume. Imports from the Dominican Republic that entered free of duty under the CBERA accounted for 60 percent by value and 61 percent by volume of total imports of leather uppers from that country. In addition to domestically owned manufacturers, there are a number of footwear producers in the Dominican Republic that are wholly owned subsidiaries of major U.S. footwear firms.

Leather footwear upper imports from Haiti under CBERA provisions fell from $1.4 million in 1990 to $334,000 in 1991, largely due to deteriorating economic conditions in that country and the U.S. embargo on trade with Haiti. Other Caribbean countries that exported a smaller volume of leather footwear uppers to the United States under the CBERA in 1991 were El Salvador, Guatemala, and Costa Rica.

## *Raw Cane Sugar*

U.S. imports of raw cane sugar (HTS subheadings 1701.11.01, 1701.11.02, and 1701.11.03) from CBERA countries are under a tariff-rate quota.[16] This quota allows a specified amount of sugar to be imported into the United States during a set period of time at a duty rate of 0.625 cents per pound (the low-duty rate), with a tariff of 16 cents per pound on imports exceeding the specified amount during the designated period (the high-duty rate). The amount of sugar allowed into the United States at the low-duty level is allotted to the traditional quota-holding countries based on historical shipments to the United States. Consequently, any increase in U.S. imports of sugar from CBERA countries is the result of (1) an increase in the amount of sugar allowed entry at the low-duty rate; (2) countries with low-duty allotments using a larger percentage of their allotment than in the previous year; (3) imports in excess of the low-duty quota, for which the higher duty is paid; or (4) countries using part of the previous year's unfilled allocation during a new quota year.

The 1990-91 U.S. sugar quota was 2.1 million metric tons (mt), raw value.[17] Of the low-duty amount, 774,800 mt (or 37 percent) was allocated to CBERA countries. For the 1990-91 tariff-rate quota period, CBERA countries shipped 95 percent of their low-tariff allocation. Only Costa Rica, El Salvador, and Jamaica shipped their full allocation. Sugar production in Barbados, which did not ship any of its U.S. quota allocation during 1990-91, is currently at a very low level compared with the levels reached a few years ago because of declining sugar production (one of that country's three sugar refineries closed during the 1991 harvest[18]) and a shortage of domestic financing for agricultural sector investment.[19] Guyana also failed to meet any of its 1990-91 allocation because production was extremely low, and virtually all of its exports were sold to meet that country's sugar quota for the European Community (EC) under the Lomé Convention.[20] Trinidad and Tobago, which saw a decrease in production since the 1989-90 quota year, also sold much of its exports to meet its EC quota. The Dominican Republic and Jamaica struggled with drought but have not seriously curtailed their shipments to the United States.

The 1991-92 U.S. low tariff allocation is 1,385,000 mt, raw value. The lower quota amount stems from the increase in U.S. sugar production and higher U.S. stocks. For the 1991-92 low-tariff allocation, 486,885 mt (35 percent) is allowed for imports from CBERA countries.

Sugar imports from CBERA countries have almost no effect on U.S. consumers because the U.S. sugar program maintains a minimum processor price for raw cane sugar and a support price for beet sugar. These

---

[15] A submission from the Rubber and Plastic Footwear Manufacturers Association received during the course of this investigation is discussed in the section "Concerns of Interested Persons and Industries" in ch. 1 of this report.

[16] The authority for which derives from additional U.S. note 3 in ch. 17 of the HTS. The tariff rate quota was announced in Presidential Proclamation 6174, Sept. 13, 1990, *Presidential Documents*, Sept. 14, 1990, p. 1367. The tariff-rate quota also applies to HTS items 1701.12.01, 1701.91.21, 1701.99.01, 1702.90.31, 1806.10.41, and 2106.90.11.

[17] Quota years run from Oct. 1 to Sept. 30 of the following year. Data on U.S. sugar imports in this section are based on quota years.

[18] *Caribbean Insight*, Aug. 1991, p. 6.

[19] *Caribbean Update*, May 1991, p. 3.

[20] The Lomé Convention is a multiyear aid and trade agreement between the EC and developing countries in Africa, the Caribbean, and the Pacific. Under the Sugar Protocol to the Lomé Convention, sugar suppliers undertake to deliver an agreed amount of sugar to the EC; suppliers that fail to meet their quotas can face reduced quotas in subsequent years. Delegations of the Commission of the European Communities in Trinidad and Tobago and in Barbados, "The Sugar Protocol," *Europe and the Caribbean*, Oct. 1990, p. 11.

maintained prices support the U.S. sugar industry when downward price changes caused by imports might adversely affect domestic producers. At the same time, the U.S. sugar quota guarantees CBERA producers a high-priced market for certain amounts of their sugar.

## *Pineapples*

U.S. imports of fresh pineapples (HTS subheadings 0804.30.20 and 0804.30.40) under CBERA provisions decreased 10.3 percent in quantity and 19.7 percent in value from 1990 to 1991.[21] Total CBERA imports fell from 88,535 mt in 1990 to 79,423 mt in 1991, valued at $43.2 million and $34.7 million, respectively.[22]

The decrease in the value of U.S. pineapple imports reflects the overall decline in fresh pineapple prices. The unit value of imports from Costa Rica, the leading source of imported fresh pineapples, declined 13 percent from $601.22 per mt in 1990 to $525.16 per mt in 1991. In addition, imports from Honduras, whose pineapples were valued at $440.32 per mt in 1990 and at $336.61 per mt in 1991, displaced some Costa Rican product in the United States in 1991, further causing the value of U.S. fresh pineapple imports to decline. Overall, the CBERA countries' import market share declined slightly from 96 percent in 1990 to 95 percent in 1991. Fresh pineapple imports from CBERA countries as a share of U.S. domestic consumption increased from 47 percent in 1990 to 50 percent in 1991.[23]

U.S. domestic production of fresh pineapples declined 11 percent from approximately 128,000 mt in 1990 to 113,500 mt in 1991.[24] Production of pineapples for processing also declined, from 394,000 mt in 1990 to 390,000 mt in 1991. Hawaii is the only significant source of U.S. domestic production, although there is minor cultivation of this crop in Puerto Rico. As noted in previous reports, the continuing decline in Hawaiian pineapple production is a result of the high Hawaiian land costs and the higher cost of labor in Hawaii.[25]

In contrast to the duty-free treatment of CBERA pineapples, imports of pineapple from Mexico in bulk (HTS subheading 0804.30.20) are subject to a $0.0064 per kilogram (kg) duty, while imports in crates and packages (HTS subheading 0804.30.40) are subject to a $0.0131 per kg duty. This tariff differential is small, relative to the premium paid for pineapples in crates or packages, the latter of which tend to be sorted by size and quality. Much of the Mexican pineapple production comes from small growers in the southern regions of Mexico. Many of these growers lack the transportation and storage facilities to market their products directly to the U.S. and Mexican domestic markets; consequently, much of the Mexican product is shipped in bulk with sorting and packaging taking place later. A North American Free-Trade Agreement (NAFTA) that resulted in lower U.S. tariffs on Mexican pineapple exports likely would have little impact on CBERA countries. This result is because the tariffs are small, relative to the value of fresh pineapples (roughly 5 percent of customs value), and to the price premiums paid for high-quality, plantation-grown pineapples from the CBERA countries.

## *Ethyl Alcohol*

U.S. imports of ethyl alcohol (ethanol) for nonbeverage uses (HTS subheadings 2207.10.60 and 2207.20.00) under CBERA provisions totaled $33.9 million in 1991, an 88-percent increase over imports in 1990 valued at $18.0 million. These imports are made up almost wholly of imports intended to be used as an additive in gasoline. In terms of volume, U.S. imports doubled from 63.0 million liters in 1990 to 123.6 million liters in 1991. In addition to Caribbean feedstock content requirements imposed on U.S. duty-free imports of ethyl alcohol from CBERA countries,[26] duties of 14.27 cents per liter apply to ethyl alcohol to be used for fuel.

Jamaica and Costa Rica were the only two CBERA suppliers of ethyl alcohol for the U.S. market in 1991. Adverse weather conditions prevented some Caribbean ethyl alcohol plants from running at full capacity during 1990. However, improved weather conditions in 1991 and the resumption of plant operations in Jamaica and Costa Rica contributed to an increase in ethyl alcohol production and higher U.S. imports.

Jamaica supplied 99.1 million liters valued at $27.4 million, and Costa Rica supplied 24.5 million liters valued at $6.5 million. Combined imports from these countries made up 35.7 percent of the total value of U.S. imports of ethyl alcohol from all countries during the year.

Some 3.2 million liters of ethyl alcohol from Jamaica, valued at $1.0 million, were not entered under CBERA-related duty-free provisions. These imports either were not claimed as eligible for duty-free entry under the CBERA or such claims were not established. As a result, these imports were dutiable at the MFN rate.

## *Cigars, Cheroots, and Cigarillos*

U.S. imports of certain cigars, cheroots, and cigarillos (HTS subheadings 2402.10.60 and 2402.10.80), under CBERA provisions declined in

[21] Compiled from official statistics of the U.S. Department of Commerce.
[22] Ibid.
[23] Compiled from official statistics of the U.S. Department of Commerce and the USDA.
[24] Compiled from official statistics of the National Agricultural Statistics Service of the USDA.
[25] For additional information, see USITC, *CBERA, Sixth Annual Report, 1990*, p. 3-4.

[26] For a discussion of value content requirements concerning U.S. duty-free imports of ethyl alcohol from CBERA countries, see the section "Ethyl Alcohol (Ethanol)" in ch. 1 of this report.

value by 6 percent, from $39.2 million in 1990 to $36.7 million in 1991, and by 7 percent in quantity, from 87.2 million cigars in 1990 to 81.3 million cigars in 1991. The United States is the largest world market for cigars. CBERA countries, aided by the availability of low-cost labor and plentiful supplies of tobacco, are the principal suppliers of cigars to the United States, particularly of high-quality hand-rolled cigars. The Dominican Republic is the leading Caribbean supplier.

Since the U.S. market has been closed to Cuban cigars since 1962, cigar production in the Caribbean Basin has shifted to the Dominican Republic over the years. The expansion of free-trade zones in Caribbean Basin countries in recent years also has helped the cigar industries in a number of CBERA countries. These zones enable export-oriented manufacturers to benefit from the use of imported wrapper tobacco used in premium cigars.

Imports entered under the CBERA generally have not harmed the U.S. cigar-producing industry. High U.S. labor costs generally are a more important factor in the decline in U.S. production of premium, hand-rolled cigars than are duty savings by Caribbean suppliers under the CBERA.

### *Frozen Vegetables*

U.S. imports under CBERA provisions of certain frozen vegetables, including asparagus, broccoli, cauliflower, carrots, and other miscellaneous frozen vegetables (HTS subheadings 0710.80.70 and 0710.80.95),[27] rose 30.9 percent in value, from $22.0 million in 1990 to $28.8 million in 1991, and by 36.4 percent in quantity, from 26.3 million kg to 35.8 million kg during the same period. The United States is one of the largest world markets for frozen vegetables.

Duty-free treatment under the CBERA has helped the vegetable-freezing industries in a number of CBERA countries, including Guatemala, Costa Rica, and El Salvador, principally through the creation or expansion of locally owned processing facilities, or through the establishment of joint venture operations by U.S. multinationals. Imports entered under the CBERA, however, are not believed to have adversely affected the U.S. industry. Although CBERA imports accounted for about 20 percent of total U.S. frozen vegetable imports in 1991, the bulk of such imports were intended for distribution by a small number of firms in select markets.

[27] HTS subheading 0710.80.95 was replaced by HTS subheadings 0710.80.93 and 0710.80.97 effective July 1991.

Any apparent trade advantage for CBERA countries would be eroded if a NAFTA were enacted. CBERA countries, although aided by the availability of low-cost labor, are the principal suppliers of only a select few vegetables, and they currently compete successfully with Mexico in a limited number of products. Mexico is the predominant supplier of most of the same frozen vegetables exported by CBERA countries as well as numerous others. Mexico has a vast land area available for increasing raw-product production, and it enjoys a considerable cost advantage in transport to the United States. In addition, a large number of some of the most sophisticated vegetable-freezing operations in the world are located in Mexico.

## Measuring the Net Welfare Cost of CBERA in 1991

### *Analytical Approach*

The following brief description provides the approach that was used to analyze the net welfare effects of CBERA duty-free entry in 1991 on the U.S. economy and consumers and on industries whose goods compete with CBERA imports. A more detailed explanation is found in the "Technical Notes" in appendix C. The net welfare effect of CBERA duty elimination has three components: (1) the loss in tariff revenues to the U.S. Treasury and (2) loss of profits to U.S. competing industries minus (3) the gain to U.S. consumers that results from the lower priced CBERA imports.[28]

The effects of CBERA were analyzed by estimating the change in net welfare that should have occurred if the tariffs had been in place for beneficiary countries in 1991. In the presence of the duties, tariff revenues to the U.S. Treasury and profits for U.S. competing industries would have been larger, but consumers would also have paid higher prices for CBERA-designated imports. The sum of these three effects allows measurement of the net welfare costs of CBERA in 1991.

In this analysis, imports from CBERA-beneficiary countries, imports from non-CBERA countries, and

[28] See Donald J. Rousslang and John W. Suomela, *Calculating the Consumer and Net Welfare Costs of Import Relief* (Washington, DC: USITC, Office of Economics, staff research study No. 15, July 1985), p. 2. Rousslang and Suomela provide a detailed exposition of this topic.

[29] Imperfect suitability 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, vol. 66 (1976), pp. 142-148, for further discussion.

competing domestic output are considered imperfect substitutes for each other in U.S. domestic demand.[29] Therefore, each of these three types of products has a separate market in which equilibrium prices are established.[30]

## Measurement of Net Welfare Effects of the CBERA

The increased cost to consumers of eliminating duty-free treatment under CBERA should be reflected in the higher price U.S. consumers would pay for CBERA imports. It is measured by the loss in consumer surplus. Consumer surplus is defined as the "net benefit consumers receive from being able to purchase a good at prevailing market prices and is the difference between the maximum amount that consumers would have been willing to pay and what they actually pay for a good."[31] Similarly, the increased benefits to the domestic competing industry and its factors of production should be reflected in the increased demand that would result for the U.S. domestic product. The benefit to the domestic industry and its factors is measured by the increase in producer surplus. Producer surplus is defined as the "net benefit that producers get from being able to sell a good at the existing price" and is the return to capital and entrepreneurship in excess of the alternative return that these factors might have earned in their next-best opportunities.[32]

In this analysis, all supply curves were assumed to be horizontal. Because the effects of the CBERA on U.S. producers will be small in any case, assuming horizontal supply curves provides the maximum, or upper-bound, estimates of U.S. production that might be displaced. In this case, when the domestic supply is horizontal, changes in producer surplus resulting from a shift in the demand curve are always equal to zero.[33] Consequently, there is no corresponding increase in domestic producer surplus resulting from the elimination of duty-free status. Therefore, only the value of domestic output displaced by CBERA imports is reported. In addition, a benefit should be realized in the absence of CBERA duty-free treatment through the increase in tariff revenue received from CBERA imports by the U.S. Treasury.[34]

[30] The price response of non-CBERA and CBERA imports to duty-free entry, as well as the price response of competing domestic products, is discussed in detail in appendix C.

[31] Consumer surplus is measured by the area beneath the demand curve and above the equilibrium price. See Paul Wonnacott and Ronald Wonnacott, *Economics* (New York: McGraw-Hill Book Co., 1979), for further discussion on consumer surplus.

[32] Producer surplus is measured by the area above the supply curve and beneath the equilibrium price. See Wonnacott and Wonnacott, *Economics*, for further discussion on producer surplus.

[33] When the supply curve is horizontal, it is equal to the equilibrium price at all points, and producer surplus is, therefore, equal to zero.

## Quantitative results

In 1991, the value of U.S. imports from CBERA-beneficiary countries was $8.2 billion, which is only 1.7 percent of total U.S. imports. The imports that actually benefited from the CBERA are those that were not specifically excluded under the act or that could not have entered free of duty under GSP or MFN. These amounted to $515 million. This figure represents 6.3 percent of total imports from CBERA-beneficiary countries, or about 0.1 percent of total U.S. imports. Since total U.S. imports as a percentage of U.S. GNP is already small (8.5 percent in 1991), the effects of the CBERA on the U.S. economy overall were very slight.

This section presents dollar estimates of the net welfare costs of duty-free treatment for the leading 30 products that actually benefited from the CBERA in 1991. In addition, estimates are presented of the tariff revenue forgone, the consumer surplus generated, and the domestic shipments displaced in 1991.

### Items analyzed

The effects of the CBERA were calculated for the 30 items listed in table 3-2. These items accounted for 91 percent of the customs value of imports that actually benefited from CBERA duty-free treatment in 1991. The value of these imports as a ratio of competing U.S. producers' domestic shipments varied in magnitude (table 3-3). For instance, in 1991, the value of U.S. imports of beef from CBERA countries—the largest import category in value benefiting from CBERA—was approximately 0.41 percent of the value of domestic shipments. Conversely, the value of CBERA imports of pineapples was approximately 75 percent of the value of U.S. producers' domestic shipments.

The economic effects of duty-free entry for these leading 30 items are summarized in tables 3-4 and 3-5. Table 3-4 presents dollar estimates of the consumer surplus that was generated and tariff revenue from CBERA imports that was forgone. Table 3-5 presents dollar estimates of U.S. shipments displaced by CBERA imports.[35]

### Effects on the U.S. economy in 1991: Net welfare costs and the displacement of domestic output

In 1991, except for sugar, the gain in consumer surplus was greater than the corresponding decline in tariff revenue for all of the items analyzed. In 1991, ethyl alcohol was the item with the largest net welfare gain resulting from CBERA duty-free entry. Five other items with high net welfare gains, in value terms, were frozen vegetables, frozen orange juice, tobacco,

[34] See Rousslang and Suomela, *Consumer and Net Welfare Costs*, for further discussion.

[35] See Technical Notes in app. C for a more complete discussion of the data used to estimate the effects shown in tables 3-4 and 3-5.

capacitors, and cigars. The only item to show a potential net welfare loss, $1.7 million, was sugar.

In 1991, the six products with the largest displacement effects, in value terms, were ethyl alcohol, beef, frozen vegetables, tobacco, cigars, and frozen orange juice. In value terms, the largest effect occurred for ethyl alcohol, for which the displacement of domestic shipments was $31.2 million or 2.05 percent of the value of total domestic shipments. In terms of the percentage of domestic shipments displaced, the largest effect occurred for pineapples, at 4.68 percent.

**Table 3-3**
**C.i.f. value of imports that benefit from CBERA and U.S. producers' domestic shipments that compete with CBERA duty-free imports, 1991**

| *HTS subheading* | *Description* | *CBERA beneficiary imports (c.i.f value)* | *Value of U.S producers' domestic shipments* | *Ratio of CBERA duty-free imports to competing U.S. shipments* |
|---|---|---|---|---|
| | | *1,000 dollars* | *1,000 dollars* | *percent* |
| 0202.30.60[1] | Frozen boneless beef, except processed | 85,022 | 39,968,000 | 0.41 |
| 6406.10.65 | Footwear uppers, other than formed, of leather | 59,380 | - | - |
| 0201.30.60[1] | Fresh or chilled boneless beef, except processed | 54,308 | - | - |
| 1701.11.01 | Raw cane sugar | 53,893 | 3,137,900 | 1.72 |
| 0804.30.40 | Pineapples, in crates or other packages | 34,215 | 45,800 | 74.71 |
| 2207.10.60 | Undenatured ethyl alcohol, for nonbeverage use | 33,906 | 1,521,300 | 2.23 |
| 2402.10.80 | Cigars, cheroots, and cigarillos valued ≥ $0.23 | 22,642 | 665,800 | 3.40 |
| 0710.80.95[2] | Frozen vegetables (asparagus, broccoli, and other), reduced in size | 18,152 | 325,100 | 5.58 |
| 0201.30.40[1] | Fresh or chilled boneless beef, processed, except high quality | 17,394 | - | - |
| 2401.20.80 | Tobacco, partly or wholly stemmed | 12,837 | 788,600 | 1.63 |
| 7213.31.30 | Irregularly wound coils of hot-rolled rod | 11,989 | 226,400 | 5.30 |
| 2208.40.00 | Rum and tafia | 9,871 | 116,100 | 8.50 |
| 8533.40.00 | Electrical variable resistors | 8,494 | 147,800 | 5.75 |
| 2009.40.40 | Pineapple juice, concentrated | 8,199 | 39,200 | 20.92 |
| 8533.21.00 | Electrical fixed resistors | 7,876 | 263,700 | 2.99 |
| 8532.24.00 | Ceramic dielectric fixed capacitors | 7,873 | 294,700 | 2.67 |
| 0202.30.40[1] | Frozen boneless beef, processed, except high quality | 7,248 | - | - |
| 2009.11.00 | Frozen orange juice, concentrated | 6,611 | 812,500 | 0.81 |
| 0710.80.70 | Frozen vegetables (carrots and other), not reduced in size | 6,606 | 42,200 | 15.65 |
| 2401.10.60 | Cigarette leaf, not stemmed | 6,306 | 139,500 | 4.52 |
| 0603.10.60 | Roses, fresh cut | 5,070 | 175,500 | 2.89 |
| 8532.21.00 | Tantalum electrolytic fixed capacitors | 4,439 | 217,600 | 2.04 |
| 2933.19.25 | Aromatic pesticides | 3,906 | - | - |
| 2402.10.60 | Cigars, cheroots, and cigarillos valued ≥ $0.23 and < $0.23 | 3,097 | 57,600 | 5.38 |
| 0807.10.10 | Cantaloupes, fresh, entered between 8/1-9/15 | 2,543 | 85,800 | 2.96 |
| 3926.20.50 | Articles of plastic apparel and clothing | 2,531 | 34,100 | 7.42 |
| 9113.20.40 | Watch straps, watch bands, and watch bracelets | 2,474 | - | - |
| 0802.90.90 | Shelled nuts, n.e.s.i | 2,470 | 27,300 | 9.05 |
| 7214.40.00 | Hot-rolled bars and rods containing < 0.25% carbon | 2,289 | 533,700 | 0.43 |
| 2004.90.90 | Frozen prepared vegetables and vegetable mixtures | 1,923 | 11,000 | 17.48 |

[1] Domestic production of HTS subheadings 0201.30.40, 0201.30.60, 0202.30.40, and 0202.30.60 were aggregated into one category. The ratio for subheading 0202.30.60 includes imports from 0201.30.40, 0201.30.60, and 0202.30.40.
[2] Includes HTS subheadings 0710.80.93 and 0710.80.97.

Source: Estimated by USITC staff from official statistics of U.S. Department of Commerce, U.S. Department of Agriculture, and the U.S. Treasury.

**Table 3-4**
**The estimated U.S. net-welfare effects of CBERA duty-free provisions, by leading imports, 1991**

*(In thousands of dollars)*

| *HTS subheading* | *Description* | *Gain in consumer surplus* | *Loss in tariff revenue from CBERA countries* | *Net-welfare effect* |
|---|---|---|---|---|
| 0201.30.40[1] | Fresh or chilled boneless beef, processed, except high quality | 2,673 | 2,563 | 110 |
| 1701.11.01[2] | Raw cane sugar | 0 | 1,673 | -1,673 |
| 0804.30.40 | Pineapples, fresh or dried | 1,154 | 1,080 | 74 |
| 2207.10.60 | Undenatured ethyl alcohol, for nonbeverage purposes | 10,818 | 5,007 | 5,811 |
| 2402.10.60[3] | Cigars, cheroots, and cigarillos valued $\geq$ \$0.15 and < \$0.23 | 1,206 | 1,062 | 144 |
| 0710.80.70[4] | Frozen vegetables (carrots and other), not reduced in size | 2,578 | 1,853 | 725 |
| 2401.10.60[5] | Cigarette leaf, not stemmed | 1,803 | 1,337 | 466 |
| 8533.21.00[6] | Electrical fixed resistors | 828 | 719 | 109 |
| 8532.21.00[7] | Tantalum electrolytic fixed capacitors | 970 | 764 | 206 |
| 7213.31.30 | Irregularly wound coils of hot-rolled rod | 151 | 146 | 5 |
| 2208.40.00 | Rum and tafia | 736 | 598 | 138 |
| 2009.40.40 | Pineapple juice, concentrated | 352 | 314 | 38 |
| 2009.11.00 | Frozen orange juice, concentrated | 1,182 | 511 | 671 |
| 0603.10.60 | Roses, fresh cut | 279 | 239 | 40 |
| 0807.10.10 | Cantaloupes, fresh, entered between 8/1-9/15 | 307 | 203 | 104 |
| 3926.20.50 | Articles of plastic apparel and clothing | 108 | 96 | 12 |
| 0802.90.90 | Shelled nuts, n.e.s.i | 31 | 30 | 1 |
| 7214.40.00 | Hot-rolled bars and rods containing < 0.25% carbon | 77 | 71 | 6 |
| 2004.90.90 | Frozen prepared vegetables and vegetable mixtures | 108 | 93 | 15 |

[1] Values of HTS subheadings 0201.30.40, 0201.30.60, 0202.30.40, and 0202.30.60 were aggregated into one category.

[2] Sugar from the Dominican Republic is subject to export quotas; therefore, the net-welfare effect of a tariff elimination is composed solely of a transfer of tariff revenue from the U.S. Treasury to Dominican Republic sugar exporters.

[3] Values of HTS subheadings 2402.10.60 and 2402.10.80 were aggregated into one category.

[4] Values of HTS subheadings 0710.80.70, 0710.80.93, 0710.80.95, and 0710.80.97 were aggregated into one category.

[5] Values of HTS subheadings 2401.10.60 and 2401.20.80 were aggregated into one category.

[6] Values of HTS subheadings 8533.21.00 and 8533.40.00 were aggregated into one category.

[7] Values of HTS subheadings 8532.21.00 and 8532.24.00 were aggregated into one category.

Note.—The following HTS subheadings were omitted because data on domestic production were not available: footwear uppers, other than formed, of leather (HTS item 6406.10.65), aromatic pesticides (HTS item 2933.19.25), and watch straps, bands, and bracelets (HTS item 9113.20.40).

Source: Estimated by USITC staff from official statistics of U.S. Department of Commerce, U.S. Department of Agriculture, and the U.S. Treasury.

**Table 3-5**
**The estimated displacement effects of CBERA duty-free provisions on U.S. domestic shipments by the CBERA imports, by the HTS items, 1991**

| *HTS subheading* | *Description* | *Value* | *Share of value* |
|---|---|---|---|
| | | *1,000 dollars* | *Percent* |
| 0201.30.40[1] | Fresh or chilled boneless beef, processed, except high quality | 11,102 | 0.03 |
| 6406.10.65 | Footwear uppers, other than formed, of leather | - | - |
| 1701.11.01 | Raw cane sugar | 0 | 0.00 |
| 0804.30.40 | Pineapples, fresh or dried | 2,142 | 4.68 |
| 2207.10.60 | Undenatured ethyl alcohol, for nonbeverage uses | 31,228 | 2.05 |
| 2402.10.60[2] | Cigars, cheroots, and cigarillos valued ≥ $0.15 and < $0.23 | 5,785 | 0.80 |
| 0710.80.70[3] | Frozen vegetables (carrots and other), not reduced in size | 8,812 | 2.40 |
| 2401.10.60[4] | Cigarette leaf, not stemmed | 6,079 | 0.66 |
| 8533.21.00[5] | Electrical fixed resistors | 1,620 | 0.39 |
| 8532.21.00[6] | Tantalum electrolytic fixed capacitors | 2,373 | 0.46 |
| 7213.31.30 | Irregularly wound coils of hot-rolled rod | 297 | 0.13 |
| 2208.40.00 | Rum and tafia | 3,427 | 2.95 |
| 2009.40.40 | Pineapple juice, concentrated | 280 | 0.71 |
| 2009.11.00 | Frozen orange juice, concentrated | 4,219 | 0.52 |
| 0603.10.60 | Roses, fresh cut | 582 | 0.33 |
| 2933.19.25 | Aromatic pesticides | - | - |
| 0807.10.10 | Cantaloupes, fresh, entered between 8/1- 9/15 | 1,815 | 2.12 |
| 3926.20.50 | Articles of plastic apparel and clothing | 87 | 0.25 |
| 9113.20.40 | Watch straps, watch bands, and watch bracelets | - | - |
| 0802.90.90 | Shelled nuts, n.e.s.i | 81 | 0.30 |
| 7214.40.00 | Hot-rolled bars and rods containing < 0.25% carbon | 299 | 0.06 |
| 2004.90.90 | Frozen prepared vegetables and vegetable mixtures | 182 | 1.65 |

[1] Values of HTS subheadings 0201.30.40, 0201.30.60, 0202.30.40, and 0202.30.60 were aggregated into one category.
[2] Values of HTS subheadings 2402.10.60 and 2402.10.80 were aggregated into one category.
[3] Values of HTS subheadings 0710.80.70, 0710.80.93, 0710.80.95, and 0710.80.97 were aggregated into one category.
[4] Values of HTS subheadings 2401.10.60 and 2401.20.80 were aggregated into one category.
[5] Values of HTS subheadings 8533.21.00 and 8533.40.00 were aggregated into one category.
[6] Values of HTS subheadings 8532.21.00 and 8532.24.00 were aggregated into one category.

Source: Estimated by USITC staff from official statistics of U.S. Department of Commerce, U.S. Department of Agriculture, and the U.S. Treasury.

# CHAPTER 4
# Probable Future Effects of the CBERA

## Methodology

Previous reports have noted that most of the effects on the U.S. economy and consumers of the one-time elimination of duties on imports originally granted by the Caribbean Basin Economic Recovery Act (CBERA) took place during the first 2 years after passage of the act.[1] Future effects, it was reported, were expected to occur through export-oriented investment as investors attempt to take advantage of the lowered tariff levels for U.S. imports of eligible Caribbean Basin products by seeking business opportunities in the region.[2]

This chapter surveys overall investment activity and trends in the CBERA countries during 1991, including investment under section 936 of the U.S. Internal Revenue Code. The general investment climate of the region is described, including investment-related economic, political, and social factors in selected CBERA countries. Investment activity traditionally has been used in this series of reports as a proxy for possible future trade effects. Consequently, this chapter also summarizes CBERA-related 1991 investment activity and assesses whether such investments may affect U.S. imports in the near term.

This chapter uses information from various published sources. It also uses additional data and information on investment obtained from U.S. embassy reports from CBERA countries. Much of the information in this chapter is based on information obtained from field interviews during June 1992 in three CBERA countries: Guatemala, Panama, and El Salvador.

[1] The effects analyzed on U.S. imports and competing U.S. products included (1) CBERA products displacing sales of U.S. products as well as sales of other foreign suppliers, and (2) an increase in total sales of the affected products as lower-priced CBERA articles prompt other producers to lower their prices, stimulating consumption of these products, with displaced U.S. sales less than the increase in CBERA sales. The effects analyzed on U.S. consumers included (1) the benefit of lower prices for CBERA products and (2) the benefit of lower prices for competing U.S. products as prices for these items are bid down in response to the CBERA price advantage due to the tariff elimination. U.S. International Trade Commission (USITC), *Annual Report on the Impact of the Caribbean Basin Economic Recovery Act on U.S. Industries and Consumers, First Report, 1984-1985*, publication 1897, Sept. 1986. Hereafter in series, *CBERA, First Annual Report, 1984-85*, pp. 2-4 to 2-5 and p. 4-1.

[2] Ibid.

## Summary of Investment Activities and Trends

Some CBERA countries have made significant achievements in attracting new investors since 1984 when the act became operative. Although the act has encouraged an expansion in investments producing articles eligible for duty-free entry, it has not contributed to the growth of the economies of CBERA beneficiaries or of their exports in a way that is likely to significantly affect the U.S. economy or consumers in the near future. The principal reason is that imports under CBERA provisions represent only a small proportion of total U.S. imports and consumption. As was pointed out in chapter 3, the level of CBERA duty-free imports has had almost no effect on U.S. consumers and the U.S. economy since the act has been operative.[3] Similarly, the effect on the United States of future imports under CBERA provisions, based on reported current investment levels, also is likely to be negligible.

Although some of the new investment taking place in specific CBERA countries during 1991 focused on products eligible for duty-free entry under the act, in general the fastest growing areas for new investment in the region were those not eligible for CBERA trade preferences. Investment in textile and apparel production has increased significantly in many CBERA countries in recent years. Chapter 2 noted that the category of textile and apparel articles, generally not eligible for duty-free entry into the United States, is the largest category of overall U.S. imports from the CBERA countries. Tourism projects in the Caribbean Basin such as hotel construction and expansion and investment in service industries such as data entry also have cimdeincreased.

Individuals contacted during the course of this investigation cited several important consequences of the CBERA. The act has increased investor awareness of new and previously overlooked market opportunities for production for the U.S. market in the Caribbean Basin region. The act has encouraged the United States and the Caribbean Basin countries to look upon the other as a potential trading partner in a way that was

[3] The level is equivalent to 0.1 percent of total U.S. imports or 0.02 percent of U.S. GNP.

not possible before. The act also has stimulated agricultural and industrial diversification in the region and the exportation of more nontraditional products to the United States.

One positive response to both CBERA trade preferences and to U.S. production sharing (Harmonized Tariff Schedule (HTS) subheading 9802.00.60 and heading 9802.00.80)[4] arrangements is the establishment of special duty-free zones in CBERA countries. These special zones often are the locus for new investments or for the expansion of existing projects that are taking advantage of CBERA preferences.

Export processing zones (EPZs) are well-defined, restricted access areas for industrial, commercial, and service facilities that operate in a free-trade environment independent from commercial regulations otherwise applicable in the host country. EPZs are similar to free-trade zones (FTZs), and in the Caribbean Basin context these terms generally are interchangeable.[5] A maquila or maquiladora is a particular form of enterprise that usually operates within an EPZ or an FTZ. In a maquila in-bond operation, inputs used as components for further transformation or assembly within the special zone are imported free of duty. Such admission is temporary, as the inputs are further processed before being re-exported for final sale. Maquila operations in the Caribbean Basin have been dominated by apparel and electronics assembly operations.

A number of CBERA countries have put into place a wide range of incentives to encourage companies to set up their businesses within an EPZ. These incentives range from preferential tax rates to preferred access to often scarce facilities such as telecommunications networks and the national electrical power grid. In exchange, the growth of business activity in EPZs yields many benefits for the host country, including new jobs, worker-training opportunities, access to more advanced technology, and net export growth.

Despite the achievements some CBERA countries have made in attracting foreign investment, many others continue to encounter difficulties attracting overseas investor interest. These difficulties are the result of a variety of reasons: political instability, insufficient investment incentives, restrictions on foreign exchange and profit repatriation, and inadequate economic infrastructure. External economic factors such as the U.S. recession, slow global economic growth during 1991, and perhaps some investors awaiting the outcome of negotiations for a North American Free-Trade Agreement (NAFTA) also may have made some potential investors reluctant to enter the CBERA region. These problems are discussed in more detail below.

Finally, as noted in chapter 3, investor interest in CBERA-related production may be restrained because of the limited scope of articles produced in the region that are eligible for duty-free entry under the CBERA and not otherwise eligible for duty-free entry under either MFN or GSP provisions.[6]

## *New CBERA-Related Investment in 1991*

Information from U.S. embassies in the Caribbean Basin allowed the U.S. International Trade Commission (USITC) to identify 122 new investments in CBERA-related projects and 18 expansion projects in 1991, as indicated in table 4-1.[7] Totaling $297.4 million, the level of CBERA-related investments in 1991 represented nearly a three-fold increase over the 44 new projects reported for 1990 and more than a three-fold increase over the $92.3 million reported in 1990.[8]

A general description follows of regional investment activity in new and expansion CBERA-related projects in Central American, Eastern Caribbean, and other Caribbean and South American CBERA countries.

## *Central America*

The Costa Rican Investment Promotion Program reported on 29 new investments and the expansion of 15 other projects in 1991.[9] The new projects were valued at over $33 million. Six of them were the result of Costa Rican tourism incentives, while 10 were manufacturing projects located in Costa Rican FTZs. Only two of the new projects explicitly attributed Costa Rica's maquila temporary admission procedure as an investment incentive.[10] Of the 15 projects that expanded in 1991, 11 operate within Costa Rican FTZs. Investment in the expanded projects totaled nearly $29 million in 1991. One textile project, a Hanes (Sara Lee Corp.) facility producing women's underwear, accounted for almost half of this amount. In one of the expanded projects, Baxter, S.A. is producing pharmaceuticals in a Costa Rican FTZ as part of ongoing twin-plant operations with Puerto Rico.

[4] HTS subheading 9802.00.60 and heading 9802.00.80 are discussed in ch. 1 of this report.

[5] In some CBERA countries, like Panama, EPZ is the preferred term; in others, like the Dominican Republic, the preferred term is FTZ.

[6] MFN and GSP provisions are discussed in more detail in ch. 1 of this report.

[7] Because data are based on investments reported by the U.S. embassies, the USITC does not maintain that the figures based on this information are all-inclusive.

[8] See USITC, *CBERA, Sixth Annual Report, 1990*, USITC publication 2432, Sept. 1991, p. 4-3.

[9] U.S. Department of State telegram, June 19, 1992, San José, message reference No. 05147.

[10] A project of Pegaso International, S.A. was valued at $10 million; it involved the production of jeans.

**Table 4-1**
**Reported CBERA-Related Investment Activity, 1991**

| Number of New Projects | Number of Expansion Projects | New Investment ($ millions) | Expansion Investment ($ millions) | Total ($ millions) |
|---|---|---|---|---|
| 122 | 18 | $264.1 | $33.3 | $297.4 |

Source: Derived from information reported by U.S. Embassies in CBERA countries.

The USITC identified six new and two expansion CBERA-related projects in Honduras in 1991, with combined investments totaling over $5 million. All of the projects were apparel related, and all were located either in FTZs or in EPZs.[11]

## *Eastern Caribbean*

The USITC did not learn of any new CBERA-related investment in 1991 in the Eastern Caribbean region of Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines. Only one project was reported from this region in 1990.[12]

## *Other Caribbean and South American*

The USITC identified a number of new CBERA-related investments in 1991 in Trinidad and Tobago, the Dominican Republic, the Bahamas, Jamaica, and Guyana.

Only one new export-oriented operation was reported for Trinidad and Tobago in 1991. The Phoenix Park Gas Processors, Ltd., a joint venture between the government-owned National Gas Co. of Trinidad and Tobago, Ltd. and two U.S. companies (Conoco and Pan West Engineers and Contractors) received section 936 funds to build a plant to produce propane, butane, and gasoline for export to Eastern Caribbean and South American countries.[13] The overall value of the investment was $108 million. Future large investments in Trinidad and Tobago are likely to be concentrated in the energy sector.[14] Although the Government of Trinidad and Tobago has attempted to encourage the development of small businesses in its efforts to increase exports to the United States, particularly in the textile and apparel and the food-processing industries, limitations of local plant capacity and high labor costs have prevented significant new ventures in these sectors.

The Dominican Republic traditionally has been one of the major sites for CBERA-related investment. This is due in large part to the early construction of FTZs in the country that have been used as platforms for production and export to the United States under the CBERA. In 1991, 70 companies began new operations in the Dominican Republic with total new investments valued at $100 million. Thirty-three of the firms are engaged in textile operations. It was reported that many of the projects are related to CBERA opportunities. Three new CBERA-related projects were reported in the Bahamas. They involved winter vegetables (cucumbers, tomatoes, and green peppers), cantaloupes, honeydew melons, and watermelons; and processed human hair. It was reported that these projects would have been launched even in the absence of CBERA trade preferences because of the efforts of the Bahamian Government to diversify away from tourism, the traditional mainstay of the Bahamian economy, and into agriculture and light manufacturing.[15] Under the Bahamas' Industries Encouragement Act, light manufacturing companies are allowed to import machinery and equipment duty free.[16] None of the projects is located in an FTZ. While Bahamian exporters do not make use of CBERA preferences as much as exporters in other Caribbean Basin nations, the act has stimulated interest in the country because of its proximity to the Untied States and its low tariffs.[17]

The Jamaican Investment Promotion Agency reported that during 1991 there were 12 new CBERA-related investment projects with a value of $8 million.[18] None had been financed with section 936 funds. Five of the projects currently are producing goods or services for export to the United States. These products are electrical switches, fruits and vegetables, nonbauxite minerals, apparel, and data entry services. Only one of the projects operates in a Jamaican FTZ.

One new and one expansion project were reported by Guyana. The products involved the production of equine equipment and automobile parts, with combined

[11] While apparel and textiles generally are not eligible for CBERA preferences, investments in these sectors often are characterized as "CBERA-related" because the projects are initiated as a result of incentives offered by CBERA countries to attract foreign investment (eg., FTZs).

[12] For more detailed information, see USITC, *CBERA, Sixth Annual Report, 1990*, p. 4-3.

[13] For additional information on this project, see the discussion of Trinidad and Tobago in the section "CARIFA" below.

[14] U.S. Department of State telegram, July 12, 1991, Port of Spain, message reference No. 02286.

[15] U.S. Department of State, July 9, 1992, Nassau, message reference No. 02896.

[16] This Bahamian legislation is discussed in more detail in USITC, *CBERA, Sixth Annual Report, 1990*, p. 4-18.

[17] U.S. Department of State, July 9, 1992, Nassau, message reference No. 02896.

[18] U.S. Department of State telegram, July 2, 1992, Kingston, message reference No. 06474.

1991 investments amounting to $1.6 million. The U.S. embassy reported that these projects would have been launched even without CBERA benefits.[19]

# Investment Financed by Section 936 Funds

During 1991, approximately $233.4 million in section 936 loans were disbursed to 14 projects in CBERA countries, an increase of $53.78 million over total section 936 loans disbursed in 1990.[20] Jamaica was the key beneficiary in 1991, with projects in that country receiving approximately $150 million in section 936 loans. The second-largest recipient was the Dominican Republic, with $31.1 million, followed by Barbados with $22.0 million, Trinidad and Tobago with $20.0 million, and Grenada with $8.0 million.

During the first 5 months of 1992, six projects were approved for section 936 loans worth over $51.9 million, with the largest being a loan of $35.0 million for an oil exploration project in Trinidad. As of May 31, 1992, projects in CBERA countries valued at an additional $367.4 million in section 936 loans were pending approval by Puerto Rican authorities.

## *Caribbean Basin Financing Authority (CARIFA)*

In 1991, five Caribbean Basin Financing Authority (CARIFA) bond issues totaling $257 million placed for projects in Barbados, Grenada, Jamaica, and Trinidad and Tobago. Five additional projects, totaling $271 million, are currently in the process of being financed through CARIFA in Costa Rica, the Dominican Republic, Jamaica, and Trinidad and Tobago. The bond issues for two of these projects, totaling $115 million, were approved by CARIFA in June 1992.[21]

Jamaica was the leading recipient of section 936 funds through CARIFA in 1991, with bond-financed projects in that country totaling $147 million. One of the largest of these projects was a $60 million bond issue raised by Alcan Aluminum, Ltd. of Canada as part of a $200 million project to modernize two plants and port facilities in Port Esquivel, Jamaica.[22] As of May 31, 1992, $60 million worth of projects in Jamaica were pending approval for CARIFA financing.[23]

The second-largest recipient of section 936 funds through CARIFA in 1991 was Trinidad and Tobago. Phoenix Park Gas Processor, Ltd. raised an $80 million bond issue to finance a petroleum-refining project on the island of Trinidad.[24] It was reported that the plant would have proceeded even without section 936 funding.[25] If current trends continue, Trinidad and Tobago may well become the leading recipient of section 936 funds through CARIFA in 1992. As of May 31, 1992, there were $224 million worth of projects pending approval for CARIFA bond financing in Trinidad and Tobago, including a $100 million bond issue to be raised by Amoco Trinidad Oil Co.[26] Other CBERA countries with CARIFA bond-financed projects in 1991 were Barbados, with a $22 million bond issues raised by Barbados Telephone Co., and Grenada, with an $8 million bond issue raised by Grenada Telephone Co.[27]

## *Caribbean Basin Partners for Progress (CBPP)*

During its first year of operation in 1991, the Caribbean Basin Partners for Progress (CBPP) disbursed two loans amounting to just over $1.1 million in section 936 funds. The first loan, totaling $600,000, was made to Inversiones Cen-Am, S.A., for a banana plantation project in Costa Rica. The second loan, for $520,000, was made to Bratex Corp. for a manufacturing project in the Dominican Republic. As of May 31, 1992, the CBPP had disbursed an additional three loans worth $2.2 million for projects in Barbados, Costa Rica, and the Dominican Republic.[28]

## *Twin Plants*

Since January 1986, the Economic Development Administration of Puerto Rico (Fomento) has sponsored 59 production sharing projects in the Caribbean Basin totaling $78.7 million in investments and creating some 13,400 new jobs.[29] The Dominican Republic traditionally has been Puerto Rico's most important twin-plant partner, accounting for about 46 such plants during the first few years of the program.

---

[19] U.S. Department of State telegram, June 24, 1992, Georgetown, message reference No. 01976.

[20] State Department of the Commonwealth of Puerto Rico, *Puerto Rico's Caribbean Development Program*, May 1992.

[21] During 1992, CARIFA also will be responsible for the development of a guarantee fund for eligible projects in collaboration with Puerto Rico's Government Development Bank. Office of the Assistant Secretary of State for Caribbean Affairs for Puerto Rico, June 26, 1992.

[22] "CARIFA Bonds Provide Economical Alternative for Large Projects," *Caribbean Action*, Oct. 1991, p. 10.

[23] State Department of the Commonwealth of Puerto Rico, *Puerto Rico's Caribbean Development Program*, May 1992.

[24] Ibid.

[25] U.S. Department of State telegram, July 12, 1991, Port of Spain, message reference No. 02286.

[26] Commonwealth of Puerto Rico, Department of State, "Largest Bond Issue Being Processed for Trinidad and Tobago," *Caribbean Highlights*, Feb.-Mar. 1992, p. 9.

[27] "CARIFA Bonds Provide Economical Alternative for Large Projects," *Caribbean Action*, Oct. 1991, p. 10.

[28] State Department of the Commonwealth of Puerto Rico, *Puerto Rico's Caribbean Development Program*, May 1992.

[29] Office of the Assistant Secretary of State for Caribbean Affairs of Puerto Rico, June 26, 1992.

In recent years, twin-plant activity has declined. There were no new twin-plant operations established during 1991. Some critics of Puerto Rico's Caribbean Development Program claim that Puerto Rico has begun to emphasize section 936 lending rather than promotion of twin plants in an attempt to ward off U.S. Congressional criticism of the section 936 program.[30] Other observers view the decline in twin-plant operations as one side effect of the NAFTA negotiations, with investors delaying projects in the Caribbean Basin or shifting production into Mexico.[31]

# Issues Affecting Investment and Export Potential

The three countries visited during 1992—Guatemala, Panama, and El Salvador—have had varying experiences with the CBERA. Among the CBERA countries, these three beneficiaries ranked third, ninth, and seventh, respectively in terms of 1991 imports under CBERA provisions. All three countries have been the subject of political difficulties in recent years, and such problems undoubtedly diminished their attractiveness as investment sites. However, with the prospect of putting such political strife behind them, the countries' economic outlooks have improved, trade and investment liberalization is being pursued, and two of the countries—Guatemala and El Salvador—have acceded to the General Agreement on Tariffs and Trade (GATT). Interviews were conducted with host Government officials, representatives from investment and export promotion organizations, owners and managers of local businesses, representatives of local business associations, and U.S. embassy officials.

Interviewees in Guatemala expressed satisfaction with the CBERA, particularly for promotion of nontraditional agricultural exports. Respondents credited the CBERA with diversifying the country's agricultural sector, which employs the majority of its workforce, and strengthening the national economy in general. One respondent characterized the CBERA as "the most effective foreign assistance effort on the part of the United States for these [CBERA-beneficiary] countries."[32] Moreover, officials interviewed said that Guatemala has not yet taken full advantage of the benefits the CBERA offers.

Panamanian officials indicated that the CBERA has not yielded substantial investments or significant increases in nontraditional exports to the United States. However they also said that Panama's recent political upheaval, which resulted in that country's suspension from the CBERA program between April 1988 and March 1990, and Panama's traditional focus on import substitution and production for the domestic market have constrained export-oriented investment. Respondents said that Panama, like Guatemala, has not yet maximized the benefits available to it under the CBERA.

Respondents in El Salvador generally agreed that the recently concluded domestic hostilities were the main reason for the country's low level of investment. The CBERA generally was cited as a definite advantage in attracting foreign investment to El Salvador, and one that is likely to become more important as the country further distances itself from recent unrest.

A number of general issues were touched upon in discussions with official and private sector representatives in each of the countries visited. These issues included perspectives on the NAFTA, economic integration efforts within the Central American region, and worker rights petitions. A brief discussion of each topic follows.

## *NAFTA*

Concern over a future NAFTA agreement was palpable at the time interviews were conducted. Differing opinions were expressed on the topic of a broader Norther American trade pact. While not expressing unanimity, most informants expressed concern about the possibility that a NAFTA could cause investment diversion and could seriously erode existing CBERA preferences. This concern is exemplified in a communiqué issued after a September 1991 meeting of the Caribbean Basin Initiative (CBI) textile-producing countries and Ambassador Ronald Sorini of the Office of the United States Trade Representative (USTR), in which the Central American Council was reported to have stated—

> The continued stability of the region and its ability to transform the economic structure of the area depend[s] on its continued competitiveness as well as its improved access to the U.S. market. The meeting declared it was unrealistic to attempt to compare the economies of the CBI region with any of the proposed members of NAFTA. Deep concerns were expressed by regional representatives that developments in the proposed North America Free-Trade Area could erode the position of the CBI states.[33]

Among the proposals suggested to remedy the situation was one that called for the automatic extension to CBERA beneficiaries of any concessions or benefits accorded to Mexico.

Concern over the impact of a NAFTA was widespread in Guatemala. Most officials interviewed predicted that a NAFTA, together with the lower transportation costs afforded by geographic closeness, would cause investment diversion to Mexico, particularly in the manufacturing sector. One

[30] For more information on this criticism of the section 936 program, see the section "Benefits Under Section 936 of the Internal Revenue Code" in ch. 1 of this report.

[31] Pablo Trinidad, "Twin-plant Activity Fades," *Caribbean Business*, Apr. 23, 1992.

[32] Interview with Guatemalan agricultural export promotion official, June 11, 1992.

[33] U.S. Department of State telegram, Sept. 24, 1991, San Salvador, message reference No. 12157.

respondent suggested that the NAFTA could divert the larger investors to Mexico, relegating only the smaller investors to the CBERA countries.[34] Nonetheless, most interviewees seemed to believe a NAFTA is inevitable and seemed confident that Guatemala would remain attractive to foreign investors, particularly in agriculture. In nontraditional agriculture, most official interviewed thought that Guatemala could remain competitive for two major reasons: (1) Guatemalan wages are lower than Mexican wages, and (2) the quality of farm produce is better since farming is done on a smaller scale in Guatemala and therefore is more labor-intensive.

Officials in Panama also were concerned that a NAFTA will divert investment to Mexico. Business executives in the textiles and apparel industry were particularly concerned about investment diversion, should the NAFTA eliminate quotas and duties on U.S. apparel imports from Mexico.[35] Several interviewees argued that a NAFTA could negate the benefits Panama now receives under the CBERA.[36] Panamanian Government officials interviewed indicated their desire for Panama to join a NAFTA or to negotiate a free-trade agreement with the United States in the future.

The point was made in interviews that the positive, post-civil-war, investment climate in El Salvador is such that the possibility of a NAFTA is not at present inhibiting investment. Although a NAFTA that excludes El Salvador and its Central American trading partners was not met with enthusiasm, interviewees cited no specific examples of investment diversion to Mexico as a result of the ongoing NAFTA negotiations.[37] The potential effects of a NAFTA on apparel investment in the CBERA countries was the subject of a recent study by the USITC.[38]

## *Regional Economic Integration*

The Central American Common Market (CACM) was created in 1961 to liberalize interregional trade and to establish a protected regional free-trade area and, eventually, a customs union for the countries of Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua.[39] The CACM virtually collapsed during the 1970s because of trade disputes rooted in political and ideological differences among its members.[40]

By 1990, the CACM countries were expressing renewed interest in regional economic cooperation and economic integration. On July 15, 1991, Costa Rica, El Salvador, Guatemala, and Honduras signed an agreement to establish a regional common market by the end of 1992 to permit the free trade of some 1,700 products (about 95 percent of all products currently traded among the countries). A common external tariff, ranging from 5 to 20 percent, is scheduled to enter into effect during 1993.[41]

El Salvador and Guatemala, along with Honduras, are members of the so-called "Northern Tier" countries of the CACM.[42] Both countries acceded to the GATT in May and October, respectively, of 1991. They view their existing linkages in the region, closer economic ties to Mexico,[43] and the eventual linkage between the CACM and the Caribbean Community[44] as a step toward their eventual full participation in NAFTA. Panama, which requested GATT accession in August 1991, has not moved as quickly to pursue greater

[34] Interview with officials of the Guatemalan Development Foundation, June 11, 1992.

[35] Interview with official from a Panamanian textiles manufacturer, June 16, 1992.

[36] Interview with Panamanian Government official, June 16, 1992.

[37] The Salvadoran Foundation for Economic and Social Development (FUSADES) has conducted studies that conclude that the NAFTA will make Salvadoran apparel 8-10 percent more expensive within the NAFTA region than comparable Mexican apparel.

[38] See USITC, *Potential Effects of a North American Free Trade Agreement on Apparel Investment in CBERA Countries*, USITC publication 2541, July 1992.

[39] Panama historically has associated itself more with the South American, rather than the Central American, region. After gaining independence from Spain in 1821, Panama joined with Bolivia, Colombia, Ecuador, Peru, and

[39]—*Continued*
Venezuela to form Gran Colombia (Great Colombia); Panama remained united to Colombia until it was established as an independent republic in 1903. *Panama: A Country Study*, ed. Sandra W. Meatus and Dennis M. Hanratty (Washington, DC: U.S. Government Printing Office, 1981), pp. 15-24.

[40] "Central American Common Market," *The Europa World Yearbook, 1991*, vol. 1 (London: Europa Publications, Ltd., 1991), p. 110.

[41] Jay Dowling, "Central American Economic Integration Proceeds, *Business America*, Mar. 23, 1992, p. 5.

[42] Acting within the framework of the CACM, the Northern Tier countries plan to form a customs union by 1995 that eventually will include the other CACM members. A series of bilateral agreements, together with a trilateral Northern Tier accord, was signed in May 1992. Over 1,800 items already are traded duty-free within the Northern Tier region, and the remaining products are subject to tariff levels ranging from 5-20 percent. U.S. Department of State telegram, May 18, 1992, Tegucigalpa, message reference No. 07430.

[43] The CACM members signed a framework free trade agreement with Mexico on Aug. 25, 1992. Under the terms of this agreement, Mexico and the CACM countries are scheduled to implement regional free trade by the end of 1996. Damian Fraser, "Mexico Links with New Trade Zone," *Financial Times*, Aug. 26, 1992, p. 5.

[44] The Caribbean Community (CARICOM) unites the English-speaking countries of the Caribbean Basin: Antigua and Barbuda, the Bahamas (CARICOM member but not a signatory to CARICOM trade agreements), Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago. CARICOM began phasing in a common external tariff in January 1991 in order to promote trade and economic cooperation among its members. "Slow Approach to Caribbean Integration Causes Concern," *Caribbean Insight*, Jan. 1991, p. 4.

involvement in regional issues.[45] All three countries that were visited by USITC staff have concluded framework agreements with the United States under the Enterprise for the Americas Initiative (EAI).[46]

Individuals contacted in Guatemala enthusiastically supported the CACM, a common customs territory, regional macroeconomic policy coordination, and liberalized trade in financial services. Guatemalan Government officials and business executives interviewed in that country concurred that, as the largest and most developed economy of the region, Guatemala will gain from these efforts.[47]

Views on Central American economic integration vary widely in Panama. Panamanian Government officials interviewed supported regional integration, but "in a gradual and complementary manner."[48] Government officials said that Panama will lower its tariffs as required by its integration commitments, but behind the schedule of other participants.[49] Several interviewees cited concerns about Panama's ability to maintain its relatively high standard of living if the Central American economies were more closely linked. One interviewee questioned whether tariff liberalization would be sufficient to stimulate regional trade in the absence of liberalization of nontariff barriers.[50]

El Salvador also is making efforts to reinforce attempts at regional integration within the CACM. As part of the Northern Tier, El Salvador already is discussing the possibility of extending economic linkages to the rest of the Caribbean.

## *Worker Rights*

Section 502(a)(4) of the 1990 CBERA requires that beneficiaries afford internationally recognized worker rights as defined under the U.S. GSP program.[51] Based on petitions[52] filed by the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO)[53] to terminate GSP benefits for certain countries, USTR announced that the United States would initiate a review of worker rights practices in Panama and continue a review begun in 1990 of El Salvador as part of the 1991-92 annual review of the U.S. GSP program.[54] Petitions filed by the AFL-CIO and others to review the status of Guatemala as a GSP beneficiary based on worker rights practices in that country were rejected.[55]

The AFL-CIO again filed petitions to review the status of Guatemala (among others) as a GSP beneficiary and submitted comments on ongoing worker rights cases, including those against El Salvador and Panama, as part of the 1992-93 annual review of the U.S. GSP program.[56] To date, CBERA benefits have not been withheld from any country on the basis of worker rights violations. Nevertheless, these petitions were a frequent topic of discussion in field interviews.[57] The concerns expressed were mainly over the negative impact that consideration of such petitions could have on investment in the countries subject to review.

---

45 Panama, with services accounting for almost three-fourths of its GDP, sees itself as a unique case and different from its Central American trading partners. There is no consensus yet on how active a role Panama should play in CACM developments. Interviews with Panamanian officials, June 15, 1992.

46 The EAI is discussed in greater detail in ch. 4 of USITC, *U.S. Market Access in Latin America: Recent Liberalization Measures and Remaining Barriers*, USITC publication 2521, June 1992.

47 U.S. Department of State telegram, May 27, 1992, Guatemala, message reference No. 05441.

48 U.S. Department of State telegram, "Viewpoints on Integration with Central America," July 2, 1992, Panama, message reference No. 06273.

49 Interview with Panamanian Government officials, June 16, 1992.

50 Ibid.

51 For a more detailed discussion, see the section "CBERA Beneficiaries" in ch. 1 of this report.

52 As part of the annual review of the GSP program in the United States, interested parties may file petitions requesting that trade preferences be terminated for any

52—*Continued*
beneficiary that fails to provide internationally recognized worker rights. Sec. 505(c) of the Trade Act of 1974, title V (Generalized System of Preferences) requires the President to submit an annual report to the Congress on the status of internationally recognized worker rights within each GSP beneficiary country.

53 For more detailed information on the AFL-CIO petitions, see "Duty-Free Benefits to Some Latin American Countries Under Review," *Washington Report on Latin America and the Caribbean*, July 16, 1991, p. 110.

54 Petitions to review the status of El Salvador based on worker rights practices were extended from the 1990-91 annual GSP review. These petitions were filed by: the International Union of Electricians, Electrical, Salaried, Machine and Furniture Workers, the AFL-CIO, and United Food and Commercial Workers, AFL-CIO; the Massachusetts Labor Committee et al.; the New York Labor Commission; and Americas Watch. *Federal Register*, vol. 56, Aug. 26, 1991, p. 42080.

55 Guatemala was reviewed during the 1985-86 annual review and was found to be taking steps to afford internationally recognized worker rights at that time. Petitions filed to review the status of Guatemala each year from 1987 to 1991 were rejected for review "on the grounds that the petitioners had not made a worker rights case or had not presented substantial new information indicating that a review was warranted." U.S. Department of State telegram, June 19, 1992, Washington, D.C., message reference No. 197006.

56 U.S. Department of State telegram, June 19, 1992, Washington, D.C., message reference No. 197006. As of this writing, a decision by USTR as to whether these petitions will be accepted has not been announced.

57 On the basis of these petitions, the United States initiated a review of practices in the area of internationally recognized worker rights in El Salvador as part of the 1990-91 annual review of the GSP program; this review has been continued into the 1992-93 review. The evaluation of practices in Panama was initiated in the 1991-92 review and continued into the 1992-93 review. *Federal Register*, vol. 57, July 8, 1992, p. 30286.

# Country Profiles: Guatemala, Panama, and El Salvador

The following is an in-depth discussion of the climate for CBERA exports and CBERA-related investment in Guatemala, Panama, and El Salvador, the three countries visited during the course of this investigation.

## *Guatemala*

### Economic and Trade Performance

Guatemala ranks first in terms of gross domestic product (GDP) among Central American countries. Agriculture is the most important sector and accounts for about 26 percent of GDP, employs about 60 percent of the work force, and generates two-thirds of the country's export earnings. Manufacturing accounts for about 15 percent of GDP and employs about 12 percent of the labor force. Coffee, sugar, and bananas are the leading foreign exchange-earning industries of Guatemala. Other traditional exports are cotton, beef, cardamom (a plant used as a spice and in medicine), and petroleum.[58]

Guatemalan exports to the United States decreased 1.1 percent in 1991 to $445 million.[59] Of this amount, 54 percent entered the United States MFN duty free, 36 percent entered duty free under either the CBERA or GSP, and 10 percent were subject to duties.[60] Of those products entering the U.S. market under either CBERA or GSP provisions, 57 percent were classified as nontraditional and 43 percent were considered traditional exports (primarily beef and sugar). Sixty percent of all nontraditional exports to the United States entered under either CBERA or GSP provisions, whereas 16 percent were subject to duties. The principal nontraditional agricultural export to the United States in 1991 were snow peas, melons, broccoli, strawberries, okra, and carnations.

Since Guatemala's return to civilian democratic rule in 1986, annual economic growth has ranged between 3 and 4 percent.[61] The newly elected government administration that assumed office in January 1991 pledged to continue to pursue the previous administration's market-oriented approach to economic development and to undertake new measures to stabilize the economy. Inflation fell from over 60 percent in 1990 to under 10 percent in 1991, helping to stabilize the exchange rate, while GDP grew an estimated 3.2 percent.[62] The Guatemalan Government has proposed to privatize certain public enterprises, including the national telephone company and the government-run railroad.[63] At the end of 1991, the Guatemalan Government presented a fiscal reform program that included a tax reform package aimed at increasing revenues.

During much of 1991, Guatemala's access to international lending was held up by arrears owed to the World Bank and the Inter-American Development Bank (IDB). In October 1991, the Guatemalan Government paid off its arrears to the IDB and announced its intentions to clear its arrears with the World Bank. Once the fiscal reform package is enacted, the Guatemalan Government also anticipates the completion of negotiations with the International Monetary Fund (IMF) for a standby loan agreement.[64]

Guatemala became a member of the GATT on October 10, 1991. As part of its accession package, the Guatemalan Government agreed to eliminate nontariff barriers on 134 products.[65] Prior to becoming a member, Guatemala already had reduced its ad valorem tariffs on the c.i.f. value of almost all manufactured goods to a range of 5-40 percent. Under its proposed fiscal reform package, the country plans to consolidate its tariff band to a minimum of 10 percent and a maximum of 20 percent.[66]

### Investment Climate

Political instability had adversely affected investment in Guatemala in the past. However, with the advent of civilian democratic rule in 1986 and a successful peaceful transition to a new elected administration in 1991, investor confidence is returning. Macroeconomic stability and the Guatemalan Government's support for the elimination of trade barriers—by acceding to the GATT in 1991 and through ongoing efforts to pursue regional

[58] U.S. Central Intelligence Agency (CIA), "Guatemala," *The World Factbook*, 1991, pp. 124-126.

[59] Bank of Guatemala, FOB value. U.S. Department of Commerce reports a 13-percent increase in U.S. imports from Guatemala in 1991 to $892 million.

[60] Most of the data presented in this paragraph were supplied by the Bank of Guatemala, as presented by the Guatemalan Guild of Nontraditional Exporters.

[61] The Economist Intelligence Unit (EIU), *Country Report: Guatemala, El Salvador, Honduras*, No. 1, 1992, p. 3.

[62] Fundesa, *Guatemala News Watch*, Dec. 1991, p. 3.

[63] *Caribbean Update*, Apr. 1991, p. 11.

[64] U.S. Department of State, *Country Reports on Economic Policy and Trade Practices: Report Submitted to the Committee on Foreign Relations, Committee on Finance of the U.S. Senate and Committee on Foreign Affairs, Committee on Ways and Means of the U.S. House of Representatives by the Department of State in accordance with Section 2202 of the Omnibus Trade and Competitiveness Act of 1988*, Mar. 1992. Hereafter in series, Country Reports, p. 323. A standby agreement is a loan from the IMF made in installments over 1-2 years. The disbursement of each installment (or tranche) of the loan is contingent on the recipient country successfully meeting pre-established economic targets. "International Monetary Fund," *The Europa World Factbook, 1991* vol. 1 (London: Europa Publications, Ltd., 1991), p. 76.

[65] EIU, *Country Report: Guatemala, El Salvador, Honduras*, No. 1, 1992, p. 23.

[66] U.S. Department of State, *Country Reports*, p. 322.

economic integration within Central America—also are opening up new investment opportunities. To foster these new opportunities, the Guatemalan Government is opening a small one-stop-shop for investors (CONEPEX) as an adjunct to private-sector organizations such as the Guatemalan Development Foundation (Fundesa) and the Guatemalan Nontraditional Exporters Association (GEXPRONT).

Several other factors are attracting foreign investment to Guatemala. Foreign investors are afforded nondiscriminatory treatment and can own up to 100 percent of local businesses. Also, there are no legal restrictions on profit repatriation. Moreover, labor costs are relatively low compared to labor costs in other countries in the region such as Costa Rica and Panama,[67] and the pool of labor is large. One investor noted that the large labor force bodes well for relatively stable wage rates in the long run.[68]

Two laws enacted in 1989 have played particularly important roles in attracting investment to Guatemala. The drawback law (decree 29-89) has been a strong incentive for textiles and apparel investment. It provides a 10-year exemption from Guatemalan income taxes; an exemption from import duties and domestic taxes on machinery, equipment, components, and accessories; an exemption from export taxes; a one-year suspension on payment of duties and domestic taxes on imports and consumption of raw materials and specified inputs; and a one-year suspension of import duties and domestic taxes on samples, patterns, and models.[69]

The second law, which covers FTZs (decree 65-89), provides for certain benefits including an exemption from import duties, tariffs, and related import charges; an exemption from income tax on earnings for a number of years, depending of the type of firm; a five-year exemption on payment of real estate taxes; and an exemption from payment of taxes, tariffs, and charges for various fuels used to generate electricity.[70] This law permits investors to purchase facilities and to apply for FTZ status. Currently, there are two private FTZs in Guatemala—the Zeta Industrial Park and the Guatemala Woo Yang Desarrollo, S.A.—but neither is fully operational. Two other private FTZs are planned.[71]

Despite this pro-investment legislation, certain infrastructure problems continue to plague business operations in Guatemala. A lack of rainfall during 1991 led to power rationing in September and October when the generating capacity of hydroelectric facilities declined. The communications infrastructure is constrained by a shortage of telephone lines and inadequate service. Transportation costs remain high. According to some officials, transportation costs can account for 40-50 percent of the final cost of the product in the United States.[72] About 75 percent of marine cargo into and out of Guatemala is carried by members of the Central American Liner Association. Two smaller lines began operations in 1990, which should increase competition and lower rates in the future.[73]

Another factor contributing to high transportation costs is the lack of adequate sea transportation to the west coast of the United States. Most products destined for the United States—even the U.S. west coast—first are shipped to Miami. About 15 percent of Guatemala's exports to the United States are shipped through Mexico by truck, but the cost of truck transport is nearly as much as the cost of ship transport. Nonetheless, interviewees noted the overland option provides flexibility and gives exporters leverage when dealing with the liner association.[74]

Interviewees universally cited the importance of the CBERA in contributing to the growth of the Guatemalan economy as well as the strength of trade with the United States. According to respondents, the CBERA was a catalyst for export diversification and allowed countries like Guatemala to "get off the ground." CBERA trade preferences also contributed to "consciousness raising" in Guatemala as well as in the United States by highlighting investment and market opportunities previously overlooked by both countries. However, there was a consensus that Guatemala still had not maximized the potential benefits of the program. The elimination of the termination date of the CBERA in 1990 was cited as a particularly beneficial change to the act because export diversification takes time.[75]

Although respondents praised the CBERA, they also expressed frustration with U.S. phytosanitary requirements, which remain the number one U.S. trade barrier in their view. According to one interviewee, not only are the regulations difficult to meet, but they change so rapidly that it is difficult to keep informed.[76] Furthermore, approval by the U.S. Department of Agriculture of all imports of fresh produce into the United States remains a long and arduous process.[77]

[67] Based on comparisons of hourly minimum wage rates (excluding benefits) in U.S. Department of Commerce, *1990 Caribbean Basin Investment Survey*, Feb. 1990, Appendix I, p. 85.

[68] Interview with Glasair, S.A. official, June 11, 1992.

[69] U.S. Department of State telegram, Apr. 7, 1992, Guatemala, message reference No. 036665.

[70] Ibid.

[71] Interview with a U.S. manufacturer in Guatemala, June 11, 1992.

[72] For specific examples, see *Caribbean Update*, April 1991, p. 11.

[73] U.S. Department of State, *Country Reports*, p. 324.

[74] Interview with an agricultural export promotion official, June 11, 1992.

[75] The repeal of the statutory termination date for CBERA benefits is discussed in more detail in USITC, *CBERA, Sixth Annual Report, 1990*, p. 1-3.

[76] Interview with a U.S. Government official in Guatemala, June 11, 1992.

[77] Some of these U.S. restrictions are discussed in the section "Sugar and Beef Products" in ch. 1 of this report.

## Investment Activity

Investment growth in Guatemala largely has centered around nontraditional agricultural products and textile and apparel items. Small farmers make up the bulk of producers of nontraditional agricultural exports. Many of these farmers are organized in cooperatives; a few are linked to large U.S. food processors such as Hanover Foods Corp. and Birds Eye (Philip Morris Companies, Inc.). Expansion of investment in this sector is reflected in statistics showing steadily rising exports to the United States over the past 5 years of fruits (particularly cantaloupes and melons such as honeydews) and vegetables, particularly snow peas.[78] Cuatro Piños, a Guatemalan cooperative, reportedly is the largest exporter of snow peas in the world. According to Guatemalan sources, total exports of nontraditional plants and vegetables increased 41 percent in 1991[79] and increased 21 percent during the first quarter of 1992 compared to the change during the same period in 1991.[80]

Further expansion of nontraditional agriculture is likely. In addition to melons and snow peas, which have been particularly successful, enterprises producing strawberries, raspberries, and blackberries recently have increased production or have made plans to harvest greater quantities of their product. Other companies have made known their plans to increase the production of ginger and garlic. Other products being targeted include baby vegetables (such as squash and zucchini), French beans, asparagus, broccoli, seedless watermelon, flowers and ornamental plants, and tilapia (a type of fish).

In the food-processing sector, exports of frozen vegetables have declined slightly, partly due to their replacement by fresh produce. In addition, several freezing plants have gone out of business because of the stiff local competition in the industry, which is concentrated around Guatemala City. On the other hand, Industria Agricola Tierra Fria, a produce processor, recently received a $1.3 million loan from the IDB. The project is estimated to generate 324 new jobs and employ an additional 7,824 farm workers. The company's production is targeted primarily for the U.S. market.[81]

The Guatemalan textile industry has grown dramatically over the past several years. Employment has increased from about 5,000 in 1986 to 60,000 in 1991 and is projected to increase to over 200,000 by the year 2000.[82] Reportedly, 40 plants opened during 1991[83] out of a total number of firms in the industry of between 300 and 500. Over 30 maquila firms are owned by Koreans. According to U.S. Department of Commerce statistics, HTS heading 9802.00.80[84] apparel exports to the United States from Guatemala rose 93 percent in 1991 compared to 1990. Exports of handwoven clothing also have increased rapidly, climbing 85 percent in 1991 compared to 1990.[85]

Outside of the textile and apparel sector, the manufacturing sector has been less vibrant. Manufacturing is viewed as a "real challenge" in Guatemala.[86] Guatemala has targeted electronics, metal machining, and wood products, but these industries have not developed as rapidly as Guatemalan officials have anticipated.[87] Nonetheless, Stoddard-Hamilton Aircraft, Inc. recently provided financial backing to Glasair, S.A. to establish facilities to fabricate and assemble parts of airplanes in Guatemala. The company hopes to be fully operational in early 1993. CBERA preferences reportedly played a role in the decision to make Guatemala the first overseas venture for aircraft parts manufacturer Stoddard-Hamilton.[88]

# *Panama*

## Economic and Trade Performance

Panama's economy has a strong service orientation, and, unique to the region, is dominated by the banking, commerce, and transportation services sectors. Agriculture accounts for about 12 percent of GDP and employs about 25 percent of the labor force. Manufacturing accounts for approximately 9 percent of GDP and employs about 10 percent of the labor force. Panama's principal exports are bananas, accounting for about 27 percent of total exports, followed by shrimp, clothing, coffee, and sugar.[89]

Panamanian exports grew an estimates 24 percent in 1991 to $4.1 billion, largely because of the revival of economic activity in the Colón Free Zone,[90] the largest FTZ in Latin America and the second-largest in the world after Hong Kong.[91] The majority of Panama's exports are re-exports from the Colón Free Zone. U.S. imports from Panama increased 7 percent in 1991 to $243 million.[92] Panama's principal exports to

[78] Statistics provided by Proexag, a Guatemalan agricultural export promotion association.
[79] Fundesa, *Guatemala News Watch*, p. 2.
[80] *Caribbean Update*, July 1992, p. 12.
[81] IDB, *The IDB*, Mar. 1992, p. 16.
[82] Fundesa, *Guatemala News Watch*, Jan. 1991, p. 3.
[83] EIU, *Country Reports: Guatemala, El Salvador, Honduras*, No. 1, p. 22.

[84] HTS heading 9802.00.80 is discussed in more detail in ch. 1 of this report.
[85] *Caribbean Update*, June 1992, p. 10.
[86] Interview with a Guatemalan export promotion official, June 11, 1992.
[87] Ibid.
[88] Interview with Glasair, S.A. official, June 11, 1992.
[89] Based on 1990 data. CIA, "Panama," *The World Factbook*, p. 243.
[90] EIU, *Country Report: Nicaragua, Costa Rica, Panama*, No. 1, 1992, pp. 12-13.
[91] Pardini & Associates, *Doing Business in Panama*, Dec. 1, 1990, p. 13.
[92] Compiled from official statistics of the U.S. Department of Commerce. Panamanian statistics show that exports from Panama to the United States decreased 5 percent in 1991 to $129 million, FOB value. Panamanian data provided by the Insituto Panameno de Comercio Exterior (IPCE).

the United States were shrimp, fish and other seafood; bananas; coffee; clothing; oil; and melons. The leading exports to the United states entering under CBERA provisions were melons, fish, tobacco, and banana pulp (appendix table B-4).

Two years of U.S. sanctions and inadequate economic policies under the military dictatorship of General Manuel Noriega led the Panamanian economy to contract during 1988 and 1989. Following the U.S. military action in December 1989 to return Panama to democratic rule, Panama regained its CBERA beneficiary status in March 1990 and again became eligible for other U.S. economic programs such as the GSP and the U.S. sugar quota. The rate of GDP growth rebounded to 3.4 percent in 1990[93] and jumped to 9.3 percent in 1991.[94] Panama's use of the U.S. dollar as its own currency precludes rampant inflation, usually a problem in small countries like Panama that have large public sector deficits.

The Panamanian Government's ability to borrow abroad remained severely constrained during 1991 because of massive arrears that had accumulated under the previous administration owed to both internal and foreign creditors. Early in 1992, Panama reduced or cleared its arrears with the World Bank, the IMF, and the IDB, thus restoring its eligibility for new loans.[95]

Trade and public sector reforms make up an important part of the economic recovery program of the administration of Guillermo Endara. These reforms include ambitious proposals to privatize certain Government-owned enterprises under the proposed Privatization Framework Law. Panama already has privatized the airline company Air Panama and some hotels, and is planning to privatize the ports of Balboa and Cristobal,[96] the telecommunications company,[97] and certain other public companies, such as those producing citrus, bananas, sugar, and cement.[98] The Endara administration also has proposed to privatize certain aspects of the electric, water, and sewerage utilities.[99]

In the trade arena, Panama reduced its tariff ceilings in August 1991 to a maximum ranging from 60-90 percent ad valorem on industrial and agroindustrial goods. The Endara administration plans to further reduce these tariffs to 50 percent ad valorem for agroindustrial goods and 40 percent for industrial goods by March 1993. All quantitative restrictions and import-licensing requirements are scheduled to be eliminated at the same time[100] and although timing is uncertain, specific tariffs will be replaced by ad valorem tariffs.[101] Panama sought to accede to the GATT in August 1991. A GATT working party currently is examining Panama's membership application.

## Investment Climate

A number of factors make Panama an attractive location for investment. Historically, Panama's role as an entrepôt, close ties to the United States, and use of the U.S. dollar have been particularly important. Because the U.S. dollar is in free circulation, there are no foreign exchange restrictions, no restrictions on the repatriation of profits or capital, and no risk of rampant inflation. Panama confers nondiscriminatory treatment to all foreign investors and restricts investment to nationals only in a few sectors, such as retail trade. Although the cost of labor is relatively high compared to that of other countries in the region,[102] Panamanian workers are considered to be more highly skilled, more quickly trained, and more likely to know English than workers in other Caribbean Basin countries. Other factors that have attracted investment to Panama include a favorable location, with proximity to South America, the Caribbean Basin, and the United States; good marine transportation; good communications; a well-developed banking system; and the presence of the Colón Free Zone, which serves as a center for the redistribution of goods originating in the industrialized countries to importing countries in the region.

Panama, like some other countries in Central America, is in the process of rebuilding its image as an attractive destination for foreign investment after a period of political upheaval. The Endara administration is taking a number of steps to promote investment and exports and has made proposals to reform the labor code and improve the law on EPZs. According to officials interviewed, the largest disincentive to investment in Panama is the labor code. Current labor laws require large severance payments and place restrictions on firing workers, paying and withdrawing bonuses, and other practices that employers and potential investors may consider burdensome and a cause of low productivity.[103] The labor code makes disinvestment particularly difficult.[104] In December 1991, a tripartite commission of business, government, and labor leaders was given the task by the Endara administration of reaching an agreement on a labor reform package.[105]

Incentives granted to investors under Panama's law on EPZs include: duty-free importation of machinery,

93 EIU, *Country Report: Nicaragua, Costa Rica, Panama*, No. 1, 1991, p. 7.

94 Camara de Comercio, Industrias y Agricultura de Panama, *Economia Panamena Primer Trimestre 1992*, 1992.

95 EIU, *Nicaragua, Costa Rica, Panama*, No. 2, 1992, p. 29.

96 U.S. Department of State, June 22, 1992, Panama, message reference No. 05901.

97 *Caribbean Update*, Feb. 1992, p. 17.

98 *Caribbean Update*, Apr. 1992, p. 16.

99 *Caribbean Update*, Dec. 1991, p. 3.

100 U.S. Department of State, *Country Reports*, pp. 567 and 569.

101 U.S. Department of State, June 22, 1992, Panama, message reference No. 05901.

102 For a comparison of labor costs in the Caribbean Basin countries, see U.S. Department of Commerce, *1990 Caribbean Basin Investment Survey*, Feb. 1990, Appendix I, p. 85.

103 *Caribbean Update*, Dec. 1991, p. 5.

104 U.S. Department of State, *Country Reports*, p. 569.

105 U.S. Department of State telegram, Mar. 4, 1992, Panama, message reference No. 01984.

equipment, raw materials, semiprocessed goods and other materials; complete exemption from export taxes, sales tax, and income taxes on profits arising from the exports; and complete exemption from taxes on the capital or assets of the export industry except for license and real estate taxes.[106] Legislative bill 27 is a proposal that would amend this law and provide greater investment incentives as well as a more flexible labor regime in EPZs.[107]

The Government of Panama promotes nontraditional exports directly by granting tax credit certificates to firms exporting nontraditional products when the Panamanian content and value added are both at least 20 percent (10-percent content requirement outside the Panama City/Colón metropolitan areas). Panama returns to exporters an amount equal to 20 percent of the national value added of their exports, which may be used to pay Panamanian taxes and import duties.[108] In March 1992, the Panamanian Government eliminated the requirement for export permits. The requirement was eliminated after numerous complaints about delays in acquiring such permits.[109]

Panama's economic infrastructure remains in poor condition after years of neglect under General Noriega. Energy rationing and power outages occurred sporadically during 1991 as a result of poor maintenance of existing equipment and lack of new investment under General Noriega. Moreover, a severe drought during the past year that has lowered the generating capacity of the country's hydroelectric plants.[110] The transportation infrastructure, including the ports, railroad, and roads, also has deteriorated. The Endara administration hopes that passage of the Privatization Framework Law will address some of the infrastructure problems.

According to interviewees, investors are frustrated with the slow pace of transformation of the Panamanian economy. One frequently cited example is the Panamanian Government's delay of over one year in adopting the new law on EPZs. The uncertain status of other issues, such privatization, reform of the labor code, the need to improve the supply of electrical power, and administrative red tape for exports, also has frustrated investors.[111]

Officials interviewed said the Panama has not fully taken advantage of the benefits the CBERA offers, partly due to Panama's 2-year suspension from the program. Disincentives to investment in general, such as relatively high labor and utility costs and Panama's poor image left over from the political crisis of the Noriega regime, also have played a role. One respondent blamed the exclusion from CBERA benefits of important products like textiles.[112] Another said that Panama could have taken greater advantage of CBERA in agriculture, but the Panamanian Government historically has ignored the agricultural sector.[113] In agriculture, Panamanian officials also complained that U.S. phytosanitary regulations limit their ability to export agricultural goods to the U.S. market. One official noted that Panama so far has been unsuccessful in obtaining certifications necessary to export new fresh produce to the United States.[114]

Still another official noted that a reason Panama has not maximized CBERA benefits is that Panama's economic policy traditionally has focused on production for the domestic market rather than the international market.[115] Some respondents said that the Endara administration must take a more active role in convincing Panamanian producers of not only the benefits of CBERA but also the benefits of exporting.[116] Most interviewees agreed that the CBERA will become more important for Panama in the future as interest in production for export and Panamanian EPZs increases.

## Investment Activity

The USITC identified no new CBERA-related investment projects in Panama during 1991. Although Panama's economy expanded rapidly during 1991, recent investment has been a response to the country's recovery and therefore largely directed at the domestic market.

Current Government strategy is to diversify Panama's economy by strengthening both the industrial and agricultural sectors. The Endara administration also is trying to reorient production away from import substitution and domestic markets toward export markets. Recently, the administration has begun to identify products that could be competitive on international markets. The Panama Trade Development Institute (IPCE) of the Ministry of Industry and Commerce was created to promote investment and exports, and has a "one stop shop" for processing paperwork for exports.

According to interviewees, agriculture generally is considered less competitive in Panama than in neighboring countries such a Costa Rica, where the soil is better for vegetable cultivation. Also, diversification in the agriculture sector has been limited because of

[106] Pardini & Associates, "Special Report: The Export Processing Zones in Panama," Nov. 15, 1990, p. 3.

[107] U.S. Department of State telegram, Mar. 4, 1992, Panama, message reference No. 01984 and interview with EPZ official in Panama, June 17, 1992.

[108] Pardini & Associates, *Doing Business in Panama*, Dec. 1, 1990, p. 9.

[109] U.S. Department of State telegram, Apr. 4, 1992, Panama, message reference No. 03233.

[110] *Caribbean Update*, June 1992, p. 14.

[111] Interviews with officials of the Panamanian Government, June 16, 1992.

[112] Interview with Panamanian Chamber of Commerce, June 16, 1992.

[113] Interview with a textiles manufacturer in Panama, June 16, 1992.

[114] Interview with officials from the Panama Trade Development Institute (IPCE) of the Ministry of Industry and Commerce, June 17, 1992.

[115] Interview with Panamanian Chamber of Commerce, June 16, 1992.

[116] Interviews with IPCE, June 17, 1992 and Panamanian Chamber of Commerce, June 16, 1992.

reluctance by commercial banks to underwrite agricultural projects and the lack of government support for the sector.[117] However, exports of fresh melons to the United States increased almost 120 percent to $4.1 million in 1991 compared to 1990 exports.[118] Exports of other nontraditional agricultural products that have increased in recent years include onions, jams, flowers, and ornamental plants. IPCE recently proposed a list of 23 nontraditional agricultural products to promote for export, including watermelon, various tropical fruits, yucca, broccoli, cauliflower, asparagus, cashews, ginger, peppers, and flowers and foliage. From this list IPCE intends to select three or four products on which to focus export promotion efforts.[119]

No new investments were reported in the textiles sector during 1991, but expansion of existing companies is returning investment to the level that existed prior to the 1988-89 crisis.[120] Many of the 17 registered textile producers located in Panama are owned by Far Eastern investors. These companies were established before the United States imposed quotas on apparel imports from Panama. Views on the future of the textiles and apparel industry in Panama vary. One official stated that Panama is not competitive in textiles, when compared to neighboring countries, because of Panama's relatively high wage rate.[121] Others suggest that this sector is a good option for the future because manufacturers would be attracted to Panamanian EPZs and because the sector is labor-intensive, and thus would provide employment for a large segment of the workforce.[122] IPCE indicated that the majority of inquiries it has received from prospective investors have been in nontraditional agriculture.

According to interviewees, Panamanian investment promotion efforts largely have focused on manufacturing and the development of EPZs. Currently, three EPZs are being developed: Ojo de Agua, Isla Margarita Development Inc., and Telepuerto Panama. None is operational. Ojo de Agua will contain light industry, much of which will be CBERA-oriented. Isla Margarita will focus on textiles. Finally, Telepuerto Panama will focus on high-technology industries, including data processing, telecommunications, and computers. Promoters of this EPZ think Panama's future is not in traditional, low value-added industries because such industries can not be profitable with Panama's relatively high wage structure. Rather, these business executives emphasized the need for Panama to develop high technology-based industries that can profitably employ Panama's labor force.[123]

[117] Interviews with officials from a private sector economic development organization, June 16, 1992, and from a textiles manufacturer, June 16, 1992.

[118] Compiled from official statistics of the U.S. Department of Commerce.

[119] Interview with IPCE, June 17, 1992.

[120] Interview with official from a textiles manufacturer, June 16, 1992.

[121] Interview with Panamanian Government official, June 16, 1992.

[122] Interviews with official from the Panamanian Chamber of Commerce, June 16, 1992 and a Panamanian export association, June 16, 1992.

# *El Salvador*

## Economic and Trade Performance

El Salvador is the smallest of the Central American countries—smaller than the state of Massachusetts. El Salvador's primary export commodities are coffee and sugar. Agricultural commodities account for over two-thirds of El Salvador's export earnings, with coffee alone responsible for nearly 560 percent. In the last two years, the country has attempted to overcome the internal strife that had inhibited foreign investment and produced a certain apprehensiveness on the part of potential traders.

The agricultural sector in El Salvador accounts for 25 percent of GDP and employs about 40 percent of the labor force. The manufacturing sector is based largely on food and beverage processing; it accounts for about 18 percent of GDP and employs about 15 percent of the labor force.[124]

In 1990, total Salvadoran exports were estimated to be about $580 million; this figure climbed to approximately $620 million in 1991. Exports to the United States were valued at $302 million in 1991. This was a 27-percent increase from 1990 levels. After the United States, Germany is El Salvador's most significant market.

Since the cessation of open guerilla hostilities in El Salvador's civil war, the economy has shown signs of improvement. Real GDP increased by 3.4 percent in 1990, and by 3.0 percent in 1991.[125]

El Salvador's balance of payments improved in 1991. However, a drop in world coffee prices, declining coffee production as a result of adverse weather conditions, and the U.S. recession held export growth to 3.5 percent. On the other hand, robust domestic economic growth, together with lower tariffs and a stable exchange rate, led to an 8-percent increase in imports. While the merchandise trade deficit widened during the year, the current account deficit declined as a result of a significant inflow of dollar remittances from Salvadorans living abroad—some $435 million in 1991.[126]

[123] Interview with Panamanian EPZ official, June 17, 1992.

[124] CIA, "El Salvador," *The World Factbook*, 1991, pp. 91-92.

[125] EIU, *Guatemala, El Salvador, Honduras, Country*, No. 1, 1992, p. 5.

[126] U.S. Department of State telegram, Mar. 23, 1992, San Salvador, message reference No. 03225.

El Salvador modified its tariff schedule in 1991. With a few exceptions (notably luxury goods), ad valorem tariffs range between 5 and 35 percent. The maximum tariff is scheduled to decrease to 20 percent by 1993.

## Investment Climate

Foreign investment fell significantly during El Salvador's 11-year civil war. Now, in the absence of open hostilities and with the signing of a cease-fire agreement, domestic political stability is the major barometer of increasing investor confidence in the country. Officials interviewed reported that El Salvador's internal peace agreement of early 1992 is being met with caution and a wait-and-see attitude by some foreign investors. However, numerous reports of heightened investor interest and increased onsite visits by prospective investors reflect the evolution of a more attractive trade and investment climate in El Salvador.[127]

Since the inauguration of President Alfredo Cristiani in June 1989, El Salvador has acceded to the GATT and has introduced a series of changes in domestic economic policies. Among these are the elimination of price controls on over 200 products, a tax reform program, a widescale tariff reduction program, and a devaluation of the colón, the national currency.[128]

The change in the political environment and the promise of better investment opportunities enhance the steps that the Government of El Salvador has taken in recent years. The 1988 Foreign Investment Promotion and Guarantee Law allowed complete repatriation of both dividends and profits for manufacturing operations. The 1990 Export Promotion Law, which was targeted at maquila and assembly-type operations, provided generous tax incentives to investors interested in establishing new export ventures.[129] The Export Reactivation Law of 1990 was enacted to overcome a longstanding bias against export-oriented industries. It provided tax incentives and benefits to enterprises exporting outside of Central America. These legislative changes to liberalize the regulatory landscape, coupled with the free market economic reforms implemented by the Cristiani administration, create a more liberal and transparent environment for foreign investors. Salvadoran law does not require local management and control; nor does it require foreign investors to operate through joint ventures. The administration's stated goal of privatizing a number of Government-owned operations may create additional opportunities for foreign investors.[130]

The Cristiani administration also has recognized the importance of macroeconomic stability in promoting an attractive investment climate. Inflation for 1991 was held at 9.8 percent,[131] the lowest rate in at least 5 years, and down from 24.0 percent in 1990.[132] Maintaining price stability, which in turn helps keep interest rates low and can reinforce the stability of the exchange rate,[133] is pivotal in the Government's effort to promote investment in the Salvadoran economy.

According to Government officials in El Salvador, the factors supporting foreign investment in El Salvador include a legal structure that is protective of foreign investment; the existence of FTZs; a qualified workforce; an export promotion program; relatively low Salvadoran wages; and the current stability of the economy. Factors inhibiting investment in El Salvador include infrastructure problems, particularly inadequate access to electricity and telecommunications networks and transportation problems.[134] The electrical system is an example of a major constraint to foreign investment in El Salvador. Repeated guerrilla attacks and rapidly increasing demand have so taxed the system that power outages became frequent. Rationing of electricity nationwide of 5-6 hours a day was not uncommon. In 1989, nearly one-third of the country's energy requirement was met by imports. Fuelwood and bagasse still are major sources of domestic energy. The country's electricity supply depends largely upon four hydroelectric plants, which account for about half of El Salvador's electricity generation.[135] The damage to the country's generating plants and distribution system as a result of guerilla attacks during the civil war is still being felt. Energy shortages will continue into the near future and undoubtedly will hinder economic growth. The state of the energy sector is not promising in the short term as the need for repairs and increased generating capacity is critical. Similarly, the telecommunications system is overburdened, with only one-third of the demand for new telephones being met.

---

127 U.S. Department of State telegram, July 29, 1991, San Salvador, message reference No. 09617. See also Tom Welch, "Business Confidence Greater in El Salvador," *Business America*, Mar. 23, 1992, pp. 14-15 and Hugh Juan-Ramon, "El Salvador Starts to Rebuild," in IDB, *The IDB*, May 1992, pp. 8-9.

128 U.S. Department of Commerce, *1990 Caribbean Basin Investment Survey*, p. 25.

129 Ibid.

130 Among the enterprises that the Government has indicated a willingness to sell off are—the San Bartolo FTZ, several sugar mills, a silver mine, various port and airport services, a fishing complex in southeastern El Salvador, and a luxury hotel in San Salvador. A bank reprivatization process is underway, but under Salvadoran law foreign investors will be limited as domestic investors are to a 5 percent per shareholder ceiling.

131 U.S. Department of State telegram, Jan. 31, 1992, San Salvador, message reference No. 01162.

132 EIU, *Guatemala, El Salvador, Honduras*, No. 1, 1992, p. 5.

133 The exchange rate stabilized in August 1990 at about 8 colones to the dollar. It has shown only minor fluctuations since. U.S. Department of State telegram, Jan. 31, 1992, San Salvador, message reference No. 01162.

134 Interview with officials of the Ministry of Economy, June 18, 1992.

135 EIU, *Guatemala, El Salvador, Honduras: Country Profile 1991-92*, (London: EIU, 1992), p. 43.

Despite the potential drawbacks to foreign investment, the Government of El Salvador recently has granted concessions to private firms to provide modern telecommunications services, providing potentially lucrative opportunities for foreign investors. The Salvadoran electric utility is starting to allow private sector participation in power generation, which also should enhance investment opportunities in the country.[136]

Private sector interviewees maintained that a lack of space and subcontracting capacity are limiting maquila investment in the short run. El Salvador's only FTZ as of this writing, the San Bartolo free zone, is filled to capacity. Four other private FTZs are under development and may relieve some of the space problems.[137]

The importance of the CBERA preferences was continually cited in interviews with Salvadoran officials and with private sector representatives. The CBERA was viewed as important for making the people of El Salvador think more about the United States as a possible market, rather than focusing on Central America alone. It is the cause of new thinking, especially in the area of nontraditional agricultural exports, interviewees stated. The act is believed to be an important, albeit not the only incentive for foreign investors. With continued improvements in El Salvador's political situation, it was argued that the CBERA's significance to the country's economic development will increase.[138]

## Investment Activity

Foreign investment, a traditional weak link in the Salvadoran economy during the civil war years, showed a marked increase in 1991. Overall foreign investment returned to its pre-war level, and was the highest in over 10 years. Registered foreign investment reached $15 million in 1991—three times the 1990 investment level.[139] The maquila industry continued to attract a major share of investment capital, accounting for over $5 million in 1991.[140]

The Salvadoran Foundation for Economic and Social Development (FUSADES) is the quasi-official, nonprofit, endeavor mandated to promote and encourage foreign investment in El Salvador. FUSADES is funded almost entirely by the U.S. Agency for International Development (USAID). During 1991, four new FUSADES projects were initiated in El Salvador as a result of foreign investments. Three involved the apparel industry and U.S. investors. Because El Salvador has no bilateral textile quotas with the United States under the Multifiber Arrangement,[141] foreign investors are keenly interested in textile and apparel production in El Salvador for the U.S. market.[142] A fourth project, from Korea, is concentrating on leather products. The total investment value of the four new projects is $2.1 million.[143] The turnaround and continuing positive trend of foreign investment is illustrated by the number of prospective investors that already have visited El Salvador in 1992, and by over $8.5 million in FUSADES-sponsored foreign investments during the first half of the year.[144]

Eighty to ninety percent of new investment in El Salvador is in the production of apparel and textiles. Complete and total packing of locally produced textiles is the trend in El Salvador, differing from other CBERA countries such as Jamaica and Haiti, where HTS 9802 operations are used to assemble U.S. origin components.[145] Although U.S. investors dominate activities in this sector, Korean and Taiwanese investors also are present.

136 U.S. Department of State telegram, Jan. 7, 1992, San Salvador, message reference No. 00170.

137 Ibid.

138 Interview with officials of the Salvadoran Ministry of Economy, June 18, 1992.

139 Because of bureaucratic divisions with in the Government of El Salvador, this Ministry of Economy data on registered foreign investment do not include investment in maquilas or FTZ operations. Licensing operations also are excluded. Moreover, under Salvadoran law, reinvestments are not required to be reported. This could further understate reported foreign investment. Data here is for the first 10 months of 1991. U.S. Department of State telegram, Jan. 7, 1992, San Salvador, message reference No. 00170.

140 U.S. Department of State telegram, Jan. 31, 1992, San Salvador, message reference No. 01162.

141 The Multifiber Arrangement is described in more detail in footnote 48 of ch. 1 of this report.

142 Interview with USAID official, June 18, 1992.

143 Information provided by PRIDEX, the trade and investment services promotion program of FUSADES.

144 Ibid.

145 HTS 9802 operations are discussed in more detail in ch. 1 of this report.

# APPENDIX A
# FEDERAL REGISTER NOTICE AND LIST OF SUBMISSIONS

hunters; and maintaining habitat by reducing fire and insect impacts to forest habitat and through better management of timber harvesting. Once finished, the plan will guide the actions of all Federal and State agencies whose actions affect the conservation of this caribou. The ultimate goal is to restore the species to a secure status in its native ecosystem.

**Public Comments Solicited**

The Service solicits written comments on the recovery plan described. All comments received by the date specified above will be considered prior to approval of the plan.

Authority: The authority for this action is section 4(f) of the Endangered Species Act, 16 U.S.C. 1533(f).

Dated: May 21, 1992.

Marvin L. Plenert,

*Regional Director, U.S. Fish and Wildlife Service, Region 1.*

[FR Doc. 92-13597 Filed 6-9-92; 8:45 am]

BILLING CODE 4310-55-M

## INTERNATIONAL TRADE COMMISSION

[Investigation No. 332-227]

### Annual Report 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 1992 annual report.

**EFFECTIVE DATE:** May 22, 1992.

**FOR FURTHER INFORMATION CONTACT:** James E. Stamps (202-205-3227), Trade Reports Division, Office of Economics, U.S. International Trade Commission, Washington, DC 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 the termination of duty-free treatment under the CBERA. Notice of institution of the investigation and the schedule for such reports was published in the Federal Register of May 14, 1986 (51 FR 17878). The seventh report, covering calendar year 1991, is to be submitted by September 30, 1992.

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 to assess the probable future effect which the act will have on the United States economy generally and on such domestic industries.

**WRITTEN SUBMISSIONS:** The Commission does not plan to hold a public hearing in connection with the seventh annual 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 section 201 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 report should be submitted at the earliest practical date and should be received no later than June 29, 1992. All submissions should be addressed to the Secretary to the Commission, U.S. International Trade Commission, 500 E St. SW., Washington, DC 20436.

Hearing-impaired persons are advised that information on this matter can be obtained by contacting the Commission's TDD terminal on (202) 205-1809.

Issued: June 1, 1992.

By order of the Commission.

Kenneth R. Mason,

*Secretary.*

[FR Doc. 92-13640 Filed 6-9-92; 8:45 am]

BILLING CODE 7020-02-M

[Investigations Nos 731-TA-532-537 (Final)]

### Certain Circular, Welded, Non-Alloy Steel Pipes and Tubes From Brazil, the Republic of Korea, Mexico, Romania, Taiwan, and Venezuela

**AGENCY:** United States International Trade Commission.

**ACTION:** Revised schedule for the subject investigations.

**EFFECTIVE DATE:** June 4, 1992.

**FOR FURTHER INFORMATION CONTACT:** Douglas E. Corkran (202-205-3177), Office of Investigations, U.S. International Trade Commission, 500 E Street SW., Washington, DC 20436. Hearing-impaired persons can obtain information on these matters by contacting the Commission's TDD terminal on 202-205-1810. Persons with mobility impairments who will need special assistance in gaining access to the Commission should contact the Office of the Secretary at 202-205-2000.

**SUPPLEMENTARY INFORMATION:** On April 24, 1992, the Commission instituted the subject investigations and established a schedule for their conduct (57 FR 21428, May 20, 1992). Subsequently, the Department of Commerce extended the date for its final determination in these investigations from July 6, 1992, to September 10, 1992 (57 FR 22208, May 27, 1992). The Commission, therefore, is revising its schedule in these investigations to conform with Commerce's new schedule.

The Commission's new schedule for these investigations is as follows: the prehearing staff report will be placed in the nonpublic record on August 27, 1992; requests to appear at the hearing must be filed with the Secretary to the Commission not later than September 4; the deadline for filing prehearing briefs is September 9; the prehearing conference will be held at the U.S. International Trade Commission Building on September 11; the hearing will be held at the U.S. International Trade Commission Building on September 15; and the deadline for filing posthearing briefs is September 23.

For further information concerning these investigations see the Commission's notice of institution cited above and the Commission's Rules of Practice and Procedure, part 201, subparts A through E (19 CFR part 201), and part 207, subparts A and C (19 CFR part 207).

Authority: These investigations are being conducted under authority of the Tariff At of 1930, title VII. This notice is published pursuant § 207.20 of the Commission's rules.

Issued: June 4, 1992.

By order of the Commission.

Kenneth R. Mason,

*Secretary.*

[FR Doc. 92-13622 Filed 6-9-92; 8:45 am]

BILLING CODE 7020-02-M

**SUBMISSIONS FOR THE RECORD**
**INVESTIGATION NO. 332-227**

**Bruce Zagaris, of the law firm Cameron & Hornbostel**

**Mitchell J. Cooper, on behalf of the Rubber and Plastic Footwear Manufacturers Association**

# APPENDIX B
# STATISTICAL TABLES

**Table B-1**
**U.S. Trade with the Caribbean Basin countries, 1984-91**

| Year | U.S. exports[1] | Share of U.S. exports to the world | U.S. imports[2] | Share of U.S. imports from the world | U.S. trade balance |
|---|---|---|---|---|---|
| | Million dollars | Percent | Million dollars | Percent | Million dollars |
| 1984 | 6,300.2 | 2.9 | 8,896.5 | 2.8 | -2,596.3 |
| 1985 | 5,996.4 | 2.8 | 6,849.9 | 2.0 | -853.6 |
| 1986 | 6,292.2 | 2.9 | 6,186.8 | 1.7 | 105.4 |
| 1987 | 6,940.6 | 2.8 | 6,178.1 | 1.5 | 762.6 |
| 1988 | 7,666.3 | 2.5 | 6,172.3 | 1.4 | 1,494.0 |
| 1989 | 9,184.4 | 2.6 | 7,020.6 | 1.5 | 2,163.8 |
| 1990 | 9,698.2 | 2.6 | 7,601.3 | 1.5 | 2,097.0 |
| 1991 | 10,170.1 | 2.5 | 8,304.3 | 1.7 | 1,865.8 |

[1] Domestic exports, f.a.s. basis.
[2] Imports for consumption, customs value.

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

**Table B-2**
**U.S. Trade with the countries designated under the CBERA, 1984-91**

| Year | U.S. exports[1] | Share of U.S. exports to the world | U.S. imports[2] | Share of U.S. imports from the world | U.S. trade balance |
|---|---|---|---|---|---|
| | Million dollars | Percent | Million dollars | Percent | Million dollars |
| 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 | 2.8 | 6,064.7 | 1.6 | -0.1 |
| 1987 | 6,668.3 | 2.7 | 6,039.0 | 1.5 | 629.3 |
| 1988 | 7,421.8 | 2.4 | 6,061.1 | 1.4 | 1,360.7 |
| 1989 | 8,105.0 | 2.3 | 6,637.4 | 1.4 | 1,467.6 |
| 1990 | 9,307.1 | 2.5 | 7,525.2 | 1.5 | 1,781.9 |
| 1991 | 9,885.5 | 2.5 | 8,229.4 | 1.7 | 1,656.2 |

[1] Domestic exports, f.a.s. basis.
[2] Imports for consumption, customs value.

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

**Table B-3**
**Definition of product categories used in table 2-5 (U.S. imports for consumption from CBERA countries of goods not eligible for duty-free treatment under CBERA, 1987-91)**

*Textiles and apparel are defined as HTS items* 3926.20.50.50, 4015.90.00.50, 5005.00.00.90, 5006.00.90,5007.10.60, 5007.90.60, 5101.21.10,5101.21.60, 5101.29.10, 5101.29.60, 5101.30.60, 5102.10.90, 5105.10.00-5105.30.00, 5106.10.00-5108.20.60, 5109.10.40-5109.10.60, 5111.11.10-5112.90.90, 5204.11.00-5208.29.80, 5208.31.40-5208.31.80, 5208.32.30-5208.39.80, 5208.41.40-5208.41.80, 5208.42.30-5208.49.80, 5208.51.40-5208.51.80, 5208.52.30-5209.29.00, 5209.31.60-5209.39.00, 5209.41.60-5209.49.00, 5209.51.60-5212.25.60, 5306.10.00, 5306.20.00, 5308.20.00, 5308.90.00, 5309.21.20-5309.29.40, 5311.00.20, 5311.00.30-5311.00.40, 5401.10.00- 5403.49.00, 5404.10.20, 5405.00.30, 5406.10.00, 5601.22.00, 5601.29.00.20- 5606.00.00, 5607.41.30, 5607.49.15-5607.50.40, 5607.90.20, 5608.11.00-5608.90.10, 5609.00.30, 5609.00.40, 5608.90.27, 5609.00.10, 5701.10.16- 5701.10.20, 5701.90.10.20-5701.90.10.30, 5701.90.20.20-5701.90.20.30, 5702.10.90.10-5702.10.90.30, 5702.31.10-5702.32.20, 5702.39.20.10, 5702.41.10-5702.49.10, 5702.49.20, 5702.51.20-5702.59.20, 5702.91.30- 5702.99.10, 5703.10.00-5703.30.00, 5704.10.00, 5704.90.00, 5705.00.20.10- 5705.00.20.30, 5801.10.00-5801.90.10, 5801.90.20.90, 5802.11.00-5802.19.00, 5802.20.00.20-5802.20.00.90, 5802.30.00.20-5802.30.00.90, 5803.10.00-5803.90.30, 5803.90.40.90, 5804.10.00.20-5804.10.00.90, 5804.21.00, 5804.29.00.20-5804.29.00.90, 5804.30.00.20-5804.30.00.90, 5805.00.25- 5805.00.30, 5805.00.40.10, 5806.10.10-5806.10.20, 5806.10.30.20-5806.10.30.90, 5806.20.00, 5806.31.00-5806.39.20, 5806.39.30.20-5806.39.30.80, 5806.40.00, 5807.10.10.10-5807.10.10.20, 5807.10.20, 5807.90.10.10-5807.90.10.20, 5807.90.20, 5808.10.20.10, 5808.10.30.10, 5808.90.00.10, 5809.00.00, 5810.10.00, 5810.91.00-5810.92.00, 5810.99.00.10, 5811.00.10-5811.00.40, 5901.10.10-5902.90.00, 5903.10.18, 5903.10.25, 5903.10.30, 5903.20.10, 5903.20.18-5903.20.25, 5903.20.30.10, 5903.90.18, 5903.90.25, 5903.90.30.10, 5905.00.90, 5906.91.10, 5906.91.25-5906.99.10, 5906.99.25-5909.00.20, 5910.00.90-5911.20.10, 5911.20.30, 5911.31.00, 5911.32.00, 5911.90.00, 6001.10.20-6001.92.00, 6001.99.00.90, 6002.10.40-6002.93.00, 6002.99.00.90, 6101.10.00-6101.30.20, 6101.90.00.10-6101.90.00.30, 6101.90.00.05-6101.90.00.60, 6102.10.00-6102.30.20, 6102.90.00.05-6102.90.00.15, 6102.90.00.25-6102.90.00.30, 6103.11.00-6103.19.20, 6103.19.40.10- 6103.19.40.50, 6103.19.40.70-6103.19.40.80, 6103.21.00-6103.29.10, 6103.29.20.30, 6103.29.20.36, 6103.29.20.42, 6103.29.20.54, 6103.29.20.58- 6103.29.20.62, 6103.29.20.66-6103.29.20.74, 6103.29.20.82, 6103.31.00- 6103.39.10, 6103.39.20.10-6103.39.20.30, 6103.39.20.50-6103.39.20.60, 6103.41.10-6103.49.20, 6103.49.30.10-6103.49.30.14, 6103.49.30.18- 6103.49.30.38, 6103.49.30.40-6103.49.30.60, 6104.11.00-6104.19.15, 6104.19.20.10-6104.19.20.60, 6104.19.20.80-6104.19.20.90, 6104.21.00- 6104.29.10, 6104.29.20.10-6104.29.20.14, 6104.29.20.18-6104.29.20.26, 6104.29.20.30-6104.29.20.38, 6104.29.20.42-6104.29.20.50, 6104.29.20.53- 6104.29.20.60, 6104.29.20.64-6104.29.20.78, 6104.29.20.82-6104.29.20.90, 6104.31.00-6104.39.10, 6104.39.20.10-6104.39.20.30, 6104.39.20.50- 6104.39.20.90, 6104.41.00-6104.44.20, 6104.49.00.10-6104.49.00.30, 6104.49.00.50-6104.49.00.60, 6104.51.00-6104.59.10, 6104.59.20.10- 6104.59.20.30, 6104.59.20.50-6104.59.20.90, 6104.61.00-6104.69.20, 6104.69.30.10-6104.69.30.14, 6104.69.30.18-6104.69.30.26, 6104.69.30.30- 6104.69.30.32, 6105.10.00-6105.90.10, 6105.90.30.10-6105.90.30.30, 6105.90.30.50-6105.90.30.60, 6106.10.00-6106.90.10, 6106.90.20.10- 6106.90.20.30, 6106.90.20.50, 6106.90.30, 6107.11.00-6107.12.00, 6107.19.00.20, 6107.21.00-6107.29.20, 6107.29.40.20, 6107.91.00-6107.99.20, 6107.99.40.20, 6108.11.00, 6108.19.00.10, 6108.19.00.30, 6108.21.00- 6108.22.00, 6108.29.00.20, 6108.31.00-6108.39.10, 6108.39.20.20, 6108.91.00- 6108.99.20, 6108.99.40.20, 6109.10.00-6109.90.15, 6109.90.20.15, 6109.90.20.30, 6110.10.10-6110.30.30, 6110.90.00.10-6110.90.00.14, 6110.90.00.18-6110.90.00.30, 6110.90.00.36-6110.90.00.54, 6110.90.00.60- 6110.90.00.78, 6110.90.00.84-6110.90.00.90, 6111.10.00-6111.90.50, 6111.90.60.20, 6112.11.00-6112.19.10, 6112.19.20.20-6112.19.20.30, 6112.19.20.50-6112.19.20.60, 6112.19.20.80-6112.19.20.90, 6112.20.10- 6114.30.30, 6114.90.00.10, 6114.90.00.20, 6114.90.00.30, 6114.90.00.40 -6114.90.00.55, 6114.90.00.65-6114.90.00.70, 6115.11.00-6115.12.00, 6115.19.00.10-6115.19.00.20, 6115.19.00.40, 6115.20.00.10, 6115.20.00.30, 6115.91.00-6115.99.18, 6115.99.20.20, 6116.10.35.10-6116.10.35.30, 6116.10.60.10-6116.10.60.30, 6116.91.00, 6116.92.20-6116.92.30, 6116.93.15- 6116.93.20, 6116.99.60, 6116.99.90.10-6116.99.90.30, 6116.99.90.50- 6116.99.90.60, 6116.10.70.10-6116.10.70.30, 6116.10.90.10-6116.10.90.30, 6116.92.60.10. 6116.92.90, 6116.93.60-6116.93.90, 6116.99.50, 6116.99.80.10-6116.99.80.30, 6116.99.80.50-6116.99.80.60, 6117.10.10-6117.10.20, 6117.10.60, 6117.20.00.10-6117.20.00.30, 6117.20.00.50-6117.20.00.60, 6117.80.00.10- 6117.80.00.35, 6117.80.00.50-6117.80.00.60, 6117.90.00.10-6117.90.00.14, 6117.90.00.18-6117.90.00.26, 6117.90.00.30-6117.90.00.36, 6117.90.00.40-6117.90.00.46, 6117.90.00.50-6117.90.00.56, 6117.90.00.60, 6201.11.00- 6201.13.40, 6201.19.00.10-6201.19.00.30, 6201.19.00.50-6201.19.00.60, 6201.91.10-6201.93.35, 6201.99.00.10-6201.99.00.30, 6201.99.00.50- 6201.99.00.60, 6202.11.00-6202.13.40, 6202.19.00.10-6202.19.00.30, 6202.19.00.50-6202.19.00.60, 6202.91.10-6202.93.50, 6202.99.00.10- 6202.99.00.30, 6202.99.00.50-6202.99.00.60, 6203.11.10-6203.19.30, 6203.19.40.10-6203.19.40.50, 6203.19.40.70-6203.19.40.80, 6203.21.00- 6203.29.20, 6203.29.30.20, 6203.29.30.28, 6203.29.30.40, 6203.29.30.60, 6203.29.30.80, 6203.31.00-6203.39.20, 6203.39.40.10- 6203.39.40.30, 6203.39.40.50-6203.39.40.60, 6203.41.10-6203.49.20, 6203.49.30.15- 6203.49.30.30, 6203.49.30.40-6203.49.30.45, 6203.49.30.60, 6204.11.00-6204.19.20, 6204.19.30.10-6204.19.30.60, 6204.19.30.80-6204.19.30.90, 6204.21.00-6204.29.20, 6204.29.40.10-6204.29.40.14, 6204.29.40.18- 6204.29.40.26, 6204.29.40.30-6204.29.40.38, 6204.29.40.42-6204.29.40.50, 6204.29.40.54-6204.29.40.62, 6204.29.40.66-6204.29.40.68, 6204.31.10- 6204.39.30, 6204.39.40.10-6204.39.40.30, 6204.39.40.50- 6204.39.40.60, 6204.41.10, 6204.41.20, 6204.42.20-6204.42.30, 6204.43.20- 6204.43.40, 6204.44.30-6204.44.40, 6204.49.00.10-6204.49.00.30, 6204.49.00.50- 6204.49.00.60, 6204.51.00, 6204.52.20, 6204.53.20-6204.53.30, 6204.59.20- 6204.59.30, 6204.59.40.10-6204.59.40.30, 6204.59.40.50-6204.59.40.60, 6204.61.00-6204.62.20, 6204.62.40-6204.63.15, 6204.63.25-6204.69.25, 6204.69.30.10-6204.69.30.30, 6204.69.30.50, 6204.69.30.70, 6204.69.90, 6205.10.20, 6205.20.20, 6205.30.15-6205.30.20, 6205.90.20.10-6205.90.20.30, 6205.90.20.50, 6205.90.40,

**Table B-3—Continued**
**Definition of product categories used in table 2-5 (U.S. imports for consumption from CBERA countries of goods not eligible for duty-free treatment under CBERA, 1987-91)**

*Textiles and apparel are defined as HTS items—Continued* 6206.10.00.10-6206.10.00.30, 6206.10.00.50, 6206.20.20-6206.20.30, 6206.30.20-6206.30.30, 6206.40.20-6206.40.30, 6206.90.00, 6207.11.00, 6207.19.00.10, 6207.19.00.30, 6207.21.00-6207.22.00, 6207.29.00.10, 6207.29.00.30, 6207.91.10-6207.99.40, 6207.99.60.20, 6207.99.60.40, 6208.11.00-6208.19.20, 6208.19.40.20, 6208.21.00-6208.22.00, 6208.29.00.10, 6208.29.00.30, 6208.91.10-6208.99.20, 6208.99.60.20, 6208.99.60.40, 6208.99.80-6209.90.30, 6209.90.40.20, 6210.10.40.15-6210.10.40.25, 6210.20.10, 6210.20.20.20, 6210.30.10, 6210.30.20.20, 6210.40.10, 6210.40.20.20-6210.40.20.50, 6210.50.10, 6210.50.20.20- 6210.50.20.50, 6211.11.10, 6211.11.20.10-6211.11.20.20, 6211.11.20.40, 6211.12.10, 6211.12.30.03-6211.12.30.05, 6211.12.30.25, 6211.20.10.10- 6211.20.10.20, 6211.20.10.30-6211.20.10.40, 6211.20.15-6211.33.00, 6211.39.00.20-6211.39.00.80, 6211.41.00-6211.43.00, 6211.49.00.20- 6211.49.00.90, 6212.10.10.10-6212.10.10.20, 6212.10.10.40, 6212.10.20.10- 6212.10.20.20, 6212.10.20.40, 6212.20.00-6212.90.00, 6213.10.20-6213.90.20, 6214.10.20-6214.90.00, 6215.10.00.25, 6215.10.00.90, 6215.20.00, 6215.90.00, 6216.00.28.10-6216.00.28.30, 6216.00.29, 6216.00.30.10-6216.00.30.30, 6216.00.31.10-6216.00.31.30, 6216.00.38, 6216.00.47-6216.00.60, 6216.00.32.10- 6216.00.32.30, 6216.00.39, 6216.00.80, 6216.00.90, 6217.10.00.10-6217.10.00.30, 6217.10.00.50, 6217.90.00.03-6217.90.00.10, 6217.90.00.20- 6217.90.00.35, 6217.90.00.45-6217.90.00.60, 6217.90.00.70-6217.90.00.85, 6217.90.00.95, 6301.10.00-6301.40.00, 6301.90.00.10, 6301.90.00.30, 6302.10.00-6302.22.20, 6302.29.00.20, 6302.31.10-6302.32.20, 6302.39.00.10, 6302.39.00.30, 6302.40.10-6302.93.20, 6302.99.20, 6303.11.00-6304.19.20, 6304.19.30.40-6304.19.30.60, 6304.91.00.20-6304.91.00.50, 6304.91.00.70, 6304.92.00-6304.93.00, 6304.99.15, 6304.99.35, 6304.99.60.10-6304.99.60.20, 6304.99.60.40, 6305.20.00-6307.10.10, 6307.10.20.05-6307.10.20.28, 6307.20.00-6307.90.75, 6308.00.00, 6309.00.00, 6310.10.10-6310.90.10, 6501.00.90, 6502.00.90.30, 6503.00.90, 6504.00.30, 6504.00.60, 6504.00.90.15, 6504.00.90.60, 6505.90.15-6505.90.80, 6505.90.90.60, 6506.10.60, 6506.91.00.60, 6506.99.00, 6507.00.00, 9404.90.10, 9404.90.20, 9404.90.80, 9404.90.90.10-9404.90.90.20, 9404.90.90.35-9404.90.90.60.

*Petroleum and petroleum products are HTS items* 2709, 2710.00.05-2710.00.45, 2712, 2713.11.00, 2713.20.00, 2713.90.00, 2714, 2715.

*Footwear are HTS items* 6401.10.00-6402.19.90, 6402.30.30-6405.20.90, 6405.90.90-6406.10.50, 6406.10.77, and 6406.99.15.

*Handbags, luggage and flat goods are HTS items* 4202.11.00-4202.22.15*, 4202.22.40-4202.22.60*, 4202.22.80*, 4202.29.00*, 4202.31.60*, 4202.32.40*, 4202.32.95*, 4202.91.00-4202.92.45*, 4202.92.60-4202.99.00*, 4602.10.21*, 4602.10.22*, 4602.10.25*, and 4602.10.29*.

*Certain leather apparel is HTS item* 4203.10.40*.

*Work gloves are HTS items* 4203.29.08*, 4203.29.18*, 6116.10.15, 6116.10.18*, 6116.10.25, 6116.10.45*, 6116.10.35.40, 6116.10.70.40*, 6216.00.15, 6216.00.12, 6216.00.20, 6216.00.18*, 6216.00.25.40, 6216.00.27.40, and 6216.00.28.40*.

*Tuna is comprised of HTS items* 1604.14.10, 1604.14.20, and 1604.14.30.

Note.—Certain articles within these categories (HTS item followed by a * in table B-3) are eligible for a 20-percent duty reduction, to be implemented in five equal annual stages effective Jan. 1, 1992 as a result of changes to the HTS effected by the 1990 CBERA. For further discussion of these duty reductions, see the section "Reduced Duties for Certain Goods" in ch. 1 of this report.

**Table B-4**
**Leading U.S. imports for consumption entering duty free under CBERA, in 1991, by source**

*(In thousands of dollars)*

| *Country* | *HTS No.* | *Description* | *1991 Duty-Free CBERA Imports* | *Share of 1991 CBERA Imports* |
|---|---|---|---|---|
| Antigua | 8534.00.00 | Printed circuits, without elements | 173 | 31.6 |
| | 8804.00.00 | Parachutes (including dirigible parachutes) | 139 | 25.4 |
| | 0807.10.30 | Watermelons, fresh | 117 | 21.3 |
| | 0807.10.50 | Ogen and galia melons, fresh | 86 | 15.7 |
| | 7320.90.50 | Springs of iron or steel, other than leaf springs | 10 | 1.8 |
| | | Total of items shown | 525 | 95.8 |
| Aruba | | | | |
| | | Total of items shown | 0 | 0 |
| Bahamas | 2937.22.00 | Halogenated derivatives of adrenalcortical hormones | 4,246 | 39.9 |
| | 0807.20.00 | Papayas (papaws), fresh | 1,231 | 11.5 |
| | 2937.99.50 | Hormones and their derivatives, nesi | 997 | 9.3 |
| | 2933.29.20 | Aromatic or modified aromatic drugs of heterocyclic | 663 | 6.2 |
| | 0509.00.00 | Natural sponges of animal origin | 550 | 5.2 |
| | 0805.40.80 | Grapefruit, fresh or dried | 499 | 4.7 |
| | 0805.30.20 | Lemons, fresh or dried | 491 | 4.6 |
| | | Total of items shown | 8,677 | 81.4 |
| Barbados | 8533.21.00 | Electrical fixed resistors | 5,750 | 36.5 |
| | 9032.89.60 | Automatic regulating or controlling instruments | 2,257 | 14.3 |
| | 2208.40.00 | Rum and tafia | 1,615 | 10.3 |
| | 8533.39.00 | Electrical wirewound variable resistors | 1,584 | 10.0 |
| | 8534.00.00 | Printed circuits, without elements | 1,417 | 9.0 |
| | | Total of items shown | 12,623 | 80.2 |
| Belize | 2009.11.00 | Orange juice, frozen, unfermented | 4,029 | 74.0 |
| | 2009.20.40 | Grapefruit juice, unfermented, nesi, frozen | 898 | 16.5 |
| | 2007.99.50 | Guava and mango pastes and purees | 127 | 2.3 |
| | 3301.12.00 | Essential oils of orange | 111 | 2.0 |
| | 2103.90.60 | Mixed condiments and mixed seasonings, and sauces | 81 | 1.5 |
| | | Total of items shown | 5,246 | 96.3 |
| British Virgin Islands | 2208.40.00 | Rum and tafia | 28 | 55.2 |
| | 4418.20.00 | Wooden doors and their frames and thresholds | 14 | 27.5 |
| | 3926.90.90 | Articles of plastics and other materials | 9 | 17.3 |
| | | Total of items shown | 51 | 100.0 |
| Costa Rica | 0202.30.60 | Frozen boneless beef, except processed | 27,832 | 11.2 |
| | 0804.30.40 | Pineapples, fresh or dried | 21,966 | 8.8 |
| | 0201.30.60 | Fresh or chilled boneless beef, except processed | 19,204 | 7.7 |
| | 0807.10.20 | Cantaloupes, fresh, entered between 9/16-7/31 | 13,398 | 5.4 |
| | 0302.69.40 | Fish, nesi, excl. fillets, livers and roes, fresh | 12,464 | 5.0 |
| | 9506.69.20 | Baseballs and softballs | 11,310 | 4.5 |
| | 0807.10.70 | Melons, nesi, fresh | 8,836 | 3.5 |
| | 0201.30.40 | Fresh or chilled boneless beef, processed, except high quality | 7,651 | 3.1 |
| | 8533.40.00 | Electrical variable resistors, nesi | 6,755 | 2.7 |
| | 2207.10.60 | Undenatured ethyl alcohol, for nonbeverage use | 6,052 | 2.4 |
| | 1701.11.02 | Sugar used in production of polyhydric alcohols | 5,835 | 2.3 |
| | 0714.10.00 | Cassava (manioc), fresh or dried | 5,258 | 2.1 |
| | 8516.31.00 | Electrothermic hair dryers | 5,074 | 2.0 |
| | 0603.10.70 | Chrysanthemums, standard carnations, anthuriums | 4,633 | 1.9 |

**Table B-4—Continued**
**Leading U.S. imports for consumption entering duty free under CBERA, in 1991, by source**

*(In thousands of dollars)*

| Country | HTS No. | Description | 1991 Duty-Free CBERA Imports | Share of 1991 CBERA Imports |
|---|---|---|---|---|
| Costa Rica (continued) | 2009.40.40 | Pineapple juice, concentrate | 4.586 | 1.8 |
| | 3926.90.90 | Articles of plastics and other materials | 3,945 | 1.6 |
| | 0709.90.10 | Chayote, fresh or chilled | 3,281 | 1.3 |
| | 4818.10.00 | Toilet paper | 3,055 | 1.2 |
| | 0714.90.10 | Fresh dasheens, whether or not sliced | 2,950 | 1.2 |
| | 0603.10.80 | Cut flowers and flower buds suitable for bouquets | 2,760 | 1.1 |
| | 3923.29.00 | Sacks and bags (including cones), of plastic | 2,572 | 1.0 |
| | 9403.70.80 | Furniture of plastics, not of reinforced material | 2,481 | 1.0 |
| | 9113.20.40 | Watch straps, watch bands and bracelets | 2,469 | 1.0 |
| | 0811.90.10 | Bananas and plantains, uncooked or stemmed | 2,366 | 0.9 |
| | 0602.99.90 | Other live plants nesi | 2,361 | 0.9 |
| | 8511.90.20 | Parts of voltage and voltage-current regulators | 2,342 | 0.9 |
| | 0714.90.20 | Fresh yams, whether or not sliced | 2,320 | 0.9 |
| | 7607.11.60 | Aluminum foil of a thickness exceeding 0.01 mm | 2,207 | 0.9 |
| | 4418.20.00 | Wooden doors and their frames and tresholds | 2,150 | 0.9 |
| | | Total of items shown | 198,116 | 79.4 |
| Dominica | 3401.11.50 | Soap, nesi, organic surface-active products | 715 | 52.4 |
| | 1302.19.40 | Ginseng; substances having anesthetic | 256 | 18.8 |
| | 8517.30.25 | Electronic key telephonic switching system | 246 | 18.0 |
| | 3401.19.00 | Soap; organic surface-active products used as soap | 61 | 4.5 |
| | 9403.40.90 | Wooden furniture other than seats | 28 | 2.0 |
| | | Total of items shown | 1,306 | 95.7 |
| Dominican Republic | 6406.10.65 | Footwear uppers, other than formed, of leather | 69,894 | 17.4 |
| | 1701.11.01 | Cane sugar, raw, no added flavoring/coloring | 49,754 | 12.4 |
| | 9018.90.80 | Medical and surgical instruments and appliances | 47,032 | 11.7 |
| | 8538.90.00 | Electrical parts not otherwise specified | 34,144 | 8.5 |
| | 7113.19.50 | Articles of jewelry and parts thereof | 29,206 | 7.3 |
| | 2402.10.80 | Cigars, cheroots and cigarillos | 22,222 | 5.5 |
| | 0202.30.60 | Frozen boneless beef, except processed | 19,599 | 4.9 |
| | 0201.30.60 | Fresh or chilled boneless beef, except processed | 16,395 | 4.1 |
| | 1703.10.50 | Cane molasses, nesi | 8,064 | 2.0 |
| | 0804.30.40 | Pineapples, fresh or dried | 7,039 | 1.7 |
| | | Total of items shown | 303,349 | 75.4 |
| El Salvador | 1701.11.01 | Cane sugar, raw, no added flavoring/coloring | 9,135 | 30.4 |
| | 8532.24.00 | Ceramic dielectric fixed capacitors, multilayer | 7,757 | 25.8 |
| | 0807.10.70 | Melons, nesi, fresh | 2,230 | 7.4 |
| | 0710.80.93 | Okra, uncooked or cooked by steaming, frozen | 1,413 | 4.7 |
| | 4819.40.00 | Sacks and bags, nesi, of paper | 1,281 | 4.3 |
| | 0807.10.20 | Cantaloupes, fresh, entered between 9/16-7/31 | 928 | 3.1 |
| | 9507.90.70 | Artificial baits and flies | 536 | 1.8 |
| | 2401.20.80 | Tobacco, partly or wholly stemmed | 516 | 1.7 |
| | 6307.90.94 | Other made up articles, including dress patterns | 506 | 1.7 |
| | | Total of items shown | 24,302 | 80.9 |
| Grenada | 3926.90.90 | Other articles of plastic, nesi | 537 | 41.1 |
| | 9018.90.80 | Medical and surgical instruments and appliances | 462 | 35.3 |
| | 0810.90.40 | Fresh fruit, nesi | 125 | 9.6 |
| | 8504.90.00 | Parts of electrical transformers, static convert | 76 | 5.8 |
| | 0302.69.40 | Fish excluding fillets, livers and roes | 35 | 2.7 |
| | | Total of items shown | 1,235 | 94.5 |
| Guatemala | 1701.11.02 | Sugar used in production of polyhydric alcohols | 22,087 | 16.1 |
| | 0202.30.60 | Frozen boneless beef, except processed | 14,675 | 10.7 |
| | 0201.30.60 | Fresh or chilled boneless beef, except processed | 9,429 | 6.9 |
| | 0710.80.97 | Other vegetables reduced in size, frozen | 8,242 | 6.0 |

**Table B-4—Continued**
**Leading U.S. imports for consumption entering duty free under CBERA, in 1991, by source**
*(In thousands of dollars)*

| *Country* | *HTS No.* | *Description* | *1991 Duty-Free CBERA Imports* | *Share of 1991 CBERA Imports* |
|---|---|---|---|---|
| Guatemala Continued | 0710.80.70 | Other vegetables not reduced in size, frozen | 7,589 | 5.5 |
| | 1701.11.01 | Cane sugar, raw, no added flavoring/coloring | 7,439 | 5.4 |
| | 2401.20.80 | Tobacco, partly or wholly stemmed | 6,312 | 4.6 |
| | 0708.10.40 | Peas, fresh or chilled, shelled or unshelled | 5,738 | 4.2 |
| | 2401.10.60 | Cigarette leaf, not stemmed, not oriental | 4,61 | 3.4 |
| | 0807.10.20 | Cantaloupes, fresh, entered between 9/16-7/31 | 4,067 | 3.0 |
| | 0807.10.70 | Melons, nesi, fresh | 3,803 | 2.8 |
| | 2933.19.25 | Aromatic pesticides | 3,729 | 2.7 |
| | 0201.30.40 | Fresh or chilled boneless beef, processed, except high quality | 3,486 | 2.5 |
| | | Total of items shown | 101,209 | 73.8 |
| Guyana | 2208.40.00 | Rum and tafia | 235 | 46.4 |
| | 0303.79.40 | Fish, excluding fillets, frozen, nesi | 85 | 16.8 |
| | 2935.00.46 | Other drugs of sulfonamides | 52 | 10.3 |
| | 3307.10.20 | Pre-shave, shaving or after-shave preparations | 45 | 8.9 |
| | 8708.94.50 | Steering wheels, steering columns and boxes | 34 | 6.7 |
| | | Total of items shown | 451 | 89.1 |
| Haiti | 9506.69.20 | Baseballs and softballs | 12,520 | 25.0 |
| | 8536.90.00 | Electrical apparatus, nesi, for switching | 7,309 | 14.6 |
| | 0804.50.40 | Guavas, mangoes, and mangosteens, fresh | 3,291 | 6.6 |
| | 1701.11.01 | Cane sugar, raw, no added flavoring/coloring | 3,259 | 6.5 |
| | 8504.31.40 | Electrical transformers other than liquid dielec | 2,533 | 5.1 |
| | 8536.50.00 | Switches, nesi, for switching, making connections | 2,079 | 4.2 |
| | 8504.50.00 | Inductors, nesi | 1,792 | 3.6 |
| | 8544.51.80 | Insulated electric conductors, nesi | 1,666 | 3.3 |
| | 0804.50.60 | Guavas, mangoes, and mangosteens, fresh | 1,207 | 2.4 |
| | 3926.90.20 | Specified sanitary, invalid and nursing products | 1,029 | 2.1 |
| | | Total of items shown | 36,685 | 73.3 |
| Honduras | 0202.30.60 | Frozen boneless beef, except processed | 18,215 | 22.6 |
| | 0807.10.20 | Cantaloupes, fresh, entered between 9/16-7/31 | 8,217 | 10.2 |
| | 0201.30.60 | Fresh or chilled boneless beef, except processed | 5,922 | 7.4 |
| | 2402.10.80 | Cigars, cheroots and cigarillos | 5,905 | 7.3 |
| | 9506.69.20 | Baseballs and softballs | 5,406 | 6.7 |
| | 2401.20.80 | Tobacco, partly or wholly stemmed | 2,581 | 3.2 |
| | 0201.30.40 | Fresh or chilled boneless beef, processed, except high quality | 2,433 | 3.0 |
| | 3923.21.00 | Sacks and bags (including cones), of polymers | 2,357 | 2.9 |
| | 2008.99.13 | Banana pulp, otherwise prepared or preserved | 2,282 | 2.8 |
| | 0807.10.10 | Cantaloupes, fresh, entered between 8/1-9/15 | 2,048 | 2.5 |
| | 9603.90.80 | Brooms and brushes nesi, mops, hand-operated | 1,982 | 2.5 |
| | 2402.10.60 | Cigars, cheroots and cigarillos | 1,703 | 2.1 |
| | | Total of items shown | 59,051 | 73.4 |
| Jamaica | 2207.10.60 | Undenatured ethyl alcohol, for nonbeverage use | 26,316 | 43.8 |
| | 2208.40.00 | Rum and tafia | 5,687 | 9.5 |
| | 1701.11.01 | Cane sugar, raw, no added flavoring/coloring | 4,840 | 8.1 |
| | 2402.10.80 | Cigars, cheroots and cigarillos | 4,511 | 7.5 |
| | 0714.90.20 | Fresh yams, whether or not sliced | 4,403 | 7.3 |
| | | Total of items shown | 45,757 | 76.2 |
| Montserrat | | | | |
| | | Total of items shown | 0 | 0 |

**Table B-4—Continued**
**Leading U.S. imports for consumption entering duty free under CBERA, in 1991, by source**

*(In thousands of dollars)*

| *Country* | *HTS No.* | *Description* | *1991 Duty-Free CBERA Imports* | *Share of 1991 CBERA Imports* |
|---|---|---|---|---|
| Netherlands Antilles | 3507.90.00 | Enzymes; prepared enzymes nesi, excluding rennet | 2,671 | 51.0 |
| | 8544.60.20 | Insulated electric conductors, nesi | 996 | 19.0 |
| | 7326.20.00 | Articles of iron or steel wire, nesi | 459 | 8.8 |
| | 8411.12.40 | Aircraft turbojets of a thrust exceeding 25kn | 400 | 7.6 |
| | 8524.21.30 | Pre-recorded magnetic tapes, of certain width | 215 | 4.1 |
| | | Total of items shown | 4,741 | 90.5 |
| Nicaragua | 1701.11.02 | Sugar used in production of polyhydric alcohols | 11,505 | 68.3 |
| | 1703.10.50 | Cane molasses, nesi | 1,240 | 7.4 |
| | 0302.69.40 | Fish, excluding fillets, livers and roes | 1,183 | 7.0 |
| | 1703.90.50 | Molasses, nesi | 655 | 3.9 |
| | 0807.10.70 | Melons, nesi, fresh | 553 | 3.3 |
| | | Total of items shown | 15,136 | 89.8 |
| Panama | 0807.10.70 | Melons, nesi, fresh | 3,547 | 20.4 |
| | 0302.69.40 | Fish, excl. fillets, livers and roes | 3,100 | 17.8 |
| | 2401.20.80 | Tobacco, partly or wholly stemmed | 3,078 | 17.7 |
| | 2008.99.13 | Banana pulp, otherwise prepared or preserved | 2,851 | 16.4 |
| | 4823.60.00 | Trays, dishes, plates, cups and the like of paper | 602 | 3.5 |
| | 9603.90.80 | Brooms and brushes nesi, mops, hand-operated | 475 | 2.7 |
| | | Total of items shown | 13,653 | 78.4 |
| St. Kitts and Nevis | 8536.50.00 | Switches, nesi, for switching, making connections | 2,157 | 36.8 |
| | 8504.31.20 | Unrated electrical transformers | 829 | 14.2 |
| | 8533.40.00 | Electrical variable resistors, nesi, | 656 | 11.2 |
| | 8504.50.00 | Inductors, nesi | 617 | 10.5 |
| | 8529.90.35 | Parts of television apparatus, nesi | 522 | 8.9 |
| | | Total of items shown | 4,781 | 81.6 |
| St. Lucia | 8533.21.00 | Electrical fixed resistors, other than composition | 1,586 | 49.6 |
| | 8532.29.00 | Fixed electrical capacitors, nesi | 889 | 27.8 |
| | 6307.90.40 | Cords and tassels made up of textile materials | 224 | 7.0 |
| | 4823.90.85 | Articles of paper,paperboard & webs of cellulose | 83 | 2.6 |
| | 3926.90.90 | Articles of plastics and other materials | 81 | 2.5 |
| | | Total of items shown | 2,863 | 89.6 |
| St. Vincent and Grenadines | 8504.50.00 | Inductors, nesi | 76 | 54.5 |
| | 0302.69.40 | Fish, excl. fillets, livers and roes | 28 | 20.5 |
| | 0709.90.05 | Jicamas, pumpkins and breadfruit, fresh or chilled | 20 | 14.1 |
| | 0709.60.00 | Fruits of the genus capsicum (peppers) | 9 | 6.1 |
| | 0714.90.10 | Fresh dasheens, whether or not sliced | 7 | 4.8 |
| | | Total of items shown | 140 | 100.0 |
| Trinidad and Tobago | 7213.31.30 | Bars & rods, hot-rolled, of iron or n/alloy steel | 10,822 | 40.8 |
| | 2905.11.20 | Methanol (methyl alcohol) | 6,008 | 22.6 |
| | 7214.40.00 | Bars and rods of iron or nonalloy steel | 2,087 | 7.9 |
| | 9021.21.40 | Artificial teeth, parts and accessories thereof | 1,625 | 6.1 |
| | 7213.41.30 | Bars & rods, hot-rolled, iron or n/alloy steel | 623 | 2.3 |
| | | Total of items shown | 21,165 | 79.7 |

Note.—Because of rounding, figures may not add to the totals shown.

Source: Compiled from official statistics of the U.S. Department of Commerce. Commodities sorted by imports for consumption, customs value in 1991.

**Table B-5**
**Section 936 loans disbursed, 1988-May 1992**

*(In thousands of dollars)*

| *Year* | *Company* | *Country* | *Investment* | *Industry* |
|---|---|---|---|---|
| 1992: | Mobil Oil | Trinidad | $35,000 | Oil exploration |
| | Bondhus | Barbados | 300 | Hand tools |
| | Paraiso Verde | Costa Rica | 900 | Agriculture |
| | Inversiones Zeta | Costa Rica | 5,000 | Factory shells |
| | Caribbulk | Dominican Republic | 1,000 | Grain storage |
| | Triad Partnership | U.S. Virgin Islands | 9,784 | Infrastructure |
| | Total | | $51,984 | |
| 1991: | Barbados Telephone Co. | Barbados | 22,000 | Telecommunications |
| | Inversiones Cen-Am | Costa Rica | 600 | Agriculture |
| | Searle Pharmaceuticals | Costa Rica | 1,628 | Pharmaceuticals |
| | Bratex Dom. | Dominican Republic | 520 | Manufacturing |
| | Caribex Dominicana | Dominican Republic | 1,620 | Food processing |
| | Fiesta Bravaro Hotel | Dominican Republic | 22,000 | Hotel construction |
| | Hotel Embajador | Dominican Republic | 2,500 | Hotel refurbishing |
| | NSS Caribe | Dominican Republic | 4,500 | Manufacturing |
| | Grenada Telephone Co. | Grenada | 8,000 | Telecommunications |
| | Alcan | Jamaica | 60,000 | Aluminum |
| | Alumina Partners | Jamaica | 60,000 | Aluminum |
| | Jamaica Broilers | Jamaica | 3,000 | Food production |
| | Jamaica Grande | Jamaica | 27,000 | Hotel refurbishing |
| | Texaco Trinidad | Trinidad | 20,000 | Oil exploration |
| | Total | | $233,368 | |
| 1990: | Barbados Telephone Co. | Barbados | 13,000 | Telecommunications |
| | Metaldom | Dominican Republic | 27,500 | Telecommunications |
| | Seaboard | Dominican Republic | 18,000 | Electric power |
| | Rosehall Montego Bay | Jamaica | 4,000 | Hotel privatization |
| | Rosehall Montego Bay | Jamaica | 6,000 | Hotel privatization |
| | Telecom Jamaica | Jamaica | 22,000 | Telecommunications |
| | Phoenix Park | Trinidad | 80,000 | Petroleum refining |
| | Sapphire Beach | U.S. Virgin Islands | 9,135 | Hotel expansion |
| | Total | | $179,635 | |
| 1989: | Air Jamaica | Jamaica | 51,000 | Transportation |
| | Transcaribbean cable | (Jamaica)[1] | 17,000 | Telecommunications |
| | Total | | $68,000 | |
| 1988: | ABC Container[2] | Dominica | 2,100 | Paper/packaging |
| | UDC Transhore | Jamaica | 8,700 | Pre-fab housing |
| | Total | | $10,800 | |
| 1987: | Cable & Wireless | Barbados | 15,000 | Telecommunications |
| | Spanish Fort Free Zone | Jamaica | 19,500 | Infrastructure |
| | Total | | $34,500 | |
| Grand Total | | | $578,287 | |

[1] Part of an AT&T project to construct a digital fiber-optic cable system connecting the United States, Puerto Rico, the Dominican Republic, Jamaica, and Colombia. Only $17 million for the Jamaical portion of the total $180 million project was financed with section 936 funds. Jamaican officials prefer that this project not be listed as a section 936 loan to Jamaica.

[2] Section 936 funds financed a twin plant operation.

Source: State Department of the Commonwealth of Puerto Rico.

**Table B-6**
**Leading recipients of section 936 loans, 1987-May 31, 1992**

*(In millions of dollars)*

| | |
|---|---|
| Jamaica | $278.0 |
| Trinidad and Tobago | $135.0 |
| Dominican Republic | $77.6 |
| Barbados | $55.3 |
| U.S. Virgin Islands | $18.9 |

Source: State Department of the Commonwealth of Puerto Rico.

# APPENDIX C
# TECHNICAL NOTES TO CHAPTER 3

The following discussion presents the methodology for estimating the net welfare effects and the level of domestic output displaced by the duty-free status granted to Caribbean imports under CBERA in 1991. This comparative static analysis measures these effects by restoring the tariff under the current set of market conditions—i.e., it estimates how net welfare and domestic output would change in the absence of CBERA duty-free treatment.

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. Each of the three products is characterized by a separate market where differing equilibrium prices can exist. The three markets are depicted in panels a, b, and c of figure C-1.

It is assumed that the CBERA import supply curve to the U.S. market, the non-CBERA import supply curve, and the domestic industry supply curve are horizontal. This is shown by the curves $S_c$, $S_n$, and $S_d$. The subscripts c, n, and d refer to CBERA imports, non-CBERA imports, and U.S. output, respectively. Because CBERA imports account for a very small share of total domestic consumption, this assumption is made to obtain the maximum displacement effects to domestic production by CBERA imports. The CBERA and non-CBERA import demand curves, $D_c$ and $D_n$, and the demand curve for domestic output, $D_d$, are all assumed to be downward sloping.

Elimination of duty-free treatment for CBERA imports causes the import supply curve, $S_c$, in panel a to shift up by the amount of the ad valorem tariff, t. Therefore, the equilibrium price in the U.S. market for CBERA imports increases from $P_c$ to $P'_c$ while the quantity imported decreases from $Q_c$ to $Q'_c$. The relation between the tariff-ridden and tariff-free price is $P'_c =$

$P_c(1 + t)$.

With an increase in the price of CBERA imports, the demand curves for both non-CBERA imports and domestic output, $D_n$ and $D_d$, shift out to $D'_n$ and $D'_d$, respectively. Since the supply curves in both these markets are perfectly elastic, the equilibrium prices do not change. The equilibrium quantity supplied in each market increases from $Q_n$ and $Q_d$ to $Q'_n$ and $Q'_d$, 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 panel a. In the market for CBERA imports, there is also a simultaneous decrease in consumer surplus. This is measured by the trapezoid $P'_c abP_c$.

The net-welfare cost of eliminating the duty-free treatment granted CBERA imports is the increase in tariff revenue less the decrease in consumer surplus—the rectangle $P'_c acP_c$ minus the trapezoid $P'_c abP_c$ in panel a. The dollar amount by which U.S. output displaces CBERA imports is measured by the rectangle $Q_d deQ'_d$ in panel c.

Given the above assumptions and constant elasticity demand curves, the markets for all three goods are described by the following three equations:

(1) $(Q_c'/Q_c) = (P_c'/P_c)^{\varepsilon_{cc}}$

(2) $(Q_n'/Q_n) = (P_c'/P_c)^{\varepsilon_{nc}}$

(3) $(Q_d'/Q_d) = (P_c'/P_c)^{\varepsilon_{dc}}$

given $P_c' = P_c(1+t)$, these can be restated as

$$(1')\ (Q_c'/Q_c) = (1+t)^{\varepsilon_{cc}}$$

$$(2')\ (Q_n'/Q_n) = (1+t)^{\varepsilon_{nc}},$$

$$(3')\ (Q_d'/Q_d) = (1+t)^{\varepsilon_{dc}}$$

$\varepsilon_{ij}$ is the uncompensated elasticity of demand for good i with respect to price j. The values for the $\varepsilon_{cc}$, $\varepsilon_{nc}$, and $\varepsilon_{dc}$ are derived from the following relations

$$(4)\quad \varepsilon_{cc} = V_c\eta - V_n\sigma_{cn} - V_d\sigma_{cd}$$

$$(5)\quad \varepsilon_{nc} = V_c(\sigma_{nc} + \eta)$$

$$(6)\quad \varepsilon_{dc} = V_c(\sigma_{dc} + \eta)$$

where the $V_i$'s are market shares for CBERA and non-CBERA imports and domestic output, $\eta$ is the aggregate demand elasticity, and the $\sigma_{ij}$'s are the elasticities of substitution between the ith and jth products.[1] The aggregate demand elasticities were taken from the literature.[2] To obtain the maximum displacement effects on domestic production, it is assumed that all of the elasticities of substitution are identical and high, in this case, 5.[3]

Given equations (1') - (3'), we can derive the following measurements for changes in consumer surplus, tariff revenue, and domestic output:

*Consumer surplus:* (where k is a constant)

$$\text{trapezoid } P'_c abP_c = \int_{P_c}^{P_c'} kP_c^{\varepsilon_{cc}}\, dP_c$$

$$= [1/(1+\varepsilon_{cc})][(1+t)^{(1+\varepsilon_{cc})} - 1]P_cQ_c \qquad \text{if } \varepsilon_{cc} \neq -1$$

$$= k\ln(1+t) \qquad \text{if } \varepsilon_{cc} = -1$$

*Tariff revenue from CBERA imports:*

$$\text{rectangle } P'_c acP_c = tP_cQ_c'$$

$$= tP_cQ_c(1+t)^{\varepsilon_{cc}}$$

*Domestic output:*

$$\text{rectangle } Q_d deQ'_d = P_d(Q_d' - Q_d)$$

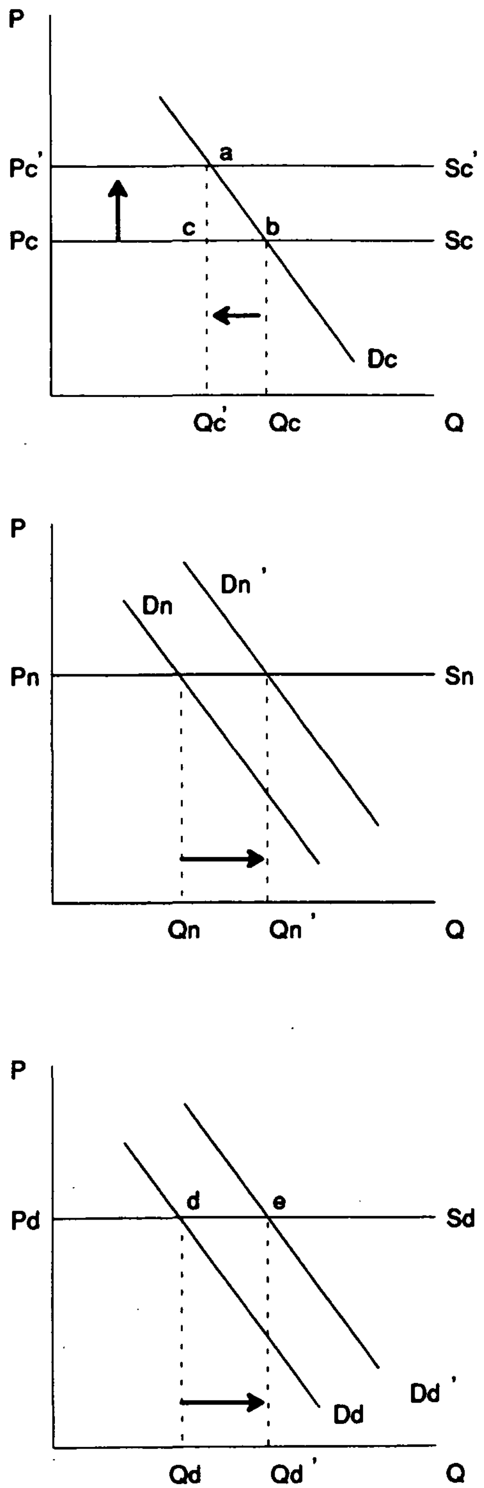
$$= P_dQ_d[(1+t)^{\varepsilon_{dc}} - 1]$$

[1] Equations (4) - (6) are derived from P.R.G. Layard and A. A. Walters, *Microeconomic Theory* (New York: McGraw-Hill, 1978).

[2] The aggregate elasticities were taken from sources referenced in *The Economic Effects of Significant U.S. Import Restraints, Phase I: Manufacturing*, USITC pub. 2222, October 1989.

[3] The elasticity of substitution (EOS) for ethyl alcohol was set equal to 3 rather than to 5. Because of the relatively small market share for CBERA imports and the high tariff rate, an EOS of 3 or more implies that CBERA imports of ethyl alcohol fully displace domestic output on a dollar for dollar basis.

**Figure C-1**
**Partial equilibrium analysis of the effects of removing CBERA duty-free privileges to U.S. imports from CBERA beneficiaries**




a. CBERA imports

b. non-CBERA imports

c. Domestic output