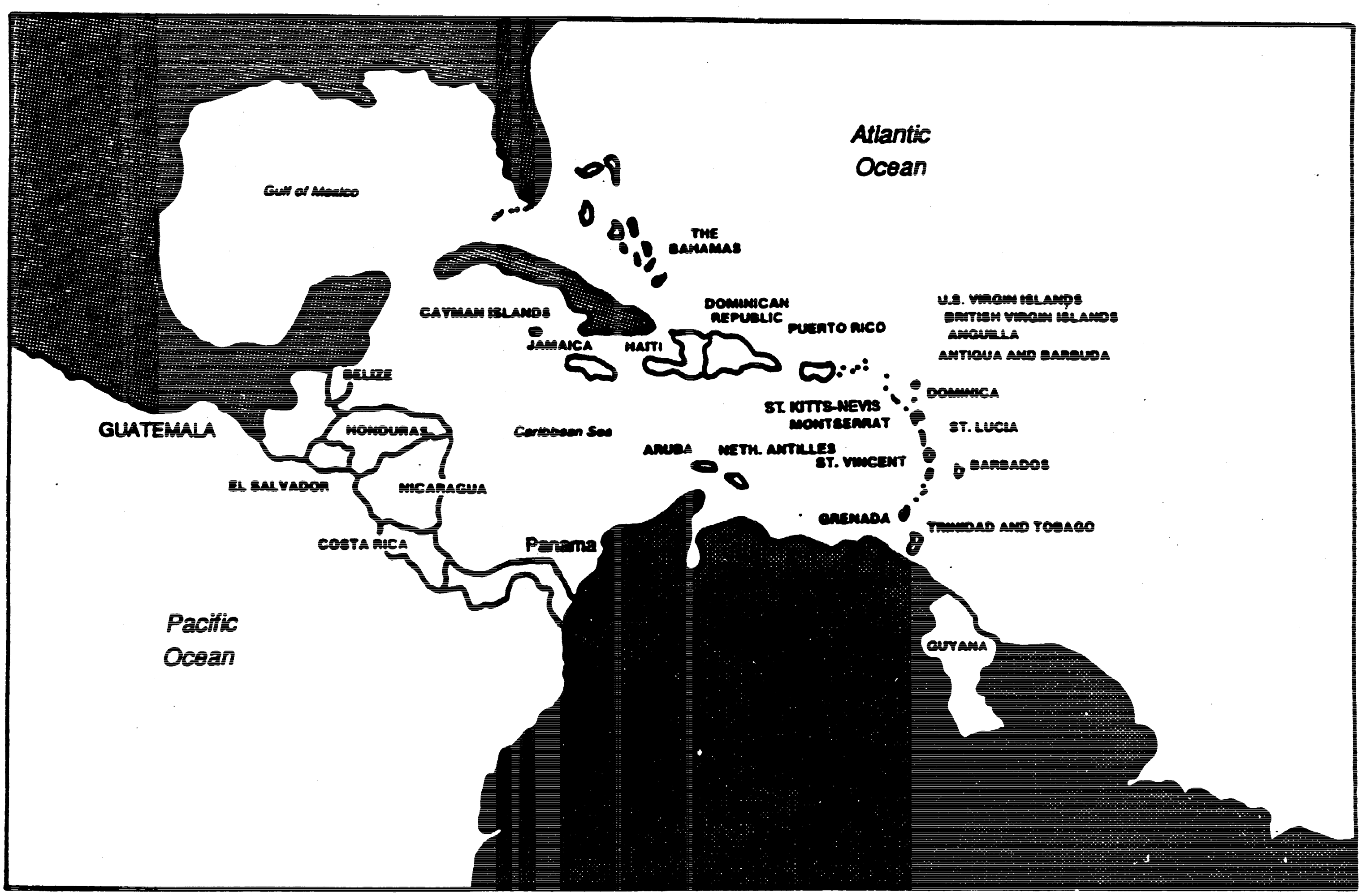
IMPACT OF THE CARIBBEAN BASIN ECONOMIC RECOVERY ACT ON U.S. INDUSTRIES AND CONSUMERS

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

Eighth Report 1992



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

Eighth Report
1992

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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 1992, the 9th 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 requires the Commission to assess actual and probable effects of 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 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 1992 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 CBERA in 1992, covering CBERA effects on the economy, industries, and consumers of the United States. Chapter 4 examines the probable future effects of CBERA through discussions of investment in the region, the products most likely to be exported to the United States in the future, and the probable impact of the North American Free-Trade Agreement (NAFTA) based on public comments and a preliminary analysis. 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 including a table of the leading imports under CBERA provisions, by source, in 1992. Appendix C explains the economic model used to derive the findings presented in chapter 3.

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EXECUTIVE SUMMARY

The Caribbean Basin Economic Recovery Act

The Caribbean Basin Economic Recovery Act (CBERA) marked its 9th year of operation in 1992. The CBERA affords nonreciprocal preferential treatment to most products of designated Caribbean Basin countries by eliminating tariffs 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 1992.[1] No new countries were designated for or suspended from CBERA benefits during the year. Although Haiti remained a CBERA beneficiary, a U.S. embargo on most trade with that country has been in effect since October 1991.

The U.S. Congress considered legislative modifications to three components of CBERA during 1992 and early 1993. First, Congress considered legislation to restrict duty-free imports of completed footwear assembled of U.S.-origin components. Second, legislation was considered to reduce the section 936 Federal income tax credit for U.S. corporations operating in Puerto Rico, therein possibly curtailing Puerto Rico-based investments in CBERA countries. Third, legislation was considered to apply many of the more liberal provisions proposed for Mexico under the North American Free-Trade Agreement (NAFTA) to CBERA countries. As of this writing, all three legislative proposals are awaiting further congressional action.

U.S. Trade with the Caribbean Basin in 1992

Total U.S. imports from CBERA countries rose to $9.4 billion in 1992 from $8.2 billion in 1991, and $5.9 billion in 1984, the first year of the act. This growth during 1992 was fueled by the continued expansion of textile and apparel imports, which generally are not eligible for duty-free entry. Increasing textile and apparel imports 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 9.9 percent in 1992.

Almost two-thirds of all U.S. imports from CBERA countries, valued at $6.1 billion, entered free of duty under various U.S. programs in 1992, including most-favored-nation duty rates, Generalized System of Preferences (GSP), and CBERA. Almost 16.0 percent, valued at $1.5 billion, were afforded duty-free entry under CBERA, versus 13.6 percent, or $1.1 billion, in 1991. The increase in the share of CBERA imports may have reflected some suppliers shifting from claiming GSP to claiming CBERA as the July 4, 1993, termination date for GSP benefits approached.

[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, and Honduras accounted for over three-fourths of all CBERA imports in 1992. The Dominican Republic and Costa Rica alone accounted for over one-half of all CBERA imports. The Dominican Republic was the leading CBERA source of raw cane sugar, footwear uppers, parts for electrical apparatus, medical, surgical and dental instruments, jewelry, and cigars. The Dominican Republic also was the main source of completed footwear of U.S.-origin components. Costa Rica was the leading supplier of fresh or chilled beef, cantaloupes, pineapples, ethyl alcohol, baseballs and softballs, hair dryers, fresh fish, and melons. Leading CBERA suppliers of other important products were The Bahamas (aromatic drugs), Honduras (frozen beef), Belize (frozen concentrated orange juice), Guatemala (tobacco), and Trinidad and Tobago (iron and nonalloy steel bars and rods).

Impact of CBERA in 1992

Although the total value of imports afforded duty-free entry under CBERA in 1992 was $1.5 billion, fewer than half of these imports would not have received duty-free entry without CBERA. The value of imports that would not have entered free of duty, or at reduced-duty rates, without CBERA increased by 25 percent between 1991 to 1992, from $515 million to $645 million—or 6.8 percent of the customs value of total imports entered from CBERA beneficiaries. In each year between 1984 and 1992, the value of those imports was equal to about 0.02 percent of U.S. gross domestic product (GDP).

Six products have consistently ranked among the leading items that actually benefited from CBERA tariff preferences: beef, pineapples, certain frozen concentrated orange juice, rum, ethyl alcohol (except in 1984), and raw cane sugar (except in 1989). Leather footwear uppers joined the ranks of the leading items in 1991, and became the top item in this category in 1992—largely due to increased imports from the Dominican Republic.

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 1992, the six products with the largest displacement effects from competing CBERA duty-free imports, in value terms, were ethyl alcohol, frozen concentrated orange juice, frozen vegetables, tobacco, medical instruments, and cigars. The largest effect occurred for ethyl alcohol, for which $22.4 million of U.S. domestic sales, or 1.4 percent of the value of the total domestic market, was displaced by CBERA-origin products.

Probable Future Effects of CBERA

This report uses CBERA-related investment activity to estimate the possible future trade effects of the act on the U.S. economy. The U.S. International Trade Commission identified investment in export-oriented CBERA-related projects during 1992 valued at approximately $134.1 million. In addition, 18 CBERA-related projects with capital requirements totaling approximately $183.0 million received low-interest loans from Puerto Rican financial institutions under section 936 of the U.S. tax code in 1992. Nevertheless, future imports under CBERA provisions, based on reported current investment levels, also are likely to be negligible.

Fieldwork in Guyana examined economic conditions and assessed the impact of CBERA in that country. Individuals interviewed stated that the need to rehabilitate roads, ports, electrical power generation, and other areas of the country's economic infrastructure was a legacy of an economic recession that lasted for most of the 1980s. These problems remain a significant impediment to attracting new investment in Guyana's export-oriented sectors. Although CBERA imports from Guyana more than doubled during 1992, the level of imports remains less than one-half the level attained in 1989.

The possibility of a NAFTA has aroused concern in CBERA countries about investment and trade diversion away from the region as Mexico strengthens its economic ties to the United States. Caribbean officials are particularly concerned that their exports of petroleum (not eligible under CBERA) and rum to the United States will not stand up to increased competition from Mexico. Preliminary examinations by USITC of current trade, tariff, and market share trends have found that NAFTA will improve the relative cost competitiveness of Mexican producers of certain articles compared with that of some Caribbean and Central American suppliers. In addition, CBERA products may encounter increased competition from similar Mexican products in U.S. markets after NAFTA becomes fully operational.

CHAPTER 1
The Caribbean Basin Economic Recovery Act

This chapter provides an overview of CBERA. It summarizes the main trade- and investment-related benefits and recent legislative proposals concerning the program. A summary of the submissions received by the U.S. International Trade Commission (USITC) during the course of this eighth annual investigation concerning the impact of the program also is presented.[1]

Overview of the CBERA Program

The United States launched the Caribbean Basin Initiative (CBI) in 1982.[2] The CBI encompasses a number of public- and private-sector programs that aim 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]

CBERA, which contains the statutory provisions that implement the trade-related aspects of the CBI, became operative on January 1, 1984.[5] The Caribbean Basin Economic Recovery Expansion Act of 1990 (hereinafter "1990 CBERA"), signed into law on August 20, 1990, significantly expanded CBERA and eliminated the 1993 termination date for CBERA benefits.[6]

CBERA Beneficiaries

A total of 24 Caribbean, Central American, and South American countries and territories received CBERA benefits in 1992 (table 1-1).[7] The President did not designate new countries for CBERA benefits or terminate or suspend any country's

[1] General information and specific data on past trade and economic activity under the CBERA can be found in the Commission's prior annual reports in this series. 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; *CBERA, Sixth Annual Report, 1990*, USITC publication 2432, Sept. 1991; and *CBERA, Seventh Annual Report, 1991*, USITC publication 2553, Sept. 1992.

[2] President, "Address Before the Permanent Council of the Organization of American States," *Weekly Compilation of Presidential Documents: Administration of Ronald Reagan*, vol. 18, No. 8, (Mar. 1, 1982), pp. 217-223.

[3] Traditional products of the Caribbean Basin countries include bananas, bauxite and aluminum ores, coffee, and rum. Nontraditional products include such products as apparel, seafood, winter vegetables, and wood furniture.

[4] For additional discussion of nontraditional products and the CBI, see U.S. Department of Commerce, International Trade Administration, Latin America/Caribbean Business Development Center (LA/C Center), *1991 Guidebook: Caribbean Basin Initiative* (Nov. 1990), pp. 1-4.

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

[6] Customs and Trade Act of 1990, Public Law 101-382, title II, 104 Stat. 629, 19 U.S.C. 2101 note.

[7] For specific provisions pertaining to the designation of countries and territories as eligible for CBERA benefits, see sec. 211 and sec. 212(a) of the CBERA. For a more detailed discussion of these provisions, see USITC, *CBERA, Seventh Annual Report, 1991*, p. 1-2.

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

Countries designated as eligible for benefits under the CBERA program as of Dec. 31, 1992:

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 and the Grenadines
Guatemala	Trinidad and Tobago

Countries that have not formally requested CBERA designation as of Dec. 31, 1992, but which are potentially eligible:

Anguilla	Suriname
Cayman Islands	Turks and Caicos Islands

benefits during 1992.[8] Although the United States continued to apply an embargo on most non-humanitarian trade with Haiti during 1992, Haiti did not lose its CBERA designation.[9]

CBERA beneficiaries are required to afford internationally recognized worker rights as defined under the U.S. Generalized System of Preferences (GSP) program.[10] To date, CBERA benefits have not been withheld from any country on the basis of worker rights violations.[11]

[8] The President has the authority to designate certain Caribbean Basin countries and territories as eligible for CBERA benefits, to terminate such designations, and to suspend or limit a country's CBERA benefits. Sec. 211, sec. 212(a), and sec. 212(e)(1), CBERA, as amended. For more detailed information, see USITC, *CBERA, Seventh Annual Report, 1991*, p. 1-2.

[9] This embargo was imposed following the September 1991 military coup that overthrew Haitian President Jean-Bertrand Aristide. President, "Executive Order 12779 of Oct. 28, 1991 Prohibiting Certain Transactions With Respect to Haiti," published in *the Federal Register*, 56 F.R. 55975.

[10] The President may waive this condition 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.

[10]—*Continued*
Sec. 212(b), CBERA, as amended. Under the GSP program, internationally recognized worker rights include 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. Sec. 502(a)(4), Trade Act of 1974, title V (Public Law 93-618, 88 Stat. 2066 and following).

[11] The United States examined worker rights practices in El Salvador, Guatemala, and Panama as part of the 1991-92 GSP review. The President announced that Panama had taken steps to afford internationally recognized worker rights, but that practices in Guatemala and El Salvador would continue to be examined. President, "Actions Concerning the Generalized System of Preferences," memorandum of June 25, 1993, for the United States Trade Representative (USTR), 58 F.R. 34861. For additional information, see USTR, "Generalized System of Preferences: Results of the Review of Petitions Requesting Changes in the List of Countries and Articles Eligible for Duty-Free Treatment Under the GSP in the 1991 Annual Review," 57 F.R. 30286.

Trade Benefits Under CBERA

CBERA was designed to encourage economic development in the Caribbean Basin principally by authorizing nonreciprocal duty-free entry into the United States for a wide range, or reduced duties on a few categories, of Caribbean Basin products.[12] CBERA affords preferential rates of duty below the most-favored-nation (MFN) rates[13] 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.[14] Trade benefits under CBERA are summarized in table 1-2.

In July 1992, President Bush announced that the United States will expand CBERA duty-free entry to 28 tariff categories.[15] These benefits will apply to products valued at an estimated $4.6 million in 1992 U.S. imports. Eligible products include plastic floor, wall, and ceiling coverings; plastic plates, sheets, and film; vulcanized rubber sheets, plates, and strips; conveyor or transmission belts; and ink pads.[16]

In addition to preferential trade benefits, other CBERA provisions include—

- A requirement that the United States not cumulate the imports of a CBERA country with imports from non-CBERA countries in investigations under U.S. trade laws involving unfair imports for the purpose of determining material injury, or the threat thereof, by reason of imports from such countries;[17]
- The establishment of a pilot customs preclearance program in eligible CBERA countries to assist in the development of tourism in the region;[18]
- Tax deductions for business expenses incurred by U.S. businesspersons while attending conventions and meetings in eligible CBERA countries;[19] and
- U.S. tax incentives to encourage investment in eligible Caribbean Basin countries.[20]

Other Trade Benefits for CBERA Countries

CBERA is one of three U.S. trade provisions that Caribbean Basin countries may utilize. In addition to CBERA, the other provisions are the GSP program and reduced duties and liberalized textile and apparel quotas under HTS subheading 9802.00.60 and heading 9802.00.80.

The U.S. GSP Program

The U.S. GSP program is a temporary tariff preference scheme for eligible products of designated developing countries.[21] The GSP program provides

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12 President, "Address Before the Permanent Council of the Organization of American States," *Weekly Compilation of Presidential Documents: Administration of Ronald Reagan*, vol. 18, No. 8 (Mar. 1, 1982), pp. 217-223.

13 The United States affords MFN tariff treatment to all CBERA countries under U.S. domestic law in accordance with U.S. international obligations under the General Agreement on Tariffs and Trade (GATT) or other agreements. 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 staged reductions of full statutory rates in negotiations with other countries. For some products, the MFN tariff rate is free. 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).

14 General note 3(c) to the HTS reflects special tariff treatment to eligible products of designated countries under various U.S. trade programs, including the CBERA.

15 Presidential Proclamation 6455, July 2, 1992. 57 F.R. 30069.

16 For a discussion of prior CBERA administrative enhancements, see USITC, *CBERA, Seventh Annual Report, 1992*, p. 1-4.

17 Sec. 224, CBERA, as amended (amends sec. 771(7) of the Tariff Act of 1930, 19 U.S.C. 1677(7)(C)(iv)). For example, this provision was applied in the case of a 1993 antidumping investigation injury determination involving steel wire rod from Trinidad and Tobago. For further information on this case, see USITC, *Certain Steel Wire Rod from Brazil, Canada, Japan, and Trinidad and Tobago*, investigations Nos. 731-TA-646-649 (preliminary), USITC publication 2647, June 1993.

18 Sec. 233, CBERA, as amended.

19 Sec. 222, CBERA, as amended.

20 Sec. 227 of the 1990 CBERA.

21 The U.S. GSP program was originally enacted in the Trade Act of 1974 and was renewed in the Trade and Tariff Act of 1984. Trade Act of 1974, title V (Public Law 93-618, 88 Stat. 2066 and following); and Trade and Tariff Act of 1984, title V (Public Law 98-573, 98 Stat. 3018 and following), as amended (19 U.S.C. 2461 and following). For general

Table 1-2
Summary of CBERA trade provisions[1]

Duty-free entry

Applies to all products unless specifically excluded. Products generally must be grown, produced, or manufactured in a CBERA country[2] or must be "new or different" from any foreign materials or components used in their manufacture. The costs of local materials and processing generally must total at least 35 percent of the customs value of the product (inputs from Puerto Rico, the U.S. Virgin Islands, and the United States are allowed to account for a portion of this 35-percent minimum local content). Certain articles assembled or processed in CBERA countries wholly from components or materials originating in the United States also may enter the United States free of duty.[3] The following conditions, restrictions, or exemptions apply:

- Certain agricultural products, including sugar, dairy products, cotton, peanuts, and beef, are subject to U.S. quotas and/or health requirements. Duty-free imports of sugar and beef are allowed only from countries that submit a "Stable Food Production Plan" to the United States to ensure that food production and the nutritional level of the population in the beneficiary country will not be adversely affected by export production.[4]

- Ethyl alcohol produced from agricultural feedstock grown in a CBERA country is admitted duty-free. Alcohol produced from non-CBERA agricultural feedstock is restricted to 60 million gallons (227.1 million liters) or 7 percent of the U.S. domestic ethanol market, whichever is greater.[5]

- Excluded from duty-free entry are: canned tuna; petroleum and petroleum derivatives; footwear (except disposable items and footwear parts such as uppers)[6]; watches and watch parts[7]; sugar from any Communist country in the Caribbean Basin or in Central America, and most textiles and apparel.[8]

Reduced duties for certain products

Duties on handbags, luggage, flat goods, work gloves and leather wearing apparel are being reduced by a total of 20 percent beginning January 1, 1992, in five equal annual installments.[9]

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[1] These provisions are discussed in greater detail in USITC, *CBERA, Seventh Annual Report, 1991*, Sept. 1992, pp. 1-2 to 1-7.

[2] Also applies to articles grown, produced, or manufactured in Puerto Rico, advanced in value or improved in condition in a CBERA country, and exported directly to the United States.

[3] This provision was added by sec. 222 of the 1990 CBERA, which amended Note 2 to subchapter II of chapter 98 of the HTS. Textiles and apparel and petroleum products and derivatives are excluded.

[4] Sec. 213(c)(1)(B), CBERA, as amended.

[5] Sec. 213(a)(1), CBERA, as amended. See also 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. 203 nt; Public Law 99-514 as amended by Public Law 101-221).

[6] Applies to footwear not eligible for duty-free entry under the U.S. Generalized System of Preferences (GSP) program as of Aug. 5, 1983, that is assembled in a CBERA country of U.S.-origin components. Restrictions on imports of such completed footwear were lifted by sec. 222 of the 1990 CBERA.

[7] The United States eliminated certain content restrictions on wrist watches in Oct. 1991.

[8] Textile and apparel articles that were subject to textile agreements when CBERA was enacted are not eligible for CBERA duty-free benefits. 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, see general note (3)(c)(v)(D)(3) to the HTS.

[9] Sec. 213(h), CBERA, as amended.

nonreciprocal duty-free entry for eligible articles shipped directly from beneficiary countries, provided that at least 35 percent of the value of the product is added in the beneficiary country.[22] All CBERA countries are also GSP beneficiaries. Despite several key differences between the two programs,[23] many products of Caribbean Basin countries are eligible for duty-free entry under either the GSP or CBERA. The U.S. GSP program expired on July 4, 1993. On August 10, 1993, President Clinton signed into law H.R. 2264, a budget reconciliation bill that, among other things, extended the GSP program for 15 months.

HTS subheadings 9802.00.60 and 9802.00.80

These tariff provisions[24] effectively provide reduced duties for certain U.S. products processed or assembled outside of the United States and subsequently returned (so-called production-sharing). U.S. customs duties for such articles 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 identifiable exported and re-imported U.S. content.[25] A recent USITC report on total U.S. production-sharing imports noted that, although textiles and apparel items do not represent the largest share of all HTS heading 9802.00.80 imports, textile and apparel products account for the largest share of the duty savings.[26]

Although textiles and apparel articles generally are excluded from CBERA, the United States has negotiated bilateral agreements since 1986 with several Caribbean Basin countries to improve access for their products to the U.S. market. The goal of this so-called Special Access Program[27] is to liberalize quotas for Caribbean Basin exports within the context of the overall U.S. textile policy.[28] The liberalized 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 and are separately treated under HTS statistical reporting number 9802.00.8010. Costa Rica, the Dominican Republic, Guatemala, Haiti, Jamaica, and Trinidad and Tobago have GAL agreements. The United States signed no new GAL agreements during 1992.

Legislation Affecting CBERA

The U.S. Congress considered legislative modifications to three components of CBERA during 1992 and early 1993. These bills concerned footwear of U.S.-origin components, tax concessions under the section 936 of the Internal Revenue Code, and parity for Caribbean Basin countries.

21—*Continued*
background information about the GSP program, see USTR, ***A Guide to the Generalized System of Preferences***, Aug. 1991; and U.S. House, Committee on Ways and Means, ***The President's Report to the Congress on the Generalized System of Preferences as Required by Section 505(B) of the Trade Act off 1974, as Amended***, WMCP 101-23 (Washington: GPO, 1990).

22 For a more detailed discussion of the GSP program, see USITC, ***The Year in Trade: Operation of the Trade Agreements Program, 44th Report, 1992***, USITC publication 2640 (July 1993), pp. 97-99.

23 Differences between the two programs are described in more detail in USITC, ***CBERA, Seventh Report***, p. 1-7.

24 HTS subheading 9802.00.60 applies to imported products containing metal of U.S. origin processed abroad and returned for further processing. Heading 9802.00.80 applies to imported assembled products such as apparel containing U.S. components. These HTS provisions formerly were Tariff Schedules of the United States (TSUS) items 806.30 and 807.00, respectively.

25 For more detailed discussions of these HTS provisions, see USITC, ***Production Sharing: U.S. Imports Under Harmonized Tariff Schedule Subheadings 9802.00.60 and 9802.00.80, 1988-1991***, USITC publication 2592, Feb. 1993.

26 Ibid., p. x.

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

28 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.

Footwear of U.S.-origin components

Most articles of footwear are not eligible for duty-free treatment under CBERA. Exceptions are thonged footwear (zoris), disposable footwear, and most parts of footwear such as unformed leather uppers.[29]

Section 222 of the 1990 CBERA permitted for the first time duty-free entry of completed footwear, among other articles, assembled in CBERA countries entirely from U.S. components.[30] U.S. imports of footwear under this provision were $719,021 in 1991 and rose to $47 million in 1992. Despite this increase, the value of completed footwear imports under section 222 still is significantly smaller than the $134 million of unformed leather uppers entered free of duty under CBERA.[31] Almost all of the section 222 footwear imports entered from the Dominican Republic, where a number of U.S. manufacturers produce unformed leather uppers from U.S. components for reexport to the United States for final processing into finished dress and casual shoes. However, U.S. imports of fabric-upper, rubber-soled footwear from the Dominican Republic in 1992 represented only about 1 percent of total U.S. imports of this type of shoe.[32]

Reportedly prompted by concerns of the Rubber and Plastic Footwear Manufacturers Association,[33] bills were introduced during the 102d Congress in both the House of Representatives and the Senate to exclude footwear and leather-related products from section 222 duty-free entry.[34] Separate bills passed both the House and Senate, and differences between the two bills were resolved in conference. Compromise legislation, which would have allowed continued duty-free entry for footwear produced by existing manufacturers in CBERA countries up to limits based on their 1992 production levels, including any new manufacturing capacity under construction before October 1, 1992, passed both houses as part of the Revenue Act of 1992. It was later vetoed by President Bush reportedly for reasons unrelated to the footwear issue.[35]

Early in 1993, legislation was introduced in the 103d Congress to eliminate duty-free entry for footwear under section 222. One new House bill (H.R. 795), introduced by Charlie Rose (D-NC) is identical to the 1992 compromise legislation described above.[36] A Senate bill (S. 530) introduced by George Mitchell (R-ME) and another House bill (H.R. 2322) introduced by Olympia Snowe (R-ME) would exclude all footwear and leather-related products from section 222 duty-free entry.[37] As of this writing, there has been no further congressional action on these bills.

The Section 936 Loan Program

Overview

The U.S. Internal Revenue Code grants certain tax incentives to encourage investment in U.S. overseas possessions. Section 936 of the code grants a tax credit equal to the Federal tax liability on certain income earned in U.S. possessions such as Puerto Rico.[38] The credit is equivalent to exempting completely from Federal taxes the income of qualifying U.S. corporations in Puerto Rico so long as the funds remain in Puerto Rico. To further encourage U.S. investment, Puerto Rico also grants local and commonwealth tax credits to section 936

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29 Sec. 213(b)(2), CBERA, as amended.

30 This provision amended ch. 98, subch, II, note 2 of the HTS and applies to articles that are "assembled or processed" in CBERA countries wholly from components or materials originating in the United States. Textile and apparel articles and petroleum and petroleum products are excluded.

31 Imports of unformed leather uppers from CBERA countries are discussed in greater detail in ch. 3.

32 China, Korea, Taiwan, and Indonesia supplied 89 percent of the value of imports of these shoes in 1992. Based on data from the U.S. Department of Commerce.

33 These concerns are summarized in the section "Concerns of Interested Persons and Industries" below.

34 Those bills were H.R. 1385 in the House of Representatives, introduced by Patricia Schroeder (D-CO), and S. 405 in the Senate, introduced by

34—*Continued*
George Mitchell (R-ME). *Congressional Record*, vol. 137, No. 42 (Mar. 12, 191), p. H1668 and vol. 137, No. 26 (Feb. 7, 1991), p. S1790.

35 President, "Revenue Act of 1992," *Weekly Compilation of Presidential Documents: Administration of George Bush*, vol. 28, No. 45 (Nov. 9, 1992), p. 2283.

36 *Congressional Record*, vol. 139, No. 13 (Feb. 3, 1993), p. H483.

37 *Congressional Record*, vol. 139, No. 28 (Mar. 9, 1993), p. S2546 and vol. 139, No. 77 (May 27, 1993), p. H2994.

38 28 U.S.C. 936.

funds deposited in Puerto Rican financial institutions.[39]

In 1986, U.S. and Puerto Rican tax laws were modified to allow investors to borrow section 936 funds from Puerto Rican financial institutions to finance projects in certain Caribbean Basin countries.[40] To be eligible for section 936 project financing, a CBERA country must sign a Tax Information Exchange Agreement (TIEA) with the United States.[41] Guyana signed a TIEA in July 1992, making it the tenth CBERA country to become eligible for section 936 financing.[42]

Section 936 financing is one branch of Puerto Rico's Caribbean Development Program. The other major branch of this program is the promotion of production-sharing operations (so-called "twin plants"). The Government of Puerto Rico 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 financing 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.[43]

Proposed legislative amendments

In recent years, section 936 tax credits have encountered scrutiny from Congress and the General Accounting Office (GAO).[44] Certain members of Congress have advocated the reduction or elimination of the tax credits as a means of increasing tax revenue in light of the U.S. Federal budget deficit. Some critics contend that the section 936 program is not a good vehicle for promoting investment in CBERA countries because it is based on corporate earnings rather than on employment or investment creation.[45]

On May 27, 1992, House Ways and Means Committee Chairman Dan Rostenkowski (D-IL) and Bill Gradison (former R-OH) introduced H.R. 5270 (Foreign Income Tax Rationalization and Simplification Act of 1992). Among other things, this bill would have reduced from 100 percent to 85 percent the amount of a company's U.S. possession-based operations effectively exempt from Federal income tax.[46] No further action was taken on the bill during 1992.

In early 1993, three bills concerning section 936 were introduced in the 103d Congress. First, on February 16, 1993, Senator David Pryor (D-AR) introduced S. 356 (The Possessions Wage Credit Act of 1993). This bill proposes phasing out the section 936 program over 5 years and replacing it with a wage-based employment tax credit of 40 percent of the first $20,000 of "qualified wages" paid to workers in U.S. possessions.[47] Second, on March 3, 1993, Representatives Pete Stark (D-CA) and Tim Roemer (D-IN) introduced H.R. 1210, which would bar access to section 936 benefits to "runaway" U.S.

[39] Changes to U.S. and Puerto Rican tax laws concerning section 936 tax credits are discussed in USITC, *CBERA, Third Annual Report, 1987*, pp. 3-5 to 3-6. Section 936 is described in more detail in USITC, *CBERA, Seventh Annual Report, 1991*, pp. 1-8 to 1-11. For additional information on section 936, see LA/C Center, *1991 Guidebook*, p. 67; and Economic Development Administration of Puerto Rico (Fomento), *Some Common Questions on CBI/936 Financing*, pamphlet (San Juan: Fomento, Apr. 1990).

[40] U.S. Department of the Treasury, Internal Revenue Service, "Requirements for Investments to Qualify Under Section 936(d)(4) as Investments in Qualified Caribbean Basin Countries," 45 F.R. 21926. Types of projects eligible for section 936 financing are described in USITC, *CBERA, Seventh Annual Report, 1991*, pp. 1-9 to 1-10. Sec. 227 of the 1990 CBERA requires that Puerto Rico lend a minimum of $100 million in section 936 funds annually.

[41] A TIEA is a mutual and reciprocal obligation to exchange information with the United States relating to the enforcement of tax laws that provides a means by which a signatory government can pursue certain tax evaders.

[42] The following countries concluded TIEAs with the United States prior to 1992: Barbados, Costa Rica, Dominica, the Dominican Republic, Grenada, Honduras, Jamaica, St. Lucia, and Trinidad and Tobago.

[43] For a more detailed discussion of the twin-plant program, see USITC, *CBERA, Seventh Annual Report, 1991*, p. 1-12.

[44] For information on events during 1991, see USITC, *CBERA, Seventh Annual Report, 1991*, pp. 1-10 and 1-11.

[45] For a more detailed discussion of this point, see Gail DeGeorge and Paul Magnusson, "A Hurricane Heads for Puerto Rico," *Business Week*, June 14, 1993, p. 52.

[46] *Congressional Record*, vol. 138, No. 74 (May 27, 1992), p. H3834.

[47] *Congressional Record*, vol. 139, No. 15 (Feb. 16, 1993), p. S1595.

plants that relocate to Puerto Rico, thereby causing U.S. job losses.[48] Third, on May 4, 1993, Representative Dan Rostenkowski introduced H.R. 1960. This bill would replace the section 936 tax exemption with a tax credit based on the U.S. subsidiary's Puerto Rican payroll. Companies would receive a Federal tax credit equal to 60 percent of the wages paid to their workers (to a maximum of $60,000 per worker) in Puerto Rico.[49] Any further Congressional action on these bills will be reported in the ninth annual report in this series in September 1994.

NAFTA Parity

The leaders of the United States, Canada, and Mexico signed the North American Free-Trade Agreement (NAFTA) on December 17, 1992. Implementing legislation for this proposed free-trade agreement must be prepared and approved in each country before NAFTA becomes effective. One key component of the agreement is the staged elimination of tariffs and quotas on qualifying trade between the United States and Mexico.

This series of reports has documented concerns of Caribbean Basin officials over the impact NAFTA might have on U.S. imports from CBERA countries.[50] These concerns included predictions that NAFTA, together with lower transportation costs afforded by the relative geographic proximity of Mexico, will divert U.S. trade and investment from the Caribbean Basin region to Mexico.

On March 18, 1993, Representative Sam Gibbons (D-FL) introduced H.R. 1430, the Caribbean Basin Free-Trade Agreements Act, in the House of Representatives "to ensure that the Caribbean Initiative is not adversely affected by the implementation of the North American Free-Trade Agreement."[51] The bill would provide preferential tariff and quota treatment on imports from CBERA countries identical to the treatment accorded to like articles imported from Mexico under NAFTA, and to articles that meet rules-of-origin criteria established by NAFTA. In addition, other provisions of H.R. 1403 would—

- Apply the lower of either the duty rate or the CBERA reduced-duty rates for imports of handbags, luggage, flat goods, work gloves, and leather wearing apparel;
- Establish (1) quota-free treatment for textile and apparel articles that originate in a CBERA country; (2) duty-free treatment for imports of textile and apparel products from CBERA countries qualifying for the Special Access Program; and (3) duty- and quota-free entry for certain certified handloomed, handmade, and folklore articles;
- Permit articles assembled in CBERA countries wholly of U.S.-origin components or materials subject to section 222 of CBERA to continue to enter the United States duty-free, whereas comparable articles from Mexico would be subject to staged tariff elimination; and
- Establish tariff-rate quotas for Caribbean products that do not meet NAFTA rules of origin, with duties identical to those applied to like imports from Mexico.

NAFTA parity provisions would become effective on the date that NAFTA enters into force. The provisions would remain in effect for 3 years (the so-called "transitional period"), during which time CBERA countries would be invited either to accede to NAFTA or to negotiate a bilateral free-trade agreement with the United States. Imports from countries that do not accede to NAFTA or conclude bilateral agreements with the United States by the end of the transitional period would receive current CBERA treatment.

As of this writing, H.R. 1403 awaits further action in the Trade Subcommittee of the House Ways and Means Committee. A number of individuals testified about the bill before the House subcommittee on June 23-24, 1993.[52] A companion bill, S. 1155, was

[48] *Congressional Record*, vol. 139, No. 24 (Mar. 3, 1993), p. H1010.

[49] *Congressional Record*, vol. 139, No. 60 (May 4, 1993), p. H2246.

[50] See USITC, *CBERA, Seventh Annual Report, 1991*, pp. 4-5 to 4-6, *CBERA, Sixth Annual Report, 1990*, p. 4-5, and *CBERA, Fifth Annual Report, 1989*, p. 1-5.

[51] *Congressional Record*, vol. 139, No. 34 (Mar. 18, 1993), p. H1526.

[52] The American Apparel Manufacturers Association and representatives of the Governments of Costa Rica, the Dominican Republic, Jamaica, Trinidad and Tobago, and the six Central American countries and Panama were among those who testified in support of the legislation. The Luggage and Leather Goods Manufacturers of America testified in opposition to the bill.

introduced in the Senate on June 24, 1993 by Senator Bob Graham (D-FL).[53] Subsequent developments concerning this legislation will be discussed in the ninth annual report in this series scheduled for publication in September 1994.

Concerns of Interested Persons and Industries

In connection with this eighth annual investigation of CBERA, the USITC received four submissions from interested persons, industries, and governments. In addition, several individuals expressed their concerns about CBERA during testimony before the House Subcommittee on Trade during June 23-24, 1993, and in interviews with USITC staff.

Footwear Manufacturers

The Rubber and Plastic Footwear Manufacturers Association (RPFMA)[54] addressed the issue of imports of footwear manufactured or assembled from U.S.-origin components authorized under section 222 of the 1990 CBERA.[55] Citing data showing an increase of more than 400 percent in the quantity of U.S. footwear imports from the Dominican Republic during 1992 (from 566,000 pairs in 1991, to 2,953,000 pairs in 1992), the RPFMA stated that "[t]he requirement of using domestic components in order to get duty-free treatment is one that either is now being met or that can readily be met by footwear companies [in CBERA countries]." The RPFMA continued that—

> Given the import sensitivity of the products involved, the labor-intensive nature of the industries, and their relatively high duties (ranging as high as 65 percent for fabric-upper, rubber-soled footwear and 37.5 percent for waterproof footwear and slippers), section 222 as presently written threatens the continued existence of the remaining domestic rubber footwear and slipper companies. Rubber footwear and slipper companies see their future, under this section, as one of shifting production from domestic plants to the Caribbean and of laying off the majority of their domestic employees.

As evidence of the threat to U.S. production and employment, the RPFMA reported the closure of two U.S. footwear plants in late 1992. One plant, in Georgia, dismissed 200 employees and expanded its operation in the Dominican Republic, and the other, in Ohio, dismissed 355 employees and expanded its operation in Honduras. The RPFMA submission contends that, were it not for pending U.S. legislation to curtail section 222 imports,[56] "the strong probability is that there would be a significantly larger transfer of employment from this country to countries such as the Dominican Republic and Honduras."

In contrast, some U.S. nonrubber footwear manufacturers support continuation of duty-free entry for such footwear. These firms claim that they will be forced to shut down their domestic parts factories and to import footwear from the Far East if they are not able to supplement domestic production with duty-free imports from the Caribbean. Moreover, they state that this will lead not only to a loss of U.S. and Caribbean footwear jobs but also to a loss of jobs in the industries that support and supply both U.S. and Caribbean production.[57]

Jamaica

The Government of Jamaica addressed several issues in its submission to the USITC on the impact of CBERA and the CBI program in general on the Caribbean Basin countries; implications of the NAFTA for the Caribbean Basin region; NAFTA parity for CBERA countries; and Jamaica's recent efforts to reform its economy, liberalize its trade regime, improve market access for U.S. products, and protect intellectual property rights.[58]

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[53] *Congressional Record*, vol. 139, No. 91—part II (June 24, 1993), p. S8091.

[54] Submission to the USITC dated June 15, 1993, by Mitchell J. Cooper, Counsel, Rubber and Plastic Footwear Manufacturers Association. The RPFMA concerns also are documented in USITC, *CBERA, Seventh Annual Report, 1991*, p. 1-13 and *CBERA, Sixth Annual Report, 1990*, p. 1-9.

[55] For additional information on sec. 222 of the 1990 CBERA, see table 1-2.

[56] For further information on this pending legislation, see the discussion of footwear in the section "Legislation Affecting CBERA" above.

[57] Based on USITC staff interviews with representatives of Carter Footwear, Inc., The Stride Rite Corp., Wolverine World Wide, Inc., and U.S. Shoe, Apr. 1993.

[58] Submission to the USITC dated June 29, 1993, by Richard L. Bernal, Ambassador of Jamaica to the United States.

The Jamaican Ambassador stated that CBERA has promoted U.S.-Caribbean trade, stimulated Caribbean purchasing power, generated jobs in complementary industries, and in general has been responsible for a decade of unparalleled growth in trade between the United States and the Caribbean, acting as a catalyst for exports, investment and employment creation in the economies of the United States and the Caribbean nations, such as Jamaica.

The Ambassador also stated that CBERA has promoted economic reforms and liberalization in Jamaica, encouraged stronger enforcement of intellectual property rights in Jamaica, enhanced U.S. market access in that country, and "transformed the basis of U.S.-Jamaica trade from one based initially on preferential access to the United States market to one of virtual reciprocity."[59]

U.S. Virgin Islands

Counsel for the Government of the U.S. Virgin Islands stated that the Virgin Islands supports CBERA "despite the fact that the CBI has harmed certain Virgin Islands industries," especially the rum industry.[60] It was reported that nearly 10 percent of the Virgin Islands' budget is derived from U.S. Federal excise taxes on rum.[61] Counsel also stated that CBERA has resulted in a substantial increase in U.S. imports of low-valued rum from CBERA countries that directly competes with higher valued rum produced in the Virgin Islands. The Virgin Islands submission noted, however, that "[a]lthough these increased imports have harmed Virgin Islands producers, the Virgin Islands industry is seeking to make difficult but necessary adjustments and believes that it can continue to compete with CBI producers."[62]

Central America

In testimony before the U.S. House of Representatives, the Vice Minister of Economy of Guatemala, representing Governments of Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama, stated that CBERA has "helped nurture an independent business class with close ties to the United States."[63] He added that, while nearly 70 cents of every export dollar earned by CBERA producers is returned to the United States in the form of purchases of U.S. goods and services, Asian exporters spend less than 20 cents of every dollar earned in the United States.

The Costa Rican Ambassador stated that CBERA has helped accelerate the processes of democratization and economic liberalization in the region. The ambassador also stated that improved access to U.S. markets as a result of CBERA has helped Costa Rica diversify its exports and has contributed to the growth of foreign investment in that country.[64]

Commonwealth of Puerto Rico

The Commonwealth of Puerto Rico addressed the issue of the benefits of section 936 to the Caribbean Basin, to Puerto Rico, and to the United States.[65] The

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59 Other comments by the Government of Jamaica on the probable impact of the NAFTA on the CBERA countries are discussed in ch. 4.

60 Submission to the USITC dated June 29, 1993, by Peter N. Hiebert and Edward F. Gerwin, Jr. of Winston & Strawn, Counsel for the Government of the U.S. Virgin Islands.

61 The U.S. Code of Federal Regulations (CFR) provides for "[t]he deposit of the distilled spirits excise taxes . . . into the Treasuries of Puerto Rico and the Virgin Islands on all rum imported into the United States (including rum from possessions other than Puerto Rico and the Virgin Islands), less certain amounts. 27 CFR 250.1 (e), pursuant to sec. 221 of the CBERA, as amended, and its amendment to sec. 7652 of the Internal Revenue Code of 1954. These tax provisions became effective June 30,0 1983. The USITC reports annually on the impact of the CBERA on the U.S. rum industry. For further information, see USITC, *Rum: Annual Report (Covering 1991 and 1992) on Selected Economic Indicators),* USITC publication 2645, June 1993.

62 Other comments by the Government of the U.S. Virgin Islands on the probable impact of the NAFTA on the CBERA countries are discussed in ch. 4.

63 Text of testimony prepared for delivery by Eduardo Sperisen, Vice Minister of Economy of Guatemala, on behalf of the economic Vice Ministers of Central America and Panama before the Subcommittees on Trade and Oversight of the House Ways and Means Committee on the Caribbean Basin Free-Trade Agreements Act of 1993, June 24, 1993.

64 Text of testimony prepared for delivery by Gonzalo J. Facio, Ambassador to the United States from Costa Rica, before the Subcommittees on Trade and Oversight of the House Ways and Means Committee on the Caribbean Basin Free-Trade Agreements Act of 1993, June 24, 1993.

65 Submission to the USITC dated June 28, 1993, by Jason E. Kelly, Director of Investment Promotion and Finance, Bureau of Caribbean Basin Affairs, Department of State of Puerto Rico on behalf of the Commonwealth of Puerto Rico.

submission to the USITC stated that, "[o]n a country-by-country basis, section 936 funds have become a critical source of project financing in eligible Caribbean countries," providing more than $1 billion of investment in the region and creating more than 28,000 direct jobs during the lifetime of the program. Section 936 financing is viewed as having increased Puerto Rico's role as a regional transportation hub of the Caribbean and has "significantly improved regional transportation links crucial to the promotion of tourism, manufacturing, and trade." Benefits of section 936 that were highlighted in this submission were job creation, an enhanced foreign investment climate in Puerto Rico, and an overall improvement in the global competitiveness of Caribbean industries achieved through the production-sharing arrangements.

Concerning benefits to the United States, the submission from Puerto Rico reported that "over 75 percent of [section 936] loans are used to purchase U.S. products." Moreover, the submission stated that section 936 project financing strengthens the economies of the Caribbean Basin countries, which, in turn, helps strengthen the region as a whole as a market for U.S. products.

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 CBERA amounted to $9.5 billion in 1992, an increase of 14.3 percent over the 1991 level of $8.3 billion. This was the fourth consecutive year to show an increase in U.S. imports from the region (table 2-1). Imports from the Caribbean Basin countries accounted for 1.8 percent of total U.S. imports in 1992 (appendix table B-1), making the Caribbean Basin the 14th-largest supplier of U.S. imports in the year—ahead of Malaysia and Brazil but behind Saudi Arabia and Hong Kong.

U.S. exports to countries in the Caribbean Basin totaled $11.3 billion in 1992, rising 11.4 percent over 1991 (appendix table B-1). Accounting for 2.7 percent of total U.S. exports in 1992, the Caribbean Basin ranked 10th as an export market for the United States, placing ahead of such countries as Belgium and Singapore but behind France and the Netherlands. With the exception of 1985, U.S. exports to the Caribbean Basin have increased every year since CBERA was implemented in 1984.

The United States consistently has had a surplus in merchandise trade with the Caribbean Basin since 1986. The U.S. trade surplus with the region amounted to $1.8 billion in 1992. However, 1992 marked the third consecutive year of some decline in this surplus from its record level of $2.2 billion in 1989.

Although the generally steady rise in U.S. exports to the Caribbean Basin mirrored the increase in U.S. exports worldwide during 1984-92, U.S. imports from the region first ran counter to the overall trend of rising U.S. imports from all countries. Specifically, U.S. imports from the region initially declined from $8.6 billion in 1984 to $6.2 billion in 1986, where they remained in 1987 and 1988, before increasing each year thereafter (appendix table B-1). This phenomenon was 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 1.8 percent of total U.S. imports in 1992, compared to 2.8 percent in 1984.

The countries designated under CBERA are responsible for all but a small portion of the trade between the United States and the Caribbean Basin. In 1992, CBERA countries accounted for 99.3 percent of U.S. imports from the region, and 96.2 percent of U.S. exports. Therefore, the data showing combined U.S. trade with CBERA countries during the period 1984-92 in appendix table B-2 are almost identical to the data in appendix table B-1 for all 28 Caribbean Basin countries.

Imports From CBERA Countries

U.S. imports from CBERA countries grew by 14.5 percent in 1992 to $9.4 billion (figure 2-1 and appendix table B-2). Imports increased for the fifth consecutive year following declines in each of the first four years of CBERA. Textiles and apparel products, generally not eligible under CBERA, accounted for 40 percent of import growth from CBERA countries in 1992.

Imports from CBERA Country Groups

Since 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 (table 2-2). In 1984, U.S. imports from the oil-producers outweighed imports from other Caribbean Basin subregional groups, accounting for 52.5 percent of the total. By contrast, in 1992, the

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

Table 2-1
U.S. imports for consumption, designated and nondesignated countries under CBERA, 1988-92

(1,000 dollars, customs-value basis)

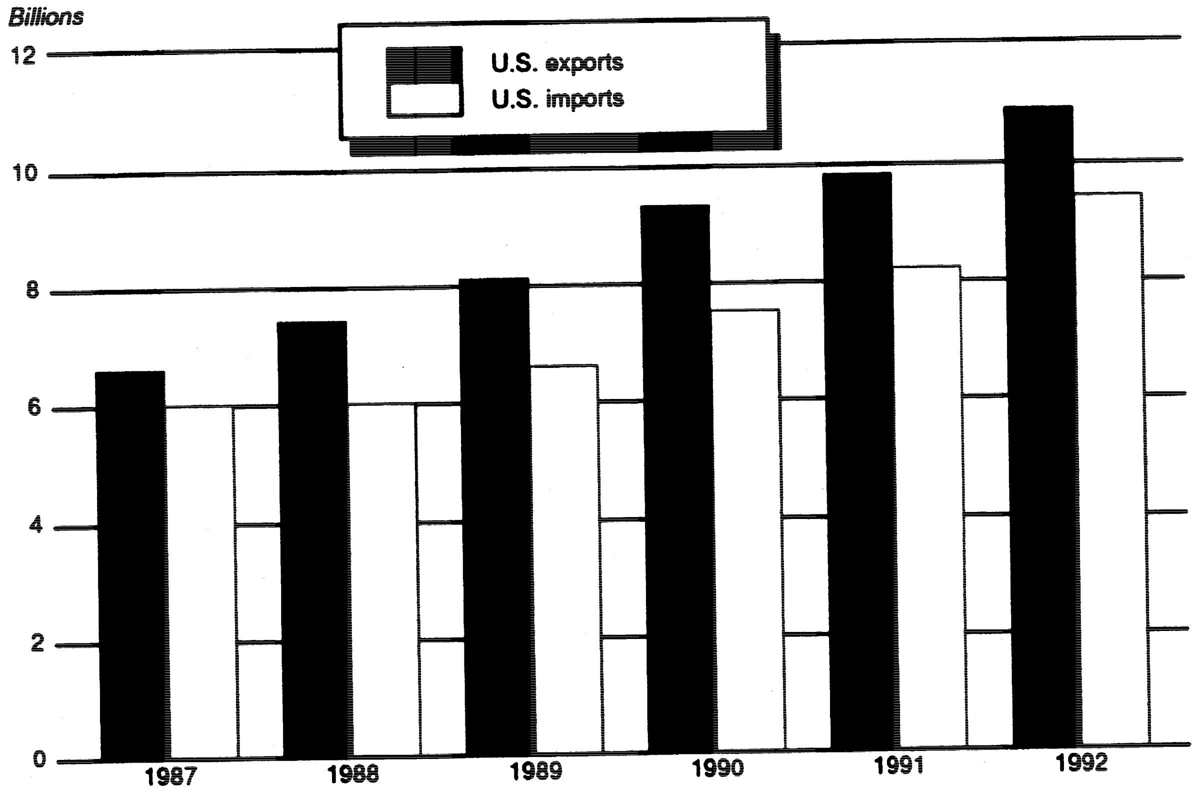
Country	1988	1989	1990	1991	1992
Designated:					
Antigua	6,893	12,274	4,120	3,895	5,414
Aruba	647	1,156	967	100,246	189,657
Bahamas	268,328	460,723	506,772	465,324	580,700
Barbados	51,413	38,725	30,899	31,457	30,528
Belize	52,049	43,056	43,978	35,623	58,510
British Virgin Islands	684	1,112	1,999	2,567	3,235
Costa Rica	777,797	967,901	1,006,474	1,143,982	1,402,042
Dominica	8,530	7,664	8,346	5,877	4,506
Dominican Republic	1,425,371	1,636,931	1,725,430	1,976,624	2,366,509
El Salvador	282,584	243,922	237,538	302,449	383,245
Grenada	7,349	7,862	7,783	8,086	7,476
Guatemala	436,979	608,280	790,900	892,280	1,072,697
Guyana	50,432	55,858	52,260	73,733	87,064
Haiti	382,466	371,875	339,177	284,264	107,170
Honduras	439,504	456,790	486,330	552,238	780,638
Jamaica	440,934	526,726	563,723	561,206	593,361
Montserrat	2,393	2,285	562	2,179	1,095
Netherlands Antilles	408,100	374,358	421,789	620,784	569,689
Nicaragua[1]	[3]	[3]	15,254	59,528	68,609
Panama[2]	256,046	[3]	226,555	242,580	218,232
St. Kitts and Nevis	20,822	21,447	16,100	15,553	22,857
St. Lucia	26,044	23,985	26,920	21,731	28,065
St. Vincent and Grenadines	13,950	9,244	8,672	7,507	4,530
Trinidad and Tobago	701,738	765,265	1,002,661	819,653	839,788
Total	6,061,055	6,637,441	7,525,208	8,229,367	9,425,616
Nondesignated:					
Anguilla	497	348	227	1,407	268
Cayman Islands	18,195	48,041	21,387	17,615	10,693
Nicaragua[1]	1,121	31	[3]	[3]	[3]
Panama[2]	[3]	258,319	[3]	[3]	[3]
Suriname	87,894	73,892	50,901	51,679	46,144
Turks and Caicos Islands	3,517	2,507	3,547	4,210	6,066
Total	111,224	383,138	76,063	74,911	63,172
Grand total	6,172,278	7,020,577	7,601,271	8,304,279	9,488,788

[1] Nicaragua was designated as a CBERA beneficiary effective Nov. 8, 1990.
[2] Panama lost its designation as a beneficiary effective Apr. 9, 1988, and was reinstated in Mar. 1990.
[3] 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 countries designated under CBERA, 1987-92



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

Central American countries accounted for 42.3 percent of U.S. imports from all CBERA countries, followed by the Central Caribbean countries with 32.5 percent, and the oil-producing countries with 23.1 percent. The Eastern Caribbean countries, the least significant CBERA regional group, accounted for only 2.1 percent.

U.S. imports from the Central American countries were $4.0 billion in 1992, up 23.4 percent over imports of 1991 (table 2-2). This was the fourth consecutive year of import growth from the subregion. Imports from all countries but Panama increased. Costa Rica was the leading source of imports, supplying $1.4 billion, up 22.6 percent over those of 1991. Notable was the 64.3-percent surge of imports from Belize, 41.4 percent from Honduras, and 20.2 percent from Guatemala. A 300-percent surge in U.S. imports from Nicaragua in 1991 was followed by 15.3-percent growth in 1992.[2]

Imports from the Central Caribbean countries rose 8.7 percent in 1992. Nevertheless, this group's share of total U.S. imports from all CBERA countries continued to edge down. This trend reversed prior gains in the group's significance as a source of U.S. imports relative to other Caribbean countries. Imports from the Dominican Republic rose by 19.7 percent and from Jamaica by 5.7 percent. The Dominican Republic was by far the largest source of U.S. imports both within this group as well as among all CBERA countries. Imports from Haiti plummeted by 62.3 percent from their already-depressed 1991 value (table 2-2).

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2 Rising imports from Nicaragua in 1991 and 1992 reflect the lifting of an Executive order imposing

2—*Continued*
economic sanctions on that country and the extension 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, March 13, 1990, ***Weekly Compilation of Presidential Documents: Administration of George Bush***, Mar. 19, 1990, p. 402.

Table 2-2
U.S. imports for consumption from CBERA countries, by major groups, 1988-92

(1,000 dollars, customs value)

Country	1988	1989	1990	1991	1992
Non-oil-producing countries:					
Central America:					
Belize	52,049	43,056	43,978	35,622	58,510
Costa Rica	777,797	967,901	1,006,474	1,143,982	1,402,042
El Salvador	282,584	243,922	237,538	302,449	383,245
Guatemala	436,979	608,280	790,900	892,280	1,072,697
Honduras	439,504	456,790	486,330	552,238	780,638
Nicaragua[1]	(3)	(3)	15,254	59,528	68,609
Panama[2]	256,046	(3)	226,555	242,580	218,232
Subtotal	2,244,960	2,319,949	2,807,030	3,228,682	3,983,972
Eastern Caribbean:					
Antigua	6,893	12,274	4,120	3,895	5,414
Barbados	51,413	38,725	30,899	31,457	30,528
British Virgin Islands	684	1,112	1,999	2,567	3,235
Dominica	8,530	7,664	8,346	5,877	4,506
Grenada	7,349	7,862	7,783	8,086	7,476
Guyana	50,432	55,858	52,261	73,733	87,064
Montserrat	2,393	2,285	562	2,179	1,095
St. Kitts and Nevis	20,822	21,447	16,100	15,553	22,857
St. Lucia	26,044	23,985	26,920	21,731	28,065
St. Vincent and the Grenadines	13,950	9,244	8,672	7,507	4,530
Subtotal	188,510	180,458	157,660	172,586	194,771
Central Caribbean:					
Dominican Republic	1,425,371	1,636,931	1,725,430	1,976,624	2,366,509
Haiti	382,466	371,875	339,177	284,264	107,170
Jamaica	440,934	526,726	563,723	561,205	593,361
Subtotal	2,248,771	2,535,532	2,628,331	2,822,095	3,067,040
Total non-oil-producing countries	4,682,241	5,035,938	5,593,019	6,223,360	7,245,783
Oil-producing countries:					
Aruba	647	1,156	967	100,246	189,656
Bahamas	268,328	460,723	506,772	465,324	580,699
Netherlands Antilles	408,100	374,358	421,789	620,783	569,689
Trinidad and Tobago	701,738	765,265	1,002,661	819,653	839,787
Total oil-producing countries	1,378,813	1,601,502	1,932,189	2,006,007	2,179,833
Grand total	6,061,055	6,637,441	7,525,208	8,229,366	9,425,616

[1] Nicaragua was designated a beneficiary country effective Nov. 8, 1990.

[2] Panama lost its designated beneficiary status effective Apr. 9, 1988, and was reinstated in Mar. 1990.

[3] 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.

Imports from the oil-producing countries increased by 8.7 percent in 1992. Aruba continued to show the most impressive growth, with U.S. imports jumping from $967,000 in 1990, to $100.2 million in 1991, due to the reopening of the island's oil refinery, and almost doubling to $189.7 million in 1992. Imports from The Bahamas and Trinidad and Tobago also increased, but imports from the Netherlands Antilles declined as compared with their atypically high 1991 level (table 2-2).

The Eastern Caribbean is the smallest subregional source of U.S. imports from CBERA countries. Having shown a long-term overall decline in shipments to the United States since CBERA became operational, U.S. imports from the Eastern Caribbean countries began to climb in 1991 and increased to $194.8 million in 1992. Guyana and St. Kitts and Nevis were responsible for most of the increase.

Product Composition of Total Imports

U.S. imports from CBERA countries traditionally have consisted of basic commodities and raw materials such as sugar cane, coffee, cocoa, bananas, and aluminum ores and concentrates. The deterioration in the terms of trade for these export items, and CBERA countries' quest for economic growth prompted them to seek diversification in their export profile. Light manufactures such as textile and apparel articles now account for an increasing share of U.S. imports from the region and constitute the fastest growing sectors for new investment in CBERA countries. However, despite their diminishing relative importance in U.S. imports from CBERA countries, traditional products continue to play a significant role in the regional economies.

Table 2-3 shows the 35 leading U.S. imports from CBERA countries during 1988-92 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 1992. The leading imports were textile and apparel articles followed by petroleum and petroleum products. Other leading imports included bananas, coffee, aromatic drugs, sugar, aluminum ore and concentrates, shrimp, footwear uppers, beef, medical instruments, anhydrous ammonia, and articles of jewelry.

Dutiable and Special-Duty Imports

Dutiable Imports

In 1992, the share of dutiable imports from CBERA countries, at 34.7 percent of total U.S. imports from these countries, remained at about the same level as in the prior 2 years (table 2-4). The dutiable portion had initially shown a sharp downtrend following the implementation of CBERA in 1984. From nearly two-thirds of U.S. imports from CBERA countries in 1983, the dutiable portion had fallen to less than one-third by 1988, where it remained in 1989. This development mirrored the decline in U.S. imports of Caribbean petroleum and petroleum products, which are dutiable. The decline in the dutiable portion of imports mildly reversed itself in 1990, reflecting higher oil product prices and import values in the Gulf War period and thereafter, and the increasing value of dutiable textile and apparel imports from the Caribbean.

As table 2-4 also shows, the adjusted calculated duties the United States collected from CBERA countries grew from $75.3 million in 1983 to $257.8 million in 1991 and $322.4 million in 1992. Moreover, the average rate of duty has risen markedly since CBERA has been in effect, from 1.3 percent in 1983 to 9.0 percent in 1991, and 9.9 percent in 1992. The steady increase in U.S. tariff revenue from CBERA countries and the rise in the average rate of duty reflect a shift in the product mix of dutiable U.S. imports from these countries towards higher duty goods, mostly wearing apparel.

Table 2-5 shows U.S. imports of selected product categories that, by statute,[3] are not eligible for CBERA duty-free entry (although some of these products were eligible for duty reductions under CBERA beginning in 1992). These categories include textiles and apparel; petroleum and petroleum products; footwear; certain handbags, luggage, and flat goods; certain leather apparel; work gloves; and tuna.[4] Imports of these products declined from $4.8 billion, or slightly over one-half of total imports in

[3] Sec. 213(b), CBERA, as amended. For a discussion of these statutory exclusions, see "Trade Benefits Under CBERA" and table 1-2 in ch. 1.

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

Table 2–3
Leading U.S. imports for consumption from CBERA countries,[1] 1988-92
(1,000 dollars, customs value)

HTS item	Description	1988	1989	1990	1991	1992
0803.00.20	Bananas, fresh or dried	468,021	476,866	441,861	443,179	521,421
6203.42.40	Men's or boys' trousers, breeches and shorts, not knitted, of cotton	201,960	275,566	314,361	399,701	515,322
2709.00.20	Petroleum oils and oils from bituminous minerals, crude	413,181	474,047	649,365	516,764	502,123
2710.00.05	Distillate and residual fuel oils (including blends)	412,005	312,291	426,916	405,628	382,688
0901.11.00	Coffee, not roasted, not decaffeinated	372,559	367,994	401,969	368,251	372,211
2918.90.30	Aromatic drugs derived from carboxylic acids	50,212	277,732	294,757	306,374	367,768
6204.62.40	Women's or girls' trousers, breeches and shorts, of cotton	100,689	156,276	150,722	197,797	238,615
9801.00.10	U.S. goods returned without having been advanced in value	109,090	129,020	183,228	183,027	228,134
6205.20.20	Men's or boys' shirts, not knitted or crocheted, of cotton	86,659	92,050	111,463	120,118	216,687
6212.10.20	Brassieres, other than containing lace, net or embroidery	28,668	106,204	133,442	152,509	202,162
2710.00.10	Distillate and residual fuel oils (including blends)	59,329	56,953	56,740	132,267	189,601
6110.20.20	Sweaters, pullovers and similar articles, knitted, of cotton	46,090	40,337	82,323	137,350	185,406
6109.10.00	T-shirts, singlets, tank tops and similar garments, of cotton	41,298	48,685	84,042	128,228	180,363
2606.00.00	Aluminum ores and concentrates	114,791	131,678	138,182	152,505	176,143
1701.11.01	Cane sugar entered in pursuant to its provisions	(2)	(2)	20,988	142,186	174,085
0306.13.00	Shrimps and prawns, cooked in shell or uncooked, frozen	147,681	156,597	115,268	144,131	154,644
2710.00.15	Motor fuel derived from bituminous minerals	134,671	145,453	126,757	117,536	153,707
6406.10.65	Footwear uppers, other than formed, of leather	63,865	71,488	116,656	121,305	151,764
2710.00.25	Naphthas (except motor fuel or motor fuel blending stock)	7,281	33,109	41,647	113,696	150,468
9018.90.80	Instruments and appliances used in medical, surgical	17,101	63,466	83,451	107,601	113,952
6203.43.40	Men's or boys' trousers, breeches and shorts, not knitted	61,718	68,045	53,001	86,886	106,748
0306.11.00	Rock lobster and other sea crawfish, cooked in shel	35,069	41,954	70,882	93,581	100,125
6108.21.00	Women's or girls' briefs and panties, knitted or crocheted, of cotton	17,628	29,743	45,851	77,014	97,495
2814.10.00	Anhydrous ammonia	56,693	77,429	71,235	107,644	89,971
6105.10.00	Men's or boys' shirts, knitted or crocheted, of cotton	53,672	62,397	59,084	58,708	86,463
1701.11.02	Other sugar to be used for the production (other than by distillation) of polyhydric alcohols	(2)	(2)	3,204	79,384	84,808
2818.20.00	Aluminum oxide, except artificial corundum	49,174	92,144	100,762	106,884	82,589
0202.30.60	Frozen boneless beef, except processed	118,837	73,134	85,376	82,604	73,059
6108.22.00	Women's or girls' briefs and panties, knitted or crocheted	14,583	29,151	42,497	54,165	61,246
8538.90.00	Parts for use with electrical apparatus	7,772	19,077	17,457	38,125	60,640
6104.62.20	Women's or girl's trousers, breeches and shorts, knitted, of cotton	9,326	14,441	24,319	35,408	59,211
7113.19.50	Jewelry and jewelry parts of precious metal	12,954	42,333	54,346	41,883	57,418
6110.30.30	Sweaters, pullovers and similar articles, knitted, of manmade fibers	16,212	31,460	54,612	39,215	56,835
0201.30.60	Fresh or chilled boneless beef, except processed	13,201	49,576	45,657	51,127	55,259
7202.60.00	Ferronickel	59,938	56,634	67,426	62,984	52,630
	Total of items shown	3,401,933	4,103,330	4,769,850	5,405,767	6,301,761
	Total all commodities	6,062,175	6,895,790	7,525,210	8,229,366	9,425,616

Table 2-3—Continued
Leading U.S. imports for consumption from CBERA countries,[1] 1988-92

[1] Data reflect current designated countries under CBERA for all years.

[2] HTS subheadings 1701.11.01 and 1701.11.02 (along with 1701.11.03) were created on Oct. 1, 1990, from former subheading 1701.11.00; combind sugar imports from CBERA countries under these subheadings totaled $133.7 million in 1988, $172.4 million in 1989, $229.8 million in 1990, $221.6 million in 1991, and $258.9 million in 1992.

Note.—1988 data are estimated under the HTS classification system.

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

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

Table 2-4
U.S. imports for consumption from CBERA countries: Dutiable value, calculated duties, and average duty, 1983 and 1989-92

Item	1983	1989	1990	1991	1992
Dutiable value *(1,000 dollars)*[1]	5,673,886	2,101,839	2,573,813	2,869,880	3,269,148
Dutiable as a *percent* of total imports	64.7	31.7	34.2	34.9	34.7
Calculated duties *(1,000 dollars)*[1]	75,293	180,130	209,913	257,785	322,434
Average duty *(percent)*[2]	1.3	8.6	8.2	9.0	9.9

[1] Dutiable value and calculated duty exclude the U.S. content entering under HTS subheading 9802.00.80 and misreported imports. Data based on product eligibility 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 CBERA duty-free entry, 1988-92

(1,000 dollars, customs value)

Product category[1]	1988	1989	1990	1991	1992
Textiles and apparel	1,488,812	1,753,055	2,006,348	2,558,240	2,995,699
Petroleum and petroleum products	1,058,524	1,044,432	1,340,317	1,399,607	1,467,580
Footwear	39,255	45,215	35,806	38,700	45,884
Certain handbags, luggage, and flat goods[2]	20,410	16,669	18,264	26,651	0
Certain leather apparel[2]	3,386	11,279	15,194	14,064	0
Work gloves[2]	3,906	5,452	4,360	4,415	127
Tuna	14	2	111	0	34
Total	2,614,307	2,876,104	3,420,400	4,041,677	4,509,324

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

[2] Some of these products are eligible for a 20-percent duty reduction under CBERA beginning in 1992. See Note to table B-3.

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

1984 to a low of $2.2 billion, slightly above one-third of imports in 1986.[5] Imports of this category gradually have recovered since 1986 and attained a level of $4.5 billion in 1992, or nearly one-half of total U.S. imports from CBERA countries (table 2-6). The following sections discuss significant trends in U.S. imports from CBERA beneficiaries of selected dutiable product categories.

Textiles and apparel

Since 1988, textiles and apparel have been the leading category of U.S. imports from the region that were not eligible for CBERA benefits. (Before 1988, petroleum and petroleum products were the leading such category.) Imports of textiles and apparel have doubled from $1.5 billion in 1988, to $3.0 billion in 1992, and were 17.1 percent higher than in 1991 (table 2-5). As shown in table 2-3, imports of certain textile and apparel products have grown at an even more rapid pace. Imports of items such as men's and boys' trousers (HTS subheading 6203.42.40), women's and girls' trousers (HTS subheading 6204.62.40), and men's and boys' shirts not knitted (HTS subheading 6205.20.20) more than doubled between 1988 and 1992. Imports of other items surged to several times their 1988 value. These included brassieres (HTS subheading 6212.10.20), sweaters (HTS subheading 6110.20.20), and T-shirts (HTS subheading 6109.10.00). A few countries—notably the Dominican Republic, Costa Rica, Guatemala, Honduras, and Jamaica—accounted for this boom.[6] 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 their textile and apparel industries.

The growing U.S. demand for Caribbean textile and apparel products is a result of several factors, including the easier and more predictable access Caribbean producers have to the U.S. market relative to other suppliers through the availability of guaranteed access levels (GALs), stringent quotas on textile products from Asian suppliers,[7] and the lower production costs of Caribbean producers relative to some producers in Asia.[8]

Petroleum

Although U.S. imports of petroleum and petroleum products from all sources have increased during the years since CBERA has been in effect, imports of these products from 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),[9] due in part to decisions by major oil companies to halt refining operations throughout the Caribbean Basin. Since 1989, petroleum imports from CBERA countries have recovered somewhat, rising to $1.5 billion in 1992, or by 4.8 percent from 1991 (table 2-5).

Other products not eligible for CBERA

U.S. imports of dutiable Caribbean footwear reached a record $45.9 million in 1992, surpassing slightly the previous record such imports attained in 1989 (table 2-5). Compared with 1991, imports were up 18.6 percent. No "noneligible" imports of certain handbags, luggage, flat goods, and certain leather wearing apparel were registered in 1992. The reason for this change from prior years is that, effective January 1, 1992, these items became eligible for duty reductions under the CBERA.[10]

[5] For data prior to 1988, 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.

[6] For a more detailed discussion of apparel imports from 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.

[7] GALs are discussed in more detail below and in the section "Other Trade Benefits for CBERA Countries" in ch. 1.

[8] 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, *The Year in Trade: Operation of the Trade Agreements Program, 44th Report 1992* (OTAP), USITC publication 2640, July 1993, pp. 100-104.

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

[10] 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. For further discussion, see table 1-2 and table 2-5.

Table 2-6
U.S. imports from CBERA countries of goods not eligible for CBERA duty-free entry, 1985-92

Item	1984	1985	1986	1987	1988	1989	1990	1991	1992
Noneligible imports ($ billions)	4.7	3.1	2.2	2.6	2.6	2.9	3.4	4.0	4.5
Noneligible imports (% of total imports)	54.9	45.8	37.1	42.7	43.1	43.3	45.4	49.1	47.8

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

Special-Duty Imports

Table 2-7 breaks down U.S. imports from CBERA countries between 1990 and 1992 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. origin returned for further processing) and heading 9802.00.80 (imported assembled products containing U.S. components) totaled $863.2 million in 1992, an increase of 24.9 percent over the levels of 1991.[11]

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.[12] Such dutiable imports, reported under HTS statistical reporting numbers 9802.00.8040 and 9802.00.8060 (both formerly 9802.00.8050), totaled $637.0 million in 1992—an increase of 16.9 percent over 1991. The dutiable value of textile and apparel products entered under GAL agreements,[13] reported under HTS statistical reporting number 9802.00.8010, totaled $226.2 million in 1992—an increase of 54.6 percent over 1991 (table 2-7).

Duty-Free Imports

Some two-thirds of total U.S. imports from CBERA countries enter duty-free, either because their most-favored-nation (MFN) rate is free or under the Generalized System of Preferences (GSP) or CBERA.[14] Certain Caribbean Basin products may be eligible for duty-free entry under more than one of these provisions.

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 $2.1 billion in 1992—slightly more than the average annual value of MFN duty-free imports since CBERA began. However, since 1986, MFN duty-free imports have consistently made up a declining portion of overall U.S. imports from CBERA countries. MFN duty-free imports peaked at 38.6 percent of the total in 1986,[15] and declined to 22.2 percent by 1992 (table 2-7).

GSP Duty-free Imports

Imports entered free of duty under GSP[16] were valued at $341 million in 1992—the smallest value for GSP imports since 1987. GSP imports accounted for only 3.6 percent of U.S. imports from CBERA countries in 1992—the lowest share of total imports since CBERA became effective (table 2-7).[17] Some suppliers may have shifted from claiming GSP to claiming CBERA in anticipation of the July 4, 1993, expiration of GSP benefits.

CBERA Duty-free Imports

U.S. imports afforded duty-free entry under CBERA[18] amounted to $1.5 billion in 1992 compared with the $576 million in 1984, the first year of the program. CBERA duty-free imports made up a record 15.9 percent of total U.S. imports from beneficiaries in 1992, more than double the 6.7 percent registered in 1984 and more than 2 percentage points higher than the comparable ratios since 1990 (table 2-7).[19]

Table 2-8 shows the leading 20 items afforded duty-free entry under the CBERA in 1989-92. Products are shown in terms of value and as a percentage of total U.S. imports of these products from CBERA countries,[20] along with the principal

[11] For a more detailed discussion of HTS subheading 9802.00.60 and heading 9802.00.80, see the section "Other Trade Benefits for CBERA Countries" in ch. 1.

[12] 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.

[13] GAL agreements are discussed in greater detail in the section "Other Trade Benefits for CBERA Countries" in ch. 1.

[14] These programs are discussed in greater detail in ch. 1.

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

[16] The GSP program is discussed in greater detail in ch. 1.

[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 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 GSP. The data are disaggregated further in ch. 3.

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

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

Table 2-7
U.S. imports for consumption from CBERA countries, by duty treatment, 1990-92

Item	1990	1991	1992
	Value (1,000 dollars, customs value)		
Total imports	7,525,208	8,229,366	9,425,616
Dutiable value[1]	2,573,813	2,869,880	3,269,148
HTS 9802.00.60 and 9802.00.80[2]	520,107	691,052	863,225
HTS 9802.00.8010	112,770	146,307	226,200
HTS 9802.00.8050	406,235	544,695	637,023
Other dutiable	2,053,706	2,178,828	2,405,923
Duty-free value[3]	4,951,395	5,359,486	6,156,467
MFN[4]	1,968,007	1,912,824	2,097,079
CBERA[5]	1,022,686	1,120,697	1,498,556
HTS 9802.00.60 and 9802.00.80[6]	1,153,325	1,418,075	1,777,260
HTS 9802.00.8010	318,106	410,905	618,245
HTS 9802.00.8040 and 9802.00.8060	815,542	1,007,115	1,158,839
GSP[7]	472,303	410,439	340,666
Other duty free[8]	337,042	497,451	442,904
CBERA reduced duty[9]	N/A	N/A	29,418
	Percent of total		
Total imports	100.0	100.0	100.0
Dutiable value[1]	34.2	34.9	34.7
HTS 9802.00.60 and 9802.00.80[2]	6.9	8.4	9.2
HTS 9802.00.8010	1.5	1.8	2.4
HTS 9802.00.8050	5.4	6.6	6.8
Other dutiable	27.3	26.5	25.5
Duty-free value[3]	65.8	65.1	65.3
MFN[4]	26.2	23.2	22.2
CBERA[5]	13.6	13.6	15.9
HTS 9802.00.60 and 9802.00.80[6]	15.3	17.2	18.9
HTS 9802.00.8010	4.2	5.0	6.6
HTS 9802.00.8040 and 9802.00.8060	10.8	12.2	12.3
GSP[7]	6.3	5.0	3.6
Other duty free[8]	4.5	6.0	4.7
CBERA reduced duty[9]	N/A	N/A	0.3

[1] Reduced by the duty-free value of imports entering under HTS 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] Value of Caribbean Basin-origin value added.

[3] Calculated as total imports less dutiable value.

[4] Value of imports which have a col. 1-general duty rate of zero.

[5] Reduced by the value of MFN duty-free imports and ineligible items that were misreported as entering under the CBERA program and the value of reduced-duty items (handbags, luggage, flat goods, work gloves, and leather wearing apparel) reported separately above as dutiable.

[6] Value of nondutiable exported and returned U.S.-origin products or components.

[7] Reduced by the value of MFN duty-free imports and ineligible items that were misreported as entering under the GSP program.

[8] Calculated as a remainder, and represents imports entering free of duty under special rate provisions.

[9] Value of imports of handbags, luggage, flat goods, work gloves, and leather wearing apparel subject to 20-percent duty reductions under the CBERA between 1992 and 1996.

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

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

CBERA source of each product in 1992. The list includes largely the same items as in prior years. The import values of some items, notably aromatic drugs, frozen concentrated orange juice,[21] cigarette leaf, and electrothermic hair dryers, posted significant gains in 1992 and became leading imports under CBERA during the year. Sugar (HTS subheadings 1701.11.01, and 1701.11.02, and 1701.11.03), principally from the Dominican Republic and Guatemala, was the top product on the list. Sugar imports under CBERA provisions were up two-thirds from 1991, despite more restrictive quota levels, because several countries were able to expand production within their quotas.[22] Footwear uppers (HTS subheading 6406.10.65) ranked second. Beef (HTS subheadings 0202.30.60 and 0201.30.60 together)[23] ranked third; imports in the first of these categories (frozen boneless beef) were down from 1991.

Fourteen of the twenty leading import items under CBERA shown in table 2-8 posted gains in 1992, resulting in the 33.7-percent surge from 1991 of duty-free U.S. imports under CBERA. Notable is the sharp increase in U.S. imports of leather footwear uppers, inasmuch as Caribbean suppliers have apparently shifted their exports under CBERA to take advantage of the new preferences accorded this item under CBERA.[24] Articles of jewelry, fresh cantaloupes, and pineapples[25] also posted gains.

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 CBERA. As already mentioned, nearly all CBERA-duty-free products also were eligible for duty-free entry under the GSP. Nevertheless, the ratio provides an estimate of the extent to which the CBERA provisions have been used. The CBERA utilization ratio rose substantially from 33.5 percent in 1984[26] to 53.8 percent in 1987, and declined moderately to 46.6 percent in 1989. The ratio increased again to a record 54.0 percent in 1992 (table 2-9).

Import Profiles of Leading CBERA Countries

The Dominican Republic and Costa Rica continued to lead the countries taking advantage of 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 CBERA; in 1992, they provided 55.9 percent of the total (table 2-10). Four CBERA countries—the Dominican Republic, Costa Rica, Guatemala, and Honduras—accounted for over three-fourths of all CBERA imports in 1992. Appendix table B-4 lists the leading items the United States imported under CBERA from each of the beneficiaries in 1992.

From the beginning of the program, the Dominican Republic has been the leading source of duty-free imports under CBERA. Overall U.S. imports under CBERA from this country surged by 34.9 percent to $543.1 million in 1992. The Dominican Republic was the leading CBERA supplier of raw cane sugar, leather footwear uppers, parts for electrical apparatus, medical instruments, certain jewelry items, and cigars[27] (table 2-8). Sugar, leather footwear uppers, parts for electrical apparatus, and jewelry were primarily responsible for the rise in 1992 of U.S. imports from the Dominican Republic under CBERA. Dominican beef shipments to the United States declined, however, during the year.[28]

Imports under CBERA from Costa Rica, the second-largest source of such imports in all years except 1984, were also up in 1992, rising by 18.1 percent to $294.8 million. Costa Rica was the leading CBERA supplier in 1992 of fresh or chilled beef, cantaloupes, pineapples, melons, fish, baseballs and softballs, electrothermic hair dryers, and ethyl alcohol (table 2-8).[29]

In 1992, Guatemala and Honduras were the third- and fourth-ranking Caribbean sources, respectively, of U.S. imports under CBERA, as they had in the

[21] Imports of frozen concentrated orange juice are discussed in greater detail in ch. 3.

[22] Imports of raw cane sugar are discussed in greater detail in ch. 3.

[23] Imports of beef are discussed in greater detail in ch. 3.

[24] Imports of leather footwear uppers are discussed in greater detail in ch. 3.

[25] Imports of pineapples are discussed in greater detail in ch. 3.

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

[27] See ch. 3 for additional information on cigar imports.

[28] See ch. 3 for additional information on sugar, leather footwear uppers, and beef imports.

[29] See ch. 3 for additional information on pineapple and ethanol imports.

Table 2-8
Leading U.S. imports for consumption under CBERA provisions, by descending customs value of duty-free CBERA imports, 1989-92

HTS subheading	Description	1989 CBERA duty-free imports	1989 Duty-free imports as a percent of total imports[1]	1990 CBERA duty-free imports	1990 Duty-free imports as a percent of total imports[1]	1991 CBERA duty-free imports	1991 Duty-free imports as a percent of total imports[1]	1992 CBERA duty-free imports	1992 Duty-free imports as a percent of total imports[1]	Leading Source[2]
		1,000 dollars		*1,000 dollars*		*1,000 dollars*		*1,000 dollars*		
1701.11.01	Cane sugar entered in pursuant to its provisions[3]	0	0.0	20,988	100.0	75,773	53.3	139,026	79.9	Dominican Republic
6406.10.65	Footwear uppers, other than formed, of leather	11,877	16.6	25,148	21.6	70,479	58.1	132,127	87.1	Dominican Republic
2918.90.30	Aromatic drugs derived from carboxylic acids	0	0.0	0	0.0	0	0.0	78,594	21.4	Bahamas
0202.30.60	Frozen boneless beef, except processed	70,804	96.8	84,320	98.8	80,321	97.2	68,581	93.8	Honduras
8538.90.00	Parts nesi, suitable for use solely or principally with apparatus of headings 8535, 8536, 8537	11,850	62.1	12,457	71.4	35,198	92.3	55,989	92.3	Dominican Republic
0201.30.60	Fresh or chilled boneless beef, except processed	47,685	96.2	45,525	99.7	50,951	99.6	55,125	99.7	Costa Rica
1701.11.02	Other sugar to be used for the production (other than by distillation) of polyhydric alcohols[3]	0	0.0	1,927	60.1	40,583	51.1	54,603	64.4	Guatemala
9018.90.80	Medical and surgical instruments and appliances	27,054	42.7	55,164	66.1	48,659	45.2	42,656	37.4	Dominican Republic
7113.19.50	Jewelry and jewelry parts of precious metal	16,106	38.1	27,099	49.9	29,529	70.5	40,038	69.7	Dominican Republic
0807.10.20	Cantaloupes, fresh, entered between 9/16-7/31	12,167	64.3	22,466	95.0	28,288	98.8	35,693	95.5	Costa Rica
0804.30.40	Pineapples, fresh or dried, not reduced in size, in crates	32,000	87.5	34,195	84.5	29,442	76.9	33,742	80.2	Costa Rica
2402.10.80	Cigars, cheeroots, and cigarillos	25,613	78.8	35,459	96.2	33,008	97.3	32,721	96.3	Dominican Republic
2207.10.60	Undenatured ethyl alcohol for nonbeverage use	21,093	100.0	14,534	84.6	32,367	97.2	23,830	90.6	Costa Rica
2009.11.00	Orange juice, frozen, unfermented, and unsweetened	9,627	98.3	20,412	100.0	6,180	100.0	23,022	100.0	Belize
9506.69.20	Baseballs and softballs	28,833	77.8	33,607	77.7	29,386	83.1	21,610	86.6	Costa Rica
2401.10.60	Cigarette leaf, not stemmed, not oriental or turkish	8,938	100.0	5,468	100.0	5,929	100.0	20,294	100.0	Guatemala
8516.31.00	Electrothermic hair dryers	0	0.0	0	0.0	5,074	29.9	20,213	66.7	Costa Rica
0302.69.40	Fish, nesi, excl. fillets, livers and roes, fresh, chilled	11,054	45.7	16,828	50.1	18,693	60.8	20,128	71.3	Costa Rica
0807.10.70	Melons, nesi, fresh	7,182	72.0	9,599	92.1	20,070	98.5	20,057	98.3	Costa Rica
2401.20.80	Tobacco, partly or wholly stemmed	9,617	99.7	13,272	99.9	12,487	100.0	15,788	100.0	Guatemala
	Total of above items	351,499	5.3	478,468	6.4	652,421	7.9	933,845	9.9	
	Total, all items entering under CBERA	905,762	13.6	1,022,686	13.6	1,120,697	13.6	1,498,556	15.9	

Table 2-8—Continued
Leading U.S. imports for consumption under CBERA provisions, by descending customs value of dutyfree CBERA imports, 1989-92

[1] Indicates CBERA duty-free imports as a percent of total U.S. imports from CBERA countries. Leading U.S. imports from CBERA countries are shown in table 2-3.

[2] Indicates leading CBERA source based on total U.S. imports for consumption during 1992.

[3] HTS subheadings 1701.11.01 and 1701.11.02 (along with 1701.11.03) were created on Oct. 1, 1990 from former subheading 1701.11.00; combined CBERA sugar imports under these subheadings totaled $106.4 million in 1989, $117.4 million in 1990, $116.4 million in 1991, and $193.6 million in 1992.

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

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

Table 2-9
U.S. imports for consumption: CBERA eligibility and utilization, 1988-92

	1988	1989	1990	1991	1992
Eligible duty-free under CBERA *(1,000 dollars)*[1]	1,559,577	1,945,165	2,136,701	2,272,420	2,819,213
Duty-free under CBERA *(1,000 dollars)*[2]	790,941	905,762	1,022,686	1,120,697	1,498,556
CBERA utilization ratio *(percent)*[3]	50.72	46.56	47.77	48.67	53.15

[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 from CBERA countries, customs value of duty-free imports by designated country, 1988-92

(1,000 dollars)

Rank	Country	1988	1989	1990	1991	1992
1	Dominican Republic	242,549	299,174	311,075	402,507	543,124
2	Costa Rica	141,076	190,756	218,380	249,553	294,803
3	Guatemala	77,256	112,627	154,205	137,157	189,649
4	Honduras	56,181	52,648	67,891	80,464	112,511
5	Bahamas	10,692	9,086	8,578	10,652	93,324
6	Jamaica	42,023	51,543	60,689	60,080	48,154
7	Trinidad and Tobago	41,939	32,369	38,274	26,542	44,695
8	Nicaragua[1]	(3)	(3)	174	16,849	40,018
9	El Salvador	22,178	27,606	28,313	30,041	27,075
10	Panama[2]	9,717	(3)	12,344	17,417	23,753
11	Belize	18,846	14,029	18,566	5,445	23,733
12	Haiti	83,310	67,549	63,793	50,053	17,277
13	Barbados	19,125	14,851	15,198	15,728	15,478
14	St. Kitts and Nevis	9,417	14,033	10,136	5,857	14,172
15	St. Lucia	3,007	2,971	3,552	3,195	3,935
16	Netherlands Antilles	2,604	2,530	4,518	5,241	2,964
17	Guyana	131	2,769	521	506	1,202
18	Grenada	119	2,201	2,809	1,307	1,081
19	Dominica	358	844	1,330	1,365	1,008
20	Antigua	255	2,310	675	548	324
21	St. Vincent and Grenadines	9,990	5,642	1,517	140	165
22	British Virgin Islands	56	138	157	52	68
23	Montserrat	118	96	0	0	41
24	Aruba	0	0	4	0	10
	Total	790,941	905,762	1,022,686	1,120,697	1,498,556

[1] Nicaragua was designated as a beneficiary effective Nov. 8, 1990.

[2] Panama lost its beneficiary status effective Apr. 8, 1988, and was reinstated effective Mar. 1990.

[3] Not applicable.

Note.—Figures may not add to the totals given due to rounding.

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

2 prior years. Imports from Guatemala, which declined in 1991, recovered to a record $189.6 million in 1992, owing to sharp increases in imports under CBERA provisions of sugar and cigarette leaf.[30] CBERA imports from Honduras, led by rising imports of beef, also continued to grow vigorously. Such imports, which increased by 39.8 percent in 1992, reached $112.5 million. Honduras became the leading source of frozen beef imports under CBERA, replacing Costa Rica.

Most notable during the year was the surge of CBERA imports from The Bahamas, from $10.7 million in 1991, to $93.3 million in 1992. Aromatic drugs derived from carboxylic acids (HTS subheading 2918.90.30,) accounted for more than four-fifths of the total; 21.4 percent of these imports received CBERA treatment for the first time in 1992. Due to aromatic drug imports from The Bahamas, that country advanced to fifth rank in 1992 as a CBERA beneficiary, replacing Jamaica. In 1991, The Bahamas ranked only 12th in terms of its shipments under CBERA provisions.[31]

In contrast to increasing CBERA imports from the five top-ranking beneficiaries, U.S. imports from Jamaica continued to decline in 1992. Imports totaled $48.2 million, down from over $60 million in both 1990 and 1991. In the earlier years of the CBERA program, Jamaica was the leading Caribbean source of ethyl alcohol. In 1992, however, imports of Jamaican ethyl alcohol dropped to $8.7 million, about one-third of their 1991 value, as the country's major refinery, Tropicana, ceased production, and the output of other suppliers declined for different reasons.[32] Given these problems, ethyl alcohol exports from Costa Rica made that country the leading Caribbean source of this product (table 2-8).

In 1992, imports from Trinidad and Tobago, the seventh-leading source of imports under CBERA, reached a record $44.7 million, surging from $26.5 million in 1991. Imports of all leading CBERA-eligible items from Trinidad and Tobago increased during the year—steel bars and rods, methanol (methyl alcohol), and raw cane sugar (appendix table B-4).

Imports of fresh and frozen beef from Nicaragua made that country the eighth-ranking source of overall U.S. imports under CBERA in 1992. Certification of three plants to export meat to the United States allowed Nicaragua to ship beef to the U.S. market for the first time during the year. Imports from El Salvador, the ninth-ranking beneficiary, declined from $30.0 million in 1991 to $27.1 million in 1992, due principally to plummeting imports of ceramic dielectric fixed capacitors (HTS subheading 8532.24.00). Panama ranked 10 in 1992 as a CBERA supplier. Imports from Panama under CBERA increased 36.4 percent to $23.8 million.

Among the remaining CBERA countries with smaller shipments under the CBERA, notable was the quadrupling of imports from Belize to a record $23.7 million during the year under review. Frozen concentrated orange juice (HTS subheading 2009.11.00),[33] which accounts for two-thirds of all U.S. imports under CBERA from Belize, was responsible for this surge. The sharp increase in orange juice shipments was made possible by Belize's recovery from its poor citrus crop harvest in 1991. In 1992, frozen orange juice, all of which entered the United States under CBERA, became a leading CBERA import item, with Belize as its principal Caribbean supplier.

The U.S. embargo on most trade with Haiti in effect since October 1991, and that country's continuing economic deterioration, displaced Haiti from its status as the 5th-leading source of imports under CBERA in 1990 and the 6th in 1991 to 12th rank during the year under review.[34] Imports from

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[30] Imports of beef from Guatemala continued to decline, however. Imports of frozen beef dropped to some one-half of their 1991 value.

[31] Total imports of aromatic drugs from The Bahamas increased from $306 million to $368 million or 20.0 percent in response to accelerated buying by certain U.S. pharmaceutical companies. All imports of this item entered duty-free during 1992, either under CBERA, GSP, or a temporary reduction in duty to free under HTS heading 9902.29.22. The Bahamas' rank as a CBERA supplier had been subject to major fluctuations before, due to surges and declines in their shipments of pharmaceuticals to the United States under the program. For example, in 1987, The Bahamas was the 3d-ranking CBERA supplier, but had ranked only the 11th in 1988.

[32] For 1991 data, see USITC, *CBERA, Seventh Annual Report, 1991*, table B-4. Imports of ethanol from CBERA countries are discussed in more detail in ch. 3.

[33] Imports of orange juice are discussed in greater detail in ch. 3.

[34] Haiti's status as a CBERA beneficiary is discussed in ch. 1.

Haiti plummeted from $50.1 million in 1991, to $17.3 million.[35] Imports of baseballs and softballs continued to decline from $12.5 million in 1991 to $3.6 million in 1992 (appendix table B-4), as Haiti lost its status to Costa Rica as the principal CBERA source of these items (table 2-8).

Other notable shifts in CBERA import patterns involve St. Kitts and Nevis. Duty-free imports under CBERA from that country dropped significantly in 1991, but they recovered in 1992, rising to a record $14.2 million. By contrast, CBERA imports from the Netherlands Antilles dropped from $5.2 million to $3.0 million. Imports from Barbados, the 13th-largest CBERA supplier, remained between $15 and $16 million for the third consecutive year as that country's economy continued to perform poorly.

[35] Duty-free imports under CBERA from Haiti have been on a decline since peaking in 1988 at $83.3 million. For additional information, see USITC, *CBERA, Fourth Annual Report, 1988*, table 1-10, p. 1-14.

Imports From Nondesignated Countries

Imports from nondesignated Caribbean countries dropped to $63.2 million in 1992, down 15.7 percent from 1991 and 83.5 percent below their 1989 high point of $383.1 million (table 2-1).[36] Imports from Suriname, the largest source of U.S. imports in this group, and from the Cayman Islands, the second-largest, continued their long-term decline. Imports from Anguilla (principally rhodium, palladium, and transmission apparatus), which rose by more than 500 percent in 1991 compared to 1990, returned to earlier levels. The only nondesignated Caribbean source of rising imports was the Turks and Caicos Islands.

[36] The 1989 high point was a result of the temporary inclusion of Panama in the nondesignated group, due to that country's loss of CBERA benefits. Panama was suspended from CBERA eligibility on April 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.

CHAPTER 3
Impact of CBERA in 1992

Since it was implemented in 1984, the CBERA has had a minimal economic effect on the overall economy of the United States. In each year between 1984 and 1992, the value of CBERA duty-free U.S. imports was equal to less than 0.03 percent of U.S. gross domestic product (GDP). The total value of imports from CBERA countries remained small—amounting to 1.8 percent of total U.S. imports in 1992.

This chapter presents estimates of the net welfare effects of CBERA on the U.S. economy in 1992. The first section describes the leading U.S. import that benefited from CBERA in 1992. The second section discusses how the analytical approach used here measures the net welfare effects of CBERA in 1992. 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 1992.

Products Most Affected by CBERA

This chapter defines imports benefiting from CBERA as products that are not excluded by the CBERA,[1] or that otherwise would not have entered the United States free of duty either at most-favored-nation (MFN) rates or under the Generalized System of Preferences (GSP).[2] However, this definition includes imports that exceeded the GSP competitive need limits[3] and were eligible for duty-free entry under CBERA.[4] Since the inception of the program, U.S. imports that benefited from CBERA have accounted for a very small portion of total U.S. imports from CBERA countries.

Between 1991 and 1992, the value of imports that would not have entered duty free, or under reduced duties, without the CBERA increased by 25 percent from $515 million to $645 million (table 3-1). Such imports made up 6.8 percent of total U.S. imports from CBERA countries in 1992, a modest increase from 6.3 percent of total imports in 1991.

Leading products that were identified in previous annual CBERA reports as benefiting from CBERA between 1984 and 1991 continued to rank among the leading products benefiting from CBERA in 1992. Beef, pineapples, frozen concentrated orange juice, and rum consistently have ranked among the leading items benefiting from CBERA since 1984. Raw cane sugar from the Dominican Republic also ranks as one of these leading products during the past 9 years, with the exception of 1989, a year when it also was eligible for GSP duty-free entry. Ethyl alcohol ranked as one of the leading items benefiting under CBERA in each of the past 8 years. Table 3-2 presents the leading 30 eligible items, on an 8-digit Harmonized Tariff Schedule (HTS) subheading basis, imported under CBERA, but which were not GSP-eligible (except those that had exceeded the competitive need limits) or MFN free rates of duty.[5]

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1 Items excluded from duty-free entry under CBERA are summarized in table 1-2.

2 MFN tariff treatment and the GSP program are discussed in greater detail in ch. 1.

3 A country loses GSP benefits for a product when U.S. imports of the product exceed either a specific annually adjusted value or exceed 50 percent of the value of total U.S. imports of the product in the preceding calendar year—the so-called "competitive need" limits. Sec. 504(c)(1) of the Trade Act of 1974, as amended.

4 CBERA has no competitive need limits. Thus eligible products that are excluded from duty-free entry under GSP because their competitive-need limits have been exceeded can still receive duty-free entry under CBERA.

5 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

Table 3-1
Customs value of products that benefited from CBERA duty elimination and reduced duties, 1990-92

Item	1990	1991	1992
Items benefiting from CBERA:[1]			
Value *(million dollars)*	422	515	645
Percent of total	5.6	6.3	6.8
Items entered under CBERA:[2]			
Value *(million dollars)*	1,022	1,121	1,498
Percent of total	13.6	13.6	15.9
Total CBERA country imports:			
Value (million dollars)	7,525	8,229	9,426

[1] CBERA duty-free and reduced-duty imports excluding items that are MFN duty-free and eligible for GSP duty-free treatment (except imports that exceeded GSP competitive-need limits and were eligible for duty-free entry under the CBERA).

[2] CBERA duty-free and reduced duty imports less MFN duty-free imports and ineligible items.

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

Table 3-2
C.i.f. value of leading imports that benefited from CBERA duty provisions in 1992
(1,000 dollars)

HTS subheading	Description	CBERA-beneficiary imports
6406.10.65[1]	Footwear uppers, other than formed, of leather	134,252
0202.30.60	Frozen boneless beef, except processed	72,659
0201.30.60	Fresh or chilled boneless beef, except processed	58,745
0804.30.40	Pineapples, fresh, in crates or packages	38,048
1701.11.01[1]	Cane sugar entered in pursuant to its provisions	27,710
2207.10.60	Undenatured ethyl alcohol, for nonbeverage purposes	25,293
2009.11.00	Frozen concentrated orange juice	24,250
2402.10.80[1]	Cigars, cheroots, and cigarillos valued 23 cents or more each	22,824
2401.10.60	Cigarette leaf, not stemmed	21,366
1701.11.02[2]	Cane sugar used to produce polyhydric alcohols	20,437
9018.90.80[1]	Medical, surgical, and dental instruments and appliances	19,979
7213.31.30	Irregularly wound coils of hot-rolled rod containing < 0.25% carbon	17,079
2401.20.80	Tobacco, partly or wholly stemmed	16,205
0710.80.97	Frozen vegetables (asparagus, broccoli, and other), reduced in size	13,667
8533.40.00	Electrical variable resistors	13,441
4203.10.40[3]	Articles of leather apparel	11,532
8533.21.00	Electrical fixed resistors	10,459
4202.12.80[3]	Luggage with outer surface of textile material	7,495
0603.10.60	Roses, fresh cut	7,387
2208.40.00	Rum and tafia	6,889
6204.39.80	Women's or girls' suit-type jackets and blazers	5,368
2009.40.40	Pineapple juice, concentrated	5,255
9111.10.00	Watch cases of precious metal	4,435
0710.80.70[2]	Frozen vegetables (carrots and other), not reduced in size	3,981
0804.40.00	Avocados, fresh or dried	3,877
2402.10.60	Cigars, cheroots, and cigarillos valued between 15 and 23 cents each	3,331
7214.40.00	Hot-rolled bars and rods containing < 0.25% carbon	3,283
7317.00.55	Nails, tacks, and corrugated nails	3,226
0802.90.90	Shelled nuts, n.e.s.i.	3,189
7213.41.30	Irregularly wound coils of hot-rolled rod containing between 0.25% and 0.6% carbon	2,999

[1] Items benefiting from CBERA duty-free treatment from the Dominican Republic that were not GSP eligible during all or part of 1992. The dates when these items were not GSP-eligible during 1992 were as follows: sugar-Jan.1-Jun. 30; cigars-Jan. 1-Dec.31; footwear uppers-Jan. 1-Dec. 31; and medical instruments-Jul. 1-Dec. 31.

[2] Items benefiting from CBERA duty-free treatment from Guatemala that were not GSP eligible during all or part of 1992. The dates when these items were not GSP eligible during 1992 were as follows: frozen vegetables-Jan. 1-Jun. 30 and sugar-Jul. 1-Dec. 31. Value for sugar may overstate actual sugar imports benefiting from CBERA duty provisions because of sugar re-exported under the U.S. sugar re-export program.

[3] Items subject to 20-percent duty reductions under the CBERA between 1992 and 1996.

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

As discussed in the preceding definition, GSP-eligible products were not considered to contribute to the effects of the CBERA and thus are excluded from the analysis in this chapter because they could have received duty-free entry even if CBERA benefits had been eliminated. However, certain GSP-eligible products from the Dominican Republic and Guatemala exceeded the competitive need limits during part or all of 1992 and consequently lost their GSP-eligibility for all or part of the year, and thus are included in the analysis in this chapter.[6] These six products[7] were cigars, raw cane sugar, leather footwear uppers, and medical instruments from the Dominican Republic,[8] and raw cane sugar[9] and certain frozen vegetables from Guatemala.[10]

Leading Imports Under CBERA in 1992

Recent industry highlights follow of the seven leading eligible items that benefited from CBERA in 1992: leather footwear uppers, beef and veal, pineapples, raw cane sugar, ethyl alcohol, frozen concentrated orange juice, and cigars.

Leather Footwear Uppers

U.S. imports of unformed leather footwear uppers under the CBERA increased sharply in 1992, reflecting larger shipments from the Dominican Republic. A number of U.S. producers of leather dress and casual shoes use the Dominican Republic as a low-cost supplement to domestic manufacturing to compete with Asian products in the U.S. market. Duty-free imports of these uppers under CBERA rose in 1992 by 68 percent in quantity and 87 percent in value over their 1991 levels, to 10.5 million pairs valued at $134 million. This increase did not lead, however, to an equivalent expansion in total (dutiable and duty-free) imports of these uppers from CBERA countries, which, by comparison, increased only 12 percent by volume and 25 percent by value, to 11.8 million pairs valued at $154 million. The following tabulation shows the c.i.f. value and volume of imports of unformed leather footwear uppers in 1991 and 1992:

5—*Continued*

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.

6 Imports of aromatic drugs derived from carboxylic acids (HTS subheading 2918.90.30) from The Bahamas also exceeded GSP competitive need limits during 1992 and were entered under CBERA. However, this item also was subject to a temporary reduction in duty to free under HTS heading 9902.29.22, and, therefore, was not included in the analysis in this chapter of items that benefited from CBERA.

7 The analysis in this chapter considers imports of these six products only for the periods when these items from the Dominican Republic and Guatemala were not GSP-eligible in 1992.

8 Raw cane sugar (HTS subheading 1701.11.01) from the Dominican Republic was not GSP-eligible and entered free of duty under CBERA between Jan. 1 and Jun. 30. On Jul. 1, the Dominican Republic regained GSP eligibility for raw cane sugar; consequently, only imports of raw cane sugar from the Dominican Republic entered between Jan. 1 and Jun. 30 are included in this analysis. The dates when the other imports from the Dominican Republic were not GSP-eligible in 1992 were as follows: cigars-Jan. 1 through Dec. 31, footwear uppers-Jan. 1 through Dec. 31, and medical instruments, Jul. 1 through Dec. 31.

9 All raw cane sugar imports (HTS subheading 1701.11.02) from Guatemala may not have benefited from CBERA duty-free entry because, under the U.S. sugar re-export program, importers may claim a duty drawback upon re-export of the sugar after it has been refined or is included in a sugar-containing product. Therefore, the value for this item in table 3-2 may overstate the amount that actually benefited from CBERA.

10 The dates when the imports from the Guatemala were not GSP-eligible were as follows: frozen vegetables-Jan. 1 through Jun. 30, and raw cane sugar-Jul. 1 through Dec. 31.

Source	1991	1992
	1,000 dollars	
World	225,970	266,845
CBERA countries	123,047	154,184
Dominican Republic	118,325	153,421
CBERA duty-free	71,736	134,252
Dominican Republic - CBERA duty-free	71,117	134,252
	1,000 pairs	
World	21,927	24,542
CBERA countries	10,524	11,782
Dominican Republic	10,048	11,737
CBERA duty-free	6,281	10,529
Dominican Republic - CBERA duty-free	6,139	10,529

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

Duty-free imports under the CBERA (all of which came from the Dominican Republic) accounted for half of the total value of U.S. imports of unformed leather uppers and 43 percent of the total volume in 1992. U.S. imports of unformed leather uppers from all countries rose 18 percent by value and 12 percent by volume over the period, to $267 million and 24.5 million pairs. Imports from the Dominican Republic that entered free of duty under CBERA accounted for 88 percent by value and 90 percent by volume of total imports of leather uppers from that country.

Beef and Veal

U.S. imports of fresh, chilled, or frozen beef and veal (HTS subheadings 0201.30.60 and 0202.30.60) under CBERA decreased from $139.3 million in 1991 to $131.4 million in 1992, or by 26 percent.[11] Imports of all quota-type meats[12] (which includes fresh, chilled, or frozen beef and veal) under CBERA declined from 136.2 million pounds (product weight) in 1991 to 112.7 million pounds in 1992, or by 17 percent.[13]

The 23.5-million pound decline in imports under the CBERA during 1992 was equivalent to less than 0.1 percent of U.S beef and veal consumption (24.6 billion pounds)[14] during that year. Because of this small share of the U.S. market, increased imports from CBERA countries likely had little overall effect on the U.S. beef and veal sector or on U.S. consumers.

Duty-free imports of quota-type meats under the CBERA contracted most sharply from the Dominican Republic, declining by 63 percent, from 35.3 million pounds in 1991, to 13.1 million pounds in 1992. Three Dominican plants that had been certified by the U.S. Secretary of Agriculture to export meat to the United States closed in 1992, one for sanitary reasons and two for financial reasons.[15]

Imports from Guatemala declined by 50 percent, from 29.1 million pounds in 1991, to 14.5 million pounds in 1992. One plant that was certified to export meat to the United States was decertified for health and sanitary reasons in December 1992, and another was closed for health and sanitary reasons between August 10, 1992 and mid-November 1992.[16]

Imports from Costa Rica declined by 30 percent, from 46.1 million pounds in 1991 to 32.5 million pounds in 1992. U.S. Department of Agriculture (USDA) officials reported that a growing economy and rising consumer income in Costa Rica contributed to increased domestic demand, relatively high prices, and decreased meat exports.[17]

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

[12] Imports of certain agricultural products, including beef and veal, are subject to quotas to support U.S. domestic prices. 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 December 31, 1979, 93 Stat. 1291, as amended by sec. 301 of Public Law 100-449, approved September 28, 1988, 102 Stat. 1851, 19 U.S.C. 1202.

[13] All statistics concerning the quantity of U.S. imports of quota-type meats were derived from "U.S. Customs Service Monitoring of Meat Subject to the Meat Import Act of 1979," report to the U.S. Department of Agriculture (USDA), Foreign Agricultural Service (FAS).

[14] USDA, Economic Research Service (ERS), *Livestock and Poultry Situation and Outlook Report* (LPS-58), Feb. 1993, p. 29

[15] USDA, FAS, *Livestock - First Quarter Report* (DR 3001), Jan. 30, 1993.

[16] USDA, FAS, *Livestock - First Quarter Report* (GT 3002), Feb. 1, 1993.

[17] USDA, FAS, *Livestock - First Quarter Report* (CS 3001), Feb. 1, 1993.

Increased imports from Nicaragua, El Salvador, and Honduras partially offset the decline in meat imports from other CBERA countries. No Nicaraguan plants were certified to export meat to the United States in 1991,[18] however, one plant was certified on April 4, 1992, and two additional plants were certified on August 10, 1992.[19] In 1992, Nicaraguan exports of quota-type meats to the United States totaled 14.3 million pounds.

Duty-free imports of quota-type meats under CBERA from El Salvador, which shipped no meat to the United States in 1991, rose to 3.1 million pounds, and from Honduras, from 25.7 million pounds to 35.3 million pounds, respectively in 1992. Increased imports from Honduras may have resulted from the imposition in 1992 of Mexican tariffs of 20 to 25 percent (depending on the type of meat), possibly prompting Honduran exporters to shift their focus to the U.S. market. Also, the USDA reported that CBERA meat producers may have sought to market more of their products in the United States because of relatively higher prices available in Miami and Puerto Rico in the fourth quarter of 1992.[20]

Imports of quota-type meats from CBERA countries compete for U.S. market share primarily with imports from Australia, New Zealand, and Canada. Imports of quota-type meats from all countries rose from 1,496 million pounds in 1991 to 1,591 million pounds in 1992, with imports under the CBERA accounting for 9 percent and 7 percent of the respective totals. Imports from Australia and New Zealand increased from 1,187 million pounds in 1991, to 1,206 million pounds in 1992, accounting for 79 percent and 75 percent of U.S. imports of the respective totals.[21] Imports from Canada increased from 166 million pounds to 267 million pounds in 1992, comprising 11 percent and almost 17 percent of U.S. meat imports, respectively.[22]

18 USDA, Food Safety and Inspection Service (FSIS), *Foreign Countries and Plants Certified to Export Meat and Poultry to the United States*, Mar. 1, 1992.

19 Ibid.

20 USDA, FAS, *Livestock - First Quarter Report* (HO 3002), Feb. 1, 1993.

21 Imports of beef and veal from Australia and New Zealand were subject to voluntary restraint agreements (VRAs) negotiated in June 1992.

22 For more information on U.S. imports of beef and veal from Canada, see USITC, *Live Cattle and Beef: U.S. and Canadian Industry Profiles, Trade, and Factors of Competition* (investigation No. 332-328), USITC publication 2591, Jan. 1993.

Pineapples

U.S. imports of fresh pineapples (HTS subheadings 0804.30.20 and 0804.30.40) under CBERA increased 6 percent in quantity and 10 percent in value from 1991 to 1992.[23] Total duty-free imports under CBERA of fresh pineapples rose from 79,423 metric tons (mt) in 1991, to 84,091 mt in 1992, valued at $35 million and $38 million, respectively.

The rising value of U.S. pineapple imports reflects both higher fresh pineapple prices and increased U.S. consumption. The U.S. import unit value of fresh pineapples from all countries increased by 3 percent from $348 per metric ton in 1991, to $359 per metric ton in 1992. The CBERA countries supplied about 94 percent of U.S. fresh pineapple imports in 1992. Fresh pineapple imports from the CBERA countries supplied about 50 percent of U.S. domestic consumption in 1991 and 1992.[24]

Hawaii is the main source of U.S. domestic production, although there is minor cultivation of this crop in Puerto Rico. U.S. domestic production of pineapples for the fresh market increased 4 percent from approximately 113,500 mt in 1991, to 118,000 mt in 1992.[25] Nonetheless, 1992 production was 4 percent lower than the 1987-91 average annual production of 123,000 mt. However, total U.S. pineapple production (for both the fresh market and for processing) fell from 598,000 mt in 1988, to 499,000 mt in 1992, as the processing industry in Hawaii declined.

Transportation costs tend to limit competition between U.S. and CBERA pineapples in the U.S. market. Nearly all pineapples imported from CBERA countries are marketed in the Eastern and Midwestern areas of the United States, while most pineapples sold in the Western part of the United States are from Hawaii. In addition, fresh pineapples from Mexico can be found in the Southern and Central parts of the United States.

In contrast to duty-free entry for pineapples from CBERA countries, imports of fresh pineapples from Mexico are subject to a $0.0064 per kilogram duty when imported in bulk (under HTS subheading 0804.30.20), and to a $0.0131 per kilogram duty when

23 Compiled from official statistics of the U.S. Department of Commerce.

24 Compiled from official statistics of the U.S. Department of Commerce and the Hawaiian Agricultural Statistics Service.

25 Compiled from official statistics of the Hawaiian Agricultural Statistics Service.

imported in crates and packages (HTS subheading 0804.30.40). This tariff differential between bulk and crates or packages is small relative to the price premium paid for pineapples in crates or packages, which tend to be sorted by size and quality. Mexican pineapple production comes mostly from small growers in its southern regions who generally lack access to the transportation and storage facilities necessary to ship to the United States in packages or crates. As a result, Mexican exports to the United States are primarily shipped in bulk to Texas for final sorting and packaging.

The elimination of U.S. tariffs on Mexican pineapples under NAFTA likely would have little impact on imports under the CBERA. U.S. tariffs are already low relative either to the value of fresh pineapples (roughly 5 percent ad valorem equivalent) or to the price premiums paid for high-quality, plantation-grown pineapples from the CBERA countries.

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 increased 79 percent in quantity and 65 percent in value from 1991 to 1992. Total duty-free imports from CBERA countries rose from 347,000 metric tons raw value (mtrv) to 623,000 mtrv in 1992, valued at $129 million and $213 million, respectively. Increased sugar imports under the CBERA occurred despite a 34-percent decrease in the U.S. sugar quota from 2,098,268 mtrv in quota year 1990-91 to 1,383,358 mtrv in quota year 1991-92. The decreased quota amount reflects increased U.S. sugar production and higher U.S. sugar stocks. U.S. imports of sugar generally are subject to a tariff rate quota.[26]

The tariff rate quota allows a specified amount of sugar to be imported into the United States during a set period of time at a duty of 0.625 cent per pound (the low duty rate).[27] A tariff of 16 cents per pound applies to imports exceeding the specified amount during the designated period[28] (the high duty rate).[29]

Duty-free imports from most CBERA countries are restricted either to a maximum based on GSP competitive need limits[30] or, if the country so requests, specific absolute quotas. Duty-free imports from the Dominican Republic, Guatemala, and Panama are subject to statutory maximum absolute quotas.[31] However, in recent years the tariff-rate quota has been below the GSP competitive need limits, making the GSP limits applicable only to imports of sugar for re-export.

Because the tariff-rate quota system operates on a noncalendar year basis, comparisons of calendar year data may not reflect actual import trends. This was the case for calendar years 1991 and 1992, when imports of CBERA sugar rose from calendar year 1991 to calendar year 1992 despite a 35-percent decrease in actual quota-year imports, from 724,207 mtrv in quota year 1990-91 to 471,663 mtrv in 1991-92. Calendar year CBERA sugar imports for 1992 were greater than they were in 1991 partly because 17 percent (value) of the quota year 1990-91 CBERA sugar imports entered the United States during 1990 as compared to only 2 percent of quota year 1991-92 imports entering in 1991. Moreover, the increase in CBERA sugar imports occurred at the same time GSP sugar imports from these countries declined from $76 million in 1991 to $62 million in 1992.

Barbados, Haiti, and Nicaragua were the only CBERA countries from which imports fell significantly short of their quotas for 1991-92. Sugar production in Barbados, which also did not ship any of its U.S. quota allocation during the 1990-91 quota year, currently is at a very low level, as compared

[26] The authority for the tariff rate quota derives from additional U.S. note 3 in ch. 17 of the HTS. The tariff rate quota was announced in Presidential Proclamation 6174, September 13, 1990, *Weekly Compilation of Presidential Documents*, September 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.

[27] Imports enter under HTS subheading 1701.11.01. Sugar imports at the low duty rate are allotted to the traditional sugar supplying countries based on their historical shipments to the United States.

[28] Imports enter under HTS subheading 1701.11.03. HTS subheading 1701.11.03 does not have a special duty rate for CBERA or GSP countries.

[29] Consequently, any increase in overall U.S. imports of sugar 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 utilizing 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.

[30] GSP competitive need limits are discussed in more detail in footnote 3 above.

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

with a few years ago, because of a faltering domestic industry that is heavily in debt. In Nicaragua, a 3-week strike during March (the peak harvest month) crippled sugar production in 1992.[32] Meanwhile, imports from Haiti have been banned since the October 1991 U.S. embargo on that country.

The 1992-93 U.S. low duty allocation was originally 1,360,123 short tons raw value (strv), but on May 11, 1993 the quota period was extended through September 30, 1994, and the new low tariff allocation for the extended quota period was set at 2,500,041 strv. CBERA countries received 37 percent of the quota allocations. The changed quota amount again stemmed from increases in U.S. sugar production and high U.S. stocks.

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

Ethyl Alcohol

U.S. imports of ethyl alcohol (ethanol) for nonbeverage uses (HTS subheadings 2207.10.60 and 2207.20.00) under the CBERA were $25.3 million in 1992, a 25-percent decrease from 1991 imports of $33.7 million. These duty-free imports are made up almost wholly of imports intended to be used as an additive in gasoline. In terms of volume, U.S. imports decreased 36 percent from 124 million liters in 1991, to 80 million liters in 1992.

Sugarcane is the major indigenous feedstock used in the production of Caribbean Basin fuel ethanol. Ethyl alcohol production is influenced by the sugar production and the world price of sugar and molasses (a product of sugar). Additionally, relatively inexpensive imported feedstocks, such as wine-based, partially distilled hydrous ethanol, are available, particularly from the European Community, but the United States imposes feedstock content requirements on duty-free imports of ethyl alcohol from CBERA countries.[33]

[32] Another strike occurred during the 1993 harvest period and is expected again to curtail Nicaraguan production.

[33] Feedstock requirements are summarized in table 1-2.

As was the case in 1991, Costa Rica and Jamaica were the main CBERA suppliers of ethyl alcohol for the U.S. market in 1992. Combined duty-free imports from Costa Rica and Jamaica accounted for 84 percent of the total value of U.S. ethyl alcohol imports from CBERA countries, and almost 20 percent of the value of U.S. imports of ethyl alcohol from all countries during 1992. A near doubling of the quantity of ethyl alcohol imported from Costa Rica, from 24 million liters in 1991, to 44 million liters in 1992, followed record Costa Rican sugar production in 1991-92.

Imports of Jamaican ethyl alcohol decreased by 72 percent from 1991 to 1992, from 102 million liters to 29 million liters. Imports from Jamaica fell as that country's major refinery, Tropicana, ceased production, and Petrojam, the other major refinery, lowered its output following a smaller Jamaican sugar crop affected by cane-field fires, labor strikes, and heavy rainfall. The Tropicana refinery was later purchased by a British firm and resumed processing in late December 1992. El Salvador and Guatemala accounted for the remaining U.S. imports of ethyl alcohol under CBERA.

Frozen Concentrated Orange Juice

Duty-free imports of frozen concentrated orange juice (HTS subheading 2009.11.00) from CBERA countries in 1992 increased by 267 percent in value over those in 1991, but by less than 13 percent from the level of 1990. Imports under CBERA increased from $6.2 million in 1991, to over $23.0 million in 1992, and were only 12-percent higher than the $20.4 million in imports registered in 1990.

Frozen concentrated orange juice imports from CBERA countries in 1992 were equivalent to about 2.5 percent of U.S. production of frozen orange juice that year, which was approximately $962 million. Supplies of frozen orange juice from CBERA countries have increased in recent years. These increases stem primarily from production by Caribbean orange groves planted in the mid- 1980s to take advantage of high U.S. prices following a series of freezes in Florida in the late 1970s and early 1980s. Caribbean production is likely to continue to increase as these groves reach maturity.

Increased competition in the frozen concentrated orange juice market is expected to keep prices low for the remainder of the decade.[34] This competition is

[34] Based on reports of the United Nations, FAO.

expected to stem from both the projected increase in domestic supply in Florida, and in foreign supplies from new plantings in Brazil, Mexico, and the CBERA countries. Damaging freezes in Florida and the resulting U.S. supply shortages during the 1980s allowed Brazil, the principal U.S. supplier, to establish a strong infrastructure for transporting, storing, and marketing frozen orange juice in the United States. Brazil is expected to mount an intense effort to maintain market share while Florida producers attempt to regain lost market share.

As a share of the total value of imports, frozen concentrated orange juice from CBERA countries increased from 2.1 percent in 1991, to 8.7 percent in 1992.[35] The principal CBERA orange-juice-supplying countries—Belize, Costa Rica, Honduras, Dominican Republic, Jamaica, and Panama—all increased orange juice exports to the United States in 1992. Because the U.S. orange juice market is very competitive, imports from CBERA countries had little impact on domestic producers or consumers. However, orange juice exports are important to the CBERA countries, especially Belize and, to a lesser extent, Costa Rica, Jamaica, and Honduras. Belize in particular has few industrial exports and relies on agricultural products such as frozen orange juice for a large part of its foreign currency earnings. While the average value (f.o.b. point of export) of imported frozen orange juice from all sources was 24 cents per liter in 1991 and 25 cents per liter in 1992, the average unit value of imports from CBERA countries was 33 cents per liter in 1991 and 34 cents per liter in 1992.[36]

The U.S. duty on frozen concentrated orange juice is 9.25 cents per liter. When prices were low, the ad valorem equivalent of the duty has been as high as 50 percent. CBERA suppliers benefit from not having to pay this duty, and from their shorter transportation distances to the U.S. market compared with other suppliers.

CBERA duty-free entry currently affords Caribbean frozen concentrated orange juice with a competitive price advantage over dutiable imports from Mexico. This price advantage would be phased out under the North American Free-Trade Agreement (NAFTA). In such a scenario, the CBERA countries would be hard pressed to compete with Mexico, since that country has a larger frozen orange juice industry and even lower transportation costs to the United States. Mexico can ship to the United States by truck or rail as well as by sea, whereas the CBERA countries must depend on relatively more expensive ocean freight.

Cigars, Cheroots, and Cigarillos

During 1991-92, U.S. imports of certain cigars, cheroots, and cigarillos (HTS subheadings 2402.10.60 and 2402.10.80)[37] from CBERA countries remained relatively stable, decreasing by less than 1 percent in value to $36.7 million in 1992. Approximately 86 percent of all U.S. cigar imports[38] from CBERA countries entered duty-free under the CBERA. Moreover, imports from CBERA countries represented almost 90 percent of total U.S. cigar imports in 1992. In 1992, 64 percent of the cigars imports from CBERA countries originated in the Dominican Republic, 22 percent in Honduras, and 12 percent in Jamaica.

Cigars imported from CBERA countries differ markedly from those generally produced in the United States inasmuch as almost all are hand-rolled, premium-priced cigars,[39] whereas domestic cigars are generally machine made, and popularly (lower) priced. Thus, cigars imported from CBERA countries are not directly competitive with domestic cigars.

Many cigar manufacturers in the CBERA countries are subsidiaries of U.S. firms that shifted their premium cigar production to the Caribbean prior to the enactment of the act because of the relatively low-cost labor of the region and the eligibility of most cigars for duty-free entry under the U.S. GSP.[40] Other cigar manufacturers, particularly in the Dominican Republic, are former Cuban firms that left Cuba after the U.S. market was closed to trade with Cuba in 1962. Cigar imports from the Dominican

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

[36] Ibid.

[37] Includes only cigars, cheroots, and cigarillos valued at 15 cents each or over. In 1992, 96 percent of all cigars, cheroots, and cigarillos imported into the United States from CBERA countries were valued at 15 cents each or over.

[38] "Cigar imports" refer to cigars, cheroots, and cigarillos under HTS subheadings 2402.10.60 and 2402.10.80.

[39] Honduras is the only major CBERA country that exports more popularly priced cigars, though they are still hand rolled.

[40] Cigars valued at 23 cents or over (HTS 2402.10.80) generally also are eligible for duty-free entry under the GSP program, except cigars imported from the Dominican Republic (see footnote 8 above). Approximately 90 percent of the cigars originating in CBERA countries are valued at 23 cents or over.

Republic are no longer eligible for duty-free treatment under the GSP because they exceeded the competitive need limit. CBERA, which permits cigar imports in unlimited quantities, allows Dominican cigars to enter the United States free of duty.

In this analysis, imports from CBERA beneficiaries, imports from non-CBERA countries, and competing domestic output are considered imperfect substitutes for each other in U.S. domestic demand.[42] Therefore, each of these three types of products has a separate market in which equilibrium prices are established.[43]

Measuring the Net Welfare Effects of CBERA in 1992

Analytical Approach

The following brief description summarizes the approach that was used to analyze the net welfare effects of CBERA duty reductions in 1992 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 reduction has three components: (1) the gain to U.S. consumers that results from the lower priced CBERA imports, (2) the loss in tariff revenues to the U.S. Treasury, and (3) the loss of profits to U.S. competing industries. The sum of these three effects allows measurement of the net welfare costs of CBERA in 1992.[41]

The effects of CBERA were analyzed by estimating the change in net welfare that should have occurred if the full tariffs had been in place in 1992. In the presence of the full 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 imports.

Measurement of Net Welfare Effects of CBERA

If the full duties had been in place in 1992, the potential increased cost to consumers would be reflected in the higher price U.S. consumers would have paid for CBERA imports. It is measured by the loss in consumer surplus resulting from the presence of the full duties. Consumer surplus is defined as the "difference between the total value consumers receive from the consumption of a particular good and the total amount they pay for the good."[44] 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 profits over and above what entrepreneurs and owners of capital would have earned in their next-best opportunities.[45]

All supply curves were assumed to be horizontal in this analysis.[46] 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

[41] USITC, *Calculating the Consumer and Net Welfare Costs of Import Relief*, prepared by Donald J. Rousslang and John W. Suomela (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.

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

[43] The price response of non-CBERA and CBERA imports to duty reduction, as well as the price response of competing domestic products, is discussed in detail in app. C.

[44] Consumer surplus is measured by the area beneath the demand curve and above the market price. See Walter Nicholson, *Microeconomic Theory: Basic Principles and Extensions* (New York: The Dryden Press, 1989) for further discussion of consumer surplus.

[45] Producer surplus is measured by the area above the supply curve and beneath the market price. For Nicholson for further discussion of producer surplus.

[46] Horizontal supply curves mean that increases in demand are met by increases in supply rather than by price increases.

be displaced.[47] There is no increase in domestic producer surplus resulting from the elimination of duty-free and reduced-duty 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 and reduced-duty treatment through the increase in tariff revenue received from CBERA imports by the U.S. Treasury.[48]

Quantitative Results

In 1992, the value of U.S. imports from CBERA countries was $9.4 billion, or 1.8 percent of total U.S. imports. Imports that actually benefited from the CBERA, i.e., those that were not specifically excluded under the act or that could not have entered free of duty under GSP or MFN, totaled $645 million. This figure represents 6.8 percent of total imports from CBERA countries, or about 0.1 percent of total U.S. imports. Thus, the overall effect of the CBERA on the U.S. economy is very small.

This section presents dollar estimates of the net welfare gains of duty reductions treatment for the leading 30 products that actually benefited from the CBERA in 1992. In addition, estimates are presented of the tariff revenue foregone, the consumer surplus generated, and the domestic shipments displaced in 1992.

Items analyzed

The effects of CBERA were calculated for the 30 items listed in table 3-2. These items accounted for 89 percent of the total customs value of imports that actually benefited from CBERA duty elimination and reduced duties in 1992. The value of these imports as a ratio of competing U.S. producers' domestic shipments varied in magnitude (table 3-3). For instance, in 1992, the value of U.S. imports of hot-rolled bars and rods from CBERA countries was approximately 0.27 percent of the value of domestic shipments. Conversely, the value of CBERA imports of pineapples was approximately 77 percent of the value of U.S. producers' domestic shipments.

The economic effects of duty elimination and reduced duties 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.[49]

Net welfare costs and the displacement of domestic output

In 1992, except for sugar, the gain in consumer surplus was greater than the corresponding decline in tariff revenue for all of the items analyzed.[50] 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 concentrated orange juice, frozen vegetables, stemmed tobacco, unstemmed cigarette leaf, and medical instruments. The only items to show a potential net welfare loss were sugar importsfrom the Dominican Republic and Guatemala, at $1.4 million and $0.9 million, respectively.[51]

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

[48] See Rousslang and Suomela for further discussion.

[49] 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. As discussed in the text and app. C, a number of assumptions were made about supply elasticities and elasticities of substitution to obtain upper bound estimates of the potential displacement of U.S. production resulting from CBERA duty reductions. In many cases, especially for pineapples, cigars, and frozen concentrated orange juice, the effects reported probably overstate the actual displacement that occurred because of the low substitutability between Caribbean products and U.S. products. However, in evaluating the accuracy of the estimates, it should be noted that, even in the cases where the estimates are overstated, the effects reported ranged from minuscule to relatively small.

[50] Because domestic sugar growers benefit from U.S. price supports and U.S. tariff-rate quotas on imports, the elimination of the low duty rate on sugar imports from the Dominican Republic and Guatemala does not affect its price to U.S. consumers. In such instances, the CBERA tariff elimination merely redistributes tariff revenue from the U.S. Treasury to importers of Dominican and Guatemalan sugar. 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 1992" above.

[51] Imports of footwear uppers from the Dominican Republic were the leading item that benefited from CBERA duty-free entry in 1992 (table 3-2). However,

In 1992, the six products with the largest displacement effects,[52] in value terms, were ethyl alcohol, frozen concentrated orange juice, frozen vegetables, stemmed tobacco, medical instruments, and cigars.[53] In value terms, the largest effect occurred for ethyl alcohol, for which the displacement of domestic shipments was $17.5 million or 1.1 percent of the value of total domestic shipments. In terms of the percentage of domestic shipments displaced, the largest effect occurred for unstemmed cigarette leaf at 5.7 percent or $3.3 million of domestic shipments displaced.

51—*Continued*
because of the lack of data for competing U.S. domestic production of this item, no net-welfare or displacement effects are reported in tables 3-4 and 3-5. As discussed above, imports of this item are usually eligible for duty-free entry under GSP as well. However, imports from the Dominican Republic exceeded competitive-need limits and, therefore, were not GSP-eligible in 1992.

52 Ibid.

53 Imports of footwear uppers, largely from the Dominican Republic, were the leading item that benefited from CBERA duty-free entry in 1992 (table 3-2). However, data for competing U.S. domestic production of this item was not available and net-welfare or displacement effects for this item are not reported for in tables 3-4 and 3-5.

Table 3-3
C.i.f. value of imports that benefit from CBERA and U.S. producers' domestic shipments that compete with imports that benefit from CBERA, 1992

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*
6406.10.65[1]	Footwear uppers, other than formed, of leather	134,252	-	-
0202.30.60[2]	Frozen boneless beef, except processed	72,659	2,003,900	3.63
0201.30.60[2]	Fresh or chilled boneless beef, except processed	58,745	2,003,900	2.93
0804.30.40	Pineapples, fresh, in crates or packages	38,048	49,700	76.56
1701.11.01[3]	Cane sugar entered in pursuant to its provisions	27,710	3,191,300	0.87
2207.10.60	Undenatured ethyl alcohol, for nonbeverage purposes	25,293	1,579,600	1.60
2009.11.00	Frozen concentrated orange juice	24,250	823,300	2.95
2402.10.80	Cigars, cheroots, and cigarillos valued 23 cents or more each	22,824	344,400	6.63
2401.10.60	Cigarette leaf, not stemmed	21,366	58,700	36.40
1701.11.02[3]	Cane sugar used to produce polyhydric alcohols	20,437	3,191,300	0.64
9018.90.80	Medical, surgical, and dental instruments and appliances	19,979	3,428,000	0.58
7213.31.30	Irregularly wound coils of hot-rolled rod containing < 0.25% carbon	17,079	839,600	2.03
2401.20.80	Tobacco, partly or wholly stemmed	16,205	1,140,200	1.42
0710.80.97	Frozen vegetables (asparagus, broccoli, and other), reduced in size	13,667	496,900	2.75
8533.40.00	Electrical variable resistors	13,441	65,800	20.43
4203.10.40	Articles of leather apparel	11,532	144,500	7.98
8533.21.00	Electrical fixed resistors	10,459	342,600	3.05
4202.12.80	Luggage with outer surface of textile material	7,495	192,000	3.90
0603.10.60	Roses, fresh cut	7,387	170,600	4.33
2208.40.00	Rum and tafia	6,889	84,400	8.16
6204.39.80	Women's or girls' suit-type jackets and blazers	5,368	26,400	20.33
2009.40.40	Pineapple juice, concentrated	5,255	44,000	11.94
9111.10.00	Watch cases of precious metal	4,435	16,600	26.72
0710.80.70	Frozen vegetables (carrots and other), not reduced in size	3,981	80,700	4.93
0804.40.00	Avocados, fresh or dried	3,877	172,400	2.25
2402.10.60	Cigars, cheroots, and cigarillos valued between 15 and 23 cents each	3,331	178,700	1.86
7214.40.00	Hot-rolled bars and rods containing < 0.25% carbon	3,283	1,212,400	0.27
7317.00.55	Nails, tacks, and corrugated nails	3,226	222,100	1.45
0802.90.90	Shelled nuts, n.e.s.i.	3,189	30,100	10.59
7213.41.30	Irregularly wound coils of hot-rolled rod containing between 0.25% and 0.6% carbon	2,999	448,300	0.67

[1] Value of U.S. domestic shipments not available.
[2] Domestic production of HTS subheadings 0201.30.60 and 0202.30.60 were aggregated into one category.
[3] Domestic production of HTS subheadings 1701.11.01 and 1701.11.02 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.

Table 3-4
The estimated U.S. net-welfare effects of CBERA duty provisions, by leading imports, 1992

(1,000 dollars)

HTS subheading	Description	Gain in consumer surplus	Loss in tariff revenue from CBERA countries	Net-welfare effect
6406.10.65	Footwear uppers, other than formed, of leather	(1)	(1)	(1)
0202.30.60	Frozen boneless beef, except processed	1,252	1,198	54
0201.30.60	Fresh or chilled boneless beef, except processed	685	665	20
0804.30.40	Pineapples, fresh, in crates or packages	1,479	1,368	111
1701.11.01[2]	Cane sugar entered in pursuant to its provisions	0	1,420	-1,420
2207.10.60	Undenatured ethyl alcohol, for nonbeverage purposes	8,049	3,712	4,337
2009.11.00	Frozen concentrated orange juice	4,319	1,916	2,403
2402.10.80	Cigars, cheroots, and cigarillos valued 23 cents or more each	889	804	85
2401.10.60	Cigarette leaf, not stemmed	1,453	1,230	223
1701.11.02[2]	Cane sugar used to produce polyhydric alcohols	0	884	-884
9018.90.80	Medical, surgical, and dental instruments and appliances	1,283	1,063	220
7213.31.30	Irregularly wound coils of hot-rolled rod containing < 0.25% carbon	199	193	6
2401.20.80	Tobacco, partly or wholly stemmed	1,461	1,099	362
0710.80.97	Frozen vegetables (asparagus, broccoli, and other), reduced in size	1,422	1,012	410
8533.40.00	Electrical variable resistors	701	607	94
4203.10.40	Articles of leather apparel	591	511	80
8533.21.00	Electrical fixed resistors	537	465	72
4202.12.80	Luggage with outer surface of textile material	66	65	1
0603.10.60	Roses, fresh cut	412	352	60
2208.40.00	Rum and tafia	741	532	209
6204.39.80	Women's or girls' suit-type jackets and blazers	21	21	(3)
2009.40.40	Pineapple juice, concentrated	242	213	29
9111.10.00	Watch cases of precious metal	237	208	29
0710.80.70	Frozen vegetables (carrots and other), not reduced in size	393	289	104
0804.40.00	Avocados, fresh or dried	323	250	73
2402.10.60	Cigars, cheroots, and cigarillos valued between 15 and 23 cents each	156	137	19
7214.40.00	Hot-rolled bars and rods containing < 0.25% carbon	103	94	9
7317.00.55	Nails, tacks, and corrugated nails	13	13	(3)
0802.90.90	Shelled nuts, n.e.s.i.	46	45	1
7213.41.30	Irregularly wound coils of hot-rolled rod containing between 0.25% and 0.6% carbon	35	34	1

[1] Not available.

[2] Sugar from the Dominican Republic and Guatemala is subject to U.S. tariff-rate 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 and Guatemalan sugar exporters.

[3] Less than $500.

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
Estimated effects of CBERA duty reduction on U.S. domestic shipments by CBERA imports, by HTS items, 1992

HTS subheading	Description	Value	Share of value
		1,000 dollars	*Percent*
6406.10.65	Footwear uppers, other than formed, of leather	([1])	([1])
0202.30.60	Frozen boneless beef, except processed	2,281	0.11
0201.30.60	Fresh or chilled boneless beef, except processed	2,562	0.13
0804.30.40	Pineapples, fresh, in crates or packages	2,581	5.19
1701.11.01	Cane sugar entered in pursuant to its provisions	0	0.00
2207.10.60	Undenatured ethyl alcohol, for nonbeverage purposes	22,391	1.42
2009.11.00	Frozen concentrated orange juice	16,465	2.00
2402.10.80	Cigars, cheroots, and cigarillos valued 23 cents or more each	3,878	1.13
2401.10.60	Cigarette leaf, not stemmed	3,346	5.70
1701.11.02	Cane sugar used to produce polyhydric alcohols	0	0.00
9018.90.80	Medical, surgical, and dental instruments and appliances	4,412	0.13
7213.31.30	Irregularly wound coils of hot-rolled rod containing < 0.25% carbon	605	0.07
2401.20.80	Tobacco, partly or wholly stemmed	4,443	0.39
0710.80.97	Frozen vegetables (asparagus, broccoli, and other), reduced in size	5,133	1.03
8533.40.00	Electrical variable resistors	492	0.75
4203.10.40	Articles of leather apparel	149	0.10
8533.21.00	Electrical fixed resistors	1,291	0.38
4202.12.80	Luggage with outer surface of textile material	105	0.05
0603.10.60	Roses, fresh cut	853	0.50
2208.40.00	Rum and tafia	3,625	4.29
6204.39.80	Women's or girls' suit-type jackets and blazers	9	0.04
2009.40.40	Pineapple juice, concentrated	217	0.49
9111.10.00	Watch cases of precious metal	521	3.14
0710.80.70	Frozen vegetables (carrots and other), not reduced in size	1,756	2.18
0804.40.00	Avocados, fresh or dried	1,437	0.83
2402.10.60	Cigars, cheroots, and cigarillos valued between 15 and 23 cents each	787	0.44
7214.40.00	Hot-rolled bars and rods containing < 0.25% carbon	431	0.04
7317.00.55	Nails, tacks, and corrugated nails	17	0.01
0802.90.90	Shelled nuts, n.e.s.i.	115	0.38
7213.41.30	Irregularly wound coils of hot-rolled rod containing between 0.25% and 0.6% carbon	134	0.03

[1] Not available.

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 CBERA

Previous reports in this series have found 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 CBERA took place during the first two years after the act became operative in 1984. Future effects were expected to occur through export-oriented investment in the region in response to lowered tariff levels for certain Caribbean Basin products.[1] Consequently, this series of reports continues to monitor investment in the CBERA countries as a proxy for future trade effects on the United States.

This chapter describes probable future effects of the CBERA on the U.S. economy. It begins with a survey of overall investment activity and trends in the CBERA countries during 1992, including investment under section 936 of the Internal Revenue Code, using information from various published sources and data on investment obtained from U.S. embassy reports from CBERA countries. Based on reported investment data, this section assesses whether such investments may affect U.S. imports in the near term. A discussion of the investment climate in Guyana and that country's recent experiences exporting to the United States under CBERA follows, and is based on information obtained from field interviews conducted during May 1993 in that country. The chapter concludes with a summary of the concerns about the probable impact of a North American Free-Trade Agreement (NAFTA) on U.S. imports from CBERA countries and a brief qualitative analysis of CBERA imports likely to face increased competition for U.S. market share from similar Mexican products.

Summary of Investment Activities and Trends

CBERA has encouraged an expansion in investments producing articles eligible for benefits under the program. However, in general the act has not contributed to the growth of Caribbean Basin exports destined for the United States to a degree that is likely to significantly affect the U.S. economy or consumers in the near future. Imports from the CBERA countries totaled only 1.8 percent of total U.S. imports in 1992.[2]

Some CBERA countries—notably the Dominican Republic, Costa Rica, Guatemala, Honduras, and Jamaica—have made significant achievements in attracting new investors since the act became operative. Much of the new export-oriented investment during 1992 focused on products eligible for preferential duty treatment under the act, continuing the trend noted in previous reports in this series.[3] Other investments occurred in nonexport areas such as tourism, and nevertheless were consistent with the broad goals of CBERA to

[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] See ch. 3 of this report for a more detailed analysis of the impact of CBERA imports on the U.S. economy.

[3] For additional information, see USITC, *CBERA, Seventh Annual Report, 1991*, USITC publication 2553, p. 4-1.

strengthen and diversify the economies of the region.[4] A number of these investments received section 936 financing.[5]

A significant amount of new export-oriented investment in CBERA countries is directed towards the production of articles covered by U.S. trade provisions other than the CBERA. Textile and apparel production remained the leading such sector during 1992. Many of these investment projects are in free-trade zones (FTZs) and export-processing zones (EPZs),[6] and they assemble U.S.-origin components for return to the United States under Harmonized Tariff Schedule (HTS) heading 9802.00.80.[7]

Despite the achievements some CBERA countries have made in attracting foreign investment, a few continue to encounter difficulties in drawing overseas investor interest. These difficulties are the result of political instability, insufficient investment incentives, restrictions on foreign exchange and profit repatriation, inadequate physical infrastructure (such as roads, ports, and public utilities), and slow global economic growth. Several Caribbean Basin countries have been slow to diversify their economies. Some remain extremely dependent on exports of a small variety of agricultural products and are adversely affected when domestic production or global prices decline. Others are extremely dependent on tourism and have been adversely affected by the global slowdown in tourism that continued into 1992. Finally, investment in the region may have suffered as some potential investors continue to await the outcome and implementation of NAFTA. These problems are discussed in more detail below.

[4] Sec. 232 of the 1990 CBERA states that "appropriate agencies of the United States Government should assign a high priority to projects that promote the tourism industry in the Caribbean Basin."

[5] Section 936 financing is discussed in greater detail below and in ch. 1.

[6] Export processing zones (EPZs) and free-trade zones (FTZs) are restricted access areas for industrial, commercial, and service facilities that operate independent of commercial regulations otherwise applicable in the host country. In-bond operations in EPZs and FTZs are allowed to import duty-free inputs used as components for further transformation or assembly within the zone. Such duty-free admission is temporary, as the inputs are further processed and subsequently re-exported for final sale. Such operations in the Caribbean Basin have been dominated by apparel and electronics assembly operations.

[7] HTS heading 9802.00.80 is discussed in greater detail in ch. 1.

New CBERA-related Investment in 1992

Information from U.S. embassies in the CBERA countries and other published sources identified 36 new investments in CBERA-related projects and 7 projects expanding existing facilities in 1992, as indicated in table 4-1.[8]

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

Central America

Costa Rica remained a favored destination for investors in the Caribbean Basin. New or expansion projects during 1992 helped increase the production of such nontraditional exports as concentrated orange juice, macadamia nuts, mangoes, melons, papayas, and pineapples.[9] Concerning traditional agricultural crops, U.S.-based Chiquita Brands International was reported to have received a $40 million section 936 loan to expand banana production, Costa Rica's leading foreign exchange-earning product.[10] Investment in hotel construction also reportedly increased during 1992, helping tourism to become the country's second-leading source of foreign exchange.[11] Despite these foreign capital inflows, one source reported the unexplained closure of some 14 textile manufacturing firms—one-half of which were foreign-owned—since 1991, resulting in the loss of approximately 2,000 jobs.[12]

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

[9] *Caribbean Update*, May 1993, p. 5; Nov. 1992, p. 6; and Feb. 1992, p. 5.

[10] *Caribbean Update*, July 1992, p. 5.

[11] U.S. Department of State telegram, "Investment Climate Statement: Costa Rica," message reference No. 08918, prepared by U.S. Embassy, San Jose, Oct. 28, 1992; and *Caribbean Update*, Mar. 1993, p. 7, and June 1992, p. 4.

[12] *Caribbean Update*, June 1992, p. 4.

Table 4-1
Reported CBERA-Related Export-Oriented Investment Activity, 1992

Number of New Projects	Number of Expansion	New Investment ($ millions)	Expansion Investment ($ millions)	Total ($ millions)
36	7	$128.3	$5.8	$134.1

Source: Derived from information reported by U.S. Embassies in CBERA countries and as reported in published sources indicated below.

No new or expansion CBERA-related investment was identified in Panama during 1992. Although non-CBERA textile and apparel production for export to the United States expanded in Panama's Isla Margarita EPZ, the Panamanian economy remains highly dependent on a well-developed services sector, which accounts for more than 75 percent of gross domestic product and includes banking, insurance, and operation of the Panama Canal, the Colón FTZ, and the transisthmian oil pipeline.[13]

Several new and expansion investments during 1992 were reported for El Salvador, particularly in pharmaceuticals, textile and apparel, and other assembly operations.[14] One report noted that the recently negotiated conclusion of El Salvador's insurgency has had a favorable impact on the country's investment climate. The report also observed that, despite the recent unrest, El Salvador's physical infrastructure—including ports, transportation, and communications—remains serviceable or is undergoing repairs. The seven largest CBERA-related investments during 1992 for which detailed information was provided included two new projects valued at $1.5 million and five expansion projects totaling $5.8 million. These projects included the production of agricultural products, gold and silver jewelry, hardware products, and electrical equipment.[15]

A new foreign investment law promulgated in 1992 further liberalized the Honduran investment climate by providing nondiscriminatory treatment for foreign investors and transparent investment procedures.[16] New and expansion CBERA-related investments in Honduras during 1992 included projects in shrimp farming, fresh fruits and vegetables, and forestry. Reports also indicated efforts to diversify production away from that country's large apparel sector into such CBERA-eligible areas as electronics, footwear, and automotive parts.[17] One submission to the USITC stated that a U.S. footwear company closed a U.S. plant during 1992 and expanded its operations in Honduras to benefit from section 222 of the 1990 CBERA.[18] Much of the investment in Honduras is concentrated in the country's expanding number of EPZs and FTZs in the northern San Pedro Sula area. Opportunities for U.S. investment in the Honduran hotel and restaurant sector also were reported during 1992.[19]

Three new agricultural projects were reported for Belize during 1992. Two of these projects involved production of bananas, and another, the production of

[13] U.S. Department of State telegram, "USITC Annual Caribbean Basin Investment Survey: Panama," message reference No. 05273, prepared by U.S. Embassy, Panama, June 23, 1993; and U.S. Department of State telegram, "1993 Trade Act Report," message reference No. 10239, prepared by Embassy, Panama, Nov. 2, 1992. For more detail on other recent CBERA-related investment trends in Panama, see USITC, *CBERA, Seventh Annual Report, 1991*, USITC publication 2553, Sept. 1992, pp. 4-10 to 4-13.

[14] *Caribbean Update*, Mar. 1993, p. 10.

[15] U.S. Department of State telegram, "Updated Investment Climate Statement: El Salvador," message reference No. 02618, prepared by U.S. Embassy, San Salvador, Mar. 15, 1993. For more detail on other recent CBERA-related investment trends in El Salvador, see USITC, *CBERA, Seventh Annual Report, 1991*, USITC publication 2553, Sept. 1992, pp. 4-13 to 4-15.

[16] U.S. Department of State telegram, "Investment Climate Statement: Honduras," message reference No. 13739, prepared by U.S. Embassy, Tegucigalpa, Oct. 16, 1992; and *Caribbean Update*, Aug. 1992, p. 12.

[17] U.S. Department of State telegram, "USITC Annual Caribbean Basin Investment Survey: Honduras," message reference No. 06347, prepared by U.S. Embassy, Tegucigalpa, July 1, 1993.

[18] Submission to the USITC dated June 15, 1993, by Mitchell J. Cooper, counsel, Rubber and Plastic Footwear Manufacturers Association. Imports of footwear of U.S.-origin components under section 222 of the 1990 CBERA are discussed in greater detail in ch. 1.

[19] *Caribbean Update*, Nov. 1992, p. 13.

rice and vegetables. All three projects reportedly would have been launched in the absence of CBERA preferences.[20] Investment in the citrus crop sector (orange and grapefruit fruit and juice production) may have been adversely affected by the slow recovery of the sector following unfavorable climate conditions in recent years and reports of the detection of a citrus virus in that country's main citrus-growing area.[21] One source reported that future investment in Belize may be channeled into the country's first EPZ, which opened in late 1992.[22]

Limited 1992 investment information was available for Guatemala and Nicaragua. The only new investments reported in Guatemala during 1992 were projects in that country's large export-oriented textile and apparel sector.[23] Several reports indicated that unresolved property rights disputes, stemming from property confiscation under the former Sandinista government, continue to discourage new investment in Nicaragua.[24] According to one report, eight firms, primarily apparel-manufacturing, began operations during 1992 in Las Mercedes, Nicaragua's first FTZ.[25]

Central Caribbean

The Dominican Free-Trade Zone Council reported that a total of 61 new investment projects were initiated in the Dominican Republic during 1992.[26] Approximately 40 of these projects involved non-CBERA-eligible textile production or involved services such as data processing. About 15 of the projects, with investments valued at $38.1 million, potentially could benefit from CBERA trade provisions. According to one source, one major pharmaceutical company operating in the Dominican Republic plans to expand its operations at the Itabo FTZ.[27] One submission to the USITC stated that a U.S. footwear company closed a U.S. plant during 1992 and expanded its facilities in the Dominican Republic to operate under section 222 of the 1990 CBERA.[28]

The United States continued to apply an embargo on most nonhumanitarian trade with Haiti during 1992, as a result of the September 1991 military coup that overthrew the Haitian president. No export-oriented investment in Haiti was reported during 1992, most probably as a result of the U.S. embargo and Haiti's further deteriorating economic condition.[29]

A total of 14 new CBERA-related projects were reported in Jamaica during 1992, with total investments amounting to $3.2 million. These projects involved the production of papaya and other fruits and vegetables, cut flowers and houseplants, and electrical devices. Five new nonexport projects with total investments of $600,000 also were reported during 1992. These projects included the production of papaya and tropical houseplants and, while initially geared for the local market, may export to the United States under the CBERA in future years. Other projects reportedly under consideration include the production of marble, steel rods, ceramic tiles, and bottled spring water.[30]

Eastern Caribbean

No significant new CBERA-related investment was reported in Barbados during 1992. One source indicated that a loss in confidence in the local currency, and production declines in agriculture (especially sugar) and export-oriented industries such

[20] U.S. Department of State, "Caribbean Basin Economic Recovery Act Investment Survey—1993," letter to USITC from U.S. Embassy, Belize City, Belize, July 1, 1993. This survey focused only on the agricultural sector.

[21] *Caribbean Update,* Nov. 1992; p. 5, and July 1992, p. 4.

[22] *Caribbean Update,* Sept. 1992, p. 3.

[23] For more detail on recent CBERA-related investment trends in Guatemala, see USITC, *CBERA, Seventh Annual Report, 1991,* pp. 4-8 to 4-10.

[24] *Caribbean Update,* Oct. 1992, p. 14; and May 1992, p. 15.

[25] *Caribbean Update,* Feb. 1992, p. 16.

[26] U.S. Department of State telegram, "USITC Caribbean Basin Investment Survey," message reference No. 05435, prepared by U.S. Embassy, Santo Domingo, June 29, 1993.

[27] *Caribbean Update,* Sept. 1992, p. 6.

[28] Submission to the USITC, June 15, 1993, by Mitchell J. Cooper, counsel, Rubber and Plastic Footwear Manufacturers Association. Imports of footwear of U.S.-origin components under section 222 of the 1990 CBERA are discussed in greater detail in ch. 1.

[29] U.S. Department of State telegram, "USITC Caribbean Basin Investment Survey: Haiti," message reference No. 03974, prepared by U.S. Embassy, Port-au-Prince, May 14, 1993.

[30] Based on data provided by the Jamaican Investment Promotion Corporation (JAMPRO). U.S. Department of State telegram, "USITC Annual Caribbean Basin Investment Survey," message reference No. 05208, prepared by U.S. Embassy Kingston, July 2, 1993.

as electronic components and wooden furniture may have discouraged investment.[31] No new or expansion CBERA-related investment projects were identified in Guyana during 1992.

As in past years, the USITC learned of few new CBERA-related investment projects in the smaller Eastern Caribbean islands of Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines. In Antigua and Barbuda, plans were announced to establish an FTZ for export-oriented manufacturing and assembly operations.[32] Several reports noted an increase in non-CBERA investment activity in Grenada, particularly in data entry operations and in hotel construction.[33] One U.S. company signed a contract with a company in St. Kitts and Nevis to assemble printed circuit boards.[34]

Other Caribbean

The USITC learned of no new CBERA-related investments in Aruba and the Netherlands Antilles during 1992. In early 1993, it was reported that a U.S. firm will construct a $60 million iron carbide plant in Trinidad and Tobago with production scheduled to begin in late 1994.[35]

Although The Bahamas has a services-dominated economy with tourism and financial services the leading sources of foreign exchange, the Bahamian Government actively promotes economic diversification and development of the manufacturing, agricultural, and fishing sectors.[36] Four new CBERA-related projects were reported during 1992. Two involved the establishment of export-oriented farms to produce winter crops in The Bahamas, reportedly in response to the recent series of colder winters in Florida. These new projects include a fruit and melon farm on Andros Island valued at $30 million and eventually employing 115 full-time workers and a juice-processing plant on Abaco Island, valued at $15 million.[37] The two other new investment projects initiated in The Bahamas during 1992 involved production of radiator cores and the production of household-cleaning chemicals.[38]

Investment Financed by Section 936 Funds

During 1992, approximately $183.0 million in section 936 financing was disbursed for 18 projects in 6 CBERA countries, a $50.0 million decline from section 936 loan disbursements in 1991. CBERA countries that received section 936 loans and the number of projects so financed during 1992 are listed in the following tabulation:

Country	Section 936 Financing	Number of Projects
Trinidad and Tobago	$110.0	2
Costa Rica	50.5	5
Jamaica	17.5	3
Honduras	3.0	5
Barbados	1.1	2
Dominican Republic	1.0	1

Source: Department of State of the Commonwealth of Puerto Rico, *Puerto Rico's Caribbean Development Program: An Overview,* June 30, 1993.

New twin-plant activity has declined significantly in recent years. There were no new twin-plant operations established during 1991 or 1992. Some critics 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 section 936.[39] 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.[40]

31 *Caribbean Update,* July 1992, p. 4.

32 *Caribbean Update,* Nov. 1992, p. 4.

33 *Caribbean Update,* May 1993, p. 9, Jan. 1993, p. 8, and Sept. 1992, p. 8. See also U.S. Department of State telegram, "USITC Annual Caribbean Basin Investment Survey," message reference No. 00378, prepared by U.S. Embassy, Grenada, July 1, 1993.

34 *Caribbean Update,* June 1992, p. 16.

35 *Caribbean Update,* Feb. 1993, p. 18.

36 U.S. Department of State telegram, "Commercial Activities Report for the Bahamas," message reference No. 01258, prepared by U.S. Embassy, Nassau, Apr. 1, 1993.

37 *Caribbean Update,* Apr. 1992, p. 3.

38 U.S. Department of State, "USITC Annual Caribbean Basin Investment Survey," telegram, message reference No. 02383, prepared by U.S. Embassy, Nassau, June 30, 1993.

39 For more information on this criticism of the section 936 program, see the section "The Section 936 Loan Program" in ch. 1 of this report.

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

Country Profile: Guyana

The following section is based on field travel to Guyana conducted during the course of this investigation. Prior reports have detailed information on visits to other CBERA beneficiaries.

Economic and Trade Performance

Guyana's economy continues to emerge from a recession that lasted during most of the 1980s. The economy expanded by 7.7 percent in 1992 as the administration of President Cheddi Jagan, who was inaugurated in October 1992, further advanced the economic reforms that have been in place since 1989. The ongoing economic recovery is due largely to an expansion in agricultural (particularly sugar and rice) and forestry production.[41]

Guyana's total exports grew by an estimated 18 percent in 1992, to $322 million. Guyana's leading foreign exchange-earning industries in 1992 were sugar and bauxite (despite a 40-percent decline in bauxite production[42]). Other important exports were rice, shrimp, gold, rum, timber, and molasses.[43]

Guyana's current account deficit declined to $97 million in 1992 from $119 million in 1991. One key factor was an improved trade balance, which moved to a surplus of $18 million in 1992, from a deficit of $6 million in 1991. The services balance continued to show a deficit of approximately $130 million, mostly the result of foreign debt interest payments. Private and official foreign capital inflows continued to help Guyana finance its current account deficit. Since economic reforms began to be introduced in 1989, foreign aid has helped Guyana to clear arrears on its $2.0 billion foreign debt and to become qualified for new lending from the International Monetary Fund, the World Bank, and the Inter-American Development Bank. Guyana's capital account surplus declined to $28 million in 1992, from $52 million in 1991. Financing for Guyana's 1992 deficit included capital inflows of $163 million in new financing, $152 million in debt relief, and $11 million in balance-of-payments support.[44]

Despite the improvements in the country's economic performance, Guyana continued to face many challenges during 1992. With a total population of 750,000 and gross domestic product of $355 million, per capita income of $473 in Guyana ranks among the lowest in the Western Hemisphere and is comparable to that of Nicaragua ($485 in 1991) but nearly double that of Haiti ($246 in 1991), which ranks as the lowest in the hemisphere. Guyana's annual unemployment rate of approximately 13.0 percent during 1992 was exacerbated by layoffs in the bauxite-mining sector. The population continues to feel the cumulative effects of the drastic decline in living standards that occurred during the 1980s. The U.S. Embassy in Georgetown estimates that most Guyanese rely on life lines of cash remittances and shipments of consumer goods from relatives living in the United States and Canada.[45]

Investment Climate

Foreign investors in Guyana are afforded nondiscriminatory treatment and face no restrictions regarding their ownership share or sectors in the local economy in which they may invest. Investments in Guyana also are constitutionally guaranteed against expropriation and nationalization. The U.S. Overseas Private Investment Corporation resumed cover for Guyana in 1987, and U.S. Agency for International Development resumed aid in 1992 (suspended since the early 1980s) following improvements in Guyana's economic and political situation.[46]

[41] U.S. Department of State telegram, "Finance Ministry Report on Guyana Economy," message reference No. 00895, prepared by U.S. Embassy, Georgetown, Mar. 12, 1993.

[42] This decline was due to the deterioration of Guyana's Linden Mines, which used to produce 80 percent of the world's refractory-grade bauxite. U.S. Department of State telegram, "1992 Annual Labor Report for Guyana," message reference No. 01355, prepared by U.S. Embassy Georgetown, Apr. 20, 1993.

[43] U.S. Department of State telegram, "1993 Commercial Activities Report," message reference No. 01018, prepared by U.S. Embassy, Georgetown, Mar. 24, 1993; and Bank of Guyana, Research Department, *Statistical Bulletin*, Dec. 1992, table 8.2.

[44] U.S. Department of State telegram, "Finance Ministry Report on Guyana Economy," message reference No. 00895, prepared by U.S. Embassy, Georgetown, Mar. 12, 1993.

[45] U.S. Department of State telegram, "1992 Annual Labor Report for Guyana," message reference No. 01355, prepared by U.S. Embassy, Georgetown, Apr. 20, 1993.

[46] U.S. Department of State telegram, "1993 Commercial Activities Report for Guyana," message reference No. 01018, prepared by U.S. Embassy, Georgetown, Mar. 24, 1993.

Foreign exchange controls, once Guyana's most significant obstacle to trade and investment, were lifted by the end of 1991, and a unified floating exchange system free from government intervention subsequently was established.[47] As a member of the 13-nation Caribbean Community (CARICOM), Guyana has implemented the CARICOM common external tariff on non-Caribbean imports, which is scheduled to fall from a current maximum of 30-35 percent to 20 percent by 1998.[48]

Guyanan Government officials stated that severe deterioration of the physical infrastructure is the most significant challenge investors encounter in Guyana.[49] Specific problems include inadequate and unsafe roads, an unreliable electrical power supply and resulting frequent power blackouts, an outdated water and sewage system, obsolete industrial and agricultural equipment, and severe deterioration in public services such as education and health care.

A privatization program was launched by the previous administration in Guyana to address some of these problems. Interviewees stated that local and long-distance telephone service had improved significantly since the 1991 privatization of the Guyana Telephone and Telegraph Company.[50] Businesspersons interviewed, however, generally characterized such reforms as "necessary but not sufficient" in addressing Guyana's problems.[51]

According to interviewees and reports from the American Embassy in Georgetown, the Jagan administration has been widely criticized for failing to advance plans to privatize the remaining unprofitable government-owned enterprises.[52] Interviewees also reported that the administration has been slow to revoke regulations still in effect that discourage investment, most notably the consumption tax of up to 30 percent of the c.i.f. value of imported inputs (although this tax can be waived in certain circumstances).[53] According to one recent report, the fiscal year 1993 budget of the Government of Guyana contains a waiver of consumption taxes for all imported goods used as capital inputs for the agricultural sector.[54]

Investment Activity

An increase in domestic agricultural production, due largely to prior investment to rebuild the country's sugar and rice industries, was responsible for much of Guyana's 1992 economic growth. The USITC identified no new CBERA-related investment projects in Guyana during 1992. Recent U.S. investment in Guyana has been in food service and beverage industries, with output directed at the domestic market. U.S. oil companies were involved in exploratory drilling in Guyana during 1992 and early 1993.[55] Although Guyana signed a TIEA agreement with the United States in 1992, it has yet to receive section 936 project financing.

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47 Coopers & Lybrand, *Guyana: A Guide for Businessmen and Investors* (Georgetown: Guyana Manufacturing and Industrial Development Agency and Coopers & Lybrand, 1991), pp. 21-24; and Inter-American Development Bank *Economic and Social Progress in Latin America: 1992 Report* (Washington, D.C.: The Johns Hopkins University Press, Oct. 1992), p. 109.

48 "Agreement on CET," *Latin American Regional Reports: Caribbean*, Dec. 10, 1992, p. 2.

49 Interviews with officials of the Guyanan Government, May 17-20, 1993; and U.S. Department of State telegram, "1992 Annual Labor Report for Guyana," message reference No. 01355, prepared by U.S. Embassy, Georgetown, Apr. 20, 1993.

50 Eighty percent of the utility was purchased by a U.S. entity. U.S. Department of State telegram, "1993 Commercial Activities Report for Guyana," message reference No. 01018, prepared by U.S. Embassy, Georgetown, Mar. 24, 1993.

51 USITC staff interview with official from Georgetown Chamber of Commerce and Industry, May 17, 1993.

52 USITC staff interviews with representatives of Georgetown Chamber of Commerce and Industry and Guyana Manufacturing and Industrial Development Agency, May 17-19, 1993. For additional information, see U.S. Department of State telegram, "President Jagan Comments on Privatization in Independence Day Speech," message reference No. 01877, prepared by U.S. Embassy, Georgetown, May 28, 1993, and "Jagan Seen as Backtracking," *Latin American Weekly Report*, May 27, 1993, pp. 234-235.

53 USITC staff interviews with officials of the Guyanan Government, May 17-20, 1993, and "Facts on Fiscal Incentives to Industry," pamphlet, Guyana Manufacturing and Industrial Development Agency.

54 Such taxes for tractors, combines, and other harvesting equipment had ranged from 15 to 80 percent. For more detailed information, see U.S. Department of State telegram, "1993 Commercial Activities Report for Guyana," message reference No. 01018, prepared by U.S. Embassy, Georgetown, Mar. 24, 1993.

55 U.S. Department of State telegram, "1993 Commercial Activities Report for Guyana," message reference No. 01018, prepared by U.S. Embassy, Georgetown, Mar. 24, 1993.

Potential Effect of NAFTA

With the potential implementation of the NAFTA, policymakers and businesspersons in both the CBERA countries and the United States have expressed concern that NAFTA will have a significantly negative effect on U.S. imports from the CBERA countries and on the economic well-being of the region as a whole. This section presents the leading concerns about the probable impact of NAFTA on the CBERA program and compares the import shares of leading Mexican and CBERA products in the U.S. market during 1992.[56]

Comments on the probable impact of the NAFTA from the CBERA government officials contacted during the course of this investigation focused on two key themes. First, several individuals expressed the concern that NAFTA will severely erode the preferential trade benefits the United States currently accords to CBERA countries and generally leave CBERA products at a disadvantage relative to similar Mexican products in competing for U.S. market share. Some individuals mentioned the need to ensure that "a level playing field" exists between Caribbean and Mexican exporters with regard to the U.S. market.[57] Representatives of several Caribbean Basin governments stated that the United States should "upgrade" CBERA trade preferences to prevent the program from becoming a "depreciated asset" by providing benefits comparable to those accorded to Mexico by NAFTA, particularly for textile and apparel products.[58]

The second area of concern involved the issues of trade and investment diversion from the CBERA countries to Mexico after NAFTA becomes operational. Trade and investment diversion could occur if the elimination of quotas and tariffs on Mexican products removes or reduces the advantages currently enjoyed by CBERA countries relative to their Mexican counterparts. This effect could cause U.S. suppliers and investors to redirect their sourcing and channel their investment toward Mexico. Several individuals report that signs of such diversion already may be evident.[59]

Representatives of two CBERA countries expressed specific concerns about how NAFTA might affect their countries' exports to the United States. The Government of Trinidad and Tobago stated that NAFTA could restrict that nation's ability to export competitively priced petroleum and petroleum products (not CBERA-eligible) to the United States as tariffs on Mexican products are reduced.[60]

The Government of the Virgin Islands stated that NAFTA could lead to surges in rum imports from Mexico. Such surges would adversely affect Caribbean Basin rum producers because—

> Mexican rum producers will likely be able to match the price of Virgin Islands rum in the U.S. market within as few as five to six years [and] . . . will be able to beat the price of low-valued rum produced elsewhere in the Caribbean well before the end of the ten-year phase-out.

To protect Caribbean rum producers, the Virgin Islands proposed the establishment of an import surge mechanism for rum to provide staged increases in U.S. imports of Mexican rum.[61]

In July 1992, the USITC completed a report requested by the United States Trade Representative on the potential effects of NAFTA on apparel

[56] Proposed legislation to provide preferential tariff and quota treatment on imports from CBERA countries identical to the treatment accorded to like articles imported from Mexico under NAFTA (so-called NAFTA parity) is discussed in ch. 1.

[57] Submission to the USITC dated June 29, 1993, by Richard L. Bernal, Ambassador of Jamaica to the United States.

[58] Ibid. See also text of testimony prepared for delivery by Jose del Carmen Ariza, Ambassador to the United States from the Dominican Republic, and text of testimony prepared for delivery by Eduardo Sperisen, Vice Minister of Economy of Guatemala, on behalf of the economic Vice Ministers of Central America and Panama, before the Subcommittees on Trade and Oversight of the House Ways and Means Committee on the Caribbean Basin Free-Trade Agreements Act of 1993, June 24, 1993.

[59] Submission to the USITC dated June 29, 1993, by Richard L. Bernal, Ambassador of Jamaica to the United States. Investor uncertainty, possibly in part attributable to the possibility of NAFTA, also was reported by the American Embassy in the Dominican Republic. See U.S. Department of State telegram, "USITC Caribbean Basin Investment Survey," message reference No. 05435, prepared by U.S. Embassy, Santo Domingo, June 29, 1993.

[60] Text of testimony prepared for delivery by Corinne McKnight, Ambassador of Trinidad and Tobago to the United States, before the Subcommittees on Trade and Oversight of the House Ways and Means Committee on the Caribbean Basin Free Trade Agreements Act of 1993, June 24, 1993.

[61] Submission to the USITC dated June 29, 1993, by Peter N. Hiebert and Edward F. Gerwin, Jr. of Winston & Strawn, Counsel for the Government of the U.S. Virgin Islands.

investment in CBERA countries.[62] This report analyzed five CBERA countries (Costa Rica, the Dominican Republic, Guatemala, Honduras, and Jamaica) and six representative textile and apparel products (men's blue jeans, men's knit "golf" shirts, men's t-shirts, women's suit-type coats, women's woven blouses, and brassieres). The report found that NAFTA "will improve the relative cost competitiveness of Mexican producers compared with their counterparts in the Caribbean and Central America" and will "introduce incentives that will tend to favor apparel investment shifts from the CBERA countries into Mexico." However, the report concluded that "CBERA producers . . . are expected to retain a cost advantage (though reduced after implementation of a NAFTA)" in certain products because of their relatively lower labor costs.

A number of factors ultimately will determine the extent to which NAFTA may cause U.S. imports from Mexico to displace imports from CBERA countries. Such factors, include—

- Changes in the magnitude of U.S. tariff and nontariff barriers facing Mexican products;
- The relative prices of goods produced in Mexico and in the CBERA countries;
- The current U.S. market share of Mexican imports;
- The degree of substitutability between Mexican and CBERA products in the U.S. market;
- The increases in investment in Mexico resulting from NAFTA;
- NAFTA provisions affecting rules-of-origin and trade-balancing requirements; and
- Production costs, transportation costs, and the opportunity costs of capital.

U.S. tariff levels are likely to be one of the more important determinates of the extent to which imports from Mexico may displace imports benefiting from CBERA.[63] In general, the level of U.S. tariffs will be positively related to the extent to which Mexican imports could displace CBERA imports; in other words, the greater the tariff reduction under NAFTA, the greater the likelihood that imports from Mexico will displace similar imports from CBERA countries. The final effect still would depend on the other factors listed above, and more complete data on these other factors are necessary to predict which CBERA imports might be most affected by NAFTA.

Table 4-2 reports the ad-valorem equivalent tariff rate and the U.S. import market share of the 30 leading imports that benefited from the CBERA, and competing imports from Mexico and the rest of the world during 1992. These 30 items accounted for 89 percent of U.S. imports benefiting from CBERA duty-free and reduced-duty provisions in 1992. Of the products listed, Mexican frozen concentrated orange juice faced the highest U.S. tariff (37.8 percent ad valorem). The elimination of this tariff by NAFTA could create increased competition in the U.S. market for Caribbean frozen orange juice exporters.[64] The items with the next highest tariffs were luggage with outer surface of textile material (20.0 percent), frozen vegetables such as asparagus and broccoli (17.1 percent), avocados (15.3 percent), stemmed tobacco (12.1 percent), and cigarette leaf tobacco (8.4 percent). Caribbean producers also could face increased competition for U.S. market share in these products.

Three products—footwear uppers, cigars valued at 23 cents or more, and certain frozen vegetables such as carrots—were items that entered free of duty from Mexico under GSP.[65] U.S. imports of these products

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[62] For additional information, see USITC, *Potential Effects of a North American Free Trade Agreement on Apparel Investment in CBERA Countries*, USITC publication 2541, July 1992.

[63] This discussion focuses only on U.S. tariff levels, the first factor listed above, because data for this factor are readily available. As discussed in ch. 3, imports benefiting from CBERA are defined as products that are not excluded by CBERA, or that

[63]—*Continued*
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). 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 CBERA.

[64] For additional information, see the section on frozen concentrated orange juice in ch. 3.

[65] The U.S. GSP program is discussed in greater detail in ch. 1. Sugar imports from Mexico also were eligible for GSP during 1992. However, these imports were subject to U.S. tariff-rate quotas, and were not considered in this analysis. For further discussion on the effects of NAFTA on sugar imports from Mexico, see USITC, *Potential Impact on the U.S. Economy and Selected Industries of the North American Free-Trade Agreement*, publication 2596, Jan. 1993.

from CBERA countries and from Mexico thus already compete in a tariff-free environment.[66] CBERA countries maintain a significantly larger share of the U.S. market for footwear uppers and cigars. Caribbean footwear uppers industries may have an advantage derived from lower cost labor than currently is available in Mexico.[67] Caribbean cigars may benefit from being perceived as a distinct product from cigars produced elsewhere.[68]

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[66] For a more detailed discussion of U.S. imports of frozen vegetables under the CBERA and the possible impact of NAFTA, see USITC, *CBERA, Seventh Annual Report, 1991*, USITC publication 2553, Sept. 1992, p. 3-6.

[67] Footwear uppers are discussed in greater detail in ch. 3.

[68] See the section on cigars in ch. 3 for more detailed information on Caribbean cigar production.

Table 4-2
Ad valorem tariff rate[1] and U.S. import market share[2] of leading imports that benefited from CBERA and competing imports from Mexico and the rest of the world, 1992

(Percent)

HTS subheading	Description	Ad valorem tariff rate	U.S. import market share: CBERA Benefi-ciaries	Mexico	Rest of World
6406.10.65[3]	Footwear uppers, other than formed, of leather	3.7	57.8	11.3	30.9
0202.30.60	Frozen boneless beef, except processed	1.9	5.3	0.1	94.6
0201.30.60	Fresh or chilled boneless beef, except processed	1.3	29.5	0.0	70.5
0804.30.40	Pineapples, fresh, in crates or packages	4.2	97.7	2.1	0.2
1701.11.01	Cane sugar entered in pursuant to its provisions	(4)	35.2	0.0	64.8
2207.10.60	Undenatured ethyl alcohol, for nonbeverage purposes	(4)	21.5	0.0	78.5
2009.11.00	Frozen concentrated orange juice	37.8	8.7	2.3	89.0
2402.10.80[3]	Cigars, cheroots, and cigarillos valued 23 cents or more each	4.3	89.9	8.2	1.9
2401.10.60	Cigarette leaf, not stemmed	8.4	53.4	9.1	37.6
1701.11.02	Cane sugar used to produce polyhydric alcohols	(4)	85.5	0.0	14.5
9018.90.80	Medical, surgical, and dental instruments and appliances	7.8	19.3	15.9	64.8
7213.31.30	Irregularly wound coils of hot-rolled rod containing < 0.25% carbon	1.4	10.0	0.0	90.0
2401.20.80	Tobacco, partly or wholly stemmed	12.1	3.3	0.8	95.9
0710.80.97	Frozen vegetables (asparagus, broccoli, and other), reduced in size	17.1	9.0	84.4	6.6
8533.40.00	Electrical variable resistors	6.0	7.9	20.7	71.3
4203.10.40	Articles of leather apparel	6.0	1.4	0.4	98.2
8533.21.00	Electrical fixed resistors	6.0	7.6	11.6	80.8
4202.12.80	Luggage with outer surface of textile material	20.0	10.5	12.7	76.7
0603.10.60	Roses, fresh cut	8.0	6.9	7.2	86.0
2208.40.00	Rum and tafia	10.8	85.0	0.0	15.0
6204.39.80	Women's or girls' suit-type jackets and blazers	7.4	11.6	0.5	87.9
2009.40.40	Pineapple juice, concentrated	5.5	7.7	1.7	90.6
9111.10.00	Watch cases of precious metal	6.1	55.9	0.0	44.1
0710.80.70[3]	Frozen vegetables (carrots and other), not reduced in size	14.6	72.1	0.1	27.9
0804.40.00	Avocados, fresh or dried	15.3	16.6	6.3	77.1
2402.10.60	Cigars, cheroots, and cigarillos valued between 15 and 23 cents each	5.5	79.9	0.7	19.4
7214.40.00	Hot-rolled bars and rods containing < 0.25% carbon	3.7	8.2	3.3	88.5
7317.00.55	Nails, tacks, and corrugated nails	0.4	1.4	1.2	97.4
0802.90.90	Shelled nuts, n.e.s.i	1.5	21.1	0.0	78.9
7213.41.30	Irregularly wound coils of hot-rolled rod containing between 0.25% and 0.6% carbon	1.4	11.7	0.0	88.3

[1] Ad valorem rates were calculated by dividing calculated duties collected by the dutiable value for imports from Mexico and the rest of the world.

[2] U.S. import market share is based on c.i.f value.

[3] Items on which Mexico currently receives GSP duty-free treatment.

[4] Not available.

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

APPENDIX A
FEDERAL REGISTER NOTICE AND LIST OF SUBMISSIONS

obtained by contacting the Commission's TDD terminal on 202-205-1810.

Issued: May 28, 1993.

By order of the Commission.

Paul R. Bardos,

Acting Secretary.

[FR Doc. 93-13024 Filed 6-2-93; 8:45 am]

BILLING CODE 7020-02-P

[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 1993 annual report.

EFFECTIVE DATE: May 21, 1993.

FOR FURTHER INFORMATION CONTACT: James E. Stamps (202-205-3227), Trade Reports Division, Office of Economics, U.S. International Trade Commission, Washington, DC 20436.

SUPPLEMENTARY INFORMATION:

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 on industries and consumers in the United States. 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 on 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 17678). The eighth report, covering calendar year 1992, is to be submitted by September 30, 1993.

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 effects of the act.

Written Submissions

The Commission does not plan to hold a public hearing in connection with the eighth annual report. However, interested persons are invited to submit written statements concerning the matters to be addressed in the report. Statements also are invited on the potential effects of the North American Free-Trade Agreement on U.S. imports under the CBERA. 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 part 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 of 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, 1993.

Address all submissions to the Secretary to the Commission, U.S. International Trade Commission, 500 E Street 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) 205-1808.

Issued: May 28, 1993.

By order of the Commission.

Paul R. Bardos,

Acting Secretary.

[FR Doc. 93-13021 Filed 6-2-93; 8:45 am]

BILLING CODE 7020-02-P

[Investigation No. 337-TA-348]

Commission Determination Not To Review Initial Determinations Granting Joint Motions To Terminate the Investigation With Respect to Three Respondents on the Basis of Licensing Agreements

AGENCY: U.S. International Trade Commission.

ACTION: Notice.

In the matter of certain in-line roller skates with ventilated boots and in-line roller skates with axle aperture plugs and component parts thereof

SUMMARY: Notice is hereby given that the U.S. International Trade Commission has determined not to review the presiding administrative law judge's initial determinations (IDs) in the above-captioned investigation granting joint motions to terminate the investigation with respect to certain respondents on the basis of licensing agreements.

ADDRESSES: Copies of the IDs and all other nonconfidential documents filed in connection with this investigation are available for public inspection during official business hours (8:45 a.m. to 5:15 p.m.) in the Office of the Secretary, U.S. International Trade Commission, 500 E Street SW., Washington, DC 20436, telephone 202-205-2000.

FOR FURTHER INFORMATION CONTACT: Anjali Singh, Esq., Office of the General Counsel, U.S. International Trade Commission, 500 E Street SW., Washington, DC 20436, telephone 202-205-3117. Hearing-impaired individuals are advised that information about this matter can be obtained by contacting the Commission's TDD terminal, 202-205-1810.

SUPPLEMENTARY INFORMATION: On February 18, 1993, Rollerblade, Inc. filed a complaint with the Commission alleging unfair acts in violation of section 337 of the Tariff Act of 1930 (19 U.S.C. 1337). The unfair acts alleged in the complaint are the unauthorized importation into the United States, the sale for importation, and the sale within the United States after importation of certain in-line roller skates with ventilated boots, and in-line roller skates with axle aperture plugs and component parts thereof, that allegedly infringe claims 1, 2, 3, 4, 5, 6, 7, or 8 of U.S. Letters Patent 5,171,033, and/or claim 5 of U.S. Letters Patent 5,048,848. On March 18, 1993, the Commission voted to institute an investigation of the complaint and published notice of its investigation in the Federal Register (58 FR 16204 (March 25, 1993)).

On April 7, 1993, complainant Rollerblade, Inc. and respondents, California Pro U.S.A. Corporation (California Pro) and Playmaker Co., Ltd. (Playmaker) jointly moved for the termination of the investigation with respect to those two respondents on the basis of two separate patent licensing agreements (Motion Docket No. 348-1). On April 16, 1993, the Commission investigative attorney supported the joint motion. On April 29, 1993, the presiding administrative law judge issued an ID (Order No. 1) terminating the investigation with respect to California Pro and Playmaker.

On April 19, 1993, Rollerblade and respondent Keys Fitness Products (Keys) also jointly moved for the termination of the investigation with respect to Keys on the basis of a patent licensing agreement (Motion Docket No. 348-3). On April 26, 1993, the Commission investigative attorney supported the joint motion. On April 29 1993, the presiding administrative law judge issued an ID (Order No. 2)

SUBMISSIONS FOR THE RECORD INVESTIGATION NO. 332-227

Dr. Richard L. Bernal, Ambassador of Jamaica to the United States

Peter N. Hiebert and Edward F. Gerwin, Jr., on behalf of the Government of the U.S. Virgin Islands

Jason E. Kelly, on behalf of the Commonwealth of Puerto Rico

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, 1984-92

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
1992	11,328.4	2.7	9,488.8	1.8	1,839.6

[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 CBERA, 1984-92

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	1,656.1
1992	10,901.7	2.6	9,425.6	1.8	1,476.1

[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 CBERA duty-free entry, 1988-92)

Textiles and apparel are defined as HTS items 51012110, 51012160, 51012910, 51012960, 51013060, 51021090, 51051000-51053000, 51061000-51082060, 51091040-51091060, 51099040, 51099060, 51111120-51129090, 52041100-52082980, 52083140-52083180, 52083230-52083980, 52084140-52084180, 52084230-52084980, 52085140-52085180, 52085230-52092900, 52093160-52093900, 52094160-52094900, 52095160-52122560, 53092120-53092920, 53110020, 54011000-54034900, 54041080, 54061000, 54062000, 54050030, 54071000-54083490, 55011000-55169400, 56011010, 56012100, 56013000, 56021010-56042000, 56012200, 56074130, 56074915-56075040, 56081100-56081920, 56090030, 56089027, 56090010, 57011016-57011020, 57023110-57023220, 57024110-57024910, 57025120-57025910, 57029130-57029910, 57031000-57033000, 57041000, 57049000, 58011000-58013600, 58021100-58021900, 58031000-58039012, 58039030, 58042100, 58050025-58050030, 58061010-58061020, 58063100-58063910, 58109100-58109200, 58110010-58110030, 59011010, 59019020, 59021000-59029000, 59031018, 59031025, 59032018, 59039018, 59039025, 59069125-59069910, 59069110, 59069925, 59070010, 60011020, 60012100, 60012200, 60019100-60019200, 60021040, 60022010-60022060, 60024100-60024300, 60029100-60029300, 61011000-61013020, 61021000-61023020, 61031100-61031920, 61032100-61032910, 61033100-61033910, 61034110-61034920, 61041100-61041915, 61042100-61042910, 61043100-61043910, 61044100-61044420, 61045100-61045910, 61046100-61046920, 61051000-61059010, 61061000-61069010, 61071100-61071200, 61072100-61072920, 61079100-61079920, 61081100, 61082100-61082200, 61083100-61083910, 61089100-61089920, 61091000-61099015, 61101010-61103030, 61111000-61119050, 61121100-61121910, 61122010, 61123100, 61124100, 61141000, 61142000-61143030, 61151100-61151200, 61159100-61159918, 61169100, 61169274, 61169294, 61169394, 61169954, 61169364-61169374, 61171010-61171020, 62011100-62011340, 62019110-62019335, 62021100-62021340, 62029110-62029350, 62031110-62031930, 62032100-62032920, 62033100-62033920, 62034110-62034920, 62041100-62041920, 62042100-62042920, 62043110-62043930, 62044110, 62044120, 62044220-62044230, 62044320-62044340, 62044430-62044440, 62045100, 62045220, 62045320-62045330, 62045920-62045930, 62046100-62046220, 62046240-62046315, 62046325-62046925, 62051020, 62052020, 62053015-62053020, 62062020-62062030, 62063020-62063030, 62064020-62064030, 62071100, 62072100-62072200, 62079110-62079940, 62081100-62081920, 62082100-62082200, 62089110-62089920, 62091000-62099030, 62102010, 62103010, 62104010, 62105010, 62111110, 62111210, 62114100-62114300, 62132010-62139010, 62142000-62144000, 62152000, 62160041, 62160058, 62160080, 63012000-63014000, 63021010-63022220, 63023110-63023220, 63025110-63025140, 63025300, 63029920, 63031100, 63031200, 63039100, 63039200, 63029310, 63029320, 63041110-63041120, 63041905-63041920, 63049200-63049300, 63049915, 63052000-63053900, 63061100, 63061200, 63062100, 63062290, 63064100, 63069100, 63071010, 63101010, 63109010, 65010090, 65030090, 65059030-65059080, 94049010, 63026000-63029100, 5801902090, 5803904090, 5805004010, 5601290020-5604200000, 5701901020, 5702109010, 5702109030, 5705002010, 5705002030, 5802200020-5802200090, 5802300020-5802300090, 5804100020-5804100090, 5804290020-5804290090, 5804300090, 5806103020-5806103090, 5806393020-5806393080, 5807101020, 5807901010-5807901020, 5808102010, 5808103010, 5810990010, 5903903010, 6001990090, 6002990090, 6101900010-6101900030, 6101900050-6101900060, 6102900005-6102900015, 6102900025-6102900030, 6103194010-6103194050, 6103194070-6103194080, 6103292030, 6103292036, 6103292042, 6103292054, 6103292058-6103292062, 6103292066-6103292074, 6103292082, 6103392010-6103392030, 6103392050-6103392060, 6103493010-6103493014, 6103493018-6103493038, 6103493040-6103493060, 6104192010-6104192060, 6104192080-6104192090, 6104292010-6104292014, 6104292018-6104292026, 6104292030-6104292038, 6104292042-6104292050, 6104292053-6104292060, 6104292064-6104292078, 6104292082-6104292090, 6104392010-6104392030, 6104392050-6104392090, 6104490010-6104490030, 6104490050-6104490060, 6104592010-6104592030, 6104592050-6104592090, 6104693010-6104693014, 6104693018, 6104693026, 6104693030-6104693032, 6105903010-6105903030, 6105903050-6105903060, 6106902010-6106902030, 6106902050, 6107190020, 6107294020, 6108190010, 6108190030, 6108290020, 6108392020, 6108994020, 6109902015, 6109902030, 6110900010-6110900014, 6110900018-6110900030, 6110900036-6110900040, 6110900044-6110900054, 6110900060-6110900068, 6110900072-6110900078, 6110900084-6110900090, 6111906020, 6112192020-6112192030, 6112192050-6112192060, 6112192080-6112192090, 6114900010, 6114900020, 6114900030, 6114900040-6114900055, 6114900065-6114900070, 6115190010-6115190020, 6116103510-6116103530, 6116106010-6116106030, 6116999010-6116999030, 6116999050-6116999060, 6116109010-6116109025, 6116998010-6116998030, 6117200010-6117200019, 6117200050-6117200060, 6117800019-6117800025, 6117800050-6117800060,

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 CBERA duty-free entry, 1988-92)

Textiles and apparel HTS items—*Continued*
6117900010-6117900014, 6117900018-6117900026, 6117900030-6117900036, 6117900040-6117900046, 6117900050-6117900051, 6117900055-6117900056, 6117900060, 6201190010-6201190030, 6201190050-6201190060, 6201990010-6201990030, 6201990050-6201990060, 6202190010-6202190030, 6202190050-6202190060, 6202990010-6202990030, 6202990050-6202990060, 6203194010-6203194050, 6203194070-6203194080, 6203293020, 6203293028, 6203293040, 6203293060, 6203293080, 6203394010-6203394030, 6203394050-6203394060, 6203493015-6203493030, 6203493040, 6203493060, 6204193010-6204193060, 6204193080, 6204294010-6204294014, 6204294018-6204294026, 6204294030-6204294038, 6204294042-6204294050, 6204294054-6204294062, 6204294066-6204294068, 6204394010-6204394030, 6204394050-6204394060, 6204490010-6204490030, 6204490050-6204490060, 6204594010-6204594020, 6204693010-6204693030, 6204693050, 6204693070, 6205902010-6205902030, 6205902050, 6206100010-6206100030, 6206100050, 6207190030, 6207290010, 6207290030, 6207996020, 6207996040, 6208194020, 6208290010, 6208290030, 6208996020, 6208996040, 6209904020, 6210104015-6210104025, 6210202020, 6210302020, 6210402020-6210402050, 6210502020-6210502050, 6211112010-6211112020, 6211112040, 6211123003-6211123005, 6211123025, 6211201030-6211201040, 6211390020-6211390080, 6211490020-6211490070, 6211490090, 6212101010, 6212101040, 6212102040, 6215100025, 6215100090, 6216003010-6216003030, 6216003110-6216003130, 6217100020, 6217900003-6217900010, 6217900020-6217900035, 6217900045-6217900060, 6217900070, 6217900080-6217900085, 6217900095, 6301900010, 6301900030, 6302290020, 6302390010, 6302390030, 6304193040, 6304910020-6304910050, 6304996010-6304996020, 6367102005-6307102028, 6502009030, 6504009015, 6504009060, 6505909060, 9404909010, 5903203010, 6107994020, 6115190040, 6115200010, 6115200030, 6115992020, 6109902035, 6116926050, 6116926060, 6116926070, 6116995040, 6216003210-6216003225, 6216005220, 6216005245, 6216003920.

Petroleum and petroleum products are HTS items 2709, 2710.00.05-2710.00.30, 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 *) are eligible for a 20-percent duty reduction, to be implemented in five equal annual stages effective Jan. 1, 1992.

Table B-4
Leading U.S. imports for consumption entering under CBERA duty-free and reduced-duty provisions, in 1992, by source

(1,000 dollars)

Country	HTS No.	Description	1992 Duty-Free CBERA Imports	Share of 1992 CBERA Imports
Antigua	8534.00.00	Printed circuits, without elements	200	61.5
	2814.30.00	Sodium dichromate	51	15.8
	0302.69.40	Fish, nesoi, excl. fillets, livers and roes, fresh	48	14.9
	2208.40.00	Rum and tafia	15	4.6
		Total of items shown	314	96.8
Aruba	8413.91.90	Parts of pumps	6	62.1
	3304.99.00	Beauty or make-up preparations	2	22.3
	7113.19.50	Jewelry and jewelry parts of precious metal	1	15.6
		Total of items shown	9	100.0
Bahamas	2918.90.30	Aromatic drugs derived from carboxylic acids	78,594	84.2
	2937.22.00	Halogenated derivatives of adrenalcortical hormon	7,122	7.6
	0707.00.20	Cucumbers, fresh or chilled, if entered Dec-Feb	1,792	1.9
	0707.00.40	Cucumbers, fresh or chilled, if entered Mar-Apr	1,025	1.1
	0805.40.80	Grapefruit, fresh or dried	833	.9
		Total of items shown	89,366	95.7
Barbados	8533.21.00	Electrical fixed resistors	7,761	50.1
	9032.89.60	Automatic regulating or controlling instruments	2,633	17.0
	2208.40.00	Rum and tafia	1,049	6.8
	8532.10.00	Fixed electrical capacitors	990	6.4
	8533.39.00	Electrical wirewound variable resistors	765	4.9
		Total of items shown	13,198	85.2
Belize	2009.11.00	Orange juice, frozen, unfermented	15,738	66.3
	1701.11.01	Cane sugar entered in pursuant to its provisions	3,280	13.8
	2009.20.40	Grapefruit juice, unfermented, frozen	1,801	7.6
	1702.90.35	Invert molasses	1,798	7.6
		Total of items shown	22,617	95.3
British Virgin Islands	0303.79.40	Fish, excluding fillets, frozen, nesoi	47	69.2
	0304.10.30	Hake fillets, fresh or chilled	6	9.3
	4911.91.40	Pictures, designs, and photographs	6	8.1
		Total of items shown	59	86.6
Costa Rica	0804.30.40	Pineapples, fresh or dried	27,318	9.3
	0202.30.60	Frozen boneless beef, except processed	20,748	7.0
	8516.31.00	Electrothermic hair dryers	20,214	6.9
	0807.10.20	Cantaloupes, fresh, entered between 9/16-7/31	18,388	6.2
	0201.30.60	Fresh or chilled boneless beef, except processed	17,158	5.8
	9506.69.20	Baseballs and softballs	12,260	4.2
	8533.40.00	Electrical variable resistors, nesoi	11,680	4.0
	2207.10.60	Undenatured ethyl alcohol, for nonbeverage use	11,012	3.7
	0302.69.40	Fish, nesoi, excl. fillets, livers and roes, fresh	10,893	3.7
	0807.10.70	Melons, nesoi, fresh	8,192	2.8
	1701.11.02	Sugar used in production of polyhydric alcohols	7,550	2.6
	0714.10.00	Cassava (manioc), fresh or dried	6,432	2.2
	0603.10.70	Chrysanthemums, standard carnations, anthuriums	5,979	2.0
	3926.90.90	Articles of plastics and other materials	5,184	1.8
	0709.90.10	Chayote, fresh or chilled	4,779	1.6
	4418.20.00	Wooden doors and their frames and tresholds	4,395	1.5
	9111.10.00	Watch cases of precious metal or of metal clad	4,367	1.5
	2009.11.00	Orange juice, frozen, unfermented	3,869	1.3
	0811.90.10	Bananas and plantains, uncooked or steamed	3,706	1.3
	9403.70.40	Furniture of reinforced or laminated plastics	3,475	1.2

Table B-4—Continued
Leading U.S. imports for consumption entering under CBERA duty-free and reduced-duty provisions, in 1992, by source

(1,000 dollars)

Country	HTS No.	Description	1992 Duty-Free CBERA Imports	Share of 1992 CBERA Imports
Costa Rica .... —*Continued*	0714.90.10	Fresh dasheens, whether or not sliced	3,070	1.0
	2008.99.13	Banana pulp, otherwise prepared or preserved	3,009	1.0
	0714.90.20	Fresh yams, whether or not sliced	2,935	1.0
	0603.10.80	Cut flowers and flower buds	2,881	1.0
		Total of items shown	219,494	74.5
Dominica	3401.11.50	Soap, nesoi, organic surface active products	671	66.5
	1302.19.40	Ginseng; substances having anesthetic	148	14.7
	8419.81.90	Machinery and equipment, for making hot drinks	66	6.6
	3920.59.10	Other plates, sheets, film, foil, flexible	31	3.1
	3920.59.50	Other plates, sheets, film, foil, other	24	2.3
		Total of items shown	940	93.2
Dominican Republic	6406.10.65	Footwear uppers, other than formed, of leather	132,127	24.3
	1701.11.01	Cane sugar entered in pursuant to its provisions	72,321	13.3
	8538.90.00	Parts for use with electrical apparatus	54,934	10.1
	9018.90.80	Medical and surgical instruments and appliances	42,368	7.8
	7113.19.50	Jewelry and jewelry parts of precious metal	38,050	7.0
	2402.10.80	Cigars, cheroots, and cigarillos	22,362	4.1
	7113.19.21	Rope necklaces and neck chains of gold	14,070	2.6
	7113.19.10	Rope, curb, etc. in continuous lengths	11,485	2.1
	4203.10.40	Leather apparel[1]	10,814	2.0
	0201.30.60	Fresh or chilled boneless beef, except processed	9,797	1.8
	8536.90.00	Electrical apparatus, nesoi, for switching	7,922	1.5
	1703.10.50	Cane molasses	7,900	1.5
		Total of items shown	424,150	78.1
El Salvador	1701.11.01	Cane sugar entered in pursuant to its provisions	6,247	23.1
	2207.10.60	Undenatured ethyl alcohol, for nonbeverage use	2,735	10.1
	1701.11.02	Sugar used in production of polyhydric alcohols	2,600	9.6
	0807.10.70	Melons, nesoi, fresh	2,007	7.4
	4819.40.00	Sacks and bags, nesoi, including cones, of paper	1,578	5.8
	8532.24.00	Ceramic dielectric fixed capacitors, multilayer	1,477	5.5
	1703.10.50	Cane molasses	1,364	5.0
	0710.80.93	Okra, uncooked or cooked by steaming, frozen	1,210	4.5
	9507.90.70	Artificial baits and flies	674	2.5
	0807.10.20	Cantaloupes, fresh, entered between 9/16-7/31	650	2.4
		Total of items shown	20,542	75.9
Grenada	3926.90.90	Articles of plastics and other materials	435	40.2
	9018.90.80	Medical and surgical instruments and appliances	285	26.3
	0810.90.40	Fresh fruit, nesi	98	9.1
	8504.90.00	Parts of electrical transformers, static convert	96	8.9
	8533.90.00	Parts of electrical resistors, rheostats	77	7.1
		Total of items shown	991	91.6
Guatemala	1701.11.02	Sugar used in production of polyhydric alcohols	37,919	20.0
	1701.11.01	Cane sugar entered in pursuant to its provisions	22,140	11.7
	2401.10.60	Cigarette leaf, not stemmed, not oriental	17,406	9.2
	0710.80.97	Other frozen vegetables not reduced in size	11,354	6.0
	0710.80.70	Other frozen vegetables reduced in size	9,681	5.1
	0201.30.60	Fresh or chilled boneless beef, except processed	9,608	5.1
	0202.30.60	Frozen boneless beef, except processed	7,232	3.8
	2401.20.80	Tobacco, partly or wholly stemmed	6,939	3.7
	0708.10.40	Peas, fresh or chilled, shelled or unshelled	5,954	3.1
	0807.10.20	Cantaloupes, fresh, entered between 9/16-7/31	5,410	2.9
	0603.10.60	Roses, fresh cut	4,916	2.6
		Total of items shown	138,559	73.2

Table B-4—Continued
Leading U.S. imports for consumption entering under CBERA duty-free and reduced-duty provisions, in 1992, by source

(1,000 dollars)

Country	HTS No.	Description	1992 Duty-Free CBERA Imports	Share of 1992 CBERA Imports
Guyana	0303.79.40	Fish, excluding fillets, frozen, nesoi	329	27.4
	2208.40.00	Rum and tafia	216	17.9
	8708.93.50	Clutches and parts thereof, for motor vehicles	119	9.9
	3307.10.20	Pre-shave, shaving or after-shave preparations	113	9.4
	0106.00.10	Live birds, other than poultry	100	8.3
		Total of items shown	877	72.9
Haiti	9506.69.20	Baseballs and softballs	3,616	20.9
	6116.10.45	Gloves, mittens & mitts (excl. ski/snowmobile)	1,136	6.6
	8536.69.00	Plugs and sockets for making connections	940	5.4
	8504.50.00	Inductors, nesoi	850	4.9
	8533.90.00	Parts of electrical resistors, rheostats	822	4.8
	8536.50.00	Switches, nesoi, for switching, making connections	801	4.6
	8538.90.00	Parts for use with electrical apparatus	776	4.5
	3926.90.90	Articles of plastics and other materials	772	4.5
	8504.31.40	Electrical transformers, nesoi	624	3.6
	4107.90.30	Leather of animals, nesoi, without hair on	583	3.4
	4016.99.25	Articles made of noncellular vulcanized rubber	505	2.9
	4203.10.40	Leather apparel[1]	479	2.8
	8504.90.00	Parts of electrical transformers, static convert	446	2.6
	9405.10.80	Chandeliers and other electrical ceiling lights	408	2.4
		Total of items shown	12,758	73.9
Honduras	0202.30.60	Frozen boneless beef, except processed	26,476	23.5
	0201.30.60	Fresh or chilled boneless beef, except processed	12,754	11.3
	0807.10.20	Cantaloupes, fresh, entered between 9/16-7/31	9,887	8.8
	2402.10.80	Cigars, cheroots, and cigarillos	6,230	5.5
	1701.11.01	Cane sugar entered in pursuant to its provisions	5,614	5.0
	9506.69.20	Baseballs and softballs	5,589	5.0
	2401.20.80	Tobacco, partly or wholly stemmed	3,393	3.0
	3923.21.00	Sacks and bags (including cones)	3,120	2.8
	2008.99.13	Banana pulp, otherwise prepared or preserved	3,056	2.7
	2401.10.60	Cigarette leaf, not stemmed, not oriental	2,889	2.6
	7317.00.55	Nails, tacks, corrugated nails and staples	2,669	2.4
		Total of items shown	81,677	72.6
Jamaica	2207.10.60	Undenatured ethyl alcohol, for nonbeverage use	8,660	18.0
	1701.11.01	Cane sugar entered in pursuant to its provisions	5,643	11.7
	2208.40.00	Rum and tafia	4,553	9.5
	0714.90.20	Fresh yams, whether or not sliced	4,070	8.5
	2402.10.80	Cigars, cheroots, and cigarillos	3,902	8.1
	2203.00.00	Beer made from malt	2,369	4.9
	2208.90.45	Cordials, liqueurs, kirschwasser and ratafia	2,319	4.8
	8536.90.00	Electrical apparatus nesoi, for switching	1,333	2.8
	2103.90.60	Mixed condiments and mixed seasonings	1,274	2.6
	0807.20.00	Papayas (papaws), fresh	1,263	2.6
	1704.90.20	Confections or sweetmeats ready for consumption	1,145	2.4
		Total of items shown	36,531	75.9
Montserrat	2208.90.45	Cordials, liqueurs, kirschwasser and ratafia	41	100.0
		Total of items shown	41	100.0
Netherlands Antilles	3507.90.00	Enzymes; prepared enzymes nesoi, excluding rennet	1,051	35.5
	8544.60.20	Insulated electric conductors nesoi	619	20.9
	8504.31.40	Electrical transformers, nesoi	472	15.9
	8524.21.30	Pre-recorded magnetic tapes, of certain width	370	12.5
	7326.20.00	Articles of iron or steel wire, nesoi	261	8.8
	4818.10.00	Toilet paper	136	4.6
		Total of items shown	2,909	98.2

Table B-4—Continued
Leading U.S. imports for consumption entering under CBERA duty-free and reduced-duty provisions, in 1992, by source

(1,000 dollars)

Country	HTS No.	Description	1992 Duty-Free CBERA Imports	Share of 1992 CBERA Imports
Nicaragua	1701.11.01	Cane sugar entered in pursuant to its provisions	12,486	31.2
	0202.30.60	Frozen boneless beef, except processed	7,833	19.6
	0201.30.60	Fresh or chilled boneless beef, except processed	5,808	14.5
	1701.11.02	Sugar used in production of polyhydric alcohols	4,837	12.1
	1703.10.50	Cane molasses	2,169	5.4
		Total of items shown	33,133	82.8
Panama	0302.69.40	Fish, nesoi, excl. fillets, livers and roes, fresh	5,589	23.5
	2401.20.80	Tobacco, partly or wholly stemmed	4,683	19.7
	0807.10.70	Melons, nesoi, fresh	3,211	13.5
	2008.99.13	Banana pulp, otherwise prepared or preserved	2,427	10.2
	1701.11.01	Cane sugar entered in pursuant to its provisions	1,291	5.4
		Total of items shown	17,201	72.4
St. Kitts and Nevis	1701.11.01	Cane sugar entered in pursuant to its provisions	3,070	21.7
	8536.50.00	Switches, nesoi, for switching, making connections	3,056	21.6
	8533.40.00	Electrical variable resistors, nesoi	1,614	11.4
	8503.00.60	Parts, nesoi, of electric motors and generators	1,190	8.4
	8473.30.80	Parts and accessories, nesoi, of ADP machines	1,186	8.4
		Total of items shown	10,116	71.5
St. Lucia	8533.21.00	Electrical fixed resistors	1,886	47.9
	8532.29.00	Fixed electrical capacitors, nesoi	1,115	28.3
	6307.90.40	Cords and tassels made up of textile materials	219	5.6
	3926.90.90	Articles of plastics and other materials	171	4.4
	4823.90.85	Articles of paper, paperboard, and cellulose webs	153	3.9
		Total of items shown	3,544	90.1
St. Vincent and the Grenadines	8504.50.00	Inductors, nesoi	74	44.7
	2009.60.00	Grape juice (including grape must), unfermented	34	20.5
	2009.40.40	Pineapple juice, concentrate	31	18.5
	0302.69.40	Fish, nesoi, excl. fillets, livers and roes, fresh	11	6.8
		Total of items shown	150	90.5
Trinidad and Tobago	7213.31.30	Bars & rods, hot-rolled, of iron or n/alloy steel	15,422	34.5
	2905.11.20	Methanol (methyl alcohol)	7,417	16.6
	1701.11.01	Cane sugar entered in pursuant to its provisions	5,497	12.3
	7214.40.00	Bars and rods of iron or nonalloy steel	3,067	6.9
	7213.41.30	Bars & rods, hot-rolled, of iron or n/alloy steel	2,742	6.1
		Total of items shown	34,145	76.4

[1] Indicated articles are subject to the CBERA 20-percent duty reduction.

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

Note.—Commodities sorted by imports for consumption, customs value in 1992.

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

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 and reduced-duty status granted to Caribbean imports under CBERA in 1992. 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_ct o 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:

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

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

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

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

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

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

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

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

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

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

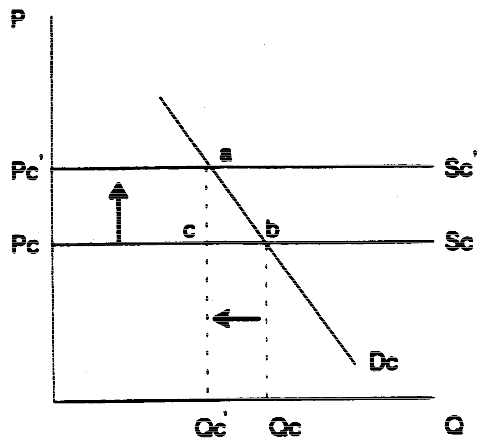
$$(6) \qquad \varepsilon_{dc} = V_c(\sigma_{dc} + \eta)$$

where the V_i's are market shares for CBERA and non-CBERA imports and domestic output, η is the aggregate demand elasticity, and the σ_{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

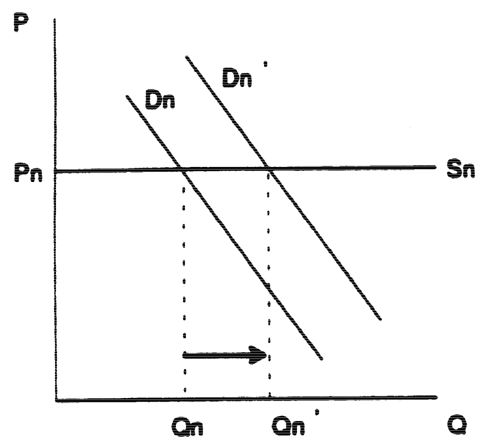
[1] Equations (4) - (6) are derived from P.R.G. Layard and A. A. Walters, *Microeconomic Theory* (New York: McGraw-Hill, 1978).

[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.

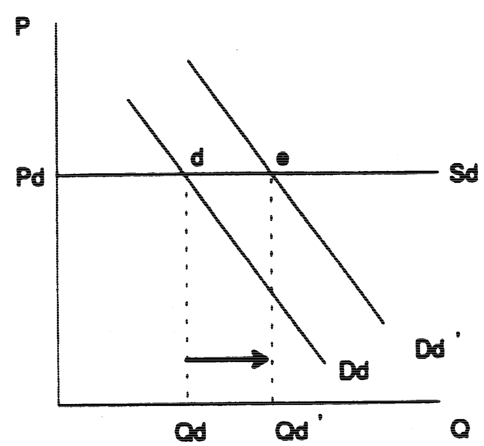
Figure C-1
Partial equilibrium analysis of the effects of removing CBERA duty provisions on U.S. imports from CBERA beneficiaries



a. CBERA imports



b. non-CBERA imports



c. Domestic output

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)

$$\text{trapezoid } P'_c abP_c = \int^{P_{c'}} kP_c^{\varepsilon_{cc}} \, dP_c$$

$$= [1/(1 + \varepsilon_{cc})][1 + t)^{(1 + \varepsilon_{cc})} - 1] \, P_c Q_c \quad \text{if } \varepsilon_{cc} \neq -1$$

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

Tariff revenue from CBERA imports:

$$\text{rectangle } P'_c acP_c = t \, P_c \, Q_{c'}$$

$$= t \, P_c \, Q_c \, (1 + t)^{\varepsilon_{cc}}$$

Domestic output:

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

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

[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.