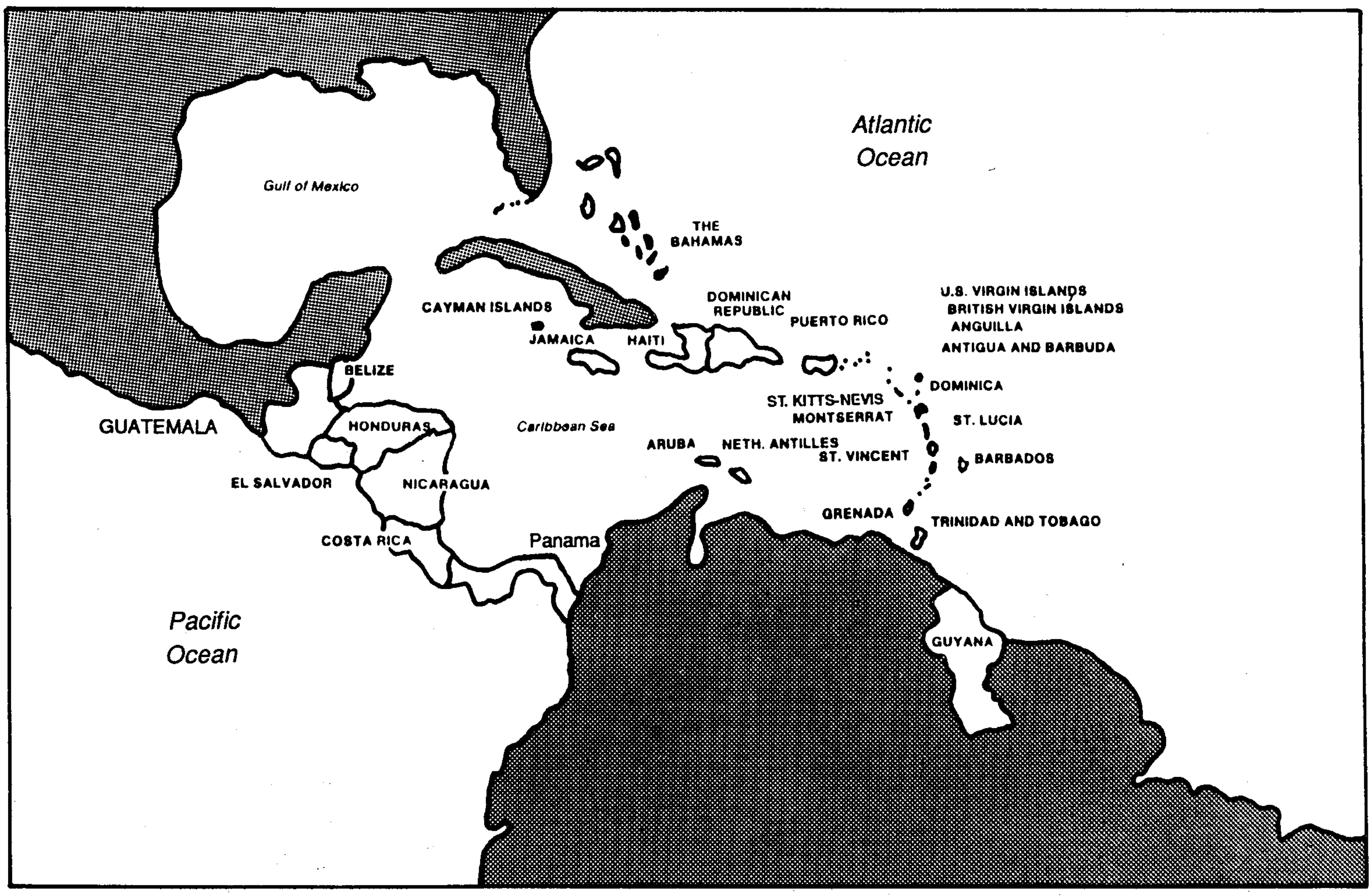
CARIBBEAN BASIN ECONOMIC RECOVERY ACT: IMPACT ON U.S. INDUSTRIES AND CONSUMERS

Eleventh Report 1995

Investigation No. 332-227



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Caribbean Basin Economic Recovery Act: Impact on U.S. Industries and Consumers

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PREFACE

The submission of this study to the Congress and to the President continues a series of annual reports by the U.S. International Trade Commission (the Commission) on the impact of the Caribbean Basin Economic Recovery Act (CBERA) on U.S. industries and consumers. Under section 215(a) of the act (19 U.S.C. 2704(a)), beginning in 1986, the Commission must report annually on the operation of the program. The present study fulfills the requirement for calendar year 1995.

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 future effects of CBERA on the U.S. economy generally, on U.S. consumers, and on U.S. industries producing like products or products directly competitive with those products imported from beneficiary countries. The Commission is required to submit its report to the President and the Congress by September 30 of each year.

The Commission is an independent factfinding agency. Statements made in this report do not necessarily reflect the views of executive branch agencies and, unless cited as such, should not be taken as official statements of U.S. trade policy. Because this report was completed separately from any other work conducted by the Commission, nothing in it should be construed to indicate what the Commission's determination would be, should an investigation be conducted under another statutory authority.

Copies of this current report as well as the 1994 report on CBERA are available in electronic format on the Commission's Internet Web site (http://www.usitc.gov/).

TABLE OF CONTENTS

TABLE OF CONTENTS—*Continued*

EXECUTIVE SUMMARY

The Caribbean Basin Economic Recovery Act (CBERA), operative since January 1, 1984, authorizes the President to proclaim duty-free treatment or reduce duties on eligible products of designated Caribbean, Central American, and South American countries. The primary goal of CBERA is to promote export-oriented growth in the Caribbean Basin countries and to diversify their economies away from such traditional agricultural products and raw materials as aluminum, bananas, coffee, petroleum, and sugar.

Background:

Section 215 of CBERA requires the U.S. International Trade Commission (the Commission) to report annually on the actual and probable future effects of CBERA on the U.S. economy generally, on U.S. industries, and on U.S. consumers. The effects of duty reductions are measured by estimating: (1) the extent to which consumers benefit from duty reductions through lower prices (consumer surplus); (2) the loss of tariff revenues to the Government; and (3) the potential displacement of domestic production. Net welfare effects are measured by subtracting estimated tariff revenue losses from estimated gains in consumer surplus.[1] The potential displacement in domestic production is measured based on the change in demand for competing domestic products. Probable future effects are estimated based on an analysis of recent investment data.

Highlights of the Commission's 11th annual report on CBERA covering the year 1995 follow.

1995 trade update:

- The United States has had a collective trade surplus with the countries designated for CBERA benefits since 1987; that surplus was $2.3 billion in 1995. U.S. merchandise imports from the 24 CBERA beneficiaries totaled $12.6 billion in 1995, or 1.7 percent of U.S. imports worldwide, while U.S. exports were just under $14.8 billion.
- More than two-thirds of total U.S. shipments from CBERA beneficiaries enter free of duty under one of several U.S. provisions. Imports entered duty-free under CBERA provisions totaled a record high $2.2 billion in 1995, or 17.7 percent of imports from the CBERA beneficiaries; imports valued at $37 million paid duties that were reduced, but not eliminated, under other CBERA provisions. In comparison, imports from CBERA beneficiaries entered duty-free under Generalized System of Preferences (GSP), which was not operative from August 1 through December 31, 1995, were $260 million. Articles eligible for GSP duty-free entry (when that program is operative) also are eligible for duty-free entry under CBERA and could have entered under either program.

[1] Welfare effects include changes in consumer surplus and producer surplus that result from price changes. To produce maximum potential welfare and displacement estimates, the analysis used in this report does not consider changes in producer surplus because it assumes that production in each market faces no constraints in meeting demand over the relevant range—that is, the supply of U.S. domestic production is assumed to be perfectly elastic (the supply curves in all of the markets are horizontal) and, consequently, U.S. domestic prices are assumed not to fall in response to CBERA imports.

- Two countries—the Dominican Republic and Costa Rica—supply the bulk of the shipments entered under CBERA provisions. These two countries combined have accounted for more than one-half of total annual CBERA entries since 1989. In 1995, the Dominican Republic was the top supplier of leather footwear uppers and jewelry of precious metal—the leading items entered under CBERA. The top CBERA entries from Costa Rica were jewelry of precious metal and electrothermic hair dryers.

Effects of CBERA on U.S. industries and consumers:

- Of the $2.2 billion worth of U.S. imports that entered under CBERA provisions in 1995, $1.4 billion of those imports could not have received tariff preferences under any other program.

- The Commission used a partial-equilibrium analysis of the 25 leading items benefiting exclusively from CBERA tariff preferences in 1995 to produce estimates of the maximum potential effects of CBERA.

- All of the items analyzed for which data were available produced net welfare gains for U.S. consumers. Ethyl alcohol yielded the largest such gains (valued at $7.6 million); followed by frozen concentrated orange juice ($1.8 million); medical instruments ($824,000); fresh cantaloupes entered from September 16 through July 31 ($672,000); frozen vegetables ($656,000); trunks, suitcases and briefcases with outer surface of other textiles ($577,000); and jewelry and parts of precious metal except silver, except necklaces and clasps ($568,000).

- Industries estimated to experience maximum displacement of more than 5 percent of the value of U.S. production were electrical variable resistors (10.6-percent displacement, valued at $781,000); frozen vegetables (9.1-percent displacement, valued at $498,000); ethyl alcohol (5.9-percent displacement, valued at $84.3 million); and pineapples (5.5-percent displacement, valued at $3.2 million).

Probable future effects of CBERA:

- CBERA tariff preferences are likely to have minimal future effects on the U.S. economy. Based on reports from U.S. Embassies in the Caribbean Basin region on investment activity during 1995, the Commission identified 26 new projects and 10 expansion projects involving the production of goods intended for export to the United States under CBERA provisions. These projects involved capital outlays totaling $28.9 million.

- Of the investments projects identified, only two—both to produce medical instruments in Costa Rica—involved the production of goods that had some small measurable estimated welfare gain for U.S. consumers in 1995, but displaced a maximum of less than 0.6 percent of U.S. production, according to the Commission's estimates.

CHAPTER 1
Introduction

The Caribbean Basin Economic Recovery Act (CBERA) became operative in 1984[1] to encourage economic growth and development in the Caribbean Basin countries by promoting increased production and exports of nontraditional products.[2] CBERA authorizes the President to proclaim preferential rates of duty to many Caribbean Basin products entering the United States.

This report fulfills a statutory mandate under CBERA that the U.S. International Trade Commission (the Commission) report annually on the economic impact of CBERA on U.S. industries, consumers, and the economy in general.[3] The report, the 11th in the series, covers calendar year 1995. In June 1995, the House Ways and Means Committee approved and reported out a bill (H.R. 1887) that would have, among other things, repealed the Commission's CBERA reporting requirement. No further action on this bill has been taken.

Approach

The actual effects of CBERA on the U.S. economy and industries are assessed through an analysis of imports entered under this program and trends in U.S. consumption of these imports. General economic and trade data come from official statistics of the U.S. Department of Commerce and from materials developed by commodity and industry analysts of the Commission. Investment information is derived from reports by U.S. Embassies in the Caribbean Basin region. The report also incorporates public comments received in response to the Commission's *Federal Register* notice for this investigation.[4]

Assessments of the economic effects of CBERA are made using a method developed for these reports as described in Appendix B.[5] The effects of CBERA duty reductions are measured by estimating: (1) the extent to which consumers benefit from duty reductions through lower prices (consumer surplus);[6] (2) the loss of tariff revenues to the Government; and (3) the potential displacement of domestic production. Net welfare effects are measured by subtracting estimated tariff revenue losses from estimated gains in consumer surplus.[7] The potential displacement in

[1] CBERA became effective January 1, 1984, as Public Law 98-67, Title II, 97 Stat. 384, 19 U.S.C. 2701 et seq. Relatively minor amendments to CBERA were made by Public Laws 98-573, 99-514, 99-570, and 100-418.

[2] 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.

[3] The reporting requirements are described in greater detail in sec. 215 of CBERA (19 U.S.C. 2704).

[4] *Federal Register,* vol. 61, No. 124 (June 26, 1996), p. 33137.

[5] Commissioner Newquist notes that, in the context of this investigation, economic modeling provides only "estimates" regarding the impact of any event or series of events. In his view, economic models rely on the manipulation of a number of assumptions and variables, all of which differ according to the information sought and the judgment and prejudices of the modeler. Thus, models measuring the impact of a single event can and do produce widely divergent "results." For purposes of this investigation, therefore, Commissioner Newquist considers economic modeling to be but one of many tools available to the Commission to analyze and assess the effects of the Caribbean Basin Economic Recovery Act.

For Commissioner Bragg's views on economic modeling, please see, *The Economic Effects of Antidumping and Countervailing Duty Orders and Suspension Agreements* (investigation No. 332-344), USITC publication 2900, p. xiii, June 1995.

[6] Depending on the competitive situation and market structure of the particular industry in the United States, all or some portion of the gain—realized through lower prices—will be passed on to end users, or to intermediate, downstream industries.

[7] Typically, welfare effects include changes in consumer surplus and producer surplus that are the results of changes in price. To produce maximum potential welfare and displacement estimates, the analysis used in this report does not consider changes in producer surplus because it assumes that production in each market faces

domestic production is measured based on the change in demand for competing domestic products. Probable future effects are estimated based on an analysis of data obtained from U.S. Embassies in the region on investment in CBERA-related production facilities.

Organization

The present chapter summarizes the CBERA program. Chapter 2 describes U.S. trade with CBERA beneficiaries during 1995. Chapter 3 addresses the effects of CBERA in 1995 on the economy, industries, and consumers of the United States; this chapter also examines the probable future effects of CBERA. Appendix A contains a list of submissions received in response to the Commission's *Federal Register* notice for this investigation. Appendix B explains the economic model used to derive the findings presented in chapter 3.

Summary of the CBERA Program

CBERA authorizes the President to grant certain unilateral preferential trade benefits to Caribbean Basin countries and territories. The program permits shippers to claim duty-free or reduced-duty entry of eligible products imported into the customs territory of the United States. CBERA was initially scheduled to remain in effect until September 30, 1995; however, the Caribbean Basin Economic Recovery Expansion Act of 1990 repealed that termination date, made CBERA trade benefit authorization permanent, and expanded CBERA benefits in several respects.[8] In September 1995, the United States requested the World Trade Organization (WTO) to renew a waiver of U.S. obligations under the most favored nations MFN) provision[9] for the purpose of providing CBERA tariff preferences for a period of 10 years;[10] that request was granted on November 15, 1995.[11] The following sections summarize CBERA provisions for beneficiaries and qualifying rules.

Beneficiaries

Eligible imports from 24 countries received CBERA tariff preferences during 1995.[12] CBERA beneficiaries are required, among other things, to afford internationally recognized worker rights as defined under the U.S. Generalized System of

[7]*—Continued*
no capacity constraints over the relevant range—that is, the supply of U.S. domestic production is assumed to be perfectly elastic (the supply curves in all of the markets are horizontal) and, consequently, U.S. domestic prices are assumed not to fall in response to CBERA imports. These assumptions lead to an overstatement of the net welfare effect.

[8] The Caribbean Basin Economic Recovery Expansion Act of 1990 was signed into law on August 20, 1990, as part of the Customs and Trade Act of 1990 (Public Law 101-382, title II, 104 Stat. 629, 19 U.S.C. 2101 note).

[9] The United States affords MFN tariff treatment to all CBERA countries pursuant to 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-general 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. The basic statute currently in force with respect to MFN treatment is sec. 126 of the Trade Act of 1974 (19 U.S.C. 2136). For a discussion of the replacement of the GATT institutional arrangements by the WTO, see USITC, *The Year in Trade 1995: Operation of the Trade Agreements Program, 47th Report,* USITC publication 2971, Aug. 1995, p. 2-1.

[10] A WTO waiver is required because CBERA tariff preferences are extended on a non-reciprocal basis to a limited number of countries, and are not extended to all WTO members. The request for such a waiver was made in accordance with Article IX of the Marrakesh Agreement Establishing the World Trade Organization, which entered into force on Jan. 1, 1995. U.S. Department of State telegram, "Instructions for November 15 Meeting of the WTO General Council," message reference No. 266517, prepared by U.S. Department of State, Washington, D.C., Nov. 14, 1995.

[11] Decision of the WTO General Council of Nov. 15, 1995 (WT/L/104).

[12] Those countries were Antigua, Aruba, The Bahamas, Barbados, Belize, British Virgin Islands, Costa Rica, Dominica, Dominican Republic, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Montserrat, Netherlands Antilles, Nicaragua, Panama, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago. The Caribbean, Central American, and South American countries and territories potentially eligible for CBERA benefits are listed in 19 U.S.C. 2702(b), which also grants to the President the authority to designate eligible beneficiaries, to terminate beneficiary status, and to suspend or limit a country's CBERA benefits in certain respects. Aruba was added in 1986 when it gained independence from Netherlands Antilles. Four countries—Anguilla,

Preferences (GSP) program[13] and to provide effective protection of intellectual property rights (IPR), including copyrights for film and television material.[14] To date, CBERA benefits have not been withdrawn from any country on the basis of worker rights or U.S. copyright violations;[15] beginning in 1996 the United States will monitor IPR protection in Costa Rica, El Salvador, Guatemala, and Honduras.[16]

[12]—*Continued*
Cayman Islands, Suriname, and Turks and Caicos Islands—are potentially eligible for CBERA benefits but have not requested to be so designated.

[13] 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). GSP is described in more detail below.

[14] The President may waive either condition if he determines, and so reports to Congress, that the designation of a particular country would be in the economic or security interest of the United States. 19 U.S.C. 2702(b).

[15] Practices in several CBERA countries were the subject of active reviews by the United States during 1995 based on petitions received by the Office of the United States Trade Representative (USTR) requesting that their GSP benefits be removed because of alleged worker rights or IPR inadequacies. Those countries were El Salvador (IPR), Guatemala (worker rights), and Honduras (IPR). U.S. Department of State telegram, "USTR Kantor Press Statement on GSP Country Practice Reviews," message reference No. 175392, Washington, DC, July 21, 1995.

[16] In April 1996, USTR conducted a review of country practices pertaining to IPR under the so-called "special 301" provisions of the Trade Act of 1974, as amended. In that review, USTR placed 26 countries, including Costa Rica, El Salvador, and Guatemala, on the "watch list" of countries to be monitored for progress in implementing commitments with regards to IPR protection and for providing comparable market access for U.S. intellectual property products. In separate observations, USTR drew special attention to the Dominican Republic and Nicaragua as "countries where the lack of adequate and effective protection of intellectual property rights also is a concern." The review reported that concerns about Nicaragua may be resolved through ongoing negotiations for a bilateral IPR agreement. USTR also reported that the United States will monitor developments in Honduras, particularly draft legislation to strengthen Honduran copyright law and new legislation to improve patent and trade laws and better enforcement. USTR, "USTR Announces Two Decisions: Title VII and Special 301," press release, Apr. 30, 1996 and "Fact Sheets: 'Special 301' on Intellectual Property Rights and 1996 Title VII Decisions."

Trade Benefits Under CBERA

CBERA affords preferential rates of duty below the MFN rates[17] to most products of Caribbean Basin countries by reducing the tariff rate to free or, for a small group of products, by establishing tariff rates below the MFN rate.[18] In addition to basic preference eligibility rules, certain conditions apply to CBERA duty-free entries of sugar, beef,[19] and ethyl alcohol.[20] Imports of sugar and beef, like those of some other agricultural products, remain subject to any applicable and generally imposed U.S. quotas and food safety requirements.[21]

While not eligible for duty-free entry, certain handbags, luggage, flat goods (such as wallets and portfolios), work gloves, and leather wearing apparel from CBERA countries are eligible to enter at reduced rates of duty.[22] Not eligible for CBERA preferential duty treatment are most textiles and apparel, certain footwear, canned tuna, petroleum and petroleum

[17] For some products, the MFN tariff rate is free.

[18] General note 3(c) to the HTS summarizes the special tariff treatment for eligible products of designated countries under various U.S. trade programs, including CBERA. General note 7 covers CBERA.

[19] Sugar (including syrups and molasses) and beef (including veal) are eligible for duty-free entry only if the exporting CBERA country submits a "Stable Food Production Plan" to the United States, assuring that its agricultural exports do not interfere with its domestic food supply and its use and ownership of land. 19 U.S.C. 2703(c)(1)(B).

[20] Ethyl alcohol produced from agricultural feedstock grown in a CBERA country is admitted free of duty; however, preferential treatment for 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. 19 U.S.C. 2703(a)(1). 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).

[21] These U.S. measures include the price support program for sugar provided in sec. 22 of the Agricultural Adjustment Act of 1933 (7 U.S.C. 624), quotas on imports of beef under the Meat Import Act of 1979 (19 U.S.C. 1202), and restrictions on beef imports imposed by the U.S. Animal and Plant Health Inspection Service.

[22] Applies to articles that were not designated for GSP duty-free entry as of Aug. 5, 1983. Under CBERA provisions, beginning in 1992, duties on these goods are being reduced by a total of 20 percent in five equal annual stages. 19 U.S.C. 2703(h).

derivatives, and certain watches and watch parts.[23] In the case of apparel, eligible CBERA countries may qualify for liberal import quotas for apparel assembled in that country from fabric formed and cut in the United States.[24]

Qualifying Rules

CBERA provides generally that eligible products must either be wholly grown, produced, or manufactured in a CBERA country or be "new or different" articles from substantially transformed non-CBERA inputs used in their manufacture in order to receive duty-free entry into the United States.[25] The cost or value of the local (that is, CBERA) materials and direct cost of processing in one or more CBERA countries must total at least 35 percent of the appraised customs value of the product at the time of entry. These rules-of-preference provisions allow CBERA countries to pool their resources to meet value content requirements, and also allow inputs from Puerto Rico and the U.S. Virgin Islands to count in full toward the value threshold. Also, the rules let CBERA products meet the 35-percent minimum value content requirement more easily by including goods with a CBERA-content value of 20 percent of the customs value and the remaining 15 percent attributable to U.S.-made (excluding Puerto Rican) materials or components.[26] To encourage production sharing between Puerto Rico and CBERA countries, articles produced in Puerto Rico and "by any means advanced in value or improved in condition" in a CBERA country also are eligible for duty-free entry.[27]

CBERA and GSP

The CBERA beneficiaries except The Bahamas[28] and Nicaragua[29] also are GSP beneficiaries, when GSP is in effect.[30] CBERA and GSP share many similarities, and many products may enter the United States duty-free under either program.[31] However, the two programs differ in several ways that tend to make Caribbean Basin producers prefer using CBERA to GSP. CBERA covers the same 4,300 tariff categories covered by GSP plus an additional 1,700 products. CBERA imports are not subject to GSP

[23] 19 U.S.C. 2703(b). For discussions of products originally excluded from CBERA and subsequent modifications to the list of excluded products, see USITC, *Impact of the Caribbean Basin Economic Recovery Act on U.S. Industries and Consumers: The First Ten Years of CBERA, Ninth Report, 1993*, USITC publication 2813, Sept. 1994, pp. 2-9 and *Caribbean Basin Economic Recovery Act: Impact on U.S. Industries and Consumers, Tenth Report, 1994*, USITC publication No. 2927, Sept. 1994, pp. 3-4.

[24] These apparel quotas are discussed in ch. 2.

[25] Products undergoing the following operations do not qualify: simple combining or packaging operations, dilution with water, or dilution with another substance that does not materially alter the characteristics of the article. 19 U.S.C. 2703(a)(2). Articles, other than textiles and apparel or petroleum and petroleum products, assembled or processed in CBERA countries wholly from U.S. components or materials, also are eligible for duty-free entry pursuant to note 2 to subch. II, ch. 98 of the HTS. Articles produced through operations such as enameling, simple assembly or finishing, and certain repairs or alterations may qualify for CBERA duty-free entry pursuant to changes made in 1990. For a more detailed discussion, see USITC, *Report on the Impact of the Caribbean Basin Economic Recovery Act, Seventh Report, 1991*, p. 1-4.

[26] 19 U.S.C. 2703(a)(1).

[27] Any materials added to such Puerto Rican articles must be of U.S. or CBERA-country origin. The final product must be imported directly into the customs territory of the United States from the CBERA country. 19 U.S.C. 2703(a)(5).

[28] In 1995, The Bahamas was deleted from the list of countries whose products are eligible for GSP benefits. Presidential Proclamation 6767, "To Amend the Generalized System of Preferences," *Federal Register*, vol. 60, No. 25 (Feb. 7, 1995), p. 7425.

[29] Nicaragua is not a designated beneficiary developing country for purposes of the U.S. GSP. General note 4(a) to the HTS.

[30] The U.S. GSP program was originally enacted pursuant to title V of the Trade Act of 1974 (Public Law 93-618, 88 Stat. 2066 and following) and was renewed for an additional 10 years pursuant to title V of the Trade and Tariff Act of 1984 (Public Law 98-573, 98 Stat. 3018 and following), as amended (19 U.S.C. 2461 and following). The GSP program expired at midnight on July 4, 1993, but was retroactively extended until Sept. 30, 1994, as part of the Omnibus Budget Reconciliation Act of 1993 on Aug. 4, 1993; it was again renewed retroactively through July 31, 1995, by the Uruguay Round Agreements Act. The most recent GSP expiration and renewal are discussed in more detail below.

[31] Both programs share the goal of offering increased access to the U.S. market. Like CBERA, GSP requires that eligible imports—(1) be imported directly from beneficiaries into the customs territory of the United States; (2) meet the substantial transformation requirement for any foreign parts or components; and (3) contain a minimum of 35 percent local value-added. The documentation requirements necessary to claim either CBERA or GSP duty-free entry are identical—a Certificate of Origin Form A is to be presented at the time the qualifying products enter the United States with a claim for either tariff preference.

"competitive need" and country income restrictions;[32] indeed, products so restricted under GSP may continue to enter free of duty under CBERA on appropriate request. In addition, CBERA qualifying rules are more liberal than those of GSP.[33]

Although some Caribbean Basin suppliers continued to use GSP because they were more familiar with that program, as documented in this series of reports, imports from CBERA countries entered under GSP provisions have declined since CBERA has been operative.[34] In addition to the many benefits of using CBERA over GSP, suppliers increasingly have come to prefer CBERA to avoid any risk of losing duty-free access to the U.S. market when GSP is not in effect.

[32] Under GSP, products that achieve a specified market penetration in the United States (the "competitive need" limit) may be excluded from GSP eligibility. Countries may lose all GSP privileges if their national income grows to exceed a specified amount. 19 U.S.C. 2464(c)-(f).

[33] GSP requires that 35 percent of the value of the product be added in a single beneficiary or in a specified association of eligible countries. 19 U.S.C. 2463(b)(1)(B). See discussion above for CBERA qualifying rules.

[34] This trend is discussed in more detail in ch. 2.

The U.S. GSP program expired at midnight on July 31, 1995. The program became operative again on October 1, 1996.[35] All imports entered from August 1, 1995 through December 31, 1995 (the end of the period covered by this report) claiming the GSP tariff preference were subject to ordinary MFN duties unless other preferential treatment—such as CBERA—was claimed. Duties paid on articles entered from August 1, 1995 through December 31, 1995 claiming GSP duty-free status will be refunded once the program is again operative.[36] During 1995, however, importers of record could not anticipate the duration of the lapse in the GSP program in 1995 and whether—or when—duties paid for articles denied GSP duty-free entry would be refunded. Thus, during the period of August 1 through December 31, 1995, Caribbean Basin suppliers could be sure only that CBERA preferential tariff provisions were in force.

[35] Legislation renewing the GSP program retroactive to Aug. 1, 1995 was included in the Small Business Job Protection Act of 1996 (H.R. 3448), and signed into law by the President on Aug. 20, 1996.

[36] Refunds apply to qualified articles entered from Aug. 1, 1995 through Sept. 30, 1996—the entire period during which GSP lapsed. Procedures for such refunds were announced in U.S. Customs Service, "Procedures If the Generalized System of Preferences Program Expires," *Federal Register*, vol. 60, No. 128 (July 5, 1995), p. 35103.

CHAPTER 2
U.S. Trade With the Caribbean Basin

This chapter provides an overall description of imports from the 24 designated CBERA beneficiaries (hereafter CBERA countries),[1] though the focus is on those imports which entered under CBERA preferential tariff provisions. The latter were valued at $2.3 billion in 1995, equal to 0.3 percent of total U.S. imports worldwide.[2] Three key trends are highlighted. First, imports under CBERA continue to have a small impact on overall U.S. trade. Second, the average duty on imports from CBERA beneficiaries has increased, due largely to the rapid rise in dutiable imports of apparel from the region. Third, imports entered under CBERA as a share of total imports from the Caribbean Basin region continued to decline in 1995, in contrast to continued expansion of dutiable (mostly apparel) entries under production sharing arrangements.

[1] Those countries are listed in table 2-7.

[2] Based on U.S. worldwide imports of $737.5 billion in 1995. Data compiled from official statistics of the U.S. Department of Commerce.

Two-Way Trade

The United States consistently has had a merchandise trade surplus with the CBERA countries collectively since 1987. In 1995, the surplus amounted to a record high $2.3 billion as U.S. exports to the area increased faster than did U.S. imports from the region (table 2-1). The generally steady rise in U.S. trade with the CBERA countries has mirrored the increase in U.S. trade worldwide.

In 1995, U.S. exports to CBERA countries totaled $14.9 billion, rising by 16.0 percent over the 1994 level. Accounting for 2.7 percent of total U.S. exports in 1995, CBERA countries combined ranked ninth as an export market for the United States, ahead of such markets as Singapore and France, but behind Taiwan and the Netherlands. Total U.S. imports from CBERA countries amounted to $12.6 billion in 1995, up by 12.1 percent over 1994. This was the eighth consecutive year to show an increase. The

Table 2-1
U.S. trade with CBERA countries, 1984-95

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
1988	7,421.8	2.4	6,061.1	1.4	1,360.7
1992	10,901.7	2.6	9,425.6	1.8	1,476.1
1994	12,822.0	2.7	11,200.3	1.7	1,621.7
1995	14,870.3	2.7	12,550.1	1.7	2,320.2

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

Note.—For complete data series prior to 1992, see USITC, *Impact of the Caribbean Basin Economic Recovery Act on U.S. Industries and Consumers: The First Ten Years of CBERA: Ninth Report, 1993*, USITC publication 2813, Sept. 1994.

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

1.7-percent combined share of CBERA countries in total U.S. imports in 1995 established these countries collectively as the 13th-largest U.S. supplier in the year—ahead of Thailand and Hong Kong, but behind France and Italy.

Overview of Total Imports

Product Composition

U.S. imports from CBERA countries traditionally have consisted of agricultural products, raw materials, and their derivatives—namely, petroleum products, sugar cane, coffee, cocoa, bananas, and aluminum ores and concentrates. The deterioration in the terms of trade for these export items and a quest for economic growth prompted CBERA countries to seek diversification in their export profile. The encouragement of such diversification of the Caribbean Basin economies was one of the intended goals of the United States in implementing the CBERA program.

Light manufactures, principally apparel, but also footwear, instruments, and jewelry, 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, traditional agricultural and raw material products continue to play a significant role in the region's economies.

Table 2-2 shows the 35 leading U.S. imports from CBERA countries during 1994-95 on an 8-digit Harmonized Tariff Schedule of the United States (HTS) subheading basis, ranked by their 1995 import value. Many, including the top item—men's or boys' cotton trousers, breeches and shorts—were apparel articles.[3] The traditional Caribbean exports of bananas and coffee were the second- and third-leading items, respectively. Other leading imports included medical, surgical, or dental instruments and appliances (hereafter medical instruments); anhydrous ammonia; shrimps and prawns; footwear uppers other than formed, of leather (hereafter leather footwear uppers), raw sugar not containing added flavoring or color (hereafter raw sugar); jewelry and parts of precious metal except silver (hereafter jewelry of precious metal); aluminum ore, concentrates, and oxide; cigars, cheroots, and cigarillos, each valued 23¢ or over (hereafter higher priced cigars); and methanol.

[3] Apparel imports are discussed in more detail below.

With the exception of petroleum products, the value of imports of nearly all leading items increased in 1995. Despite higher global prices for petroleum during 1995,[4] production declined in Trinidad and Tobago, the largest CBERA petroleum exporter. A strike at Trinidad and Tobago's government-owned refinery during the third quarter of 1995 caused oil production to decline sharply and curtailed oil exploration activities.[5]

Dutiable and Special-Duty Imports

Table 2-3 shows that U.S. tariff revenues from imports from CBERA countries, as indicated by "calculated duties," amounted to $484.7 million in 1995, compared with $429.5 million in 1994 but only $75.3 million in 1984, the first CBERA year. Despite CBERA tariff preferences, the average rate of duty applied to all imports from CBERA countries has increased since CBERA has been operative. The average rate of duty was 12.3 percent *ad valorem* in 1995, compared with 11.5 percent in 1994, but only 1.6 percent in 1984. This series of reports has documented the steady increase in U.S. tariff revenue from CBERA-country imports, and the rise in the average effective rate of duty. These unexpected developments reflect the shift in the product mix of dutiable U.S. imports from those countries. Since CBERA provisions have been in effect, the Caribbean Basin countries have diversified their economies away from lower duty items such as petroleum products towards higher duty goods such as apparel.[6]

Apparel

While generally not eligible for CBERA tariff preferences, apparel constitutes one of the fastest growing categories of imports from the CBERA countries—growing from just 5.5 percent of total U.S. imports from the region in 1984, to 42.9 percent in

[4] Analysis based on commodity price data from United Nations Economic Commission for Latin America and the Caribbean, *Preliminary Overview of the Latin American and Caribbean Economy, 1995*, Dec. 1995, p. 33 and table A.8, p. 54.

[5] *Caribbean Update*, Feb. 1996, p. 20, and *Latin America Monitor: Caribbean*, Feb. 1996, p. 11.

[6] USITC, *Impact of the Caribbean Basin Economic Recovery Act on U.S. Industries and Consumers: The First Ten Years of CBERA, Ninth Report, 1993*, USITC publication 2813, Sept. 1994.

Table 2-2
Leading U.S. imports for consumption from CBERA countries, 1994-95

(1,000 dollars, customs value)

HTS Item	Description	1994	1995
6203.42.40	Men's or boys' trousers, breeches and shorts, not knitted, of cotton	721,338	823,333
0803.00.20	Bananas, fresh or dried	543,023	630,059
0901.11.00	Coffee, not roasted, not decaffeinated	405,154	568,608
6109.10.00	T-shirts, singlets, tank tops and similar garments, of cotton	305,018	459,249
6205.20.20	Men's or boys' shirts, not knitted or crocheted, of cotton	355,513	452,395
6212.10.90[1]	Brassieres, not of lace or silk	291,577	346,610
9801.00.10	U.S. goods returned without having been advanced in value or improved in condition while abroad	314,229	304,656
9018.90.80	Medical, surgical, or dental instruments and appliances	180,972	302,434
2814.10.00	Anhydrous ammonia	218,124	293,301
6110.20.20	Sweaters, pullovers, and vests, knitted or crocheted of cotton	243,491	287,750
6204.62.40	Women's or girls' trousers, breeches and shorts, of cotton	315,317	281,014
2709.00.20	Petroleum oils and oils from bituminous minerals, crude, testing under 25 degrees A.P.I.	384,828	264,236
0306.13.00	Shrimps and prawns, cooked in shell or uncooked, live, fresh, chilled, frozen, dried, or salted in brine	242,259	257,892
2710.00.05	Distillate and residual fuel oils (including blends), testing under 25 degrees API	364,705	247,072
6406.10.65	Footwear uppers, other than formed, of leather	246,557	191,759
1701.11.10	Raw sugar not containing added flavoring or color	([2])	185,460
6108.21.00	Women's or girls' briefs and panties, knitted or crocheted, of cotton	149,593	182,342
2710.00.10	Distillate and residual fuel oils (including blends), testing over 25 degrees API	213,807	173,835
6105.10.00	Men's or boys' shirts, knitted or crocheted, of cotton	92,567	163,845
7113.19.50	Jewelry and parts of precious metal except silver, except necklaces and clasps	146,808	148,478
6203.43.40	Men's or boys' trousers, breeches and shorts, not knitted, synthetic fibers	133,288	140,541
2710.00.25	Naphthas (except motor fuel or motor fuel blending stock)	135,604	130,589
6108.22.90[3]	Women's or girls' briefs and panties of manmade fibers, not disposable	99,669	126,225
2606.00.00	Aluminum ores and concentrates	131,033	119,079
6115.11.00	Panty hose and tights, knitted or crocheted	102,704	119,020
6107.11.00	Men's or boys' underpants and briefs, knitted or crocheted of cotton	70,082	112,957
0306.11.00	Rock lobster and other sea crawfish, cooked in shell, frozen	89,541	108,115
6204.31.20	Women's or girls' suit type jackets and blazers, of wool	75,410	94,283
6104.62.20	Women's or girls' trousers, breeches and shorts, knitted or crocheted, of cotton	74,522	82,858
2818.20.00	Aluminum oxide, except artificial corundum	60,950	78,153
2402.10.80	Cigars, cheroots and cigarillos, each valued 23¢ or over	51,099	76,445
2905.11.20	Methanol (methyl alcohol), except for use in synthetic natural gas or for direct use as fuel	120,976	70,819
2207.10.60	Undenatured ethyl alcohol for nonbeverage purposes	50,789	60,391
7202.60.00	Ferronickel	46,695	60,246
6110.30.30	Sweaters, pullovers, and vests, knitted or crocheted of manmade fibers	51,368	58,337
	Total of items shown	7,028,609	8,002,387
	Total all commodities	11,200,280	12,550,118

[1] Prior to Jan. 1, 1995, reported under HTS items 6212.10.20.10/20/40.
[2] Prior to Jan. 1, 1995, reported under statistical annotations under HTS subheading 1701.11.01.
[3] Prior to Jan. 1, 1995, reported under HTS items 6108.22.00.20/30.

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

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

Table 2-3
U.S. imports for consumption from CBERA countries: Dutiable value, calculated duties, and average duty, 1984 and 1993-95

Item	1984	1993	1994	1995
Dutiable value *(1,000 dollars)*[1]	4,567,416	3,467,856	3,730,777	3,911,365
Dutiable as a share of total imports *(percent)*	52.8	34.4	33.3	31.2
Calculated duties *(1,000 dollars)*[1]	75,293	378,933	429,491	484,650
Average duty *(percent)*[2]	1.6	10.9	11.5	12.3

[1] Dutiable value and calculated duty exclude the U.S. content entering under HTS heading 9802.00.80 and subheading 9802.00.60 and misreported imports. Data based on product eligibility corresponding to each year.
[2] Average duty = (calculated duty/dutiable value) * 100.

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

1995, valued almost at $5.5 billion.[7] Apparel has ranked as the leading category of U.S. imports from the region since 1988.

For years, CBERA countries have competed with Mexico for assembly work from U.S. apparel firms. Production sharing in both CBERA countries and Mexico is highly efficient in assembling high volumes of basic garments. The production-sharing operations in these countries are characterized by standardized runs, low-skilled tasks, few styling changes, and reasonably predictable consumer demand. The principal garments assembled in these operations are trousers and shorts, shirts and blouses, foundation garments, underwear, and coats and jackets (mainly sport coats and blazers).

In the 4 years before the North American Free Trade Agreement (NAFTA) became effective on January 1, 1994, U.S. apparel imports from CBERA countries and Mexico rose at similar rates of 23 to 24 percent a year. However, in 1994, apparel imports from CBERA countries grew by just 13 percent, while imports from Mexico accelerated to 33 percent. In 1995, CBERA-country apparel shipments expanded by 21 percent, but shipments from Mexico rose much faster, by 52 percent.[8] Mexico is now the third-largest, single-country supplier of apparel to the United States, trailing only China and Hong Kong. However, as a group, CBERA countries are the second-largest supplier.

The faster growth of Mexican apparel to the United States compared to those of CBERA countries is generally attributed to the preferential tariffs accorded under NAFTA to Mexican goods. U.S. imports of apparel from Mexico that are assembled from U.S.-formed and cut fabric enter free of duty under NAFTA, but imports of such apparel from CBERA countries are still dutiable on the value added offshore.[9] Responding to CBERA countries' concern about their future access to the U.S. market and the threat of investment being diverted from CBERA countries to Mexico, bills were introduced in the U.S. Congress during 1995 to provide "NAFTA parity" for textiles and apparel, as well as certain other articles presently not eligible for preferential treatment under CBERA.[10] None of these bills has been enacted as of this writing.

[7] In 1986, the United States instituted the Special Access Program (SAP). The SAP program, which is not a part of CBERA, provides for "guaranteed access levels" (GALs)—virtually unlimited access to the U.S. market for qualifying apparel from CBERA countries (i.e., for garments assembled there from fabric "cut and formed" in the United States.) The United States currently has bilateral agreements that provide for GALs as well as regular quotas with Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, and Jamaica. For more information on GALS and on the SAP, see USITC, *Production Sharing: Use of U.S. Components and Materials in Foreign Assembly Operations, 1991-95 (U.S. Imports Under Production Sharing Provisions of Harmonized Tariff Schedule Heading 9802)*, USITC publication 2966, May 1996, pp. 5-1 to 5-3.

[8] See USITC, *Production Sharing: Use of U.S. Components and Materials in Foreign Assembly Operations, 1991-95 (U.S. Imports under Production Sharing Provisions of Harmonized Tariff Schedule Heading 9802)*, USITC publication 2966, May 1996, pp. 5-1 to 5-3.

[9] For every $10.00 in f.o.b. value, a typical CBERA garment entered under HTS heading 9802.00.80 contains $6.40 in duty-free U.S. components and $3.60 in dutiable foreign value-added. Applying the 1995 trade-weighted tariff for apparel of 16.1 percent to the foreign value-added yields a duty of $0.58, or an *ad valorem* equivalent of 5.8 percent.

[10] On January 18, 1995, Representative Philip M. Crane (R-Ill) introduced the Caribbean Basin Trade Security Act (H.R. 553), which would make available NAFTA-like treatment to qualifying textiles and apparel and all other products now exempted from duty-free treatment under CBERA. Senator Bob Graham (D-FL) introduced similar legislation (S. 529) in the Senate on

In late 1995, U.S. industry officials claimed that NAFTA has led to a measurable diversion of apparel trade and investment from CBERA countries to Mexico.[11] The devaluation of the Mexican peso since December 1994 further increased Mexico's competitive edge over Caribbean suppliers by effectively reducing dollar prices of Mexican goods in the U.S. market.[12]

Dutiable Share

Table 2-4 breaks down total U.S. imports from CBERA countries between 1993 and 1995 into their dutiable and duty-free portions. Since 1986, the dutiable share of annual U.S. imports from CBERA countries has been about one-third of the total.[13] At 31.2 percent in 1995, the dutiable share was somewhat lower than in 1994 and 1993. Only 0.3 percent of total U.S. imports from CBERA countries was dutiable under the CBERA staged 20-percent duty reduction for eligible handbags, luggage, flat goods, work gloves, and leather apparel. An increasing component of dutiable imports from CBERA countries is the dutiable portion of imports involving U.S.-Caribbean production sharing shipments under chapter 98 of the HTS.

Such dutiable shipments, predominantly apparel products, amounted to 13.3 percent of all U.S. imports from CBERA countries in 1995.

Duty-Free Imports

As table 2-4 shows, more than two-thirds of total U.S. shipments from CBERA countries enter free of duty. In 1995, these entries were free of duty under one of the following provisions: (1) unconditionally free under MFN or column 1-general tariff rates (24.8 percent of total imports), (2) conditionally free under Generalized System of Preferences (GSP) (2.1 percent), (3) conditionally free under chapter 98 of the HTS, i.e. under production-sharing provisions (23.5 percent), (4) conditionally free under CBERA (17.7 percent), or (5) under other provisions (0.7 percent).

The 2.1-percent GSP share in 1995 was the lowest since CBERA became operative. This share has been declining through the years because products eligible for duty-free entry under either GSP and CBERA increasingly have been entered claiming CBERA treatment for reasons explained in chapter 1. The lapse of the GSP program from August 1 through December 31, 1995 further depressed the share of entries under GSP during 1995.[14]

By contrast, the 23.5-percent share in the total of duty-free U.S. content reentering the customs territory under production-sharing provisions reflected a continued, long-term increase that accelerated in 1995, paralleling the rise in the dutiable portion of imports under production sharing. Another important duty-free category was CBERA itself, which accounted for 17.7 percent of all imports from CBERA countries in 1995 versus just 6.7 percent in the first year of the program.[15]

Imports Under CBERA

U.S. imports afforded duty-free entry under CBERA amounted to $2.2 billion in 1995 (table 2-4).[16] The 17.7-percent share of duty-free CBERA imports in total imports from CBERA countries compares with 18.0 percent in 1994 and a peak of 18.5 percent in 1993. This 2-year decline in the relative significance of CBERA is further indication of the relative increase in importance of trade under production-sharing provisions, particularly for apparel articles that generally are not eligible for CBERA tariff preferences. Imports excluded by statute from CBERA totaled $6.0 billion in 1995.[17]

Table 2-5 shows the leading 20 items entered under CBERA provisions in 1994 and 1995. The

[10]—*Continued*
March 10, 1995. In September 1995, the House Ways and Means Committee decided not to include H.R. 553 in the budget reconciliation bill, mostly because of lost customs revenues the elimination of existing duties would cause the United States. For further discussion of this legislation, see USITC, *CBERA, Tenth Annual Report 1994*, p. 15.

[11] Letter to William V. Roth, Jr., Chairman, Senate Finance Committee, in support of NAFTA parity for CBERA countries, jointly signed by the American Apparel Manufacturers Assoc., American Textile Manufacturers Institute, United States Apparel Industry Council, American Yarn Spinners Assoc., and American Fiber Manufacturers Assoc., Oct. 3, 1995.

[12] USITC, *Production Sharing*, p. 5-3.

[13] USITC, *CBERA, Ninth Report, 1993*, table 1-6, p. 16.

[14] GSP is discussed in greater detail in ch. 1.

[15] See also USITC, *CBERA, Ninth Report, 1993,* p. 18.

[16] Some of these imports also were eligible for GSP and could have entered duty-free under that program. Imports that benefited exclusively under CBERA are discussed in ch. 3.

[17] That statute, discussed in more detail in ch. 1, excludes most textiles and apparel, petroleum and petroleum products, certain footwear, and canned tuna.

Table 2-4
U.S. imports for consumption from CBERA countries, by duty treatment, 1993-95

Item	1993	1994	1995
	1,000 dollars, customs value		
Total imports	10,094,033	11,200,280	12,550,118
Dutiable value[1]	3,467,856	3,730,777	3,911,365
Production sharing[2]	1,108,532	1,347,019	1,671,731
CBERA reduced duty[3]	38,069	31,938	37,385
Other dutiable	2,321,255	2,351,820	2,202,248
Duty-free value[4]	6,626,177	7,469,503	8,638,753
MFN[5]	2,101,160	2,514,726	3,107,980
Production sharing[6]	2,144,210	2,391,420	2,954,177
CBERA[7]	1,865,544	2,018,220	2,224,022
GSP[8]	354,837	375,686	260,110
Other duty free[9]	160,427	169,451	92,464
	Percent of total		
Total imports	100.0	100.0	100.0
Dutiable value[1]	34.4	33.3	31.2
Production sharing[2]	11.0	12.0	13.3
CBERA reduced duty[3]	0.4	0.3	0.3
Other dutiable	23.0	21.0	17.6
Duty-free value[4]	65.6	66.7	68.8
MFN[5]	20.8	22.4	24.8
Production sharing[6]	21.2	21.3	23.5
CBERA[7]	18.5	18.0	17.7
GSP[8]	3.5	3.4	2.1
Other duty free[9]	1.6	1.5	0.7

[1] Dutiable value excludes the U.S. content entering under HTS heading 9802.00.80 and subheading 9802.00.60, and misreported imports.

[2] Value of Caribbean Basin-origin value added, under HTS heading 9802.00.80 and subheading 9802.00.60.

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

[4] Calculated as total imports less dutiable value.

[5] Value of imports which have a col. 1-general duty rate of free.

[6] Value of nondutiable exported and returned U.S.-origin products or components, under HTS heading 9802.00.80 and subheading 9802.00.60.

[7] 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.

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

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

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

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

Table 2-5
Leading U.S. imports eligible under CBERA, 1994-95

HTS subheading	Description	1994 Entries under CBERA[1]	Share of total imports[2]	1995 Entries under CBERA[1]	Share of total imports[2]	Leading source[3]
		1,000 dollars4	*Percent*	*1,000 dollars4*	*Percent*	
6406.10.65	Footwear uppers, other than formed, of leather	219,360	89.0	186,753	97.4	Dominican Republic
7113.19.50	Jewelry and parts of precious metal except silver, except necklaces and clasps	139,224	94.8	142,386	95.9	Dominican Republic
1701.11.10	Raw sugar not containing added flavoring or color	([5])	([5])	127,475	68.7	Dominican Republic
9018.90.80	Medical, surgical, or dental instruments and appliances	92,555	51.1	119,831	39.6	Dominican Republic
2402.10.80	Cigars, cheroots, and cigarillos, each valued 23¢ or over	50,073	98.0	74,815	97.9	Dominican Republic
2207.10.60	Undenatured ethyl alcohol for nonbeverage purposes	47,450	93.4	54,139	89.6	Jamaica
0201.30.50	Fresh or chilled boneless except processed	([6])	([6])	51,598	99.9	Costa Rica
0807.10.20	Cantaloupes, fresh, entered Sept. 16-July 31	43,963	86.1	51,419	95.5	Costa Rica
7213.31.30	Hot-rolled bars and rods in irregular wound coils, iron or nonalloy steel	56,032	100.0	49,773	99.7	Trinidad and Tobago
0202.30.50	Frozen boneless beef, except rocessed	([7])	([7])	45,293	99.0	Costa Rica
8516.31.00	Electrothermic hair dryers	28,939	72.6	42,923	86.3	Costa Rica
2905.11.20	Methanol (methyl alcohol), except for use in synthetic natural gas or for direct use as fuel	54,617	45.1	40,849	57.7	Trinidad and Tobago
8538.90.80	Other parts for use solely with electrical switching apparatus of HTS headings 8535, 8536, or 8537	31,086	86.7	37,201	89.9	Dominican Republic
0804.30.40	Pineapples, fresh or dried, not reduced in size, in crates or other packages	35,885	94.1	35,240	94.3	Costa Rica
0302.69.40	Fresh or chilled fish, including sable, ocean perch, snapper, grouper, and monkfish	34,989	91.6	34,963	95.8	Costa Rica
8536.20.00	Automatic circuit breakers for voltage not exceeding 1,000 V	0	0.0	34,725	90.7	Dominican Republic
8536.50.80	Switches for electrical apparatus for voltage not exceeding 1,000 V, excluding motor starters	23,917	93.5	31,892	91.9	Dominican Republic
0807.10.70	Melons, fresh, entered Dec. 1-May 31	21,123	91.5	25,502	98.9	Costa Rica
4016.93.50	Gaskets, washers, and seals of vulcanized rubber other than hard rubber, except for use in automotive goods of chapter 87	16,211	91.5	24,687	94.9	Costa Rica
9506.69.20	Baseballs and softballs	22,100	95.1	21,886	99.3	Costa Rica
	Total of above items	917,524	77.3	1,223,348	79.6	
	Total, all items entering under CBERA	2,050,158	18.3	2,261,407	18.0	

[1] Value of imports entered under CBERA provisions from all CBERA beneficiaries.
[2] Value of imports entered under CBERA provisions as a percent of total imports of this item from all CBERA beneficiaries. A share of 100.0 percent indicates that all of the imports of an item entered under CBERA provisions. As indicated in the text, a portion of some items may have entered under other provisions.
[3] Indicates leading CBERA source based on total U.S. imports for consumption during 1995.
[4] Customs value.
[5] Prior to Jan. 1, 1995, reported under statistical annotations under HTS subheading 1701.11.01. Imports entered under that subheading eligible under CBERA in 1994 totaled $52.1 million; the Dominican Republic was the leading CBERA source country.
[6] Prior to Jan. 1, 1995, reported under statistical annotations under HTS subheading 0201.30.60.
[7] Prior to Jan. 1, 1995, reported under statistical annotations under HTS subheading 0202.30.60.

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

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

Table 2-6
U.S. imports for consumption: CBERA eligibility and utilization, 1991-95

Item	1991	1992	1993	1994	1995
Eligible duty-free under CBERA (*1,000 dollars*)[1]	2,272,420	2,819,213	3,033,597	3,250,004	3,476,025
Entered duty-free under CBERA (*1,000 dollars*)[2]	1,120,697	1,498,556	1,865,544	2,018,220	2,224,022
CBERA utilization ratio (*percent*)[3]	49.32	53.15	61.49	62.09	63.98

[1] Calculated as total imports from CBERA countries (table 2-4) minus imports not eligible for CBERA duty-free entry minus MFN duty-free imports (table 2-4).

[2] From table 2-4.

[3] Utilization ratio = (duty-free entries/eligible entries) * 100.

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

items are ranked in order of their 1995 import value, and show the principal CBERA supplier of each product in that year.[18] The dominance of miscellaneous manufactured products and nontraditional agricultural items on the list mostly reflects the success of Caribbean nations in diversifying their exports in accordance with the objectives of CBERA. Import values of most items on the list increased in 1995, especially raw sugar,[19] medical instruments,[20] higher priced cigars,[21] ethyl alcohol,[22] electrothermic hair dryers, automatic circuit breakers, switches for electrical apparatus, and gaskets, washers, and seals of vulcanized rubber posted significant gains. Sugar imports under CBERA provisions surged in 1995 from the Dominican Republic, Guatemala, and Belize, because of expanded U.S. quota levels. By contrast, imports of leather footwear uppers, the leading import item under CBERA, declined by 14.9 percent, following years of sharp growth. These imports declined from the Dominican Republic, by far the largest CBERA supplier of footwear uppers, but they increased from Honduras.[23]

The CBERA utilization ratio, calculated as the ratio of duty-free imports entered under CBERA to the CBERA-eligible portion of total imports (i.e., imports not excluded from CBERA benefits or already eligible for MFN duty-free entry), provides an estimate of the extent to which the CBERA provisions have been used. This ratio, which had been increasing steadily, was 64.0 percent in 1995 (table 2-6).

CBERA Imports by Country

In 1995, the Dominican Republic and Costa Rica continued to lead all countries in taking advantage of CBERA, as they have done virtually each year since the program became effective. These two countries combined have been responsible for more than one-half of overall annual U.S. imports under CBERA since 1989;[24] in 1995, they provided 60.7 percent of the total (table 2-7). Guatemala ranked as the third-leading CBERA beneficiary in 1995, as it has each year since 1989.[25] Honduras, fifth both in 1993 and 1994, ranked fourth in 1995, trading places with Trinidad and Tobago, which became fifth. The Bahamas, which had been the fourth-ranking CBERA beneficiary as recently as in 1993, ranked eighth in 1994 and twelfth in 1995, as a result of its sharply declining entries under CBERA.

[18] Total imports from CBERA countries of a number of these products also appear in table 2-2.

[19] For a detailed discussion of imports of raw sugar entered under CBERA provisions and their impact on the U.S. industry, see USITC, *CBERA, Ninth Report, 1993,* pp. 48-49.

[20] For a detailed discussion of imports of miscellaneous medical and surgical instruments and appliances entered under CBERA provisions and their impact on the U.S. industry, see USITC, *CBERA, Ninth Report, 1993,* pp. 49-50.

[21] For a detailed discussion of imports of higher priced cigars entered under CBERA provisions and their impact on the U.S. industry, see USITC, *CBERA, Tenth Report, 1994,* pp. 32-34.

[22] For a detailed discussion of imports of ethyl alcohol entered under CBERA provisions and their impact on the U.S. industry, see USITC, *CBERA, Ninth Report, 1993,* pp. 50-51.

[23] These trends are explained in more detail below. For additional discussion of imports of leather footwear uppers entered under CBERA provisions and their impact on the U.S. industry, see USITC, *CBERA, Ninth Report, 1993*, p. 46.

[24] For data concerning the earlier years of CBERA, see USITC, *CBERA, Ninth Report, 1993,* table 1-14, p. 27.

[25] Ibid.

Table 2-7
U.S. imports for consumption under CBERA provisions, by countries, 1993-95

Rank	Country	1993	1994	1995	1995 share of total
		1,000 dollars, custom value			*Percent*
1	Dominican Republic	657,673	751,028	845,356	37.4
2	Costa Rica	388,251	478,109	527,715	23.3
3	Guatemala	208,262	171,381	168,466	7.4
4	Honduras	127,399	139,838	156,839	6.9
5	Trinidad and Tobago	44,602	142,901	144,247	6.4
6	Jamaica	76,496	69,316	87,330	3.9
7	Nicaragua	74,408	80,554	78,543	3.5
8	El Salvador	26,530	41,126	68,550	3.0
9	Panama	38,524	35,141	39,357	1.7
10	Haiti	33,378	15,770	26,522	1.2
11	Barbados	20,177	21,313	23,043	1.0
12	Bahamas	167,110	45,062	22,855	1.0
13	St. Kitts and Nevis	15,985	17,220	18,776	([1])
14	Guyana	1,246	13,100	17,409	([1])
15	Belize	12,526	13,112	16,676	([1])
16	St. Lucia	4,463	6,077	6,503	([1])
17	Netherlands Antilles	3,490	3,214	4,468	([1])
18	St. Vincent and the Grenadines	233	1,299	2,527	([1])
19	Dominica	1,293	2,112	2,201	([1])
20	Antigua	1,110	809	1,683	([1])
21	Montserrat	271	886	1,488	([1])
22	Grenada	144	768	724	([1])
23	Aruba	21	12	114	([1])
24	British Virgin Islands	17	11	12	([1])
	Total	1,903,613	2,050,158	2,261,407	100.0

[1] Less than 1.0 percent.

Note.—Figures may not add to the totals given due to rounding.
Source: Compiled from official statistics of the U.S. Department of Commerce.

CBERA entries from the Dominican Republic increased by 12.6 percent to $845.4 million in 1995, despite that country's declining shipments to the United States of leather footwear uppers, the leading item entered under CBERA, and despite virtually no increase in the value shipped of jewelry of precious metal, the third-leading item. Instead of leather footwear uppers, which are CBERA-eligible, the Dominican Republic apparently shipped higher value-added finished footwear.[26] The rising value of CBERA entries from the Dominican Republic was also accounted for in large measure by higher CBERA import values of medical instruments, higher priced cigars, automatic circuit breakers, electrical switches, and raw sugar, imports of which surged in 1995 following a decline in 1994. Table 2-8 lists the leading U.S. imports entered under CBERA from each of the beneficiaries in 1995.[27]

[26] Section 222 of the Caribbean Basin Economic Recovery Expansion Act of 1990 authorizes duty-free entry to finished footwear assembled in a CBERA country entirely of U.S.-made components. For additional information, see USITC, *CBERA, Ninth Report, 1993*, p. 7.

[27] For comparable 1994 data, see USITC, *CBERA, Tenth Report, 1994*, table 2-11, pp. 20-25.

CBERA entries from Costa Rica were up by 10.4 percent in 1995, amounting to $527.7 million. Jewelry of precious metal remains the leading import item. Electrothermic hair dryers overtook frozen beef as the second-leading item, with imports surging in 1995. Pineapples and medical instruments also were top items from Costa Rica.[28]

Entries under CBERA from Guatemala amounted to $168.5 million, dropping 1.7 percent in 1995—a second-consecutive year of decline. CBERA imports from Honduras, at $156.8 million, were up 12.2 percent. Imports of beef, which was the leading CBERA item from Honduras in 1994, fell sharply in 1995, because Honduras had fewer animals to slaughter and also because low beef prices in the Miami, Florida area—generally the principal market for Honduran beef—reduced the incentive to export.[29] However, the decline in beef imports was more than

[28] For a detailed discussion of CBERA imports of pineapple and their impact on the U.S. industry, see USITC, *CBERA, Tenth Report, 1994,* p. 35.

[29] As reported by the U.S. Department of Agriculture, *Agricultural Situation Annual—Costa Rica* (Agr. No. CS5018), Sept. 3, 1995, p. 8, and *Agricultural Situation Annual Report* (Agr. No. HO5025), Sept. 29, 1995, p. 10.

offset by sharply higher imports of several other CBERA items shipped from Honduras, including higher priced cigars, certain CBERA-eligible apparel, wooden furniture, and sacks and bags. Cantaloupes and leather footwear uppers also were major entries under CBERA shipped from Honduras in 1995.

CBERA entries from Trinidad and Tobago, which tripled in 1994, continued to edge higher in 1995, to $144.2 million. Shipments of bars and rods of iron or nonalloy steel accounted for close to one-half of all CBERA entries from that country. Methanol (methyl alcohol), the second-leading item, accounted for 28.3 percent.

U.S. imports under CBERA from some lower-ranking beneficiaries were up considerably in 1995, including Jamaica (26.0 percent), El Salvador (66.7 percent), and Haiti (68.2 percent). In the case of Jamaica, rising imports under CBERA of ethyl alcohol, higher priced cigars, yams, and malt beer were responsible. Raw sugar accounted in large measure for higher 1995 CBERA imports from El Salvador. Haiti stepped up shipments under CBERA of guavas and mangoes, the leading CBERA items from that country. The year 1995 was the first full year following the October 1994 revocation of the embargo that the United States imposed on trade with Haiti in October 1991. While imports under CBERA from Haiti rebounded in 1995 compared with 1994, they have hardly exceeded half their value already attained in 1991 (table 2-7).

The sharp decline of CBERA entries from The Bahamas both in 1994 and 1995 was caused by declining shipments of aromatic drugs. The producer reportedly decided to shift operations to Mexico and eventually close down the Caribbean facility.[30]

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[30] For a detailed discussion of imports of certain aromatic drugs entered under CBERA provisions and their impact on the U.S. industry, see USITC, *CBERA, Ninth Report, 1993,* pp. 46-47.

Table 2-8
Leading U.S. imports for consumption entering under CBERA provisions, by countries, 1995

Country	HTS No.	Description	Entries under CBERA	Share of country's CBERA entries
			1,000 dollars	*Percent*
Antigua	9114.90.30	Assemblies and subassemblies for clock movements	1,076	63.9
	0302.69.40	Fresh or chilled fish, including sable, ocean perch, snapper, grouper, and monkfish	324	19.2
	8534.00.00	Printed circuits, without elements	264	15.7
		Total of above items	1,665	98.9
Aruba	7113.19.50	Jewelry and parts of precious metal except silver, except necklaces and clasps	80	69.7
	4818.40.40	Sanitary napkins and tampons, diapers and diaper linings	23	20.2
	3304.99.00	Beauty or make-up preparations	5	4.3
		Total of above items	108	94.3
Bahamas	3812.30.60	Antioxidizing preparations and other compound stabilizers from rubber or plastic	10,619	46.4
	2918.90.30	Aromatic drugs derived from carboxylic acids	5,032	22.0
	2922.19.95	Amino alcohols, their ethers and esters	2,496	10.9
	0805.40.80	Grapefruit, fresh or dried, entered Nov. 1-July 31	1,094	4.7
		Total of above items	19,241	84.2
Barbados	8533.31.00	Wirewound variable resistors including rheostats for power handling capacity not exceeding 20 W	11,141	48.3
	9032.89.60	Automatic regulating or controlling instruments	4,241	18.4
	9030.90.85	Instruments for measuring or checking electrical quantities	1,402	6.0
	2208.40.00	Rum and tafia	1,287	5.5
	6306.31.00	Sails for boats, sailboards or landcraft	1,118	4.8
		Total of above items	19,189	83.3
Belize	2009.11.00	Frozen concentrated orange juice	8,389	50.3
	1701.11.10	Raw sugar not containing added flavoring or color	5,733	34.3
	0303.77.00	Sea bass, frozen, excluding fillets	521	3.1
		Total of above items	14,644	87.8
British Virgin Islands	6912.00.44	Ceramic mugs and steins	2	14.9
	7309.00.00	Reservoirs, tanks, vats and similar containers for any material	2	13.2
	3926.40.00	Statuettes and other ornamental articles, of plastic	2	12.6
	8524.23.10	Pre-recorded video tapes of a width exceeding 6.5 mm	2	12.5
	8524.90.40	Records, tapes and other recorded media	2	12.5
	3303.00.20	Perfumes and toilet waters, other than floral	1	11.6
		Total of above items	9	77.6
Costa Rica	7113.19.50	Jewelry and parts of precious metal except silver, except necklaces and clasps	48,799	9.2
	8516.31.00	Electrothermic hair dryers	42,923	8.1
	0804.30.40	Pineapples, fresh or dried, not reduced in size, in crates or other packages	26,960	5.1
	9018.90.80	Medical, surgical, or dental instruments and appliances	25,716	4.8

See notes at end of table.

Table 2-8—*Continued*
Leading U.S. imports for consumption entering under CBERA provisions, by countries, 1995

Country	HTS No.	Description	Entries under CBERA	Share of country's CBERA entries
			1,000 dollars	*Percent*
Costa Rica (continued)	4016.93.50	Nonautomotive gaskets, washers, and seals of vulcanized rubber	24,685	4.6
	0201.30.50	Fresh or chilled boneless beef except processed	22,345	4.2
	0807.10.20	Cantaloupes, fresh, entered Sept. 16-July 31	20,397	3.8
	0202.30.50	Frozen boneless beef except processed	19,976	3.7
	8533.40.80	Other variable resistors	13,744	2.6
	9506.69.20	Baseballs and softballs	12,766	2.4
	2207.10.60	Undenatured ethyl alcohol for nonbeverage purposes	12,570	2.3
	0807.10.70	Melons, fresh, entered Dec. 1-May 31	11,967	2.2
	0302.69.40	Fresh or chilled fish, including sable, ocean perch, snapper, grouper, and monkfish	11,944	2.2
	0714.10.00	Cassava (manioc), fresh or dried	10,794	2.0
	9018.39.00	Other medical, surgical, or dental instruments and appliances	9,971	1.8
	0714.90.10	Fresh dasheens, whether or not sliced	9,153	1.7
	0603.10.80	Cut flowers and flower buds suitable for bouquets	8,253	1.5
	0709.90.10	Chayote, fresh or chilled	7,295	1.3
	2009.11.00	Frozen concentrated orange juice	6,984	1.3
	0714.90.20	Fresh yams, whether or not sliced	6,844	1.3
	8536.50.80	Switches for electrical apparatus for voltage not exceeding 1,000 V, excluding motor starters	6,464	1.2
	0602.10.00	Unrooted cuttings and slips of live plants	6,366	1.2
	8505.19.00	Permanent magnets, not of metal	6,306	1.1
	3926.90.98	Articles of plastics of heading 3901, 3904 not elsewhere specified	6,075	1.1
	9403.70.40	Furniture of reinforced or laminated plastics	5,892	1.1
	4418.20.80	Wooden doors and their frames and thresholds, except French doors	5,798	1.1
	9113.10.00	Watch straps, watch bands and watch bracelets	5,450	1.0
		Total of above items	396,436	75.1
Dominica	3401.11.50	Soap for toilet use, except Castile soap	1,580	71.8
	8536.50.80	Switches for electrical apparatus for voltage not exceeding 1,000 V, excluding motor starters	151	6.8
	0709.60.40	Fruits of the genus capsicum (peppers)	94	4.2
		Total of above items	1,825	82.9
Dominican Republic	6406.10.65	Footwear uppers, other than formed, of leather	171,908	20.3
	9018.90.80	Medical, surgical, or dental instruments and appliances	93,914	11.1
	7113.19.50	Jewelry and parts of precious metal except silver, except necklaces and clasps	90.668	10.7
	1701.11.10	Raw sugar not containing added flavoring or color	56,977	6.7
	2402.10.80	Cigars, cheroots, and cigarillos, each valued 23¢ or over	49,818	5.8
	8538.90.80	Other parts for use solely with electrical switching apparatus of HTS headings 8353, 8536, or 8537	36,209	4.2
	8536.20.00	Automatic circuit breakers	34,715	4.1
	3924.90.55	Household articles not elsewhere specified, of plastic	16,679	1.9
	8531.90.80	Parts for electric sound or visual signaling apparatus	14,114	1.6
	8536.50.80	Electrical apparatus for switching or protecting circuits	13,866	1.6
	4202.12.80[1]	Trunks, suitcases, and briefcases with outer surface of other textile material	12,336	1.4
	8305.20.00	Staples in strips	11,988	1.4
	9615.90.60	Hair accessories not elsewhere specified	10,718	1.2
	1703.10.50	Raw molasses	8,959	1.0
	2106.90.99	Food preparations not elsewhere specified	8,804	1.0

See notes at end of table.

Table 2-8—*Continued*
Leading U.S. imports for consumption entering under CBERA provisions, by countries, 1995

Country	HTS No.	Description	Entries under CBERA	Share of country's CBERA entries
			1,000 dollars	*Percent*
Dominican Republic (continued)	6210.10.20	Garments not knitted or crocheted	8,686	1.0
		Total of above items	640,360	75.7
El Salvador	1701.11.10	Raw sugar not containing added flavoring or color	15,462	22.5
	2207.10.60	Undenatured ethyl alcohol for nonbeverage purposes	9,102	13.2
	8532.24.00	Ceramic dielectric fixed capacitors, multilayer	7,351	10.7
	1701.11.20	Raw sugar not containing added flavoring or color to be used in the production of polyhydric alcohols except distillation	6,751	9.8
	4819.40.00	Sacks and bags not elsewhere specified, of paper	3,296	4.8
	7615.10.70	Aluminum cooking and kitchenware, not enameled	1,833	2.6
	6203.39.90	Men's or boys' suit-type jackets and blazers	1,654	2.4
	4420.90.80	Wood marquetry and inlaid wood	1,620	2.4
	6204.69.90	Women's or girls' trousers, bib and brace overalls	1,618	2.4
	0807.10.70	Melons, fresh, entered Dec. 1-May 31	1,595	2.3
	6211.49.90	Women's or girls' garments, not elsewhere specified	1,303	1.9
		Total of above items	51,589	75.3
Grenada	3926.90.98	Articles of plastics of heading 3901, 3904 not elsewhere specified	292	40.3
	9018.90.80	Medical, surgical, or dental instruments and appliances	187	25.7
	0809.40.40	Plums, prunes and sloes, fresh	84	11.5
		Total of above items	563	77.7
Guatemala	1701.11.10	Raw sugar not containing added flavoring or color	20,529	12.1
	0710.80.97	Frozen vegetables (asparagus, broccoli, and other), reduced in size	17,576	10.4
	0807.10.20	Cantaloupes, fresh, entered Sept. 16-July 31	11,735	6.9
	2924.29.47	Aromatic pesticides of cyclic amides, not elsewhere specified	6,880	4.0
	0603.10.60	Roses, fresh cut	6,614	3.9
	6910.10.00	Ceramic sanitary fixtures, of porcelain or china	5,937	3.5
	4203.30.00	Belts and bandoliers with or without buckles, of leather	5,421	3.2
	0201.30.50	Fresh or chilled boneless beef, except processed	5,404	3.2
	0708.10.40	Peas, fresh or chilled, shelled or unshelled	5,177	3.0
	3808.30.15	Herbicides, antisprouting products, and plant growth regulators	4,737	2.8
	1209.30.00	Seeds of herbaceous plants	4,533	2.6
	0807.10.70	Melons, fresh, entered Dec. 1-May 31	3,915	2.3
	0710.21.40	Peas, uncooked, cooked by steaming, boiling in water	3,896	2.3
	0802.90.90	Nuts, shelled, not elsewhere specified	3,386	2.0
	0710.80.93	Okra, reduced in size	3,281	1.9
	0202.30.50	Meat of bovine animals frozen, boneless	2,865	1.7
	2921.43.15	Trifluralin	2,765	1.6
	1704.10.00	Chewing gum, not containing cocoa	2,365	1.4
	3923.21.00	Sacks and bags, including cones	2,364	1.4
	3401.11.50	Soap for toilet use, except Castile soap	2,245	1.3
	1703.10.50	Raw molasses	2,146	1.2
	0602.10.00	Unrooted cuttings and slips of live plants	1,889	1.1
	0710.80.70	Other frozen vegetables not reduced in size	1,851	1.1
		Total of above items	127,508	75.7
Guyana	4412.12.20	Plywood of wood sheets of nonconiferous wood	6,857	39.4
	4412.11.20	Plywood of wood sheets of tropical wood	3,874	22.3
	1701.11.10	Raw sugar not containing added flavoring or color	2,589	14.8
		Total of above items	13,320	76.5

See notes at end of table.

Table 2-8—*Continued*
Leading U.S. imports for consumption entering under CBERA provisions, by countries, 1995

Country	HTS No.	Description	Entries under CBERA	Share of country's CBERA entries
			1,000 dollars	*Percent*
Haiti	0804.50.40	Guavas, mangoes, and mangosteens, fresh, entered Sept. 1-May 31	4,592	17.3
	0804.50.60	Guavas, mangoes, and mangosteens, fresh, entered June 1-Aug. 31	2,356	8.8
	9506.69.20	Baseballs and softballs	2,172	8.1
	6116.10.44[1]	Gloves, mittens and mitts, except for ski and snowmobile	2,072	7.8
	6210.10.50	Nonwoven disposable apparel designed for hospital use	1,742	6.5
	7326.90.85	Articles of iron or steel not elsewhere specified	1,385	5.2
	8544.51.80	Insulated electric conductors not elsewhere specified	1,336	5.0
	4106.19.20	Goat or kidskin leather, wet blues	1,138	4.2
	8504.90.90	Parts for electric transformers not elsewhere specified	616	2.3
	4104.31.50	Upper and sole leather of bovine except buffalo	613	2.3
	8504.50.00	Inductors not elsewhere specified	525	1.9
	6116.10.13	Gloves, mittens and mitts of vegetable fibers	463	1.7
	6307.90.99	Made up articles, including national flags and towels	437	1.6
	9507.90.80	Fishing reels and parts and accessories not elsewhere specified	381	1.4
	8007.00.10	Articles of tin for household, table or kitchen use	380	1.4
		Total of above items	20,208	76.2
Honduras	2402.10.80	Cigars, cheroots, and cigarillos, each valued 23¢ or over	16,623	10.6
	6210.10.50	Nonwoven disposable apparel designed for hospital use	13,877	8.8
	0807.10.20	Cantaloupes, fresh, entered Sept. 16-July 31	13,201	8.4
	6406.10.65	Footwear uppers, other than formed, of leather	11,537	7.3
	0804.30.40	Pineapples, fresh or dried, not reduced in size, in crates or packages	7,131	4.5
	0201.30.50	Fresh or chilled boneless beef, except processed	6,577	4.1
	3923.21.00	Sacks and bags, including cones	6,516	4.1
	9403.60.80	Wooden (except bent-wood) furniture other than seats	6,467	4.1
	9506.69.20	Baseballs and softballs	6,035	3.8
	9603.90.80	Brooms and brushes including whiskbrooms and push brooms	5,256	3.3
	8544.30.00	Insulated ignition wiring sets and other wiring sets	5,040	3.2
	0202.30.30	Frozen boneless beef	4,086	2.6
	9403.50.90	Wooden furniture other than seats	4,065	2.5
	0807.10.70	Melons, fresh, entered Dec. 1-May 31	3,544	2.2
	1701.11.10	Raw sugar not containing added flavoring or color	3,003	1.9
	2009.11.00	Frozen concentrated orange juice	2,818	1.8
	2402.10.60	Cigars, cheroots and cigarillos, each valued 23¢ or over	2,722	1.7
		Total of above items	118,497	75.5
Jamaica	2207.10.60	Undenatured ethyl alcohol for nonbeverage purposes	32,467	37.1
	2402.10.80	Cigars, cheroots, and cigarillos, each valued 23¢ or over	7,561	8.6
	0714.90.20	Fresh yams, whether or not sliced	7,437	8.5
	2208.40.00	Rum and tafia	5,961	6.8
	2203.00.00	Beer made from malt	4,295	4.9
	2208.90.45	Cordials, liqueurs, kirschwasser and ratafia	3,999	4.5
	8536.90.00	Electrical apparatus not elsewhere specified, for switching	2,696	3.0
	0807.20.00	Papayas (papaws), fresh	2,459	2.8
		Total of above items	66,875	76.6

See notes at end of table.

Table 2-8—*Continued*
Leading U.S. imports for consumption entering under CBERA provisions, by countries, 1995

Country	HTS No.	Description	Entries under CBERA	Share of country's CBERA entries
Montserrat	8538.90.80	Terminals, electrical splices and couplings	852	57.3
	8535.90.80	Other parts for use solely with electrical switching apparatus of HTS headings 8535, 8536, or 8537	628	42.2
		Total of above items	1,481	99.5
Netherlands Antilles	4818.10.00	Toilet paper	919	20.6
	3507.90.70	Enzymes; prepared enzymes not elsewhere specified, excluding rennet	649	14.5
	8544.60.20	Electric conductors for voltage exceeding 1,000 V, fitted with connectors	580	13.0
	8504.31.40	Electrical transformers not elsewhere specified	552	12.3
	8524.21.30	Pre-recorded magnetic tapes, of certain width	428	9.6
	3303.00.30	Perfumes and toilet waters, containing alcohol	272	6.1
		Total of above items	3,399	76.1
Nicaragua	0202.30.50	Frozen boneless beef, except processed	16,859	21.5
	0201.30.50	Fresh or chilled boneless beef, except processed	16,183	20.6
	1701.11.10	Raw sugar not containing added flavoring or color	15,284	19.5
	7113.19.10	Rope, curb, cable, and chain in continuous lengths, of precious metal except silver	8,197	10.4
	0202.30.30	Frozen boneless beef	4,097	5.2
	1703.10.50	Raw molasses	3,311	4.2
	0302.69.40	Fresh or chilled fish, including sable, ocean perch, snapper, grouper, and monkfish	3,170	4.0
		Total of above items	67,100	85.4
Panama	0302.69.40	Fish, fresh, not elsewhere specified	12,394	31.5
	2402.20.80	Cigarettes containing tobacco, paper wrapped	4,106	10.4
	0807.10.70	Melons, fresh, if entered Dec. 1-May 31	3,909	9.9
	2924.29.62	Cyclic amides; drugs including acetaminophen	2,335	5.9
	9603.90.80	Brooms and brushes including whiskbrooms and push brooms	2,060	5.2
	4823.60.00	Trays, dishes, plates, cups and the like of paper	1,870	4.8
	1701.11.10	Raw sugar not containing added flavoring or color	1,700	4.3
	4107.29.30	Reptile leather, excluding leather of heading 4108	1,376	3.5
		Total of above items	29,750	75.5
St. Kitts and Nevis	8536.50.80	Assemblies and subassemblies for clock movements	10,400	55.4
	8503.00.95	Parts for use principally with machines of heading 8501 and 8502	1,576	8.3
	8529.90.39	Printed circuits, without elements	1,064	5.7
	8503.00.35	Parts for motors under 18.65 W	944	5.0
	8504.90.90	Electric transformers, static converters, and inductors	897	4.8
		Total of above items	14,880	79.2
St. Lucia	8525.10.20	Transmission apparatus for television	1,966	30.2
	8533.21.00	Electrical fixed resistors	1,715	26.4
	8532.29.00	Fixed electrical capacitors, not elsewhere specified	980	15.0
	8533.40.80	Other variable resistors	483	7.4
		Total of above items	5,145	79.1

See notes at end of table.

Table 2-8—*Continued*
Leading U.S. imports for consumption entering under CBERA provisions, by countries, 1995

Country	HTS No.	Description	Entries under CBERA	Share of country's CBERA entries
St. Vincent and the Grenadines	7113.19.50	Jewelry and parts of precious metal except silver, except necklaces and clasps	2,462	97.5
		Total of above items	2,462	97.5
Trinidad and Tobago	7213.31.30	Hot-rolled bars and rods in irregular wound coils, iron or nonalloy steel	49,773	34.5
	2905.11.20	Methanol (methyl alcohol), except for use in synthetic natural gas or for direct use as fuel	40,849	28.3
	7213.31.60	Bars and rods of iron or nonalloy steel by weight less than 0.25 percent of carbon	8,514	5.9
	7213.41.30	Bars and rods of iron or nonalloy steel by weight more than 0.25 percent but less than 0.6 percent of carbon	7,506	5.2
	0302.69.40	Fresh or chilled fish, including sable, ocean perch, snapper, grouper, and monkfish	4,480	3.1
		Total of above items	111,123	77.0

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

Note.—For each country, leading items are listed to total at least 75 percent of total entries under CBERA provisions from that country.

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

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

CHAPTER 3
Impact of CBERA on the United States and Probable Future Effects

This chapter examines the impact of CBERA on the U.S. economy and estimates the probable future effects of CBERA. Estimates are presented of the maximum potential effects of CBERA on U.S. consumers, industries, and tariff revenues. The leading import commodities that benefited exclusively from CBERA in 1995 are identified, and the duty reductions are analyzed. The maximum potential welfare effects of CBERA on the U.S. economy are estimated based on changes in consumer surplus and the tariff revenue collected by the Government. The impact of CBERA on particular U.S. industries is determined by measuring the maximum amount of domestic production potentially displaced by imports benefiting from CBERA.

As the analysis described below indicates, based on "upper bound" (i.e., maximum potential effects) estimates, the U.S. industries most likely to be affected by CBERA in 1995 were those producing the following products:[1] wirewound variable resistors (HTS subheading 8533.31.00); frozen vegetables (asparagus, broccoli, and others), reduced in size (hereafter frozen vegetables) (HTS subheading 0710.80.97); undenatured ethyl alcohol for nonbeverage purposes (hereafter ethyl alcohol) (HTS subheading 2207.10.60); pineapples, fresh or dried, not reduced in size (hereafter pineapples) (HTS subheading 0804.30.40); and cigars, cheroots, and cigarillos, each valued 23¢ or over (hereafter higher priced cigars) (HTS subheading 2402.10.80). However, the magnitude of the impact of CBERA, whether measured in terms of welfare changes or by the share of U.S. production potentially displaced, was relatively small for nearly all of the products formally examined. This is not an unexpected result since, as indicated in chapter 2, total U.S. imports from the CBERA countries continue to represent a small portion (1.7 percent in 1995) of total U.S. imports. Articles entered under CBERA tariff preferences, valued at $2.3 billion in 1995, make up just 18 percent of total imports from the CBERA countries (table 3-1).

[1] Unless otherwise stated, the word "product" used for analyzing welfare and displacement effects in this section means a group of products classifiable under an 8-digit HTS subheading.

Products That Benefited Exclusively From CBERA in 1995

This chapter analyzes only those imports that benefited exclusively from CBERA in 1995. These imports are defined as those products that are eligible for CBERA tariff preferences only, and are not eligible under any other U.S. preference program such as GSP (except as described below). Moreover, also included in this category are products for which the exporting country has lost its GSP eligibility—such as imports that exceeded GSP competitive need limits and thus were eligible for duty-free entry only under CBERA or imports from countries designated for CBERA benefits but not designated for GSP.[2]

[2] For example, footwear uppers, other than formed, of leather (HTS subheading 6406.10.65); medical, surgical, or dental instruments and appliances (HTS subheading 9018.90.80); and cigars, cheroots, and cigarillos, each valued 23¢ and over (higher priced cigars) (HTS subheading 2402.10.80) all qualify as GSP-eligible items and normally would be excluded from the analysis in this chapter. However, imports of these 3 classes of goods from the Dominican Republic exceeded the GSP competitive-need limits and therefore were not eligible for GSP duty-free tariff treatment pursuant to general note 4(d) to the HTS; thus, such imports from the Dominican Republic are included in the analysis. In addition, Nicaragua, a supplier of higher priced cigars, was not a designated GSP beneficiary in 1995.

Table 3-1
Imports from Caribbean Basin countries, total imports from CBERA beneficiaries, imports entered under CBERA provisions, and imports that benefited exclusively from CBERA provisions, 1993-95

Item	1993	1994	1995
Total imports from CBERA beneficiaries:			
Value *(million dollars[1])*	10,094	11,200	12,550
Imports entered under CBERA provisions:[2]			
Value *(million dollars[1])*	1,904	2,050	2,261
Percent of total	18.9	18.3	18.0
Imports that benefited exclusively from CBERA provisions:[3]			
Value *(million dollars[1])*	1,016	943	1,405
Percent of total	10.1	8.4	11.2

[1] Customs value.
[2] Includes articles entered duty-free under CBERA provisions and under the CBERA staged 20-percent reduced-duty provisions (table 2-4). Those provisions are discussed in ch. 1.
[3] As defined in text below.
Source: Estimated by the staff of the U.S. International Trade Commission from official statistics of the U.S. Department of Commerce.

As discussed earlier, the U.S. GSP program was not operative from August 1 through December 31, 1995.[3] Consequently, articles eligible for GSP duty-free entry were subject to ordinary MFN duties during this period unless another valid preferential tariff benefit, such as CBERA, was claimed and accorded. The analysis used in this report implicitly assumes that importers did not expect the GSP program to be reinstated or for the duties to be refunded and, therefore, that products otherwise eligible for GSP during this period entered the United States under CBERA. Hence, the effects of duty-free entry of these otherwise GSP-eligible products are attributed to CBERA for the period of August 1 through December 31, 1995. This results in the estimated effects of CBERA being greater than they would be[4] had the GSP program been operative during that period.[5] This inclusion of otherwise GSP-eligible products in the CBERA program during the period of August 1 through December 31, 1995, contributed to a significant increase in imports that benefited exclusively from CBERA in 1995—helping to push up the import value of products that benefited exclusively from CBERA by 49 percent, from $943 million in 1994 to $1.4 billion in 1995 (table 3-1).[6]

[3] The GSP program is discussed in more detail in ch. 1.

[4] The size of the overstatement depends on the extent to which importers *expected* the GSP program to be reinstated and duties paid to be refunded. Because the duration of the lapse of the GSP program was uncertain, importers were unlikely to accurately predict when these events would occur. Therefore, any attempt to estimate the magnitude of the overstatement in this analysis due to the lapse in GSP would require knowledge of the expectations of importers. An appropriate estimate would include survey responses pertaining to the expectation by importers *prior* to the reinstatement of the GSP program and allowance of a refund; currently, such a survey is impossible.

The alternative approach would have excluded from this analysis items that were eligible for GSP that entered from Aug. 1 through Dec. 31. However, that approach implicitly assumes that the importers of record fully expected the refund of duties, and knew beforehand the duration of the GSP lapse—thus leading to an understatement of the effects of CBERA. The staff used the approach that overstates the estimates, in line with the approach to analysis in this chapter, which seeks to obtain the maximum potential effects of the CBERA on the U.S. economy.

[5] Based on a USITC staff analysis of CBERA and GSP eligibility status of imports from the CBERA countries entered under either program during 1995. This analysis determined the goods listed in the lower portion of tables 3-2, 3-3, and 3-4.

[6] Because of the above assumptions about GSP, the findings derived from the analysis in this report are not strictly comparable to the findings from previous reports in this series, despite the similar analytical approach used.

Welfare and Displacement Effects of CBERA on U.S. Industries and Consumers in 1995[7]

Analytical Approach

A computable partial equilibrium model was used to estimate the welfare effects of CBERA on the U.S. economy.[8] The analysis[9] includes three different markets—namely, the markets for CBERA imports, competing U.S. domestic products, and competing imports from non-CBERA countries. CBERA tariff preferences lead to a decrease in the price of affected imports from CBERA countries, an increase in the volume of affected imports from these countries, and a decrease in demand for substitute products produced both in the United States and in non-CBERA countries.

The maximum potential impact of CBERA on U.S. consumers and industries is measured by examining the welfare effects of a duty reduction[10] in the market for CBERA imports and the potential displacement of production in the competing domestic market. Net welfare effects are measured by adding two components: (1) the gain in consumer surplus and (2) the decrease in tariff revenues collected by the Government.[11] The maximum potential displacement domestic production is determined based on the change in demand for competing domestic products.[12]

Two assumptions have been made that tend to produce "upper bound," or maximum potential, estimates of the welfare and potential displacement effects. The first assumption is that the substitutability between CBERA products and competing U.S. products is high. This is reflected in the use of high elasticities of substitution (that is, equal to 5) in the analysis. The second assumption is that production in each market faces no capacity constraints over the relevant range, that is, that the supply curves in all of the markets are perfectly elastic (horizontal). The purpose of employing these assumptions is to ensure that the items that could be most affected by CBERA are included in measuring the welfare and displacement effects. Appendix B presents a more detailed explanation of the model and accompanying assumptions.

The analysis is conducted on the 25 leading items that benefited exclusively from CBERA in 1995. Using the above-mentioned assumptions, estimates of welfare and potential U.S. industry displacement effects are made.

Items Analyzed

Although a large number of products are eligible for duty-free entry or the staged 20-percent reduced duty under CBERA provisions, a relatively small group of products accounts for most of the imports that benefit exclusively from CBERA. Table 3-2

[7] Summaries of comments by U.S. industries and others on the effects of CBERA appear in Appendix A.

[8] See appendix B for a description of this methodology.

[9] The views of Commissioners Bragg and Newquist on economic modeling are summarized in footnote 6 of ch. 1.

[10] Although the term "duty reduction" is used, the methodology employed in the analysis for this report applies equally to a duty elimination (which is a duty reduction in the full amount of the duty). The method is described in more detail in appendix B.

[11] Typically, net welfare effects are measured by adding three components: (1) the gain in consumer surplus, (2) the decrease in tariff revenues collected by the Government, and (3) the loss in producer surplus. Welfare effects include changes in consumer surplus and producer surplus that result from price changes. Conceptually, 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." Producer surplus is conceptually defined as the return to entrepreneurs and owners of capital over and above what they would have earned in their next-best opportunities. So the change in consumer surplus as a result of a price change measures

[11]—Continued

the total net gain (loss) to U.S. consumers from lower (higher) prices. Likewise, the change in producer surplus as a result of a price change measures the total net loss (gain) to competing domestic producers from lower (higher) prices. See Walter Nicholson, *Microeconomic Theory: Basic Principles and Extensions* (New York: The Dryden Press, 1989), for additional information. To produce maximum potential welfare and displacement estimates, the analysis used in this report does not consider changes in producer surplus because it assumes that the production in each market faces no constraints in meeting demand over the relevant range—that is, the supply of U.S. domestic production is assumed to be perfectly elastic (the supply curves in all of the markets are horizontal) and, consequently, U.S. domestic prices are assumed not to fall in response to CBERA imports. To the extent that the supply curve is less than perfectly elastic, the estimated net welfare effects for this analysis tend to be higher because the loss in producer surplus is omitted.

[12] These measures do not include short-run adjustment costs that are due to the reallocation of resources between different industries.

Table 3-2
C.i.f. value of leading imports that benefited exclusively from CBERA tariff preferences in 1995

HTS subheading	Description	Value	Rank
		Thousand dollars	
	Benefited January 1 - December 31		
6406.10.65[1]	Footwear uppers, other than formed, of leather	180,609	1
9018.90.80[1]	Medical, surgical, or dental instruments and appliances	108,934	2
2402.10.80[2]	Cigars, cheroots, and cigarillos, each valued 23¢ or over	64,694	4
2207.10.60	Undenatured ethyl alcohol for nonbeverage purposes	59,807	5
0201.30.50	Fresh or chilled boneless beef, except processed	54,962	6
7213.31.30	Hot-rolled bars and rods in irregular wound coils, iron or nonalloy steel	53,644	7
0202.30.50	Frozen boneless beef, except processed	48,912	8
0804.30.40	Pineapples, fresh or dried, not reduced in size, in crates	41,506	9
0710.80.97	Frozen vegetables (asparagus, broccoli, and other), reduced in size	23,570	11
2009.11.00	Frozen concentrated orange juice	20,534	13
6210.10.50	Nonwoven disposable apparel for use in hospitals and laboratories	16,556	16
8533.40.80	Other variable resistors, excluding metal oxide varistors	14,985	18
4202.12.80[3]	Trunks, suitcases, and briefcases with outer surface of other textile material	13,005	21
8533.31.00	Wirewound variable resistors including rheostats for power handling capacity not exceeding 20 W	11,253	23
0202.30.30	Frozen boneless and processed beef, except high-quality cuts	10,599	25
	Benefited August 1 - December 31[4]		
7113.19.50	Jewelry and parts of precious metal except silver, except necklaces and clasps	74,329	3
1701.11.10	Raw sugar not containing added flavoring or color	28,799	10
8516.31.00	Electrothermic hair dryers	21,731	12
8538.90.80	Other parts for use solely with electrical apparatus of *HTS* heading 8535, 8536, or 8537	17,646	14
0302.69.40	Fresh or chilled fish, including sable, ocean perch, snapper, grouper, and monkfish	16,818	15
8536.20.00	Automatic circuit breakers for voltage not exceeding 1,000 V	15,543	17
3924.90.55	Certain household articles of plastics, excluding tableware and kitchenware	14,816	19
8536.50.80	Switches for electrical apparatus for voltage not exceeding 1,000 V, excluding motor starter	14,298	20
4016.93.50	Articles of vulcanized rubber, including gaskets, washers, and other seals	11,629	22
0807.10.20	Fresh cantaloupes entered Sept. 16-July 31	10,783	24

[1] Includes only imports from the Dominican Republic. Item is GSP-eligible, but imports from the Dominican Republic exceeded the competitive need limit and thus were eligible for duty-free entry only under CBERA.

[2] Includes only imports from the Dominican Republic and Nicaragua. Item is GSP-eligible, but imports from the Dominican Republic exceeded the competitive need limit and thus were eligible for duty-free entry only under CBERA. Imports from Nicaragua, another supplier of this item, were included because that country was not a designated GSP beneficiary in 1995.

[3] Goods of this HTS subheading were subject to the CBERA staged 20-percent duty reduction.

[4] Items listed were eligible for GSP duty-free entry until that program expired July 31, 1995. The import values reported are only for items entered Aug. 1-Dec. 31, 1995.

Source: Estimated by the staff of the U.S. International Trade Commission from official statistics of the U.S. Department of Commerce.

presents the 25 leading items that benefited exclusively from CBERA in 1995 by their c.i.f. import values,[13] and ranked by their 1995 value of imports.[14] The upper portion of the table shows imports that benefited exclusively from CBERA during the entire calendar year (i.e., imports that at no time during 1995 were also GSP-eligible). The lower portion of the table shows imports that also were eligible for GSP duty-free entry until GSP lapsed; from August 1 through December 31, 1995, these items also benefited exclusively from CBERA. Combined, these products represented 68 percent of the $1.4 billion of imports that benefited exclusively from CBERA by the end of 1995.[15] The five leading CBERA-exclusive imports in 1995 were (1) footwear uppers, other than formed, of leather (hereafter leather footwear uppers) (HTS subheading 6406.10.65),[16] (2) medical, surgical, and dental instruments and appliances (hereafter medical instruments) (HTS subheading 9018.90.80);[17] (3) jewelry and parts of precious metal except silver (hereafter jewelry of precious metals) (HTS subheading 7113.19.50); (4) higher priced cigars;[18] and (5) ethyl alcohol. The Dominican Republic was the leading supplier of each of these top five items except ethyl alcohol, which was supplied primarily by Jamaica.[19] The two leading items listed on table 3-2—leather footwear uppers and medical instruments—ranked first and third, respectively, in 1994. Jewelry of precious metal, ranked third on table 3-2, is a GSP-eligible item from all CBERA countries that appears on the list of imports that benefited exclusively from CBERA only because GSP expired.

The magnitude of the CBERA-exclusive imports relative to U.S. apparent consumption in 1995 is indicated in table 3-3. Imports of three items listed exceeded 30 percent of U.S. apparent consumption in 1995: pineapples (40.3 percent), wirewound variable resistors (38.9 percent), and higher priced cigars (31.0 percent). Four other imported items that exceeded 10 percent of U.S. apparent consumption were frozen boneless beef, except processed (HTS subheading 0202.30.50) (18.3 percent), frozen vegetables (13.6 percent), leather footwear uppers (13.1 percent), and electrothermic hair dryers (HTS subheading 8516.31.00) (10.4 percent). The remaining items listed represent a relatively small share of the U.S. market.

In terms of 1995 import value, the market share of top-ranked leather footwear uppers (13.1 percent) showed virtually no change from 1994 (table 3-3). The market share of medical instruments rose slightly from 1.6 percent in 1994 to 2.3 percent in 1995. Third-ranked jewelry of precious metal, GSP eligible in 1994, had a market share of 3.3 percent in 1995 (table 3-3).[20]

Estimated Effects on Consumers and Producers

Table 3-4 presents the economic impact of CBERA tariff preferences on the U.S. economy in 1995.[21] Estimates of the maximum potential gains in consumer surplus and the losses in tariff revenue, as well as measures of the largest potential displacement of U.S. production, are presented below.[22]

Effects on U.S. Consumers

Ethyl alcohol provided the largest estimated maximum gain in consumer surplus ($12.0 million) resulting exclusively from CBERA tariff preferences in 1995 (table 3-4). The price U.S. consumers

[13] The analysis uses U.S. market expenditure shares in computing estimates of welfare and domestic production displacement effects. Since U.S. expenditures on imports necessarily include freight and insurance charges and duties, when applicable, the analysis, where indicated in the text and supporting tables, uses c.i.f. values for products benefiting exclusively from CBERA and duty-paid values for the remaining imports. Technically, landed, duty-paid values are equal to c.i.f. values for items entering free of duty.

[14] One of the items listed, trunks, suitcases, and briefcases (HTS subheading 4202.12.80), was subject to the CBERA staged 20-percent duty reduction. The other 24 items listed entered duty-free under CBERA.

[15] The c.i.f. values reported in tables 3-2 and 3-3 reflect only that portion of each HTS subheading that entered duty-free or at reduced duty under CBERA. Even though all of these items were eligible for CBERA tariff preferences, a certain portion of each HTS subheading paid full duties for a variety of reasons including, for example, insufficient documentation.

[16] Includes only imports from the Dominican Republic. See notes to table 3-2.

[17] Ibid.

[18] Includes only imports from the Dominican Republic and Nicaragua. See notes to table 3-2.

[19] Leading CBERA suppliers are shown in table 2-6.

[20] For 1994 data, see USITC, *Caribbean Basin Economic Recovery Act: Impact on U.S. Industries and Consumers, Tenth Report, 1994,* USITC publication 2927, Sept. 1995, table 3-3, p. 31.

[21] The methodology used is described in appendix B.

[22] See appendix B for additional discussion of the data used to estimate the effects shown in table 3-4.

Table 3-3
Leading imports that benefited exclusively from CBERA, apparent U.S. consumption, and market shares, 1995

HTS subheading	Description	CBERA imports (c.i.f. value) (A)	U.S. apparent consumption (B)	Market share (A/B)
		1,000 dollars		*Percent*
	Benefited January 1 - December 31			
6406.10.65[1]	Footwear uppers, other than formed, of leather	180,609	1,380,532	13.08
9018.90.80[1]	Medical, surgical, or dental instruments and appliances	108,934	4,636,869	2.35
2402.10.80[2]	Cigars, cheroots, and cigarillos, each valued 23¢ or over	64,694	208,920	30.97
2207.10.60	Undenatured ethyl alcohol for nonbeverage purposes	59,807	1,608,611	3.72
0201.30.50	Fresh or chilled boneless beef, except processed	54,962	3,637,792	1.51
7213.31.30	Hot-rolled bars and rods in irregular wound coils, iron or nonalloy steel	53,644	1,357,229	3.95
0202.30.50	Frozen boneless beef, except processed	48,912	266,678	18.34
0804.30.40	Pineapples, fresh or dried, not reduced in size, in crates	41,506	102,964	40.31
0710.80.97	Frozen vegetables (asparagus, broccoli, and other), reduced in size	23,570	173,163	13.61
2009.11.00	Frozen concentrated orange juice	20,534	1,247,594	1.65
6210.10.50	Nonwoven disposable apparel for use in hospitals and laboratories	16,556	([3])	([3])
8533.40.80	Other variable resistors, excluding metal oxide varistors	14,985	266,227	5.63
4202.12.80[4]	Trunks, suitcases, and briefcases with outer surface of other textile material	13,005	362,096	3.59
8533.31.00	Wirewound variable resistors including rheostats for power handling capacity not exceeding 20 W	11,253	28,927	38.90
0202.30.30	Frozen boneless and processed beef, except high-quality cuts	10,599	212,985	4.98
	Benefited August 1 - December 31[5]			
7113.19.50	Jewelry and parts of precious metal except silver, except necklaces and clasps	74,329	2,224,949	3.34
1701.11.10	Raw sugar not containing added flavoring or color	28,799	4,232,969	0.68
8516.31.00	Electrothermic hair dryers	21,731	209,917	10.35
8538.90.80	Other parts for use solely with electrical apparatus of HTS heading 8535, 8536, or 8537	17,646	2,966,798	0.59
0302.69.40	Fresh or chilled fish, including sable, ocean perch, snapper, grouper, and monkfish	16,818	276,523	6.08
8536.20.00	Automatic circuit breakers for voltage not exceeding 1,000 V	15,543	908,631	1.71
3924.90.55	Certain household articles of plastics, excluding tableware and kitchenware	14,816	1,259,462	1.18
8536.50.80	Switches for electrical apparatus for voltage not exceeding 1,000 V, excluding motor starters	14,298	4,042,268	0.35
4016.93.50	Articles of vulcanized rubber, including gaskets, washers, and other seals	11,629	5,020,875	0.23
0807.10.20	Fresh cantaloupes entered Sept. 16-July 31	10,783	420,986	2.56

[1] Includes only imports from the Dominican Republic. Item is GSP-eligible, but imports from the Dominican Republic exceeded the competitive need limit and thus were eligible for duty-free entry only under CBERA.
[2] Includes only imports from the Dominican Republic and Nicaragua. Item is GSP-eligible, but imports from the Dominican Republic exceeded the competitive need limit and thus were eligible for duty-free entry only under CBERA. Imports from Nicaragua, another supplier of this item, were included because that country was not a designated GSP beneficiary in 1995.
[3] U.S. production data not available.
[4] Goods of this HTS subheading were subject to the CBERA staged 20-percent duty reduction.
[5] Items listed were eligible for GSP duty-free entry until that program expired July 31, 1995. The import values reported are only for items entered Aug. 1-Dec. 31, 1995.

Source: Estimated by the staff of the U.S. International Trade Commission from official statistics of the U.S. Department of Commerce.

Table 3-4
Estimated maximum potential welfare and displacement effects of leading imports that benefited exclusively from CBERA, 1995

HTS subheading	Description	Maximum potential welfare gain: Gain in consumer surplus (A)	Loss in tariff revenue (B)	Net welfare effect (A-B)	U.S. domestic shipments (C)	Maximum potential displacement: Value (D)	Share (D/C)
		1,000 dollars					*Percent*
	Benefited January 1 - December 31						
6406.10.65	Footwear uppers, other than formed, of leather	4,975	4,651	324	1,066,000	12,207	1.15
9018.90.80	Medical, surgical, or dental instruments and appliances	5,883	5,059	824	3,806,234	21,865	0.57
2402.10.80	Cigars, cheroots, and cigarillos, each valued 23¢ or over	1,872	1,775	97	123,400	5,609	4.55
2207.10.60	Undenatured ethyl alcohol for nonbeverage purposes	11,984	4,354	7,629	1,418,541	84,278	5.94
0201.30.50	Fresh or chilled boneless beef, except processed	651	632	19	2,724,420	2,188	0.08
7213.31.30	Hot-rolled bars and rods in irregular wound coils, iron or nonalloy steel	813	783	30	990,690	2,566	0.26
0202.30.50	Frozen boneless beef, except processed	914	877	36	181,465	2,830	1.56
0804.30.40	Pineapples, fresh or dried, not reduced in size, in crates	1,116	1,069	47	57,799	3,152	5.45
0710.80.97	Frozen vegetables (asparagus, broccoli, and other), reduced in size	2,541	1,886	656	5,461	498	9.11
2009.11.00	Frozen concentrated orange juice	3,517	1,661	1,855	1,031,107	20,238	1.96
6210.10.50	Nonwoven disposable apparel for use in hospitals and laboratories	([1])	([1])	([1])	([1])	([1])	([1])
8533.40.80	Other variable resistors, excluding metal oxide varistors	755	660	95	65,010	926	1.42
4202.12.80[2]	Trunks, suitcases, and briefcases with outer surface of other textile material	1,641	1,063	577	161,000	4,673	2.90
8533.31.00	Wirewound variable resistors including rheostats for power handling capacity not exceeding 20 W	609	554	55	7,353	781	10.63
0202.30.30	Frozen boneless and processed beef, except high-quality cuts	799	644	156	199,790	3,903	1.95
	Benefited August 1 - December 31[3]						
7113.19.50	Jewelry and parts of precious metal except silver, except necklaces and clasps	4,034	3,467	568	1,260	8	0.61
1701.11.10[4]	Raw sugar not containing added flavoring or color	-	721	-	3,593,944	-	-
8516.31.00	Electrothermic hair dryers	756	694	62	1,200	19	1.59
8538.90.80	Other parts for use solely with electrical apparatus of HTS heading 8535, 8536, or 8537	762	677	86	2,177,138	2,763	0.13
0302.69.40	Fresh or chilled fish, including sable, ocean perch, snapper, grouper, and monkfish	30	29	([5])	83,457	42	0.05
8536.20.00	Automatic circuit breakers for voltage not exceeding 1,000 V	659	587	72	620,477	2,219	0.36
3924.90.55	Certain household articles of plastics, excluding tableware and kitchenware	437	404	33	934,610	1,036	0.11
8536.50.80	Switches for electrical apparatus for voltage not exceeding 1,000 V, excluding motor starters	600	534	66	2,773,308	2,027	0.07
4016.93.50	Articles of vulcanized rubber, including gaskets, washers, and other seals	338	313	25	4,709,000	1,515	0.03
0807.10.20	Fresh cantaloupes entered Sept. 16 to July 31	1,578	907	672	308,792	8,280	2.68

[1] Net welfare effects were not calculated for this item because of unavailability of U.S. production data.
[2] Goods of this HTS subheading were subject to the CBERA staged 20-percent duty reduction.
[3] Items listed were eligible for GSP duty-free entry until that program expired July 31, 1995. The import values reported are only for items entered Aug. 1-Dec. 31, 1995.
[4] Raw sugar imports of this category are subject to U.S. tariff-rate quotas; therefore, the net welfare from a tariff elimination on these imports is composed solely of a transfer of tariff revenue from the U.S. Treasury to sugar exporters. Because the quotas set maximum U.S. import levels, no U.S. shipments are displaced following a tariff reduction.
[5] Less than $500.

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

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

would have paid for ethyl alcohol would have been 51.6 percent higher (the *ad valorem* tariff rate plus other import charges) without CBERA. Medical instruments provided the second-largest estimated consumer surplus ($5.9 million). Without CBERA, the price of medical instruments would have been 6.3 percent higher. In general, these items providing the largest gains in consumer surplus also had either (1) the highest MFN tariff rates and/or (2) the largest volumes of imports. CBERA tariff preferences provided U.S. customers with more ethyl alcohol and medical instruments at lower prices.

At the same time, CBERA also reduced U.S. tariff revenues. For ethyl alcohol, lower tariff revenues offset one-third of the gain in consumer surplus. For medical instruments and many of the other items listed in table 3-4, lower tariff revenues offset nearly all of the gain in consumer surplus.

Overall, the estimated maximum potential welfare effects of CBERA were small in magnitude. The gain in consumer surplus (column A of table 3-4) was greater than the corresponding decline in tariff revenue (column B) for all of the products analyzed for which data were available except raw sugar (HTS subheading 1701.11.10) which, because it is subject to a quota, does not provide a gain in consumer surplus.[23] Of the resulting maximum potential net welfare gains, the largest were ethyl alcohol ($7.6 million), frozen concentrated orange juice ($1.9 million), and medical instruments ($824,000). These same products also had the largest net welfare gains in 1994.[24] Other noticeable net welfare gain items in 1995 were fresh cantaloupes ($672,000); frozen vegetables ($656,000); trunks, suitcases, briefcases with outer surface of other textile material ($577,000); jewelry of precious metal ($568,000); leather footwear uppers ($324,000); and frozen boneless and processed beef, except high-quality cuts ($156,000). The estimated maximum potential net welfare gain for the remaining leading import items was minimal, or less than $100,000.

[23] Tariff-rate quotas set maximum sugar import levels both globally and for imports from individual countries. Because of the tariff-rate quotas, the net welfare associated with duty elimination is composed solely of a transfer of tariff revenue from the U.S. Treasury to sugar exporters; thus, the price of sugar did not change, and there was no consequent gain in consumer surplus, even after CBERA tariff reductions on sugar were implemented.

[24] In 1994, the estimated maximum potential net welfare gains were: ethyl alcohol—$5.3 million; frozen concentrated orange juice—$2.0 million; and medical instruments—$78,000. See USITC, *CBERA*, *Tenth Annual Report*, table 3-4, p. 33.

Effects on U.S. Producers

Measures of the maximum potential displacements in domestic production also were small for most of the individual sectors.[25] Because of the assumptions of high substitutability and no capacity constraints to production, such maximum potential effects are likely to be higher than the effects actually felt by producers. The analysis indicates that the largest potential displacement effects were for wirewound variable resistors (an upper bound estimate of 10.6 percent of U.S. domestic shipments displaced, valued at $781,000), frozen vegetables (an upper bound of 9.1 percent displaced, valued at $498,000), ethyl alcohol (an upper bound of 5.9 percent displaced, valued at $84.3 million), pineapples (an upper bound of 5.5 percent displaced, valued at $3.2 million), and higher priced cigars (an upper bound of 4.6 percent displaced, valued at $5.6 million).[26] However, the estimated maximum potential displacement share for the majority of the products benefiting exclusively from CBERA was less than 1.5 percent.[27]

[25] One of the factors that affects the displacement of U.S. domestic shipments is the U.S. market share. In general, the larger the CBERA market share, the larger the displacement of domestic shipments. A comparison of tables 3-3 and 3-4 shows this relationship holds for most of the items with significant domestic displacement effects. This relationship may not always hold, however, due to the influence of other factors such as the size of the tariff reduction and/or the aggregate demand elasticity relative to the elasticity of substitution. The interaction of these other factors may override the relationship between market share and displacement outlined above.

[26] In prior reports in this series, the Commission conducted more detailed analyses of the items each estimated to have a maximum potential displacement effect of more than 5 percent of domestic production. Such analyses were performed to determine how U.S. industries may be adjusting to competing CBERA imports. Because no new affected industries were identified for 1995, such analyses are not provided in this report. For the Commission's industry analyses of wirewound variable resistors, pineapples, and higher priced cigars, see USITC, *CBERA, Tenth Report ,1994*, pp. 32-35; for ethyl alcohol see *CBERA Ninth Report, 1993*, p. 50; for frozen vegetables, see *CBERA, Seventh Report, 1991*, p. 3-6.

[27] These potential displacement effects are in percentage terms. In value terms, the five products with the largest potential displacement effects on domestic shipments in 1995 were ethyl alcohol ($84.3 million), medical instruments ($21.9 million), frozen concentrated orange juice ($20.2 million), leather footwear uppers ($12.2 million), and fresh cantaloupes ($8.3 million). In evaluating relative significance of the displacement of domestic shipments across industries, comparison of the percentages of market share displaced is more meaningful than comparing the actual values of that displacement.

The low values of domestic shipments of wirewound variable resistors and frozen vegetables resulted in their high potential displacement effects. Domestic shipments of wirewound variable resistors and frozen vegetables accounted for 25 percent and 3 percent of their respective U.S. apparent consumption rates. U.S. demand for these two products was met mainly by imports. Almost all CBERA imports of wirewound variable resistors were from Barbados; about 86 percent of all CBERA imports of frozen vegetables were from Guatemala.

Probable Future Effects of CBERA

CBERA, with its present provisions and qualifying rules, is likely to continue to have minimal future effects on the U.S. economy in general. Chapter 2 of this report described the small share of total U.S. imports made up of imports from CBERA countries (1.7 percent) and even smaller share made up of imports that benefited exclusively from CBERA in 1995 (less than 0.3 percent).

This section describes the probable future effects of CBERA on the U.S. economy based on a survey of overall investment activity and trends in the CBERA countries during 1995. Information was obtained primarily from investment data provided by U.S. Embassies in several of the CBERA countries.[28] Previous reports in this series found that most of the effects on the U.S. economy of the one-time elimination of import duties under CBERA occurred within 2 years of the program's inception in 1984. Other effects were expected to occur over time as a result of an increase in export-oriented investment in the region in response to the lower tariffs for eligible CBERA products. Such investment in the Caribbean Basin countries could lead to increased production and exports to the United States of CBERA-eligible articles which, in turn, ultimately could affect estimated U.S. net welfare.

The information obtained from U.S. diplomatic posts in CBERA countries identified 26 new investment projects in CBERA-related goods and 10 projects to enlarge existing facilities, for a total of 36 reported investments in 1995. A total of 3 new projects valued at $2.3 million were reported for Belize—1 to produce minerals and 2 producing tropical fruits. A total of 9 new projects valued at over $10.2 million were reported for Costa Rica. Two of the Costa Rican projects involved the production of medical equipment which, as discussed above, was estimated to yield a small net welfare gain for U.S. consumers. A total of 5 projects valued at $11.8 million were reported for Honduras—3 new and 2 expansion projects all to produce apparel items. There were 13 projects valued at $2.2 million reported for Jamaica—5 new and 8 expansion projects for various agricultural products. For Panama, 6 new projects were reported valued at $2.4 million, all producing fruits and vegetables.[29]

Of the 1995 investments reported above, only the Costa Rican projects to manufacture medical equipment involved the production of items that had significant estimated welfare effects or displacement effects in 1995 as listed in table 3-4.

[27]—*Continued*

As stated in the text, these "upper bound" estimates represent the maximum potential displacement because of the assumptions of high elasticities of substitution and perfectly elastic supply curves. If elasticities of substitution were lower, these potential displacements also would be lower. See appendix B for additional information about these assumptions. These "upper bound" estimates do not represent measures of actual displacement in the respective industries.

[28] This analysis is based on the best available investment data as reported by U.S. Embassies in the Caribbean Basin region. Most countries do not monitor or record private sector investment. Access to available data and data reliability may vary by country and/or by year. Consequently, investment data in this report for 1995 are not necessarily comparable to investment data presented in prior reports in this series.

[29] Information obtained from U.S. Department of State telegram, "USITC Caribbean Basin Investment Survey-Guatemala," message reference No. 03808, prepared by U.S. Embassy Guatemala, July 3, 1996; "USITC Annual Caribbean Basin Investment Survey, "message reference No. 03272, prepared by U.S. Embassy, Tegucigalpa, July 5, 1996; "USITC Annual Caribbean Basin Investment Survey, 1995," message reference No. 03526, prepared by U.S. Embassy, Kingston, July 3, 1996; "USITC Annual Caribbean Basin Investment Survey," message reference No. 02592, prepared by U.S. Embassy, San José, June 26, 1996; and fax from U.S. Embassy, Belize City, July 2, 1996.

APPENDIX A

SUMMARY OF SUBMISSIONS IN RESPONSE TO *FEDERAL REGISTER* NOTICE

SUBMISSION FOR THE RECORD INVESTIGATION NO. 332–227

Ambassador Richard L. Bernal of Jamaica:[1]

A statement by Ambassador Bernal made the following points:

- the commercial relationship between the United States and the CBERA beneficiaries supports more than 300,000 jobs in the United States; moreover, that relationship creates some 18,000 jobs annually in the United States;
- the Caribbean Basin is one of the few regions in the world where the United States maintains a trade surplus;
- an estimated 60 to 70 cents of each dollar spent in the Caribbean Basin by U.S. citizens and businesses is returned to the United States through purchases of U.S. goods and services, compared with only 10 cents of each dollar spent in Asia; and
- the single most important issue facing the Caribbean Basin countries is the lack of U.S. market access parity with Mexico for apparel articles.

The Rubber and Plastic Footwear Manufacturers Association (RPFMA):[2]

The submission from the RPFMA stated that imports of certain footwear from CBERA countries have adversely affected U.S. domestic rubber footwear and slipper manufacturers. The RPFMA pointed out that Section 222 of the Caribbean Basin Economic Recovery Expansion Act affords duty-free entry to the United States to certain products, including rubber footwear and slippers manufactured or assembled from components of U.S. origin.[3] According to RPFMA, "[t]he requirement of using domestic components in order to get duty-free treatment is one that is easily met by footwear companies." Concerning the impact on U.S. domestic production, RPFMA stated that, because of this provision, "[s]everal . . . companies have shifted production from this country to the Caribbean and the largest domestic manufacturer of slippers has recently gone out of existence as a result of duty-free imports from the Caribbean."

American Apparel Alliance:[4]

This submission focused on the use of the Guaranteed Access Level (GAL) program.[5] According to the American Apparel Alliance, the GAL program has lead to an increase in imports of eligible apparel imports that, in turn, has led to a sharp decline in sewing operations in the United States. The American Apparel Alliance also noted that :

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[1] Submission to the Commission on Ambassador Bernal's behalf by Stephen Lamar, Director, Jefferson Waterman International, received July 30, 1996.

[2] Submission to the Commission by Mitchell J. Cooper, Counsel, Rubber and Plastic Footwear Manufacturers Association, received July 3, 1996.

[3] The Caribbean Basin Economic Recovery Expansion Act of 1990 is discussed in ch. 1. For more details on specific provisions of sec. 222 of the Act, see USITC, *Report on the Impact of the Caribbean Basin Economic Recovery Act, Seventh Report, 1991*, USITC publication No. 2553, Sept. 1992, p. 1–6.

[4] Submission to the Commission by Seth M. Bodner, Executive Director, American Apparel Alliance (National Knitwear and Sportswear Association and the American Apparel Contractors Association), received July 30, 1996.

[5] GALs are described in the section on apparel in ch. 2.

- GALs involve a direct transfer of jobs from the United States to the Caribbean Basin countries;

- GALs in effect lead to the loss of quota protection for U.S. companies on key apparel categories.

- GALs benefit U.S.–based companies that have transferred production operations into the Caribbean Basin region at the expense of remaining wholly domestic producers.

APPENDIX B

TECHNICAL NOTES TO CHAPTER 3

This section presents the methodology used to estimate the impact of CBERA on the U.S. economy in 1995. The economic effects of CBERA duty reductions[1] are evaluated using a comparative static analysis. Since CBERA tariff preferences were already in effect in 1995, the impact of the program is measured by comparing the market conditions currently present (duty-free entry, or staged 20-percent reduced-duty entry, for eligible products entered under CBERA provisions) with those that might have existed under full tariffs (i.e., no CBERA tariff preferences). Thus, the analysis provides an estimate of what the potential costs and benefits to the U.S. economy would have been if CBERA had not been in place during 1995. However, the material on welfare and displacement effects, in the section titled "Analytical Approach" in chapter 3 and in this appendix, discusses the impact of CBERA in terms of duty reductions, rather than the "removal" of duty eliminations already in place.[2] The effects of a duty reduction and a duty imposition are symmetrical and lead to results that are equivalent in magnitude but opposite in sign.[3] Thus, the discussion is framed with respect to the implementation of duty reductions simply for clarity.

Using a partial equilibrium framework, three different markets in the United States, namely the markets for CBERA products, competing non-CBERA (foreign) products, and competing domestic products, are modeled. These three markets are depicted in panels a, b, and c of figure B-1. Imports from CBERA beneficiaries, imports from non-CBERA countries, and competing domestic output, are assumed to be imperfect substitutes for each other, and each is characterized by a separate market where different equilibrium prices exist.

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 with a constant elasticity of demand.[4] 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, S_c, S_n, and S_d, are all horizontal, i.e., perfectly elastic. The assumption of perfectly elastic supply curves is made in order to obtain "upper bound" (i.e., maximum potential) estimates of the welfare and domestic displacement effects on the U.S. economy.[5]

The change from full tariffs to duty-free treatment for CBERA imports causes the import supply curve, S_c, in panel a to shift down to S_c' by the amount of the *ad valorem* tariff, t. Thus, the equilibrium price in the U.S. market for CBERA imports decreases from P_c to P_c'; whereas, the quantity imported increases from Q_c to Q_c'. The relationship between the price with the tariff (P_c) and the tariff-free price (P_c') is $P_c = P_c'(1 + t)$.

The increase in demand for CBERA imports leads to a decrease in demand for similar goods from other countries and domestic U.S. producers. Thus, the demand curves for both non-CBERA imports and domestic output, D_n and D_d, shift back to D_n' and D_d', respectively. Since the supply curves in both of these markets are assumed to be perfectly elastic, the equilibrium prices do not change. The equilibrium quantity supplied in each market decreases from Q_n and Q_d to Q_n' and Q_d', respectively.

The impact of CBERA on the U.S. economy is measured by examining the welfare effects of the tariff reduction in the market for CBERA imports and the domestic displacement effects of a decrease in demand in the competing U.S. market. The displacement of non-CBERA country imports because of CBERA tariff preferences is not estimated since the focus of the analysis is on the direct effects of CBERA provisions on the United States.

The decrease in the tariff for CBERA imports leads to an increase in consumer surplus for these products. This is measured by the trapezoid P_cabP_c' in panel a. There is also an accompanying decrease in the tariff revenue collected from CBERA imports. This is measured by the area of the rectangle P_cacP_c' in panel a.

The net welfare effect of CBERA is equal to the increase in consumer surplus plus the decrease in tariff revenue—the trapezoid P_cabP_c' minus the rectangle P_cacP_c' in panel a, i.e., triangle abc.[6] The dollar amount by which CBERA imports displace U.S. output is measured by the rectangle $Q_d'deQ_d$ in panel c.

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

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

[1] Although the term "duty reduction" is used, the methodology employed in the analysis for this report applies equally to a duty elimination (which is a duty reduction in the full amount of the duty).

[2] Most comparative static analyses are used to evaluate the effects of an event that has not already happened—such as a proprosed tariff elimination. This comparative analysis evaluates the effects of an event that has already happened—CBERA duty elimination has been in effect since 1984. The method described in this section can be used in either situation.

[3] This is technically true only if income effects are negligible. Given the small U.S. expenditure on goods from CBERA countries, income effects are likely to be negligible for the products under consideration. See R. Willig, "Consumer's Surplus Without Apology," *American Economic Review*, 66, pp. 589-597.

[4] The subscripts c, n, and d refer to CBERA imports, non-CBERA imports, and U.S. output, respectively.

[5] Since CBERA imports account for a very small share of U.S. domestic consumption in most sectors, these upper bound estimates were minimal. Assuming upward sloping supply curves would have resulted in even lower estimates.

[6] Welfare effects typically include a measure of the change in producer surplus. The change in producer surplus is not considered in this analysis because the assumption of perfectly elastic supply curves means U.S. domestic prices do not fall in response to CBERA.

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

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

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

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

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

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

The 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} elasticities are derived from the following relations:

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

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

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

where the V_i's are market shares for CBERA imports, non-CBERA imports, and domestic output, respectively, η is the aggregate demand elasticity, and the σ_{ij}'s are the elasticities of substitution between the ith and jth products.[7] Estimates of the aggregate demand elasticities were taken from the literature.[8] To obtain estimates of the maximum potential impact of CBERA, it is assumed that all of the elasticities of substitution are identical and high, in this case equal to 5.

Given equations (1)′ through (3)′, we can derive the following equations for calculating the changes in consumer surplus, tariff revenue, and domestic output:

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

$$\text{area of trapezoid } P_c ab P_c = \int_{P_c'}^{P_c} k P_c^{\varepsilon_{cc}} \, dP_c$$

Tariff revenue from CBERA imports

$$\text{area of rectangle } P_c ac P_c' = (P_c - P_c')Q_c$$

$$= P_c' t Q_c \qquad \text{given } P_c = P_c'(1+t)$$

$$= t P_c' Q_c' (1+t)^{ecc} \qquad \text{given } Q_c = Q_c'(1+t)^{ecc}$$

Domestic output

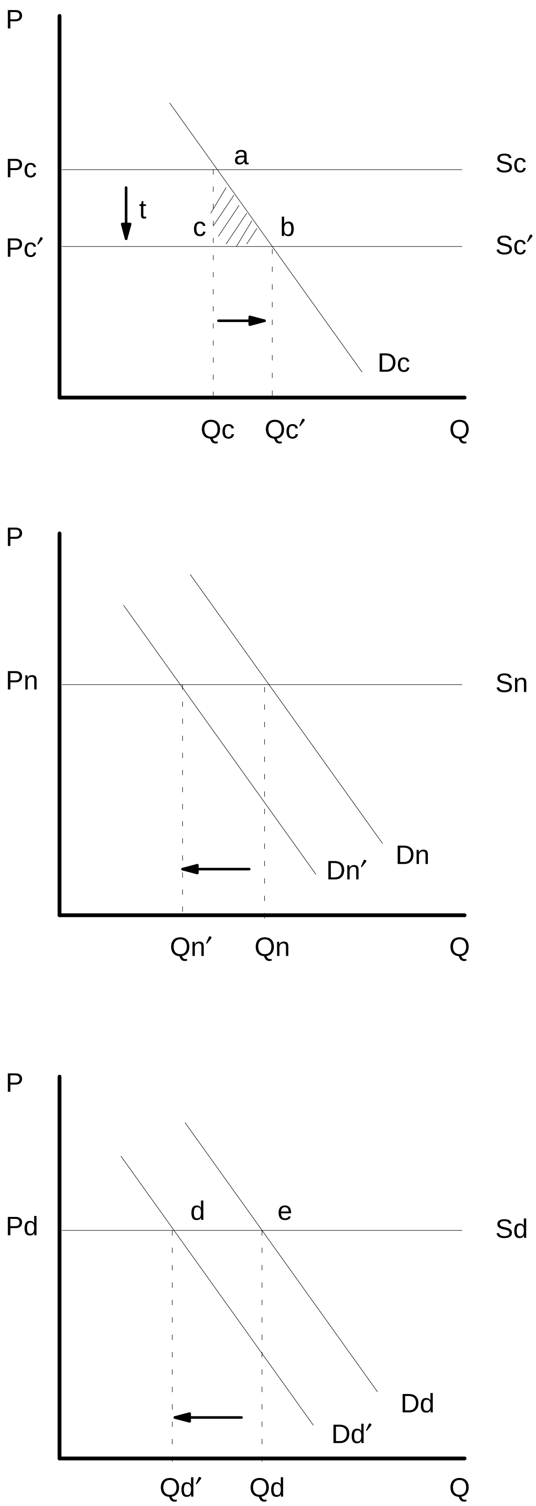
$$\text{area of rectangle } Q_d d \ e Q_d = P_d(Q_d - Q_d')$$

$$= P_d Q_d' [(1+t)^{\varepsilon_{dc}} - 1$$

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

[8] The aggregate elasticities were taken from sources referenced in USITC, *Potential Impact on the U.S. Economy and Selected Industries of the North American Free-Trade Agreement*, USITC publication 2596, January 1993.

Figure B-1
Partial equilibrium analysis of the effects of CBERA duty provisions on U.S. imports



a. CBERA imports

b. non-CBERA imports

c. U.S. domestic output